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

REPORT ON LIMITED REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Inmobiliaria Colonial, S.A.
(at the request of the Board of Directors):

Report on the interim condensed consolidated financial statements

Introduction

We have performed a limited review of the accompanying interim condensed consolidated financial statements ("the interim financial statements") of Inmobiliaria Colonial, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the condensed consolidated statement of financial position at 30 June 2016 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and explanatory notes thereto for the six-month period then ended. The Parent's directors are responsible for the preparation of these interim financial statements in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, for the preparation of interim condensed financial information, in conformity with Article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of the review

Our limited review was performed in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying certain analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with the audit regulations in force in Spain and, consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

Conclusion

As a result of our limited review, which under no circumstances may be considered to be an audit of financial statements, nothing came to our attention that might cause us to believe that the accompanying interim financial statements for the six-month period ended 30 June 2016 have not been prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, pursuant to Article 12 of Royal Decree 1362/2007, for the preparation of interim condensed financial statements.

Emphasis of matter paragraph

We draw attention to Note 1-b to the accompanying interim condensed consolidated financial statements, which indicates that the aforementioned accompanying interim financial statements do not include all the information that would be required for a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and, therefore, the accompanying interim financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2015. This matter does not affect our conclusion.

Report on other legal and regulatory requirements

The accompanying interim consolidated directors' report for the six-month period ended 30 June 2016 contains the explanations which the Parent's directors consider appropriate about the significant events that took place in that period and their effect on the interim financial statements presented, of which it does not form part, and about the information required under Article 15 of Royal Decree 1362/2007. We have checked that the accounting information in the interim consolidated directors' report is consistent with that contained in the interim financial statements for the six-month period ended 30 June 2016. Our work was confined to checking the interim consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Inmobiliaria Colonial, S.A. and Subsidiaries.

Paragraph on other matters

This report was prepared at the request of the Board of Directors of Inmobiliaria Colonial, S.A. in relation to the publication of the half-yearly financial report required by Article 119 of the Consolidated Spanish Securities Market Law approved by Legislative Royal Decree 4/2015, of 23 October, and implemented by Royal Decree 1362/2007, of 19 October.

DELOITTE, S.L.

Francesc Ganyet

27 July 2016

Inmobiliaria Colonial, S.A. and Subsidiaries

Condensed Consolidated Half-Yearly Financial Statements for the six-month period ended 30 June 2016

Translation of interim condensed 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 1 and 13). In the event of a discrepancy, the Spanish-language version prevails.

Translation of interim condensed 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 1 and 13). In the event of a discrepancy, the Spanish-language version prevails.

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2016

(Thousands of Euros)

ASSETS	Note	30 June 2016	31 December 2015	LIABILITIES AND EQUITY	Note	30 June 2016	31 December 2015
				Share capital		892,058	797,214
Intangible assets	-	3,012	3,090	Share premium		731,326	560,606
Property, plant and equipment	-	36,809	33,118	Reserves of the Parent Company		251,826	1,163,954
Investment property	4	7,400,702	6,743,313	Prior years' losses at the Parent Company		-	(1,147,975)
Non-current financial assets	-	11,913	8,954	Reserves in consolidated companies		197,450	64,881
Non-current deferred tax assets	7	594	865	Valuation adjustments recognised in equity - financial instruments		(1,515)	(2,504)
Other non-current assets	-	195	156	Other equity instruments		2,709	2,895
NON-CURRENT ASSETS		**7,453,225**	**6,789,496**	Treasury shares		(16,556)	(17,065)
				Profit/(loss) for the year		229,596	415,413
				Equity attributable to shareholders of the Parent Company		**2,286,894**	**1,837,419**
				Non-controlling interests		**1,640,673**	**1,612,048**
				EQUITY	5	**3,927,567**	**3,449,467**
				Bank borrowings and other financial liabilities	6	719,024	512,615
				Bonds and similar securities issued	6	2,540,890	2,539,285
				Non-current deferred tax liabilities	7	255,320	246,980
				Non-current provisions	-	12,304	12,519
				Other non-current liabilities	-	47,092	28,018
				NON-CURRENT LIABILITIES		**3,574,630**	**3,339,417**
Non-current assets held for sale	-	13,049	12,727	Bank borrowings and other financial liabilities	6	112,625	59,937
Trade and other receivables	-	111,388	71,966	Bonds and similar securities issued	6	17,547	175,955
Current financial assets	-	9	9	Trade payables	-	65,184	85,642
Tax assets	7	31,903	37,552	Tax liabilities	7	25,643	8,902
Cash and cash equivalents	6	122,845	217,776	Current provisions	-	9,223	10,206
CURRENT ASSETS		**279,194**	**340,030**	**CURRENT LIABILITIES**		**230,222**	**340,642**
TOTAL ASSETS		**7,732,419**	**7,129,526**	**TOTAL EQUITY AND LIABILITIES**		**7,732,419**	**7,129,526**

Notes 1 to 13 to the financial statements are an integral part of the consolidated statement of financial position for the six-month period ended 30 June 2016.

Translation of interim condensed 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 1 and 13). In the event of a discrepancy, the Spanish-language version prevails.

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016

(Thousands of Euros)

Statement of comprehensive income	**Note**	**June 2016**	**June 2015**
Revenue	8	136,975	111,141
Other income		1,475	1,682
Staff costs		(10,539)	(11,522)
Other operating expenses		(18,934)	(22,540)
Depreciation and amortisation charge		(1,230)	(766)
Net change in provisions		(238)	643
Operating profit/(loss)		**107,509**	**78,638**
Change in fair value of investment properties	8	356,934	349,957
Impairment charges and net gains/(losses) on assets	8	(3,359)	(2,157)
Finance income	8	1,780	5,436
Finance costs	8	(44,042)	(81,607)
Impairment of financial assets	8	(182)	2,504
Profit/(loss) before tax		**418,640**	**352,771**
Income tax expense		(15,868)	(29,866)
Consolidated net profit/(loss)		**402,772**	**322,905**
Net profit/(loss) for the year attributable to the Parent Company		229,596	202,447
Net profit/(loss) attributable to non-controlling interests	5	173,176	120,458
Basic earnings per share (€)	3	0.72	0.64
Diluted earnings per share (€)	3	0.72	0.64
Other comprehensive income			
Consolidated net profit/(loss)		**402,772**	**322,905**
Other components of comprehensive income recognised directly in equity		**(294)**	**4,713**
Gains on hedging instruments		(392)	4,765
Tax effect on prior years' profit or loss		98	(52)
Transfers to comprehensive income		**2,232**	**-**
Gains on hedging instruments		2,558	-
Tax effect on prior years' profit or loss		(326)	-
Consolidated comprehensive profit/(loss)		**404,710**	**327,618**
Comprehensive profit/(loss) for the year attributable to the Parent Company		230,694	205,014
Comprehensive profit/(loss) attributable to non-controlling interests		174,016	122,604
Comprehensive basic earnings per share (euros)		0.73	0.64
Comprehensive diluted earnings per share (euros)		0.73	0.64

Notes 1 to 13 to the financial statements are an integral part of the consolidated statement of comprehensive income.
for the six-month period ended 30 June 2016.

Translation of interim condensed 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 1 and 13). In the event of a discrepancy, the Spanish-language version prevails.

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED
30 JUNE 2016

(Thousands of Euros)

	Note	Share capital	Share premium	Reserves of the Parent Company	Prior years' losses at the Parent Company	Reserves in consolidated companies	Valuation adjustments recognised in equity - financial instruments	Other equity instruments	Treasury shares	Profit/(loss)	Non-controlling interests	Total
Balance at 31 December 2014	**5**	**797,214**	**560,606**	**1,165,187**	**(944,584)**	**(621,819)**	**(6,368)**	**1,904**	**(21,291)**	**491,994**	**1,376,108**	**2,798,951**
Total recognised income and expense for the period		-	-	-	-	-	2,567	-	-	202,447	122,604	**327,618**
Allocation of 2014 profit		-	-	-	(203,391)	695,385	-	-	-	(491,994)	(34,595)	**(34,595)**
Treasury share portfolio		-	-	(1,177)	-	(936)	-	-	705	-	55	**(1,353)**
Share-based payment transactions		-	-	-	-	-	-	(125)	-	-	415	**290**
Changes in scope of consolidation and other changes		-	-	(51)	-	(48)	-	-	-	-	306	**207**
Balance at 30 June 2015	**5**	**797,214**	**560,606**	**1,163,959**	**(1,147,975)**	**72,582**	**(3,801)**	**1,779**	**(20,586)**	**202,447**	**1,464,893**	**3,091,118**
Total recognised income and expense for the period		-	-	-	-	-	1,297	-	-	212,966	169,743	**384,006**
Allocation of 2014 profit		-	-	-	-	-	-	-	-	-	(22,710)	**(22,710)**
Treasury share portfolio		-	-	(5)	-	10	-	-	(4,711)	-	15	**(4,691)**
Share-based payment transactions		-	-	-	-	-	-	1,116	-	-	458	**1,574**
Changes in scope of consolidation and other changes		-	-	-	-	(7,711)	-	-	8,232	-	(351)	**170**
Balance at 31 December 2015	**5**	**797,214**	**560,606**	**1,163,954**	**(1,147,975)**	**64,881**	**(2,504)**	**2,895**	**(17,065)**	**415,413**	**1,612,048**	**3,449,467**
Total recognised income and expense for the period		-	-	-	-	-	1,098	-	-	229,596	174,016	**404,710**
Transactions with shareholders:												
Share capital increase		94,844	170,720	(724)	-	-	-	-	-	-	-	**264,840**
Allocation of 2015 profit		-	-	28,535	208,983	130,063	-	-	-	(415,413)	(28,860)	**(76,692)**
Offset of prior years' losses		-	-	(938,992)	938,992	-	-	-	-	-	-	**-**
Treasury share portfolio		-	-	(947)	-	(847)	-	-	1,502	-	148	**(144)**
Share-based payment transactions		-	-	-	-	-	-	(325)	-	-	208	**(117)**
Changes to consolidation scope		-	-	-	-	3,331	(109)	139	(993)	-	(116,906)	**(114,538)**
Other changes		-	-	-	-	22	-	-	-	-	19	**41**
Balance at 30 June 2016	**5**	**892,058**	**731,326**	**251,826**	**-**	**197,450**	**(1,515)**	**2,709**	**(16,556)**	**229,596**	**1,640,673**	**3,927,567**

Notes 1 to 13 to the financial statements are an integral part of the consolidated statement of changes in equity for the six-month period ended 30 June 2016.

Translation of interim condensed 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 1 and 13). In the event of a discrepancy, the Spanish-language version prevails.

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2016

Amounts in thousands of euros	Note	June 2016	June 2015
CASH FLOWS IN CONTINUING OPERATIONS			
1. CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES			
Profit/(loss) from operations		107,509	78,638
Adjustments to profit			
Depreciation and amortisation (+)		1,230	766
Net change in provisions (+/-)		238	(643)
Others		(18,656)	1,535
Adjusted profit/(loss)		90,321	80,296
Taxes paid (-)		9,188	(6,830)
Increase/(decrease) in current assets and liabilities			
Increase/(decrease) in receivables (+/-)		(11,001)	(9,859)
Increase/(decrease) in payables (+/-)		(20,553)	1,322
Increase/(decrease) in other assets and liabilities (+/-)		3,355	(82)
Total net cash flows in operating activities		**71,310**	**64,847**
2. CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Investments in (-)			
Intangible assets		(577)	(672)
Property, plant and equipment		(82)	(213)
Investment property	4	(65,842)	(170,586)
Equity investments, financial assets and other	2	(80,360)	-
		(146,861)	(171,471)
Disposals of (+)			
Financial assets		-	1,503
		-	1,503
Total net cash flows in investing activities		**(146,861)**	**(169,968)**
3. CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES			
Dividends paid (-)	5	(28,860)	(34,595)
Repayment of bank borrowings (-)	6	(30,023)	(1,044,416)
Repayment of debts with bondholders (-)	6	(155,800)	-
Interest paid (+/-)		(43,007)	(48,949)
Treasury share transactions (+/-)	5	(1,312)	(2,559)
		(259,002)	(1,130,519)
New bank borrowings obtained (+)	6	242,489	181,848
New bondholder borrowings obtained (+)		-	1,242,039
Share capital increase		-	(50)
Expenses associated with share capital increases and financial restructuring	5	(724)	(28,039)
Other proceeds/(payments) for current financial assets and other (+/-)		(2,143)	10,750
		239,622	1,406,548
Total net cash flows in financing activities		**(19,380)**	**276,029**
4. NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS			
Net cash flow for the period in continuing activities		**(94,931)**	**170,908**
Cash and cash equivalents at beginning of period		**217,776**	**125,956**
Cash and cash equivalents at end of period	**6**	**122,845**	**296,864**

Notes 1 to 13 to the financial statements are an integral part of the consolidated statement of cash flows for the six-month period ended 30 June 2016.

Translation of interim condensed 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 1 and 13). In the event of a discrepancy, the Spanish-language version prevails.

Inmobiliaria Colonial, S.A. and Subsidiaries

Explanatory notes to the Condensed Consolidated Half-Yearly Financial Statements for the six-month period ended 30 June 2016

1. Introduction, basis of presentation of the condensed consolidated half-yearly financial statements and other information

a) Introduction

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

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

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

In 2015, the Parent Company obtained a "BBB-" long-term credit rating and an "A-3" short-term credit rating from Standard & Poor's Rating Credit Market Services Europe Limited. The SFL subsidiary also improved its long-term credit rating from "BBB-" to "BBB" and its short-term credit rating from "A-3" to "A-2".

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

The consolidated financial statements of the Group for 2015 were approved at the General Shareholders' Meeting of the Parent Company held on 28 June 2016.

b) Basis of presentation of the condensed consolidated half-yearly financial statements

In accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002, all companies governed by the laws of a Member State of the European Union and whose securities are traded on a regulated market in any European Union country must file consolidated financial statements for periods beginning on or after 1 January 2005 in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union.

The Group's 2015 consolidated financial statements were prepared by the Parent Company's Directors in accordance with the International Financial Reporting Standards as adopted by the European Union, applying the consolidation, accounting and measurement principles, policies and bases set forth in Note 4 to said consolidated financial statements, in order to present a true and fair view of the Group's consolidated equity and consolidated financial position at 31 December 2015 and the consolidated results of its operations, changes in consolidated equity and the consolidated cash flows in the year then ended.

These condensed consolidated interim financial statements for the six month-period ended 30 June 2016 are presented in accordance with IAS 34 Interim Financial Reporting, and were authorised for issue by the Parent Company's Directors on 27 July 2016, in accordance with Article 12 of Spain's Royal Decree 1362/2007.

In accordance with IAS 34, the interim financial report is intended to provide an update on the latest complete set of the Group's annual consolidated financial statements, focusing on new activities, events and circumstances that took place during the six months and not duplicating information previously reported in the 2015 consolidated financial statements. Accordingly, for a proper understanding of the information included in these condensed consolidated interim financial statements, they must be read in conjunction with the Group's consolidated financial statements for 2015.

The accounting principles and policies used to prepare the condensed consolidated half-yearly financial statements are the same as those applied in the 2015 consolidated financial statements.

However, since the accounting policies and measurement bases used in preparing the Group's interim consolidated financial statements for the six-month period ended 30 June 2016 may differ from those used by certain Group entities, the required adjustments and reclassifications were made on consolidation to unify such policies and bases and to make them compliant with IFRS and with the accounting policies and standards followed by the Parent Company.

The SFL Group, included in the scope of consolidation, was the subject of a limited review at 30 June 2016 on a shared basis between the Group's auditors, Deloitte & Associés, and PriceWaterhouseCoopers Audit.

Standards and interpretations effective in the current year

New accounting standards became effective during the six-month period ended 30 June 2016, and were applied accordingly in preparing these condensed consolidated half-yearly financial statements. The new standards are as follows:

New standards, amendments and interpretations		**Mandatory application in annual periods beginning on or after**
Approved for use in the European Union:		
Amendment to IAS 19 Defined Benefit Plans: Employee Contributions	The amendment permits contributions to be recognised as a reduction in the service cost in the period in which payment for the related service is made, if certain requirements are met.	1 February 2015 (*)
Improvements to IFRS 2010-2012 Cycle	Minor amendments to a series of standards	1 February 2015
Amendments to IAS 16 and IAS 38 Acceptable Methods of Depreciation and Amortisation (issued in May 2014)	Clarifies acceptable methods of depreciation for property, plant and equipment and amortisation for intangible assets	1 January 2016
Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)	Specifies how to account for the acquisition of interest in a joint operation that constitutes a business.	1 January 2016
Improvements to IFRSs 2012-2014 Cycle (published in September 2014)	Minor amendments to a series of standards	1 January 2016
Amendment to IAS 27 Equity Method in Separate Financial Statements (issued in August 2014)	The equity method of accounting is now permitted in the separate financial statements of an investor.	1 January 2016
Amendments to IAS 16 and IAS 41, Bearer Plants (issued in June 2014)	Bearer plants will now be recognised at cost, instead of at fair value.	1 January 2016
Amendments to IAS 1: Disclosure Initiative (issued in December 2014)	Miscellaneous clarifications regarding disclosures (materiality, aggregation, order of notes etc.).	1 January 2016
Not yet approved for use in the European Union:		
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment entities	Clarification regarding the exception for consolidation of investments in associates.	1 January 2016

(*) The effective date of this standard was 1 July 2014

Standards and interpretations issued but not yet effective

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

New standards, amendments and interpretations		Mandatory application in annual periods beginning on or after
Approved for use in the European Union:		
IFRS 9 Financial Instruments: (latest phase issued in July 2014)	Replaces the rules for the classification and measurement, recognition and derecognition of financial assets and liabilities, hedge accounting and impairment established in IAS 39	1 January 2018
IFRS 15 Revenue from Contracts with Customers (issued in May 2014) and clarifications thereto (issued in April 2016)	New standard for the recognition of revenue (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31)	1 January 2018
IFRS 16 Leases (issued in January 2016)	Replaces IAS 17 and the related interpretations. The fundamental development is that the new standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases (with a few limited exceptions) with a similar impact to the current financial leases (the right-of-use asset is depreciated and there is a financial cost for the amortised cost of the liability).	1 January 2019
Amendments to IAS 7 Disclosure Initiative (issued in January 2016)	Introduces additional disclosure requirements in order to improve the information provided to users.	1 January 2017
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016)	Clarification of the principles established for recognition of deferred tax assets for unrealised losses	1 January 2017
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions (issued in June 2016)	Narrow scope amendments to clarify specific questions such as the effect of accrual conditions for cash-settled share-based payments, the classification of share-based payments settled net of tax withholdings, and certain aspects of modifications in the type of share-based payments	1 January 2018
Amendment to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014)	Clarification regarding the results of these transactions if they are businesses or assets	Date not defined

As indicated in Note 2-b) to the consolidated financial statements for the year ended 31 December 2015, the application of new standards, amendments and interpretations will be considered by the Group once they have been ratified and approved, where appropriate, by the European Union.

The Parent Company's Directors have in any case reviewed the potential impacts of the future application of these standards and, as indicated in the 2015 financial statements, consider that they will not have a significant effect on the Group's consolidated financial statements.

c) Responsibility for the information provided and estimates made

The information contained in these condensed consolidated financial statements for the first six months of 2016 is the responsibility of the Parent Company's Directors, who have verified that the different controls established to ensure the quality of the financial and accounting information prepared have been effective.

The consolidated results and determination of consolidated equity are a product of the accounting policies and principles, measurement bases and estimates followed by the Parent Company's Directors in the preparation of the condensed consolidated half-yearly financial statements. The main accounting policies and measurement bases applied are described in Note 4 to the 2015 consolidated financial statements, notwithstanding the stipulations of Note 1-b) above, "Standards and interpretations effective in the current year".

In the condensed consolidated half-yearly financial statements, estimates were occasionally made by the Senior Management of the Parent Company and of the consolidated companies to quantify certain assets, liabilities, income, expenses and commitments reported herein. These estimates, made on the basis of the best information available, relate basically to:

- The market value of investment property (Note 4). The market value was obtained from the appraisals periodically made by independent experts. These appraisals were prepared at 30 June 2016, applying the methods described in Note 4.

- Measurement of non-current assets held for sale and property, plant and equipment for own use.

- Estimate of the necessary provisions for insolvent accounts receivable.

- The recoverability of tax credits in respect of " tax loss carryforwards "and deferred tax assets recognised in the condensed consolidated statement of financial position.

- The market value of certain financial assets, including derivative financial instruments (Note 6).

- Evaluation of lawsuits, obligations, and contingent assets and liabilities at year-end (Note 1-d)).

Although the estimates described were made on the basis of the best available information available to date concerning the facts analysed, in the light of future events it might be necessary to change these estimates (upwards or downwards). In accordance with IAS 8, any changes to accounting estimates would be made prospectively, with the effects of the changes recognised in the consolidated statement of comprehensive income.

During the six-month period ended 30 June 2016, there were no significant changes in the estimates made at the end of 2015.

d) Contingent assets and liabilities

Note 19 of the Group's consolidated financial statements for the year ended 31 December 2015 provides information on guarantee commitments to third parties and contingent liabilities at that date.

e) Basis of comparison

The information contained in these condensed consolidated financial statements for the first six months of 2016 is presented for comparative purposes with the information relating to the six-month period ended 30 June 2015 for the consolidated statement of comprehensive income and the consolidated statement of cash flows, and is compared with the information relating to 2015 year-end for the consolidated statement of financial position and for the consolidated statement of changes in equity.

f) Seasonal nature of the Group's operations

In view of the activities of Group companies, Group transactions are not significantly cyclical or seasonal. Therefore, no specific disclosures are provided in these explanatory notes to the condensed consolidated financial statements for the six-month period ended 30 June 2016.

g) Materiality

In deciding how to disclose items of the financial statements or other issues, in accordance with IAS 34, the Group assessed materiality in relation to the condensed consolidated half-yearly financial statements.

h) Events after the reporting date

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

There were no other significant or noteworthy events subsequent to the date of presentation and approval of these condensed consolidated financial statements.

2. Changes in Group composition

Appendix I to the consolidated financial statements for the year ended 31 December 2015 provides information on consolidated Group companies at that date.

The following changes were made to the scope of consolidation during the six-month period ended 30 June 2016:

- On 25 May 2016, the Parent Company acquired 100% of the share capital of the Spanish company Moorage Inversiones 2014, S.L. (hereinafter, "Moorage"), owner of land in Barcelona (Note 4). The acquisition price was 44,745 thousand euros, including acquisition costs. Of this amount, payment of 15,680 thousand euros was deferred until 25 May 2018, and has been recognised under “Other non-current liabilities” in the consolidated statement of financial position. A guarantee was extended for the deferred portion (Note 6).

- On 29 June 2016, the Parent Company and Reig Capital Group Luxembourg Sàrl (hereinafter, "Reig") reached an agreement whereby the Parent Company would acquire 2,038,956 shares in the subsidiary SFL (4.38% of its share capital). The acquisition was carried out through two transactions: (i) the contribution to the Parent Company of 1,019,478 shares in SFL in exchange for the subscription of 90,805,920 shares in Colonial (Note 5) valued at 63,564 thousand euros; and (ii) the sale to the Parent Company of 1,019,478 shares at the price of 50.00 euros per share (for a total of 50,974 thousand euros). Following the transactions, the Parent Company holds 26,765,356 shares in the subsidiary SFL (57.52% of its total capital). Accordingly, equity attributable to the Parent Company increased by 2,368 thousand euros.

- Lastly, on 30 June 2016, the Parent Company acquired 100% of the share capital of the Spanish company Hofinac Real Estate S.L. (hereinafter, "Hofinac"), owner of two buildings in Madrid (Note 4). The acquisition was carried out through the non-monetary contribution of 100% of Hofinac's shares to the Parent Company, in exchange for the subscription of 288,571,430 shares in Colonial (Note 5), valued at 202,000 thousand euros.

In 2015 the following changes were made to the scope of consolidation, as described in Note 2-f) to the consolidated financial statements for the year ended 31 December 2015:

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

3. Earnings per share from ordinary and discontinued activities

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

Diluted earnings per share are calculated in a manner similar to basic earnings per share, except that the weighted average number of shares outstanding is adjusted to take account of the potential dilutive effect of the convertible bonds outstanding at year-end. At 30 June 2016, there were no bonds pending conversion to shares in the Parent Company.

At the General Meeting held on 28 June 2016, the shareholders approved a reverse stock split whereby every 10 existing shares would be swapped for one newly-issued share (Note 1-h)).

	Thousands of euros	
	30 June 2016	30 June 2015
Consolidated profit/(loss) for the year attributable to shareholders of the Parent Company:	**229,596**	**202,447**
- from continuing operations	229,596	202,447
	No. of shares	No. of shares
Weighted average number of ordinary shares (in thousands)	318,166	318,807
Weighted average number of ordinary shares - diluted (in thousands)	318,166	318,807
	Euros	Euros
Basic and diluted earnings per share:	**0.72**	**0.64**
- from continuing operations	0.72	0.64

4. Investment property

The movements under this heading in the six-month period ended 30 June 2016 and in 2015 are as follows:

	Thousands of euros			
	Investment property	Investment property in progress	Prepayments	**Total**
Balance at 31 December 2014	**5,344,962**	**311,767**	**6,580**	**5,663,309**
Additions	187,285	148,627	-	**335,912**
Additions to scope of consolidation (Note 2)	-	29,971	-	**29,971**
Withdrawals	(3,281)	-	(6,580)	**(9,861)**
Transfers	328,854	(329,987)	-	**(1,133)**
Change in fair value	716,452	8,663	-	**725,115**
Balance at 31 December 2015	**6,574,272**	**169,041**	**-**	**6,743,313**
Additions	41,287	24,942	-	**66,229**
Additions to scope of consolidation (Note 2)	195,724	46,309	-	**242,033**
Withdrawals	(7,531)	-	-	**(7,531)**
Transfers	26,349	(26,357)	-	**(8)**
Changes in value (Note 8)	359,541	(2,875)	-	**356,666**
Balance at 30 June 2016	**7,189,642**	**211,060**	**-**	**7,400,702**

Additions in the first half of 2016 primarily correspond to the following operations:

- On 21 June 2016, the Parent Company acquired a building at calle José Abascal, 45, Madrid for 33,530 thousand euros, including acquisition costs.

- The remaining additions relate to development and refurbishment projects, mainly at properties of the SFL subgroup, in the amount of 22,626 thousand euros, and at properties of other Group companies, in the amount of 9,073 thousand euros.

In addition, as indicated in Note 2, the following additions occurred in the scope of consolidation:

- On 28 May 2016, the Parent Company acquired 100% of shares in Moorage, resulting in the recognition of land located on calle Ciutat de Granada in Barcelona, for 46,309 thousand euros.

- On 30 June 2016, the Parent Company acquired 100% of shares in Hofinac, resulting in the recognition of two buildings located at calle Santa Hortensia, 26-28 and calle Serrano, 73, both in Madrid, for a combined amount of 195,724 thousand euros.

In accordance with IAS 40, the Group calculates the fair value of its investment property on a regular basis. This fair value is determined based on the valuations made on a half-yearly basis by independent experts (Jones Lang LaSalle and CB Richard Ellis Valuation in Spain and Jones Lang LaSalle, CB Richard Ellis Valuation and BNP Paribas Real Estate in France). Accordingly, at each half-year close, the fair value reflects the prevailing market conditions for the investment property. 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.

“Change in the fair value of investment properties” in the condensed consolidated statement of comprehensive income includes the gains on the revaluation of investment property for the six-month period ended 30 June 2016, amounting to 356,934 thousand euros (Note 8), including the gain of 268 thousand euros in the value of the investment property reclassified to “Non-current assets held for sale" on the consolidated financial statements.

The sensitivity of valuations to a change of one quarter of a point in yields would have the following impact on the valuations used by the Group at 30 June 2016 and 31 December 2015 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
June 2016	7,556,410	+477,681	(420,948)
December 2015	6,912,522	+431,620	(383,189)

5. Equity

Share capital

The following changes occurred in the Parent Company's share capital in the first six months of 2016:

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

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

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

As a result, at 30 June 2016 and 31 December 2015, the Parent Company's share capital was represented by 3,568,233,990 and 3,188,856,640 shares, respectively, fully subscribed and paid up, with a par value of 0.25 euros each, fully subscribed and disbursed.

On 14 July 2016, the Parent 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 from 0.25 euros per share to 2.50 euros per share (Note 1-h)).

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 Company at 30 June 2016 and 31 December 2015 were as follows:

	June 2016		December 2015	
	Number of shares*	% shareholding	Number of shares*	% shareholding
Name or corporate name of the shareholder:				
Qatar Investment Authority	415,963,672	11.66%	415,963,672	13.04%
Finaccess Group	288,571,430	8.09%	-	-
Villar-Mir Group	233,066,664	6.53%	464,512,350	14.57%
Aguila Ltd	218,001,838	6.11%	218,001,838	6.84%
Joseph Charles Lewis	161,843,669	4.54%	162,167,654	5.09%
Mora Banc Grup, S.A.	117,771,370	3.30%	223,064,422	7.00%
Third Avenue Management LLC	111,844,583	3.13%	97,030,111	3.04%
Reig Capital Group	90,805,920	2.54%	-	-
Deutsche Bank A.G. **	81,353,898	2.28%	29,235,244	0.92%
Fidelity International Limited	62,484,713	1.75%	62,484,713	1.96%
Orbis Allan Gray Limited	38,606,512	1.08%	-	-
Invesco Limited	35,407,880	0.99%	35,407,880	1.11%

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

On 5 July 2016, Joseph Charles Lewis submitted notice that his interest had increased to 176,177,083 shares, equivalent to 4.937% of the Parent Company's share capital.

At the General Meeting held on 24 April 2015, the shareholders agreed to authorise the Board of Directors to issue, in the name of the Parent Company, on one or more occasions and for a five-year period, bonds and/or bonds convertible into new shares of the Parent Company and/or exchangeable for shares in the Parent Company or in any third party, expressly attributing the Board, in the case of the issue of bonds and/or convertible bonds, with the power to exclude preferential subscription rights of shareholders as well as to increase capital in the amount necessary to fulfil the conversion. The maximum amount of share issue(s) that may be carried out under the aforementioned authorisation may not exceed a combined amount of 350,000 thousand euros (or foreign currency equivalent).

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

Share premium

The following changes took place in the share premium in the first half of 2016:

- At the General Meeting held on 28 June 2016, the shareholders approved the issue of 288,571,430 new shares with a par value of 0.25 euros each, plus a share premium of 0.45 euros per share, as consideration for the non-monetary contribution of shares of Hofinac. The total amount of the share premium increase was 129,857 thousand euros. This capital increase was recorded in the Barcelona Companies Register on 30 June 2016.

- On the same date, the shareholders also approved the issue of 90,805,920 shares with a par value of 0.25 euros each, plus a share premium of 0.45 euros per share, as consideration for the non-monetary contribution of 1,019,478 shares of SFL. The total amount of the share premium increase was 40,863 thousand euros. This capital increase was recorded in the Barcelona Companies Register on 30 June 2016.

In 2015, there were no changes in the consolidation scope.

Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

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

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

At 30 June 2016, the legal reserve amounted to 33,615 thousand euros.

Voluntary reserves

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

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

The proposed distribution of 2015 profits approved at the General Shareholders' Meeting of 28 June 2016 also included the allocation of 28,535 thousand euros to the legal reserve, the distribution of 47,832 thousand euros in dividends, and the allocation of 208,983 thousand euros to offset prior years' losses. At the meeting, the shareholders also approved the partial application of voluntary reserves to offset prior years' losses still existing after the offset included in the proposed distribution of 2015 profits, in the amount of 938,992 thousand euros.

Following both offset exercises, voluntary reserves total 218,211 thousand euros, of which 169,439 thousand euros continue to be restricted.

Likewise, the aforementioned capital increases involved costs of 724 thousand euros, which were recognised under "Reserves of the Parent Company" in consolidated equity.

Valuation adjustments recognised in equity - 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 derivative financial instruments designated as cash flow hedges.

The changes in this heading are as follows:

	Thousands of euros	
	30 June 2016	31 December 2015
Opening balance	(2,504)	(6,368)
Changes in the fair value of hedges in the period	(162)	196
Transfer to the statement of comprehensive income	1,260	3,668
Changes in the scope of consolidation (Note 2)	(109)	-
Closing balance	**(1,515)**	**(2,504)**

During 2015, along with the recycling of reserves relating to cancelled hedging instruments associated with outstanding liabilities, and as a result of the novation of the previous loan held by the Parholding companies, 3,668 thousand euros were transferred to the consolidated statement of comprehensive income.

Treasury shares of the Parent Company

During the first half of 2016, the Parent Company acquired 2,871,382 treasury shares for 1,650 thousand euros. In order to meet the obligations set out in the long-term remuneration plan described in Note 21 to the 2015 consolidated financial statements, on 29 April 2016, the Parent Company settled the obligations pending for compliance with the 2015 plan, delivering 3,651,162 shares to beneficiaries of the Remuneration Plan.

During 2015, the Parent Company acquired 12,257,013 treasury shares for 7,396 thousand euros. In order to meet the obligations set out in the long-term remuneration plan described in Note 11, on 30 April 2015, the Parent Company settled the obligations pending for compliance with the 2014 plan, delivering 3,776,173 shares to beneficiaries of the Remuneration Plan.

At 30 June 2016 and 31 December 2015, the number of shares and the acquisition cost were as follows:

	30 June 2016	31 December 2015
Liquidity contract (*) -		
No. of shares	1,487,013	1,487,013
Carrying amount (in thousands of euros)	956	945
Treasury shares contract -		
No. of shares	6,224,047	7,003,827
Carrying amount (in thousands of euros)	3,604	4,068

(*) Liquidity contract in accordance with Regulation Three of CNMV Circular 3/2007 of 19 December on liquidity contracts for the purposes of acceptance as a market practice.

Treasury shares of SFL

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

	30 June 2016	31 December 2015
No. of shares	333,210	377,465
Carrying amount (in thousands of euros)	11,996	12,052
% shareholding	0.72%	0.81%

Pursuant to Notes 13 and 21 of the consolidated financial statements for the year ended 31 December 2015, a portion of these shares are held by SFL in order to cover two share option plans with different maturity dates and strike prices.

At 30 June 2016, the published net asset value (EPRA NNNAV) of SFL was 62.82 euros per share.

Non-controlling interests

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

	Thousands of euros		
	Torre Marenostrum, S.L.	SFL subgroup	**Total**
Balance at 31 December 2014	**18,004**	**1,358,104**	**1,376,108**
Profit/(loss) for the year	4,513	283,219	**287,732**
Dividends and other	37	(56,444)	**(56,407)**
Financial instruments	161	4,454	**4,615**
Balance at 31 December 2015	**22,715**	**1,589,333**	**1,612,048**
Profit/(loss) for the year	405	172,771	**173,176**
Dividends and other	(382)	(28,103)	**(28,485)**
Changes in the scope of consolidation (Note 2)	-	(116,906)	**(116,906)**
Financial instruments	308	532	**840**
Balance at 30 June 2016	**23,046**	**1,617,627**	**1,640,673**

The breakdown of the items included in "Dividends and other" at 30 June 2016 and at 31 December 2015, is as follows:

	Thousands of euros	
	30 June 2016	31 December 2015
Dividend paid by the SFL subgroup to non-controlling interests	(22,544)	(52,992)
Dividend paid by Washington Plaza to non-controlling interests	(5,934)	(3,910)
Dividend paid by Torre Marenostrum to non-controlling interests	(382)	(403)
Others	375	898
Total	**(28,485)**	**(56,407)**

6. Bank borrowings and other financial liabilities

The breakdown of “Bank borrowings and other financial liabilities” at 30 June 2016 and 31 December 2015 by maturities is as follows:

	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	After 5 years	Total non-current	
Bank borrowings:								
Lines of credit	55,366	-	-	-	-	-	-	55,366
Loans	5,327	5,091	155,386	55,799	126,154	215,877	558,307	563,634
Syndicated loans	-	-	96,400	-	-	-	96,400	96,400
Interest	1,079	-	-	-	-	-	-	1,079
Debt arrangement expenses	(2,072)	(2,066)	(1,946)	(859)	(498)	(387)	(5,756)	(7,828)
Total bank borrowings	**59,700**	**3,025**	**249,840**	**54,940**	**125,656**	**215,490**	**648,951**	**708,651**
Other financial liabilities:								
Current accounts	80	67,546	-	-	-	-	67,546	67,626
Derivative financial instruments	2,275	-	193	-	-	2,334	2,527	4,802
Dividend payable	47,833	-	-	-	-	-	-	47,833
Other financial liabilities	2,737	-	-	-	-	-	-	2,737
Total other financial liabilities	**52,925**	**67,546**	**193**	**-**	**-**	**2,334**	**70,073**	**122,998**
Total bank borrowings and other financial liabilities	**112,625**	**70,571**	**250,033**	**54,940**	**125,656**	**217,824**	**719,024**	**831,649**
Bonds and similar securities issued:								
Bonds issued	-	300,700	750,000	-	-	1,500,000	2,550,700	2,550,700
Interest	20,770	-	-	-	-	-	-	20,770
Arrangement expenses	(3,223)	(2,858)	(2,510)	(1,364)	(1,363)	(1,715)	(9,810)	(13,033)
Total bonds and similar securities issued	**17,547**	**297,842**	**747,490**	**(1,364)**	**(1,363)**	**1,498,285**	**2,540,890**	**2,558,437**
Total at 30 June 2016	**130,172**	**368,413**	**997,523**	**53,576**	**124,293**	**1,716,109**	**3,259,914**	**3,390,086**

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

The bonds issued by SFL, which are traded on the Euronext Paris secondary market, had a market value of 1,382,340 thousand euros (par value 1,300,700 thousand euros) at 30 June 2016. At the same date, the fair value of bonds issued by the Parent Company and traded on the Irish Stock Exchange was 1,308,793 thousand euros (par value 1,250,000 thousand euros).

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

Parent Company syndicated loan

In June 2016, the Parent Company drew down 29,150 thousand euros on the syndicated loan arranged on 12 November 2015. The balance available at 30 June 2016 stood at 96,400 thousand euros.

Payment of SFL plain vanilla bonds

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

Other loans

In May 2016, the subsidiary SFL signed a new five-year line of credit with BNP Paribas, for 150,000 thousand euros. At 30 June 2016, the total balance drawn down was 120,000 thousand euros.

Finance leases

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

Guarantees given

At 30 June 2016, the Group held the following mortgage loans for certain investment properties:

	Thousands of euros					
	Debt guaranteed			Asset value		
	Spain	International	Total	Spain	International	Total
Investment property (Note 4)	37,194	206,440	243,634	98,040	748,700	846,740

The Parent Company also has issued guarantees to official bodies, customers and suppliers, set out in the financial statements for the year ended 31 December 2015.

On 31 December 2015, the Parent Company had committed cash funds of 21,799 thousand euros to settle a payment obligation in respect of the enforcement of the guarantee for the purchase of a building located at calle Francisco Silvela in Madrid. During the first half of 2016, the guarantee was enforced and the Parent Company paid the amount guaranteed to the guarantor.

In addition, a 15,680 thousand euros guarantee was issued to secure deferred payment for the purchase of shares in Moorage (Note 2).

Compliance with financial covenants and indicators

At 30 June 2016, the Group was not in breach of any of the financial covenants and indicators stipulated in its loan contracts.

Cash and cash equivalents

At 30 June 2016, cash and cash equivalents amounted to 122,845 thousand euros, of which 13,814 thousand euros were pledged or restricted.

Capital management: Policies and objectives

The basic risks to which the Group is exposed and the risk management policies are detailed in the financial statements for the year ended 31 December 2015, and are reproduced in the Directors' report which forms part of these Half-yearly Financial Statements.

7. Tax matters

At 30 June 2016, the consolidated tax group included the companies that comprised the tax group at 31 December 2015 (the Parent Company, Colonial Invest, S.L.U. and Colonial Tramit, S.L.U.), as well as the subsidiary Danieltown Spain, S.L.U.

8. Income and expenses

Revenue

Revenue comprises basically rental income from the Group's rental properties which are concentrated in the cities of Barcelona, Madrid and Paris. Revenue for the six-month periods ended 30 June 2016 and 2015 stood at 136,975 thousand euros and 111,141 thousand euros, respectively. The breakdown by geographic segment is as follows:

Rental business	Thousands of euros	
	June 2016	June 2015
Spain	35,011	29,791
France	101,964	81,350
	136,975	**111,141**

Revenue in the first half of 2016 and 2015 includes the effect of deferring grace periods and rent reset clauses throughout the term elapsing between the start of the lease agreement and the first option for renewing it. It also includes the accrual of the amounts received as entrance fees, which are amounts invoiced to lessees to reserve a unique space. At 30 June 2016 and 2015, the impact of these accruals increased revenue by 19,528 thousand euros and 6,627 thousand euros, respectively.

Impairment charges and net gains/(losses) on assets

The breakdown of "Change in fair value of investment properties" (IAS 40) in the condensed consolidated statement of comprehensive income, by types, is as follows:

	Thousands of euros	
	June 2016	June 2015
Changes in value on statement of financial position		
Investment property (Note 4)	356,666	351,412
Non-current assets held for sale – Investment property	268	(1,455)
Changes in value of investment property	**356,934**	**349,957**
- **Spain**	**71,155**	**132,610**
- **International**	**285,779**	**217,347**

The breakdown of the impairment charges recognised under “Impairment charges and net gains/(losses) on assets” in the condensed consolidated statement of comprehensive income is as follows:

	Thousands of euros	
	June 2016	June 2015
Derecognition of replaced assets	(7,530)	(3,270)
Impairment of properties for own use	4,171	1,113
Impairment charges and net gains/(losses) on assets	**(3,359)**	**(2,157)**

Finance income and expenses

The breakdown of financial profit/(loss) in the first six months of 2016 and 2015, by types, is as follows:

	Thousands of euros	
	June 2016	June 2015
Finance income:		
Revenue from equity investments	-	63
Other interest and similar income	532	697
Income from financial derivatives	861	1,100
Capitalised finance costs	387	3,576
Total finance income	**1,780**	**5,436**
Finance costs:		
Interest and similar expense	(40,808)	(76,688)
Financial derivative expense	(3,234)	(4,919)
Total finance costs	**(44,042)**	**(81,607)**
Impairment of financial assets	**(182)**	**2,504**
Total financial profit/(loss)	**(42,444)**	**(73,667)**

At 30 June 2015, "Interest and similar expense" included 28,039 thousand euros for the charge for early cancellation of the Parent Company's syndicated loan on 5 June 2015.

9. Segment reporting

All the Group's activities are carried out in Spain and France. The information, by segments, for the first six months of 2016 and 2015 is as follows:

Segment reporting, first six months of 2016

	Thousands of euros						
	Rentals					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total Rentals		
Income	14,939	19,900	103,322	181	138,342	108	138,450
Revenue	14,939	19,891	101,964	181	136,975	-	136,975
Other income	-	9	1,358	-	1,367	108	1,475
Operating profit /(loss)	13,025	15,413	96,609	122	125,169	(17,660)	107,509
Change in fair value of investment property	31,923	38,417	285,779	815	356,934	-	356,934
Impairment charges and net gains/(losses) on assets	(7,530)	-	-	-	(7,530)	4,171	(3,359)
Financial profit/(loss)	-	-	-	-	-	(42,444)	(42,444)
Profit/(loss) before tax	-	-	-	-	-	418,640	418,640
Consolidated net profit/(loss) from continuing operations	-	-	-	-	-	402,772	402,772
Consolidated net profit/(loss)	-	-	-	-	-	402,772	402,772
Net profit/(loss) attributable to non-controlling interests	-	-	-	-	-	(173,176)	(173,176)
Net profit/(loss) attributable to shareholders of the Company	-	-	-	-	-	229,596	229,596

There were no significant inter-segment transactions in the six-month period ended 30 June 2016.

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

Segment reporting, first six months of 2015

	Thousands of euros						
	Rentals					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total Rentals		
Income	12,865	16,993	81,665	-	111,523	1,300	112,823
Revenue	12,827	16,964	81,350	-	111,141	-	111,141
Other income	38	29	315	-	382	1,300	1,682
Operating profit /(loss)	9,793	14,397	71,864	(79)	95,975	(17,337)	78,638
Change in fair value of investment property	56,041	77,974	217,347	(1,405)	349,957	-	349,957
Impairment charges and net gains/(losses) on assets	-	-	-	-	-	(2,157)	(2,157)
Financial profit/(loss)	-	-	-	-	-	(73,667)	(73,667)
Profit/(loss) before tax	-	-	-	-	-	352,771	352,771
Consolidated net profit/(loss) from continuing operations	-	-	-	-	-	322,905	322,905
Consolidated net profit/(loss)	-	-	-	-	-	322,905	322,905
Net profit attributable to non-controlling interests	-	-	-	-	-	(120,458)	(120,458)
Net profit/(loss) attributable to shareholders of the Company	-	-	-	-	-	202,447	202,447

There were no significant inter-segment transactions in the six-month period ended 30 June 2015.

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

10. Related-party transactions and balances

At 30 June 2016 and 31 December 2015 the Group did not have any balances outstanding with related parties and associates. The following transactions with related parties were carried out in 2016 and 2015:

	Thousands of euros	
	June 2016	June 2015
	Lease income	Lease income
Gas Natural, S.D.G	2,684	2,963
Total	**2,684**	**2,963**

11. Director and Senior Management compensation and other benefits

Compensation of Board members

The Parent Company’s Board of Directors comprised eleven male Directors and one female Director at 30 June 2016, and ten male Directors and one female Director at 31 December 2015.

In the first half of 2016, members of the Board of Directors of the Parent Company accrued remuneration of 711 thousand euros (714 thousand euros during the first half of 2015) in relation to fixed compensation and per diem allowances for membership on the Board. Additionally, certain non-Executive Directors of the Parent Company received 45 thousand euros from SFL for their role as Directors of that company (27 thousand euros in the first half of 2015).

In the first half of 2016, Executive Directors received cash remuneration 1,150 thousand euros for all items received from the Parent Company. Further, remuneration in kind included 1,196 thousand euros corresponding to the long-term share delivery plan (889 and 1,088 thousand euros in the first half of 2015 respectively). Executive Directors of the Parent Company received 105 thousand euros from SFL for their role as Directors of that company (107 thousand euros in the first half of 2015).

At 30 June 2016 and 2015, the Parent Company had a civil liability insurance policy in place covering all of its Directors, Senior Executives and staff.

The Group has not extended any loans nor has contracted pension plans or life insurance for former and current members of the Parent Company's Board of Directors. However, at the General Meeting held on 28 June 2016, the shareholders approved a defined contribution scheme for Executive Directors to cover retirement contingencies and, where applicable, to provide disability and death benefits, with annual overall contributions of 175 thousand euros. At 30 June 2016, the Parent Company has recognised no impact whatsoever from this resolution.

At 30 June 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 by the shareholders at the General Meeting.

Compensation of Senior Management

The Parent Company’s Senior Management team comprises Senior Executives and other persons responsible for the management of the Parent Company and reporting to the CEO. At both 30 June 2016 and 31 December 2015, the Parent Company’s Senior Management team was composed of two male Directors and two female Directors.

Remuneration accrued by members of Senior Management in the first six months of 2016 and 2015 totalled 1,663 thousand euros, of which 939 thousand euros relate to remuneration in kind linked to the long-term incentives plan (1,385 thousand euros in the first six months of 2015, including 885 thousand euros for the long-term incentives plan).

At 30 June 2016 and 31 December 2015, a member of the Senior Management team had signed a "golden parachute" clause, which is triggered in the event of certain cases of termination or change of control.

12. Average headcount

The Group headcount at 30 June 2016 and 2015, and the average headcount in the first half of 2016 and 2015, employed in continuing operations, broken down by job category and gender, is as follows:

	Number of employees				Average first half 2016		Average first half 2015	
	June 2016		June 2015					
	Men	Women	Men	Women	Men	Women	Men	Women
General and area managers	12	5	12	5	12	5	12	5
Technical graduates and middle managers	28	30	31	25	29	28	31	25
Clerical staff	17	49	13	54	15	51	13	55
Other	1	1	1	1	1	1	1	1
	58	**85**	**57**	**85**	**57**	**85**	**57**	86

13. Explanation added for translation to English

These interim condensed/complete consolidated financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 1-b). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

Inmobiliaria Colonial, S.A. and Subsidiaries

Consolidated Directors' Report for the six-month period ended 30 June 2016

1. Company situation

Macroeconomic environment

The main analysts forecast that global economic growth in 2016 will reach 3.2% (3.1% in 2015). In the main developed countries the business indicators published for 1Q 2016 have reinforced the scenario of stabilisation in growth, despite the instability generated by Brexit. In the bloc of emerging countries, the wave of negative surprises has eased, although there is still some concern over the possibility of a rise in interest rates by the Fed and a slowdown in the price recovery of raw materials. However, world growth recovery is supported by various factors, particularly the easing of the risk-off episode (periods where investors look to reduce risks), as well as a more accommodative monetary environment thanks to the measures announced by the ECB, communications from the Fed and the Bank of England and lastly the gradual rise in oil prices.

In the Eurozone, the European Commission maintains the scenario of a gradual recovery, with a growth forecast of 1.4% for 2016 and 1.3% for 2017 despite the political uncertainty caused by Brexit and the possible related negotiations. Likewise, the institution indicates that the ECB monetary accommodation measures are driving internal demand and investment, which are both key for greater economic growth. However, it warns of the fragility of the recovery, emphasizing the need to strengthen the reforms. The evolution in 1Q 2016 grew by 0.5% quarter-on-quarter, two percentage points more than the previous quarter and above the 2015 average. In addition, advanced indicators point to healthy growth during 2Q 2016, with an increase in inflation, supported by a gradual increase in oil prices and a limited impact of Brexit on the economies in the Eurozone.

In the coming quarters the Spanish economy will continue with a notable GDP growth rate of +2.8%, positioning it above the European average. Maturing growth for 2016 is the result of the gradual disappearance of the tailwind effects that boosted growth in 2015, such as falling oil prices and the depreciation of the euro. It is also due to less support from fiscal policy, which is very unlikely to be as expansionary as in 2015 if the public debt targets are to be met. In short, there will be less growth but of higher quality. In particular, the acceleration of internal demand, investment and an improved employment market are the keys for sustained economic growth. So is the continued recovery in the real estate sector, the growth in bank loans and improved inflation expectations; three trends that mean the country is still making progress towards full economic normalization.

In France, the GDP growth is expected to accelerate up to 1.3% in 2016 vs 1.0% in 2015, thanks to an increase in internal demand and the positive performance of expectations outside of the EU.

Source: Monthly "la Caixa" report

State of the rental market

<u>Barcelona</u>

In the second quarter of 2016, in Barcelona 77,000 m² of offices were signed, 13% more than the first quarter of the year, maintaining solid take-up levels in accordance with the natural absorption of the Barcelona market. However, the accumulated take-up of offices in Barcelona in the first half of 2016 reached 145,000 m², 18% less than in the same period of the previous year. Almost 60% of the total take-up volume of offices in 2016 was in the city centre, 22% in new business districts and 19% in the periphery. The decrease in take-up in new business districts such as 22@ and Plaza Europa, is mainly due to the lack of office supply.

The demand for office space in Barcelona remains strong and, continuing the trend of previous quarters, the average vacancy rate in Barcelona dropped 62 basis points. For the first time since 2009 it was lower than the 10% barrier, specifically 9.9%. In particular, the Paseo de Gracia/Diagonal area already stands at 6.4%, almost 5 pp less than two years ago. In this respect, during the second quarter of 2016, 16,000 m² of offices entered into operation, relating to Pere IV 297 (rented just at the entry into operation) and La Rotonda. As the quarters progress the problem of a lack of office space in Barcelona will increase

In the second quarter of 2016, increases in the maximum rental levels of offices were registered, given the strong take-up levels combined with a lack of quality product. The maximum prime rental levels in the Paseo de Gracia/Diagonal area reached €21/m²/month, a solid increase from 3.7% compared to the previous quarter and an impressive year-on-year variation of more than 10.5%.

<u>Madrid</u>

The office take-up in Madrid continues to rise, surpassing the barrier of 100,000 m² in the second quarter of 2016, which represents an increase of 4.8% compared to the take-up of the first quarter and contrasts with the 69,000 m² of the same period of the previous year. Therefore, the total take-up during the first half of this year stood at 201,000 m².

The number of transactions the first half of 2016 represents an increase of 20% year-on-year with 221 transactions compared to the 184 registered during the same period of the previous year. More than 75% of the transactions were for spaces under 1,000 m².

The average vacancy rate in Madrid continues to decline, dropping 23 basis points from 10.5% in the first quarter to 10.3% at the close of the second quarter of 2016. The sub-markets with a lower vacancy rate are the CBD and secondary markets, at 7.6% and 5.6%, respectively.

Prime rents continue their upward trend, reaching €27.75/m²/month at the close of the second quarter of 2016, which represents a quarterly increase of almost 1% and a year-on-year variation of almost 7%.

The scarcity of quality product continues to drive up maximum rents for those spaces with the best characteristics. The actual rents are increasing thanks to an increase in facial rents and the reduction in tenant incentives.

<u>Paris</u>

Office take up in the Paris region (Ile-de-France) in the second quarter of the 2016 reached 614,000 m², with cumulative volumes of more than 1,100,000 m², resulting in an increase of 20% compared to the average over the last 10 years.

The demand for rentals by large companies has been dynamic. The growth in large transactions can be observed in surface volume as well as in the number of transactions, with increases of 43% and 41%, respectively, compared to 2015. Additionally, 2016 is profiled as a year where there will be movements by companies in the press and media sectors which are carrying out reorganization processes.

Availability of immediate stock has been slightly reabsorbed and stands at approximately 3.7 million m² corresponding to a vacancy of 7%. The vacancy rate in the Paris CBD is at 3.9%.

The prime rental prices in the CBD in the Paris market reached €765/m²/year, registering important growth compared to the previous quarters and in particular with respect to the same period of 2015.

It is particularly worth highlighting the important increase in the number of transactions that have been closed with facial rental levels above €750/m²/year.

On the other hand, a progressive decrease in incentives can be observed, especially in the CBD areas where incentives reach 17% (difference between facial rents and economic rents).

Source: Reports by Jones Lang Lasalle, Cushman & Wakefield, CBRE and BNP Paribas

Organisational structure and functioning

The Colonial Group is a leading real estate company in the quality offices market in the Eurozone. It is one of the leading office-space players on the Spanish and European real estate market. The Group has a property portfolio worth more than 7.5 billion euros, with a clear rental commitment centred on the operation and development of buildings for rent and a prominent presence in the rental business of quality offices in the prime areas of the Paris, Madrid and Barcelona markets.

The Colonial Group's strategy involves locking in a position as the leading player in the prime offices segment.

In particular, its strategy comprises:

- A business model focused on developing, revamping and operating top-quality offices in prime locations, primarily in central business districts (CBDs)
- Firm commitment to creating quality office spaces, with a key focus on efficiency and sustainability
- A pan-European strategy, diversified in the Madrid, Barcelona and Paris office markets
- An investment strategy combining core acquisitions and prime factory acquisitions, projects with value added components
- A clear focus on the industrial real-estate sector, to capture unique value creation in the market
- A solid capital structure with a clear emphasis on maintaining investment grade ratings
- Attractive shareholder earnings based on recurring profits combined with the creation of property values through value added initiatives

2. Business performance and results

Introduction

At 30 June 2016, the Group's rental revenues reached 137 million euros, generated by its recurring business (property rentals).

Operating profit before net gains, depreciation and amortisation, provisions and interest came in at 109 million euros.

According to the independent year-end appraisals carried out by CB Richard Ellis, Jones Lang Lasalle and BNP Paribas Real Estate, the revaluation of the Group's investment property stood at 357 million euros. This revaluation, reported both in France and in Spain, reflects a 13.4% increase in value in like-for-like terms on 12-month rental assets (10.8% in Spain and 14.2% in France).

The Group capitalised 0.4 million euros of borrowing costs related to developments in progress.

Net finance expense was 42 million euros.

After subtracting profit attributable to non-controlling interests (-173 million euros), the profit after tax attributable to the Group amounted to 230 million euros.

Valuation of Assets

At the close of the first half of 2016, the assets of the Colonial Group were valued at 7.556 billion euros by Jones Lang LaSalle, CB Richard Ellis and BNP Paribas Real Estate. The appraisal figures are updated half-yearly, following the best market practices. This value rose by +5.2% like-for-like compared to December 2015 (up 13.4% like-for-like in 12 months).

In Spain, the Gross Asset Value increased by 5% like-for-like in the last six months, (10.8% in 12 months) due to a combination of property repositioning and increases in occupancy that have led to improved yields and rental income. By city, the portfolios in Madrid and Barcelona increased by 5% like-for-like in six months, respectively (Barcelona +11.1%, in 12 months and Madrid +10.9% in 12 months).

In France, the Gross Asset Value of the portfolio increased 5.3% like-for-like in 6 months (14.2% in 12 months). This increase in value is a consequence of the progressive repositioning of the property portfolio with positive impacts on rents and yields, in the context of an investment market with high interest in prime offices in Paris.

New acquisitions and investment

In the first half of 2016, the Colonial Group has successfully executed Project Alpha which involved the acquisition of 4 buildings in Spain (3 in Madrid and 1 in Barcelona) and a 4.4% in SFL stake. The total volume of the acquisitions amounts to more than 400 million euros.

These acquisitions have accelerated the growth plan of the Colonial Group in accretive terms and in particular have led to:

1. A substantial increase in the portfolio in Spain, increasing the GAV in this market by more than 20%.

2. A greater exposure to the Paris CBD.

3. The issue of new shares, increasing the value of the equity by more than 265 million euros.

4. The incorporation of the Grupo Finaccess, prestigious international investor, as a long-term reference shareholder.

5. The execution of an accretive transaction in EPS and NAV/share from day one.

6. The improvement of the credit profile of the Colonial Group.

Project Alpha has enabled the Group to acquire maximum quality products with a unique positioning in its markets. All of the acquisitions have been sourced through “off-market” transactions at very attractive acquisition prices.

The Project Alpha acquisitions represent an interesting mix of core investments (assets that generate cash from day one) and Prime Factory projects with high real estate value creation potential.

Project Alpha has been implemented through the following transactions:

The first transaction was carried out through an agreement with Grupo Finaccess for the purchase of a portfolio that includes the building located at Santa Hortensia, 26-28, and the building located at Serrano, 73, both in Madrid. The transaction has been valued at 202 million euros and the acquisition took place through the delivery of 288.6 million new Colonial shares.

In order to execute the second transaction, Colonial reached an agreement with the Reig Capital Group for the purchase of 4.4% of SFL, which set its stake in its French subsidiary SFL at 57.5%. The acquisition took place through the delivery of 51million euros and 90.8 million new Colonial shares.

The execution of the transactions described above resulted in a capital increase of 379.4 million shares through the issue of shares with a nominal value of 0.25 euros and a share premium of 0.45 euros. Their implementation has a clear accretive effect for Colonial’s shareholders since it means the issue of new shares at 0.70 euros per share.

The Alpha project has been completed with two more acquisitions. The first is the purchase of a project in the 22@ district in Barcelona, where a 17-storey office building will be built with a surface area of more than 24,000 m². The building will be one of the first buildings in Barcelona with the LEED Platinum certificate. The total final investment amount is 77 million euros. The second acquisition is of an architecturally unique building at José Abascal, 45, with a surface area of more than 5,300 m² for an investment of 35 million euros, confirming Colonial’s position as one of the leaders in prime assets in the Madrid market.

Project Alpha has led to a significant leap in the strategic development of Colonial, consolidating its prime leadership through assets with a unique positioning in their respective markets.

Rental business

The highlights of rental business are as follows:

Rental revenues reached 137 million euros, 23% higher than that achieved the previous year.

In like-for-like terms, adjusting for investments, disposals and variations in the project and refurbishment portfolio and other extraordinary items, the rental revenues of the Group increased by 10% like-for-like.

In Paris, the rental revenues rose by 11% like-for-like. In Spain, the rental revenues increased by 6% like-for-like. Strongly driven by the Barcelona portfolio, which increased by 13% like-for-like. The Barcelona portfolio has experienced significant positive growth, consolidating the good evolution seen in the last two quarters. Rental revenues in the Madrid portfolio went up 5% like-for-like.

The like-for-like increase in rental revenues mainly corresponds to the contracts signed on the Alfonso XII, José Abascal 56 and Castellana 52 properties in Madrid, Travessera and Diagonal 409 in Barcelona, and the In&Out, Washington Plaza and Louvre Saint Honoré buildings in Paris.

Rental EBITDA reached 125 million euros, a 15% increase in like-for-like terms, with an EBITDA margin of 91%.

The majority of the Group's revenues (84%) are from office buildings. Likewise, the Group maintains its high exposure to CBD markets (74%). In consolidated terms, 74% of the rental revenues (102 million euros) came from the subsidiary in Paris and 26% were generated by properties in Spain. In attributable terms, 59% of the rents were generated in France and the rest in Spain.

At the close of the first half of 2016, the Colonial Group's portfolio totalled 1,205,398 m² (851,853 m² above ground), concentrated mainly in office assets. At 30 June 2016, 87% of the portfolio was in operation and the rest corresponded to an attractive portfolio of projects and refurbishments and the Parc Central land plot in Barcelona.

During the first half of 2016, the Group signed a total of 64,800 m² of contracts. Out of the total contracts, 70% (45,243 m²) were signed in Barcelona and Madrid, and the rest (19,557 m²) were signed in Paris.

Out of the total commercial effort, 48% (31,213 m²) related to new contracts, highlighting almost 18,000 m² signed in Barcelona and Madrid. The remaining surface area (33,587 m²) corresponds to contract renewals, which is 16% higher than the amount of renewed surfaces during the same period of the previous year.

In Spain, during these six months, more than 45,000 m² were signed, corresponding to 34 contracts. In particular, more than 37,000 m² were signed in Barcelona, particularly the renewal of more than 22,000 m² for Gas Natural on the Torre Marenostrum building, as well as the signing of more than 4,000 ²m on the Avinguda Diagonal, 609-615 building (DAU), among others. In Madrid, of particular mention is the renewal of 2,700 m² on the Recoletos, 37-41 building for a pharmaceutical company.

In Paris, more than 13,000 m² of new contracts were signed. It is particularly important to highlight the signing of almost 3,000 m² on the #Cloud property with a cosmetics and fragrances company, reaching 100% occupancy. This transaction is another example of Colonial's ability to design and develop top quality offices for leading companies in a wide range of sectors. Additionally, 2,014 m² were signed on the Cezanne Saint-Honoré building, 1,600 m² on the Grenelle 103 building and 5,200 m² were renewed in Washington Plaza with Lagardère Ressources. The transactions described above were closed with rental prices at the high end of the rental market.

The high volume of new contracts in the period pushed occupancy rates up considerably. At the close of the first half of 2016, the Colonial Group's EPRA[1] financial occupancy for the office portfolio reached 96%, up 999 basis points compared to the previous year, and the total EPRA financial occupancy including all uses reached 97% (up 829 basis points vs the close of the first quarter of 2015).

In Barcelona, the EPRA financial occupancy of the office portfolio increased +932 basis points compared to the previous year (up +70 basis points in this quarter), reaching a ratio of 94%. This increase is mainly due to the contracts signed on the Avinguda Diagonal 609-615, Sant Cugat, Travessera/Amigó, Ausias March and Berlín Numància buildings, among others.

In Madrid, the EPRA financial occupancy of the office portfolio was 97%, +458 basis points above the previous year (up +85 basis points in the last quarter). This increase is mainly due to new leases on the Agustín de Foxá 29, Jose Abascal 56 and Paseo de la Castellana 52 buildings, as well as the letting performance on the Santa Hortensia building, which reached an occupancy level of 100%.

In Paris, the EPRA financial occupancy of the office portfolio increased by +1,110 basis points compared to the previous year (up +90 basis points in the last quarter), reaching a ratio of 97%, mainly due to the new lettings on the In&Out & #Cloud buildings.

At 30 June 2016, the Colonial Group had three major projects of more than 46,000 m² above ground, with significant potential for value creation.

- Estébanez Calderón, 3-5: Property acquired in May 2015, located in the centre of Madrid. Demolition work has begun on the current building to build a new unique "LEED Gold" property with a total of 10,500 m² of surface area above ground. This building will incorporate the latest technologies and innovation in materials and will receive the most prestigious environmental and sustainability certificates. The project, led by the Lamela studio, is expected to be delivered in the second half of 2017

- Príncipe de Vergara, 112: Property acquired in July 2015, located in the centre of Madrid. The transaction involves demolishing the current property to build a unique new office building which will provide a total surface area above ground of 11,400 m², with optimal space efficiency on all floors, enabling it to obtain the LEED Gold energy certificate

- Parc Glòries: A new project of an emblematic office building in the most prime area of 22@ with extremely high quality finishes, technical specifications and sustainability with expected delivery in 2018. The project will have more than 24,000 m² designed by Batlle & Roig, distributed over 17 floors, each with a surface area of approximately 1,800 m². Parc Glòries is a project destined to become an imminent symbol of the city. The building will be one of the first properties with Leed Platinum certification in the Barcelona office market.

In addition to the projects described, the Colonial Group is currently carrying out substantial refurbishment projects on 32,416 m² above ground, with the aim of optimizing the positioning of these assets in the market. These include refurbishments on the Louvre des Antiquaires and Cézanne Saint-Honoré buildings, among others. In addition, Colonial owns a plot of land of more than 14,000 m² above ground in the 22@ submarket in Barcelona. During the first half of 2016, more than 29 million euros was invested, mainly in France, in Prime Factory projects and refurbishments to optimize the positioning of the property portfolio.

It is worth mentioning the Avinguda Diagonal, 609-615 (DAU) and Ausias March buildings in Barcelona, which obtained the "Breeam Good" certificate in June. Additionally, the building in Paseo de los Tilos in Barcelona obtained the LEED GOLD certificate in April 2016. In Paris, of special mention is the upgrade in the Breeam rating from "very good" to "excellent" on the Iena, Charles de Gaulle and In&Out assets.

As a result of the Colonial Group's repositioning policy, currently 80% of the buildings have top quality energy certificates, a fact that gives the Colonial Group a competitive advantage in attracting top tier demand and maximising the value creation of the portfolio.

3. Liquidity and capital resources

See "Capital management: policies and objectives" in Note 14 to the consolidated financial statements for the year ended 31 December 2015, and Note 6 to these condensed half-yearly financial statements for the six-month period ended 30 June 2016.

4. Risk management policies and objectives

Risk Management

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

Strategic risks

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

- Risks associated with the sector situation: The Colonial Group pays close attention to economic, political, legal and social risks related with the countries in which it operates (Spain and France). The real-estate sector has rallied in the past two years, reaching very significant investment levels. This situation, along with the maturity of the French property sector and the Spanish economy's growth and employment forecasts for 2016, enable 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 property rentals sector is a highly competitive industry. The sizeable investment made in the sector in the past two years was driven by specialised international investment funds and by listed real-estate investment companies (SOCIMIs). The high quality of the Colonial Group's assets, the value of these assets and its strategy of focusing mainly on its office rental activities in prime central business district (CBD) areas have positioned the Group as a key benchmark in the real estate sector in Europe. The successful growth strategy implemented by the Colonial Group in 2015 and during the first half of 2016, acquiring new assets located in these CBDs, has shored up the Group's position in the sector.
- Risks related to the value of assets: Every six months, the Group engages independent experts to appraise each and every property it owns, using objective market criteria. 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.
- Medium-term and long-term business plans: The absence of business plans increases uncertainty in terms of a company's viability and future. Colonial has both a medium- and long-term business plan. These are continually reviewed and revised by the governing bodies, to adapt them to the economic, financial and social context and the situation of the property market. This ensures the viability of the Group, enabling it to stay one step ahead of its financial needs and avoid limiting its operating and investment capacity. As such, the Group can achieve its sustainability and growth targets.
- 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 Group’s risk management policy is designed to reduce volatility in interest rates and to limit and control the impact of these fluctuations on profit and cash flows, keeping overall borrowing costs at reasonable levels. The Colonial Group arranges 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. Following the process of securing a credit rating, issuing bonds, restructuring the Company's financial debt and arranging a new syndicated loan, the Group's debt servicing cost has decreased and its maturities have been extended and diversified. 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 current and new 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 out in its business plan. Following the financial debt restructuring process, the Company has significantly increased its liquidity and its ability to attract capital and obtain new lines of financing.

Operational risks:

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

- Asset management risks: Sustainable management of daily operations increasingly forms a key part of an owner's obligations, with a direct impact on occupancy levels. The Colonial Group allocates a significant portion of its investments to acquiring, constructing, renovating and maintaining the high quality of its property assets, well known for their energy efficiency. This property management strategy is a key part of the Group's organisation and business plan.
- Risk of loss or damage to property assets: The Colonial Group's properties are exposed to general risks of damage as a result of fires, flooding or other events, regardless of whether or not they are attributable to natural causes. Colonial has taken out insurance to cover the cost of potentially rebuilding each property it owns, as well as the costs of any third-party damage.

Compliance risks:

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

- Risks arising from failure to comply with contractual obligations: In the course of its business, Colonial is exposed to risk arising from failure to comply with contractual obligations vis-à-vis customers, banks, suppliers, employees, etc. The process of identifying and assessing risks of contractual breach that may give rise to legal proceedings against the Group allows it to take the appropriate corrective measures to mitigate these risks or, where applicable, any possible impact thereof. The Company has also taken out insurance to cover any legal costs or possible damage against Directors and Executives.
- Tax risks: The Colonial Group is subject to general tax legislation in the countries in which it operates, as well as to specific regulations for the real estate sector. In that regard, Colonial has implemented a tax policy, a tax strategy and a tax risks management system, approved by the governing bodies and forming part of the ICRMS, establishing appropriate measures to control and monitor management of risks in this area.

Reporting risks:

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

5. Events after the reporting date

There were no significant events after the reporting date for the first six months of 2016 other than those described in Note 1-h) to these financial statements.

6. Future outlook

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

Barcelona and Madrid

After several years of downturn, the rental markets in Barcelona and Madrid have begun to show signs of recovery.

In particular, prime rents have begun to increase, although only in CBD areas or new business districts. Peripheral markets continue to post very weak fundamentals.

Tenants tend to prefer central areas and, for the first time since the onset of the economic crisis, some tenants are even expanding their rented space.

The vacancy rate is expected to continue falling in both Barcelona and Madrid, due mainly to sound leasing levels and a significant lack of new office supply.

As the positive macroeconomic trends are consolidated, the demand for rentals will also take firm hold and, according to leading consultants, rents should begin to climb, especially for prime properties.

The investment market has clearly reached a turning point with the significant increase in volume of transactions and a substantial compression in terms of return required. The changes in the investment market will clearly be influenced by the interest rate policy of the European Central Bank.

Paris

The Paris market is one of the most important markets in the world. During the last few quarters, there have been clear signs of an improvement in demand, especially in CBD areas, where there is an obvious lack of prime rentals.

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

Strategy for the future

The investment market has shown record contracting levels. In the current climate of low interest rates, expectations are that investors will continue to be interested in the Paris market, as one of the Eurozone's major fields of office operations.

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

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

7. Research and development activities

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

8. Treasury shares

Inmobiliaria Colonial S.A. did not perform any transactions with treasury shares in the first half of 2016. At 30 June 2016, the Parent Company held 7,711,060 treasury shares, with a par value of 1,927,765 euros (0.25 euros each), representing 0.22% of the Parent Company's share capital.

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

Pursuant to the recommendations of the European Securities and Markets Authority (ESMA) for calculating and setting the Alternative Performance Measures used by Company in its financial and operational decision making, section 6.10 of the document "Results January-June 2016" published on the same date as the these financial statements and notes thereto includes the definition and calculation of EPRA Earnings, EPRA NAV and EPRA NNAV.