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

Report on limited review of condensed interim consolidated financial statements and Interim consolidated directors´ Report for the six months period ended at 30 June 2018 pwc

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

REPORT ON LIMITED REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have performed a limited review of the accompanying condensed interim consolidated financial statements (hereinafter, the interim financial statements) of Inmobiliaria Colonial, SOCIMI, S.A., S.A. (hereinafter, "the parent company") and its subsidiaries (hereinafter, "the group"), which comprise the statement of financial position as at June 30, 2018, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all condensed and consolidated, for the six months period then ended. The parent company´s directors are responsible for the preparation of these interim financial statements in accordance with the requirbements of International Accounting Standard (IAS) 34, "Interim Financial Reporting", as adopted by the European Union, for the preparation of condensed interim financial information, as provided in 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 Review

We conducted our limited review 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 analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with legislation governing the audit practice in Spain and consequently 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 these interim financial statements.

Conclusion

Based on our limited review, that cannot be considered as an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six months period ended June 30, 2018 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, for the preparation of condensed interim financial statements, as provided in Article 12 of Royal Decree 1362/2007.

Emphasis of Matter

We draw attention to Note 2, in which it is mentioned that these interim financial statements do not include all the information required of complete consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, therefore the accompanying interim financial statements should be read together with the consolidated annual accounts of the group for the year ended December 31, 2017. Our conclusion is not modified in respect of this matter.

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

pwc

Other Matters

Interim consolidated directors´ Report

The accompanying interim consolidated directors' Report for the six months period ended June 30, 2018 contains the explanations which the parent company´s directors consider appropriate regarding the principal events of this period and their impact on the interim financial statements presented, of which it does not form part, as well as the information required under the provisions of Article 15 of Royal Decree 1362/2007. We have verified that the accounting information contained in this directors' Report is in agreement with that of the interim financial statements for the six months period ended June 30, 2018. Our work is limited to checking the interim consolidated directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Inmobiliaria Colonial, SOCIMI, S.A. and its subsidiaries´ accounting records.

Preparation of this review report

This report has been prepared at the request of the Board of Directors of the Parent Company in relation to the publication of the half-yearly financial report required by Article 119 of Royal Legislative Decree 4/2015 of 23 October, approving the revised text of the Securities Market Law developed by the Royal Decree 1362/2007, of 19 October.

PricewaterhouseCoopers Auditores, S.L. (S0242)

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

30 July 2018

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries

Condensed Consolidated Interim Financial Statements
and Consolidated Interim Management Report
for the six-month period ended
30 June 2018

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2018

(Thousands of Euros)

ASSET	Note	30 June 2018	31 December 2017	LIABILITIES AND EQUITY	Note	30 June 2018	31 December 2017
Goodwill	4	144.622	-	Share capital		1.088.293	1.088.293
Intangible assets		4.025	3.037	Issue premium		1.114.922	1.126.248
Material property		40.313	39.369	Reserves of the Parent		208.978	245.118
Investment properties	5	10.975.944	8.792.396	Reserves in consolidated companies		1.067.856	406.366
Non-current financial assets	6	35.245	444.350	Valuation adjustments recognised in equity - financial instruments		(2.639)	(559)
Non-current deferred tax assets		382	407	Valuation adjustments on available-for-sale financial assets		-	70.415
NON-CURRENT ASSETS		**11.200.531**	**9.279.559**	Other equity instruments		4.599	4.686
				Treasury shares		(28.400)	(31.262)
				Income for the financial year		253.912	682.523
				Equity attributable to shareholders of the Parent		**3.707.521**	**3.591.828**
				Non-controlling interests		**2.295.069**	**2.087.870**
				EQUITY	8	**6.002.590**	**5.679.698**
				Bank borrowings and other financial liabilities	9	918.143	857.237
				Bonds and similar securities issued	9	4.073.793	3.307.633
				Non-current deferred tax liabilities	11	373.285	371.233
				Non-current provisions		11.227	11.450
				Other non-current liabilities		58.345	44.362
				NON-CURRENT LIABILITIES		**5.434.793**	**4.591.915**
				Bank borrowings and other financial liabilities	9	36.015	39.350
Trade and other receivables	7	110.131	103.232	Bonds and similar securities issued	9	402.650	13.574
Current financial assets		9	12	Trade and other payables	10	155.842	143.880
Tax assets		17.628	20.115	Tax liabilities		25.803	18.819
Cash and cash equivalents	9	745.257	1.104.601	Current provisions		15.863	20.283
CURRENT ASSETS		**873.025**	**1.227.960**	**CURRENT LIABILITIES**		**636.173**	**235.906**
TOTAL ASSETS		**12.073.556**	**10.507.519**	**TOTAL LIABILITIES AND EQUITY**		**12.073.556**	**10.507.519**

Notes 1 to 16 to the financial statements are an integral part of the condensed consolidated statement of financial position for the six-month period ended 30 June 2018.

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

CONDENSED CONSOLIDATED INCOME STATEMENT AND COMPREHENSIVE INCOME STATEMENT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Thousands of Euros)

Income statement	**Note**	**June 2018**	**June 2017**
Net turnover amount	12	170.719	140.711
Other revenue		1.349	586
Personnel expenses		(13.384)	(11.997)
Other operating expenses		(32.474)	(21.428)
Depreciation and amortisation charge		(1.452)	(1.084)
Net change in provisions		4.025	3.447
Net gain/(loss) on sales of assets	12	713	297
Operating profit/(loss)		**129.496**	**110.532**
Change in fair value of investment properties	12	324.210	522.961
Impairment charges and net gains/(losses) on assets	12	(25.141)	(1.958)
Finance income	12	3.653	3.408
Finance costs	12	(59.783)	(41.687)
Impairment of financial assets	12	(241)	(92)
Loss before tax		**372.194**	**593.164**
Income tax expense		(15.780)	43.298
Consolidated net profit		**356.414**	**636.462**
Net profit/(loss) for the year attributable to the Parent		253.912	437.192
Net profit/(loss) attributable to non-controlling interests	8	102.502	199.270
Basic earnings per share (€)	3	0,59	1,22
Diluted earnings per share (€)	3	0,59	1,22

Statement of comprehensive income			
Consolidated net profit		**356.414**	**636.462**
Other components of comprehensive income recognised directly in equity		**(60.761)**	**9.559**
Gains on hedging instruments	8 and 9	(2.250)	62
Gains/(losses) on available-for-sale financial assets	6	(58.461)	9.512
Tax effect on prior years' profit or loss	8 and 9	(50)	(15)
Transfers to comprehensive income		**(64)**	**27**
Gains on hedging instruments		(86)	36
Tax effect on prior years' profit or loss		22	(9)
Consolidated comprehensive income		**295.589**	**646.048**
Comprehensive profit/(loss) for the year attributable to the Parent		193.371	446.745
Comprehensive profit/(loss) attributable to non-controlling interests		102.218	199.303
Comprehensive basic earnings per share (euros)		0,45	1,25
Comprehensive diluted earnings per share (euros)		0,45	1,25

Notes 1 to 16 to the financial statements are an integral part of the condensed consolidated statement of comprehensive income. for the six-month period ended 30 June 2018.

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED
30 JUNE 2018

(Thousands of Euros)

	Note	Share capital	Issue premium	Reserves of the Parent Company	Reserves in consolidated companies	Valuation adjustments recognised in equity - financial instruments	Valuation adjustments on available-for-sale financial assets	Other equity instruments	Treasury shares	Income for the financial year	Non-controlling interests	Total
Balance at 31 December 2016	**8**	**892.058**	**731.326**	**250.634**	**199.417**	**(571)**	**1.317**	**3.697**	**(49.811)**	**273.647**	**1.706.205**	**4.007.919**
Total recognised income and expense for the period		-	-	-	-	12	69.098	-	-	682.523	397.937	**1.149.570**
Transactions with shareholders:												
Share capital increase		196.235	394.922	(6.691)	-	-	-	-	-	-	-	**584.466**
Treasury share portfolio		-	-	10.371	-	-	-	-	2.956	-	-	**13.327**
Distribution of 2016 loss		-	-	(7.910)	218.808	-	-	-	-	(273.647)	(27.000)	**(89.749)**
Share-based payment transactions		-	-	(1.286)	-	-	-	989	2.537	-	641	**2.881**
Changes in the scope of consolidation		-	-	-	79	-	-	-	(2)	-	9.737	**9.814**
Other changes		-	-	-	(11.938)	-	-	-	13.058	-	350	**1.470**
Balance at 31 December 2017	**8**	**1.088.293**	**1.126.248**	**245.118**	**406.366**	**(559)**	**70.415**	**4.686**	**(31.262)**	**682.523**	**2.087.870**	**5.679.698**
Total recognised income and expense for the period		-	-	-	-	(2.080)	(58.461)	-	-	253.912	102.218	**295.589**
Transactions with shareholders:												
Share capital increase		-	-	(829)	-	-	-	-	-	-	-	**(829)**
Treasury share portfolio		-	-	-	-	-	-	-	(40)	-	-	**(40)**
Distribution of 2017 profit/(loss)		-	(11.326)	(33.798)	650.026	-	-	-	-	(682.523)	(52.273)	**(129.894)**
Share-based payment transactions		-	-	(1.513)	-	-	-	(87)	2.902	-	382	**1.684**
Changes in the scope of consolidation		-	-	-	-	-	-	-	-	-	156.358	**156.358**
Other changes		-	-	-	11.464	-	(11.954)	-	-	-	514	**24**
Balance at 30 June 2018	**8**	**1.088.293**	**1.114.922**	**208.978**	**1.067.856**	**(2.639)**	**-**	**4.599**	**(28.400)**	**253.912**	**2.295.069**	**6.002.590**

Notes 1 to 16 to the financial statements are an integral part of the condensed consolidated statement of changes in equity for the six-month period ended 30 June 2018.

INMOBILIARIA COLONIAL, SOCIMI, S.A. AND SUBSIDIARIES
(COLONIAL GROUP)
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE
SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Thousands of euros)

	Note	June 2018	June 2017
CASH FLOWS IN CONTINUING OPERATIONS			
1. CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) from operations		129.496	110.532
Adjustments to profit			
Depreciation and amortisation (+)		1.452	1.084
Net change in provisions (+/-)		(4.025)	(3.447)
Others		1.458	(6.787)
Gains/(losses) on sale of investment property (+/-)		(713)	(297)
Adjusted profit		127.668	101.085
Taxes paid (-)		8.754	17.350
Increase/(decrease) in current assets and liabilities			
Increase/(decrease) in receivables (+/-)		17.388	(8.049)
Increase/(decrease) in payables (+/-)		(78.897)	15.876
Increase/(decrease) in other assets and liabilities (+/-)		2.497	823
Total net cash flows in operating activities		**77.410**	**127.085**
2. CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Investments in (-)			
Intangible assets		(1.091)	(540)
Property, plant and equipment		(622)	(2.022)
Investment properties	5	(83.272)	(42.537)
Equity investments, financial assets and other	2	(752.115)	(19.363)
		(837.100)	(64.462)
Divestments in (+)			
Investment properties	5	36.881	4.940
		36.881	4.940
Total net cash flows in investing activities		**(800.219)**	**(59.522)**
3. CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES			
Dividends paid (-)	8	(115.162)	(27.000)
Repayment of bank borrowings (-)	9	(618.313)	(282.672)
Interest paid (+/-)		(57.041)	(34.445)
Treasury share transactions (+/-)	8	(39)	(44.348)
		(790.555)	(388.465)
New bank borrowings obtained (+)	9	-	185.788
New bondholder borrowings obtained (+)	9	1.150.000	-
Capital increase (+)		-	253.092
Expenses associated with capital increases		-	(3.193)
Other proceeds/(payments) for current financial assets and other (+/-)		4.020	(1.102)
		1.154.020	434.585
Total net cash flows in financing activities		**363.465**	**46.120**
4. NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS			
Net cash flow for the period in continuing activities		**(359.344)**	**113.683**
Cash and cash equivalents at beginning of period	**9**	**1.104.601**	**105.200**
Cash and cash equivalents at end of the financial year	**9**	**745.257**	**218.883**

Notes 1 to 16 to the financial statements are an integral part of the condensed consolidated statement of cash flows for the six-month period ended 30 June 2018.

Explanatory notes to the Condensed Consolidated Interim Financial Statements for the six-month period ended 30 June 2018

1. Introduction, basis of presentation of the condensed consolidated interim financial statements and other information

a) Introduction

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

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

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

The Parent's corporate purpose, as set out in its bylaws, is as follows:

- the acquisition and development of urban properties for lease;

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

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

- the ownership of shares or equity interests in collective real estate investment undertakings governed by the Spanish Collective Investment Undertakings Act (Law 35/2003 of 4 November) or any law that may replace it in the future.

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

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

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

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

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries (“the Group”) carry out their activities in Spain (mainly in Barcelona and Madrid) and in France (Paris) through the group of which it is the parent Société Foncière Lyonnaise, S.A. (hereinafter, the “SFL subgroup” or “SFL” for the subsidiary).

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

Standard & Poor’s Rating Credit Market Services Europe Limited has maintained the Parent’s BBB long-term credit rating and an A-2 short-term credit rating, both with a stable outlook. The SFL subsidiary maintains its BBB+ credit rating with a stable outlook and its short-term rating to A-2. In addition, the Parent obtained a Baa2 credit rating with a negative outlook from Moody’s.

Given its business activity, the Group has no environmental expenses, assets, provisions or contingencies that might be significant with respect to its equity, financial position or performance. Therefore, no specific disclosures relating to environmental issues are included in these 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 2017 were approved at the General Shareholders' Meeting of the Company held on 24 May 2018.

b) Basis of presentation of the condensed consolidated interim 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 2017 consolidated financial statements were prepared by the Parent’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 2017 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 2018 are presented in accordance with IAS 34 Interim Financial Reporting, and were authorised for issue by the Parent’s directors on 27 July 2018 in accordance with Article 12 of Spanish 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 2017 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 2017.

The accounting policies and methods used in preparing these condensed consolidated interim financial statements are the same as those applied in the consolidated financial statements for 2017. The adoption of the REIT Tax Regime with effect from 1 January 2017 (Note 1-a) meant that the Parent also applied Spanish Law 11/2009 of 26 October, amended by Spanish Law 16/2012 of 27 December, regulating Real Estate Investment Trusts (REITs), for the preparation of these condensed consolidated interim financial statements.

However, since the accounting policies and measurement bases used in preparing the Group's consolidated interim financial statements for the six- month period ended 30 June 2018 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.

The SFL Group, included in the scope of consolidation, was the subject of a limited review at 30 June 2018 on a shared basis between the Group's auditor, Deloitte & Associés and PriceWaterhouseCoopers Audit.

Standards and interpretations effective this year

New accounting standards became effective during the six-month period ended 30 June 2018, and were applied accordingly in preparing these condensed consolidated interim financial statements. These new standards are as follows:

- IFRS 4 (Amendment) “Applying IFRS 9 ‘Financial instruments’ with IFRS 4 ‘Insurance contracts’”- Amendments to IFRS 4":

- IFRS 9, "Financial instruments"

- IFRS 15 "Revenue from Contracts with Customers".

- IFRS 15 (Amendment) “Clarifications of IFRS 15 ‘Revenue from contracts with customers’”

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

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

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

- IFRIC 22 “Foreign currency transactions and advance consideration”

These standards have been taken into account with effect from 1 January 2018 and their impact has been reflected in these condensed consolidated interim financial statements, which have not been significant except for:

IFRS 9 “Financial Instruments”

The Group has applied IFRS 9 retrospectively, without having to restate the comparative information.

- Valuation of financial assets: based on the business model in each case, the Group measures its financial assets at amortised cost, except for investments in equity instruments, which are measured at fair value. The measurement bases employed with respect to those used up until 31 December 2017 will not have a significant impact.

- Impairment of financial assets: the Group goes from applying the 'incurred loss' model established in IAS 39 in the recognition of impairment of financial assets to applying the 'expected loss' model as from 1 January 2018. The Group applies the simplified approach to recognise the expected loss mainly from trade debtors. Significant impacts have not arisen due to the impact of this application.

IFRS 15 “Revenue from contracts with customers”

Income from customer contracts relates mainly to leases (IAS 17) which are excluded from the scope of IFRS 15. Therefore, the Group has determined that the impact of the application of this standard has a significant impact.

Standards and interpretation issued but not in force that may be adopted in advance

At the date of signing these condensed consolidated interim financial statements, the IASB and the IFRS Interpretations Committee had published the standards, amendments and interpretations detailed below, though the Group had not adopted them in advance:

IFRS 9 (Amendment) "Prepayment component with negative compensation".

The amendment shall be effective for annual periods beginning on or after 1 January 2019, though its early application is permitted. The Group does not consider that this standard will have a significant impact on the consolidated financial statements when it comes into force.

IFRS 16, "Leases"

IFRS 16 will come into force in 2019 and will replace IAS 17 and interpretations issued in respect thereof. The Group has begun to analyse the impacts of IFRS 16 "Leases", which stipulates that right-of-use assets and liabilities arising from operating leases, with the exception of short-term lease agreements and those relating to assets with a low value, must be recognised in the consolidated statement of financial position. In addition, the criteria for recognising lease expenses will change, which will now be recognised as a depreciation charge for the asset or finance cost for discounting the lease liability.

The Group is gleaning the necessary data from its operating lease agreements, which mainly relate to the lease of property, to assess the related impacts, though they are expected to be insignificant.

Standards and interpretations issued but not yet in force

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:

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

- IFRS 17 "Insurance contracts"

- IFRIC 23 "Uncertainty over income tax treatments"

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

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

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

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

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

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

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

As indicated in Note 2 b) to the consolidated financial statements for the year ended 31 December 2017, 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 has in any case reviewed the potential impacts of the future application of these standards and, as indicated in the 2017 financial statements, considers that they will not have a significant effect on the Group's consolidated financial statements.

c) Responsibility for the information and use of estimates

The information contained in these condensed consolidated interim financial statements for the first six months of 2018 is the responsibility of the Parent'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's directors in the preparation of the condensed consolidated interim financial statements. The main accounting policies and measurement bases applied are described in Note 4 to the 2017 consolidated financial statements, notwithstanding the stipulations of Note 1 b) above, "Standards and interpretations effective in the current year".

In the condensed consolidated interim financial statements, estimates were occasionally made by the Management of the Parent 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 5). The market value was obtained from the appraisals periodically made by independent experts. These appraisals were prepared at 30 June 2018, applying the methods described in Note 5.

- The measurement and impairment of goodwill (Notes 2 and 4).

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

- Estimate of the necessary provisions for impairment losses of 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 (Note 11).

- The market value of certain financial assets, including derivative financial instruments.

- Evaluation of lawsuits, obligations and contingent assets and liabilities at year-end.

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 2018, there were no significant changes in the estimates made at the end of 2017.

d) Contingent assets and liabilities

Note 15 of the Group's consolidated financial statements for the year ended 31 December 2017 provides information on guarantee commitments to third parties and contingent liabilities at that date. In the first six months of 2018, there were no substantial changes to what was stated therein.

e) Basis of comparison

The information contained in these condensed consolidated interim financial statements for the first six months of 2018 is presented for comparative purposes with the information relating to the six-month period ended 30 June 2017 for the consolidated statement of comprehensive income and the consolidated statement of cash flows, and is compared with the information relating to 2017 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 2018.

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 period*

On 4 July 2018, the merger deed executed on 2 July 2018 between Inmobiliaria Colonial, SOCIMI, S.A. and Inmobiliaria Colonial, S.A. was registered in the Madrid Companies Registry. (acquiring company) and Axiare Patrimonio SOCIMI, S.A. (absorbed company). In this respect, in order to meet the exchange of the merger, the Parent issued 19,273,622 new ordinary shares of 2.50 euros nominal value each of the same class and series as those currently in circulation, representing 4.43% of the share capital of Colonial prior to the merger, to be delivered to Axiare's shareholders in accordance with the exchange rules and procedures established for this purpose. The total amount of the increase amounted to €157,909 thousand, of which €48,184 thousand are related to share capital and €109,725 thousand to share premium. The new shares were admitted to trading on 9 July 2018.

On 2 July 2018, the Parent acquired a property located in Barcelona at Avenida Diagonal 525, and provided the seller with guarantees to guarantee payment of the deferred amounts.

On 18 July 2018, the Parent paid off early €119,000 thousand of loans from Axiare Patrimonio SOCIMI, S.A.

On 23 July 2018, the Parent repaid the outstanding balance of the non-convertible bonds maturing in June 2019 (see Note 9), which amounted to €375,000 thousand.

There have been no other significant subsequent events.

2. Changes in Group composition

The Appendix to the consolidated financial statements for the year ended 31 December 2017 provides information on consolidated Group companies at that date.

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

As indicated in Note 9-c to these consolidated financial statements for 2017, the Parent presented a voluntary takeover bid for the entire share capital of Axiare Patrimonio SOCIMI, S.A. On 2 February 2018, the Spanish National Securities Market Commission published the result of the takeover bid, which was accepted for 45,912,569 shares, representing 81.55% of the shares targeted by the takeover bid and 58.07% of the share capital of Axiare Patrimonio SOCIMI, S.A. As a result, taking into account the shares already previously held by the Parent, the latter now holds 68,674,633 shares, representing 86.86% of the share capital of Axiare Patrimonio SOCIMI, S.A.

Reason for the business combination -

As explained in the prospectus of the takeover bid, with the acquisition of Axiare, the Colonial Group consolidated its position as the European platform in the prime office market of Paris, Madrid and Barcelona. Axiare's asset portfolio clearly complements the Colonial Group's strategy, which consists of investing in the office markets of Madrid, Barcelona and Paris, with a focus on high-quality buildings. The acquisition of Axiare will enable Colonial to increase the value of its current portfolio and therefore obtain a real estate asset portfolio valued at more than €11,000 million, thus increasing the Group's exposure in Spain.

Net assets acquired and cost of business combination -

The Parent's directors make an initial allocation of the cost of the business combination, provisionally estimating that the difference between the cost of the business combination and the fair value of the net assets acquired is as shown in the following table:

	Thousands of Euros		
	Carrying amount	Value adjustment	Net fair
Investment properties	1,734,566	(3,193)	1,731,373
Other non-current assets	32,662	-	32,662
Current assets	180,414	9,969	190,383
Non-current liabilities	(645,213)	-	(645,213)
Current liabilities	(116,181)	(2,989)	(119,170)
Total net assets	**1,186,248**	**3,787**	**1,190,035**
Non-controlling interest (*)			**156,358**
Consideration paid (**)			**1,203,961**
Positive combination difference (Goodwill)			**170,284**

(*) The non-controlling interest has been measured as the proportion of the acquiree's identifiable net assets that the latter represents on current owned instruments.
(**) The consideration paid was calculated as the total acquisition price plus the revaluation of the investment acquired prior to the acquisition of control.

These initial estimates are provisional and the Group has a one-year period to adjust them on the basis of any subsequent more significant or complete information that it may receive.

The fair value of the net assets in the property portfolio of Axiare Patrimonio SOCIMI, S.A. and subsidiaries was estimated using valuations made by independent experts of the property assets acquired as of 31 December 2017.

"Other operating expenses" in the consolidated statement of comprehensive income for 2018 includes €2,678 thousand of transaction costs associated with the transaction.

The fair value of the accounts receivable acquired, mainly of a commercial nature, amounted to €15,886 thousand and did not differ from its gross contractual amounts. The Directors of the Parent do not consider that, at the acquisition date, there were signs that such accounts would not be collected in full.

The net turnover and operating profit obtained by Axiare Patrimonio SOCIMI, S.A. and subsidiaries incorporated in 2018 and included in the consolidated statement of comprehensive income for 2018 amounted to €26,272 thousand and €16,311 thousand, respectively.

Additionally, the net turnover and operating profit of the combined entity for the current period is reported as if the acquisition date of all the business combinations had taken place at the beginning of the reporting year, which would be €176,729 thousand and €72,262 thousand, respectively. The operating income of the Axiare subgroup in January 2018 amounted to loses of €57,234 thousand, including €47,842 thousand relating to incentive and indemnity plans and €12,579 thousand relating to the takeover bid launched by Inmobiliaria Colonial, SOCIMI, S.A.

Allocation to Cash Generating Unit and impairment of goodwill

In accordance with IAS 36, the Management identifies the different cash-generating units by looking at the smallest identifiable group of assets that generates cash inflows for the entity that are largely independent of the cash inflows from other assets or groups of assets.

In this context, the Group has considered, when defining its cash-generating units, how the management of the different real estate assets that make up the Group is organised, and also how to frame them within the business segment.

The Parent's Directors consider that the change in value recorded by the structured portfolio acquired through the business combination with Axiare after the date of the acquisition of control represents the materialisation of the expectations existing at the date of this business combination.

b) Other changes in the scope of consolidation

The following changes also took place in the scope of consolidation during the first six months of 2018:

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

- On 20 March 2018, Utopicus increased its share capital by €4 thousand, corresponding to 3,638 shares with a nominal value of €1 each, plus a share premium, which was subscribed and paid in full by the Company.

- On 1 June, the subsidiary SFL acquired 100% of the share capital of the French company SAS Balian.

In 2017 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 2017:

- On 18 May 2017, the subsidiary Inmocol Torre Europa, S.A. was incorporated. was incorporated. The initial share capital of €20,000 thousand was fully subscribed by the Parent and its shareholder as follows:

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

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

- During the first half of 2017, the Parent acquired 4,700 shares in its subsidiary SFL, for a total of €265 thousand, thus increasing its interest in the share capital from 58.545% to 58.556%.

- On 27 September 2017, the Parent acquired all the shares of the Spanish company LE Offices Arturo Soria, S.L. (currently Colonial Arturo Soria, S.L., and hereinafter, "Arturo"), the owner of an office building located in Madrid. The acquisition price was €19,747 thousand, including associated acquisition costs. Of this amount, €4,200 thousand were deferred to 31 January 2018 at the latest and recognised under "Trade payables" in the consolidated statement of the financial position. They were paid during January 2018. In addition, the loan held by Arturo with a financial institution for €13,159 thousand, including interest was cancelled early and subsequently registered with the Property Registry on 26 November 2017.

- On 27 October 2017, the Parent acquired 61.51% of the share capital of the Spanish company Utopicus Innovación Cultural, S.L. (hereinafter, "Utopicus"), the head of the coworking Utopic_US platform. The acquisition price was €2,633, including associated acquisition costs.

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

- On 20 December 2017, the Parent acquired all the share capital of the Spanish companies Almacenes Generales Internacionales, S.A. (hereinafter Agisa) and Soller, S.A., which own several plots of land in Madrid for €178,220 thousand, including the costs associated with the acquisition. Of this amount, €41,335 thousand were deferred to 31 December 2018 at the latest and recognised under "Trade payables" in the consolidated statement of the financial position. Several guarantees were extended as collateral for the deferred amount.

- Finally, on 20 and 27 December 2017, Agisa acquired 64.60% of the share capital of the Spanish company Peñalvento, S.L. (hereinafter Peñalvento), owner of a plot of land in Madrid for €12,127 thousand, including the costs associated with the acquisition. Of this amount, €632 thousand were deferred to 31 December 2018 and recognised under “Trade payables” in the consolidated statement of the financial position. Several guarantees were extended as collateral for the deferred amounts. In addition, in a single deed, the loan held by Peñalvento with a financial institution for €20,192 thousand, including interest, was cancelled early, which is expected to be registered in the property registry on 30 January 2018. With the acquisition of the aforementioned ownership interest, together with the 35.40% interest in the share capital of Peñalvento owned by Agisa, the Parent now owns all share capital of Peñalvento.

3. Earnings per share from ordinary activities

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

Diluted earnings per share are calculated in a manner similar to basic earnings per share, except that the weighted average number of shares outstanding is adjusted to take into account the potential dilutive effect of the convertible bonds outstanding at year-end. At 30 June 2018 there were no bonds pending conversion to shares in the Parent.

	Thousands of Euros	
	30 June 2018	30 June 2017
Consolidated profit for the year attributable to shareholders of the Parent:	**253,912**	**437,192**
- from continuing operations	253,912	437,192
	No. of shares	No. of shares
Weighted average number of ordinary shares (in thousands)	430,952	357,379
Weighted average number of ordinary shares - diluted (in thousands)	430,952	357,379
	Euro	Euro
Basic and diluted earnings per share:	**0.59**	**1.22**
- from continuing operations	0.59	1.22

4. Goodwill

The changes in this heading in the six-month period ended 30 June 2018 were as follows:

	Thousands of Euros
	Goodwill
Balance at 31 December 2017	-
Business combinations (Note 2-a)	170,284
Impairment of goodwill (Note 12)	(25,662)
Balance at 30 June 2018	**144,622**

The goodwill recognised at 30 June 2018 relates to the business combination with Axiare Patrimonio SOCIMI, S.A. and subsidiaries (see Note 2-a).

At 30 June 2018, the amount of goodwill in line with the revaluation of investment property arising from the business combination was reduced (see Note 2-a).

The recoverable amount was estimated on the basis of its value in use, which was based on assumptions of cash flows, growth rates and discount rates consistent with those applied in the calculation of the market values of investment property.

The value in use has been calculated as the present value of the cash flows resulting from the financial projections discounted at rates that take into account specific risks of the assets and the implementation of a strategic plan based on a long-term approach. The projections are made for a time horizon of 10 years.

The projections are prepared based on the evolution and historical experience in the market of similar assets under the management of the Colonial Group.

The main variables that influence the calculations of these projections are:

- A discount rate of 4.60%, taking into account the *exit yields* used by the independent experts in the valuations of the assets of the Axiare subgroup.

- Income flows, in line with expected market rents, and new expected rents derived from current portfolio investment projects.

5. Investment properties

The movements under this heading in the six-month period ended 30 June 2018 and for 2017 are as follows:

	Thousands of Euros		
	Investment properties	Property, plant and equipment in the course of construction	**Total**
Balance at 31 December 2016	**7,462,928**	**299,699**	**7,762,627**
Additions	74,277	57,175	**131,452**
Additions to scope of consolidation (Note 2)	359,678	11,033	**370,711**
Withdrawals	(5,049)	-	**(5,049)**
Transfers	(271,528)	(132,925)	**(404,453)**
Change in fair value	925,082	12,026	**937,108**
Balance at 31 December 2017	**8,545,388**	**247,008**	**8,792,396**
Additions	19,530	64,513	**84,043**
Additions to scope of consolidation (Note 2)	1,712,878	99,499	**1,812,377**
Withdrawals	(36,962)	(109)	**(37,071)**
Transfers	(179,905)	179,894	**(11)**
Change in fair value (Note12b)	261,000	63,210	**324,210**
Balance at 30 June 2018	**10,321,929**	**654,015**	**10,975,944**

Additions in the first half of 2018 correspond to the following operations:

- On 18 January 2018, Colonial acquired an asset located in Plaza Gal-la Placidia, Barcelona, for €13,744 thousand, including acquisition costs.

- The remaining additions relate to development and renovation projects, mainly on properties of the SFL subgroup, for the amount of €13,566 thousand and at properties of other Group companies, for the amount of €56,733 thousand, including €2,775 thousand for capitalised borrowing costs.

Additions to the scope of consolidation made in the first half of 2018 correspond to the following operations:

- In January 2018, the Parent acquired all the shares of the subsidiary Egeo, which resulted in an addition of €77,213 thousand in the scope of consolidation of the office building owned by the subsidiary.

- In February 2018 the business combination between the Parent and Axiare Patrimonio, SOCIMI, S.A. was recognised. (Note 2-a), which led to the addition of €1,731,373 thousand to the scope of consolidation.

- In June 2018, the SFL Subgroup acquired all the shares of the subsidiary SAS Balian, which gave rise to an addition in the scope of consolidation of €3,791 thousand.

The withdrawals made during the first half of 2018 relate to the following disposals:

- On 11 January and 12 June 2018, the Parent disposed of premises in calle Orense in Madrid and a flat in Tenerife for a total joint sale of €1,930 thousand, giving rise to a net profit of €713 thousand, taking into account the indirect costs of the sale.

- On 9 March 2018, the subsidiary Axiare Patrimonio SOCIMI, S.A. sold a shopping centre in Collado Villalba (Madrid) for €19,700 thousand. The transfer did not generate any margin.

  On 21 May 2018, the subsidiary Axiare Patrimonio SOCIMI, S.A. sold a hotel in Madrid for €15,500 thousand. The transfer did not generate any margin.

At 30 June 2018, the Group has pledged assets as collateral for mortgage loan with a carrying amount of €2,510,941 thousand to secure debts amounting to €852,532 thousand (see Note 9-e). At 31 December 2017, the corresponding balances were €1,048,232 thousand and €237,980 thousand, respectively.

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 six-monthly basis by independent experts (Jones Lang LaSalle and CB Richard Ellis Valuation in Spain, and Jones Lang LaSalle and Cushman & Wakefield in France) so that the fair value reflects the prevailing market conditions for the investment property at the close every six months. The valuation reports prepared by independent experts contain only the standard warnings and/or disclaimers concerning the scope of the findings of the appraisals carried out, referring basically to the comprehensiveness and accuracy of the information provided by the Group.

The "Changes in Value of Investment Property" heading in the condensed consolidated comprehensive income statement includes the revaluation gains on investment property for the six-month periods ended 30 June 2018 amounting to €324,210 thousand (see Note 12).

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 2018 and 31 December 2018 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 2018	11,190,000	752,906	(653,895)
December 2017	8,933,035	639,037	(551,470)

6. Non-current financial assets

At 31 December 2017, the Parent had recognised €419,277 thousand of its ownership interest in Axiare Patrimonio SOCIMI, S.A. under this heading of the condensed consolidated statement of financial position.

During 2018, and until the date on which control of Axiare Patrimonio SOCIMI, S.A. was obtained, the Parent continued to recognise changes in the fair value of the investment directly against the item "Valuation adjustments of available-for-sale financial assets" in consolidated equity.

At 30 June 2018, following the acquisition of control of the investee, the cost of the investment became part of the cost of the business combination in stages described in Note 2.

7. Trade and other receivables

The breakdown of this current asset heading in the condensed consolidated interim statement of financial position at 30 June 2018 and 31 December 2017 is as follows:

	Thousands of Euros	
	30 June 2018	31 December 2017
Trade receivables for sales and services	22,817	27,049
Accrual of lease incentives	85,475	78,746
Other receivables	3,522	1,091
Impairment of trade receivables	(4,486)	(4,040)
Other current assets	2,803	386
Total trade and other receivables	**110,131**	**103,232**

Trade receivables for sales and services

This mainly includes the amounts receivable from customers, fundamentally from the Group's rentals business in France, that are billed monthly, quarterly or yearly with no significant overdue amounts.

Accrual of lease incentives

This includes the amount of the incentives in the operating lease agreements (grace periods, etc.) that the Group offers its customers, which are recognised in the consolidated statement of comprehensive income during the minimum operating lease term. Of this amount, €65,521 thousand were charged to the statement of comprehensive income over a period of more than one year (€61,300 thousand at 31 December 2017).

8. Equity

a) Share capital

At both 30 June 2018 and 31 December 2017, the share capital is represented by 435,317,356 fully subscribed and paid shares of €2.5 par value each.

Based on the pertinent notifications regarding the number of company shares to the Spanish National Securities Market Commission (CNMV), the shareholders owning significant direct or indirect interests in the Parent at 30 June 2018 and 31 December 2017 were as follows:

	June 2018		December 2017	
	Number of shares	% ownership	Number of shares	% ownership
Name or corporate name of the shareholder:				
Finaccess Group	80,028,647	18.38%	79,378,647	18.23%
Qatar Investment Authority	41,610,141	9.56%	41,610,141	9.56%
Aguila Ltd.	28,800,183	6.62%	28,800,183	6.62%
Inmo S.L.	20,011,190	4.60%	20,011,190	4.60%
BlackRock Inc *	14,604,595	3.35%	10,955,962	2.52%
Deutsche Bank A.G. *	8,135,390	1.87%	8,135,390	1.87%

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

At both 30 June 2018 and 31 December 2017, Blackrock Inc. and Deutsche Bank AG formally obtained financial instruments associated with the Parent's shares that, in the event the instruments are exercised, could give rise to an additional interest in the share capital of Colonial. The Parent has no knowledge of other significant equity interests.

The General Shareholders' Meeting held on 24 May 2018 resolved to authorise the Board of Directors to issue, on behalf of the Parent and on one or more occasions and for a maximum period of 5 years, bonds convertible into new shares of the Parent or other similar securities that may give the right, directly or indirectly, to subscribe for shares of the Parent, with the express power to exclude preferential subscription right of the shareholders up to a maximum of 20% of the share capital, and to increase the capital by the amount necessary to meet the conversion. The total maximum amount of the issue or issues of the securities that may be performed under this authorisation may not exceed a combined amount of €500,000 thousand or its equivalent in another currency.

Additionally, on 24 May 2018, the Parent's General Shareholders' Meeting resolved to authorise the Board of Directors, in accordance with Article 297.1 b) of the Spanish Companies Act, to increase the share capital through monetary contributions by up to half the amount of the share capital, within a maximum period of five years, on one or more occasions and at the time and by the amount it deems appropriate. Within the maximum amount indicated, the Board of Directors is empowered to exclude the preferential subscription right up to a maximum of 20% of the share capital.

b) Share premium

On 5 May 2017, the General Shareholders' Meeting approved a capital increase as a result of the accelerated bookbuild process carried out with qualified investors, through the issue of 35,646,657 new shares of €2.50 par value each, plus a share premium of €4.60 per share. The total amount of the share premium increase came to €163,975 thousand. This capital increase was registered with the Barcelona Companies Registry on 8 May 2017.

At 30 June 2018, the amount of the share premium was reduced by €11,326 thousand as a result of the dividend distribution resolution approved by the General Shareholders' Meeting on 24 May 2018.

c) Legal reserve

Under the Consolidated Text of the Spanish Corporate Enterprises Act, 10% of profit for each year must be transferred to the legal reserve until its balance is at least 20% of the share capital.

The legal reserve may be used to increase capital in an amount equal to the portion of the balance exceeding 10% of capital after the increase. Otherwise, the legal reserve may only be used to set off losses until it exceeds 20% of the share capital and provided there are insufficient available reserves.

At 30 June 2018, taking into account the allocation to the legal reserve included in the distribution of the Parent's profit for 2017 approved at the General Shareholders' Meeting held on 24 May 2018, the legal reserve amounted to €42,349 thousand (€39,099 thousand at 31 December 2017).

d) Other reserves of the Parent

The resolutions approved at the General Shareholders' Meeting of 24 May 2018 included the distribution of profit for 2017, which included the allocation of €3,250 thousand to the legal reserve and the distribution of €77,621 thousand in dividends.

In the first half of 2018, there were no gains on transactions involving the Parent's own securities (profit of €256 thousand in the same period of 2017).

During the first six months of 2018, the income generated from the delivery of treasury shares to the beneficiaries of the long-term incentives plan, calculated as the difference between the carrying amount of the shares delivered and the amount of the obligation assumed by the Parent, which amounted to losses of €1,513 thousand for the first half of 2018 (losses of €1,286 thousand in the first half of 2017) was also registered in the Parent's reserves.

At 30 June 2018, the Parent held €169,439 thousand of restricted reserves.

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

This heading of the consolidated statement of financial position includes the sum of gains and losses arising from changes in the fair value of derivative financial instruments designated as cash flow hedges.

The changes in this heading are as follows:

	Thousands of Euros	
	30 June 2018	31 December 2017
Opening balance	(559)	(571)
Changes in the fair value of hedges in the period	(2,045)	(39)
Transfer to the statement of comprehensive income	(35)	51
Closing balance	**(2,639)**	**(559)**

In 2018, as a result of the business combination described in Note 2, the Group incorporated the derivative financial instruments of Axiare Patrimonio SOCIMI, S.A. and its subsidiaries described in Note 9-l. The item "Changes in the fair value of hedges during the year" includes the impact of changes in the value of these instruments since the takeover date.

During 2017, the subsidiary Torre Marenostrum cancelled the derivative financial instrument it held with a financial institution. This instrument was assigned as a hedge to the subsidiary's mortgage loan with this financial institution, which was novated, though the conditions are not substantially different. Consequently, the subsidiary transferred the amount of the hedging derivative financial instrument recognised directly in equity to the statement of comprehensive income at the time of novation on a straight-line basis over the initial outstanding term of the cancelled derivative. The subsidiary Torre Marenostrum contracted a new derivative financial instrument in 2017 that was assigned as a hedge of the new mortgage loan mentioned above.

f) Treasury shares of the Parent

At 30 June 2018 and 31 December 2017, the number of the Parent's treasury shares and their acquisition cost were as follows:

	30 June 2018		31 December 2017	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Opening balance	**4,279,940**	**29,421**	**5,469,985**	**35,426**
Buyback plan 14 November 2016	-	-	6,837,328	46,787
Buyback plan 16 October 2017	-	-	2,260,000	17,797
Delivery of incentives plan shares	(421,813)	(2,871)	(380,116)	(2,537)
Other disposals	-	-	(9,907,257)	(68,052)
Closing balance	**3,858,127**	**26,550**	**4,279,940**	**29,421**

Parent share buyback plans -

On 14 November 2016, the Parent's Board of Directors agreed to carry out a treasury share buyback programme. The purposes of the plan are to complete the coverage of the share plan approved by the General Shareholders' Meeting on 21 January 2014 and additional initiatives that the Board of Directors may consider advisable in the Company’s business interest. The maximum monetary amount assigned to the programme amounts to €68,000 thousand and a maximum of 10,000,000 shares may be acquired, equivalent to 2.8% of the Parent's share capital as of that date. The maximum duration of the programme was six months, i.e., up to 15 May 2017. However, it would be ended early if the maximum number of shares or the maximum monetary amount was reached before said date. The buyback programme was completed in 2017.

On 16 October 2017, the Parent's Board of Directors agreed to implement a new programme involving the repurchase of treasury shares in accordance with the authorisation granted at the General Shareholders' Meeting held on 30 June 2014. The maximum monetary amount assigned to the programme amounted to €100,000 thousand and the maximum number of shares to be acquired is 12,000,000 shares, equivalent to 3% of the Parent's share capital as of that date. The maximum duration of the programme was six months, i.e., up to 17 April 2018. However, it would be ended early if the maximum number of shares or the maximum monetary amount is reached before said date. On 3 November 2017, the Parent ended the share buyback programme early.

Deliveries of Parent shares deriving from the long-term Incentives Plan -

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

Other disposals -

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

g) Liquidity contracts

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

At 30 June 2018 and 31 December 2017, the number of the Parent's treasury shares included in the liquidity contract and their acquisition cost were as follows:

	30 June 2018		31 December 2017	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Opening balance	**209,500**	**1,841**	**209,603**	**1,329**
Liquidity contract dated 22 June 2015	-	-	30,480	482
Liquidity contract dated 11 July 2017	-	9	(10,583)	30
Closing balance	**229,500**	**1,850**	**229,500**	**1,841**

Liquidity contract dated 22 June 2015 -

On 22 June 2015, the Parent entered into a liquidity contract to enhance the liquidity of its transactions and the regularity of its quoted share price as provided for under CNMV Circular 3/2007 of 19 December. Upon issue of CNMV Circular 1/2017 of 26 April 2017, the Parent terminated the liquidity contract on 10 July 2017, effective as of 10 July 2017.

Liquidity contract dated 11 July 2017 -

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

h) 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	Inmocol Torre Europa, S.A.	Utopicus subgroup	Axiare subgroup	**Total**
Balance at 31 December 2016	**23,962**	**1,682,243**	-	-	-	**1,706,205**
Income for the financial year	1,954	395,002	1,037	(65)	-	**397,928**
Dividends and other	(1,547)	(24,446)	(27)	11	-	**(26,009)**
Changes in the scope of consolidation (Note 2)	-	(343)	10,000	80	-	**9,737**
Financial instruments	9	-	-	-	-	**9**
Balance at 31 December 2017	**24,378**	**2,052,456**	**11,010**	**26**	-	**2,087,870**
Income for the financial year	2,085	97,785	359	(185)	2,458	**102,502**
Dividends and other	(645)	(50,763)	27	649	(645)	**(51,377)**
Changes in the scope of consolidation (Note 2)	-	-	-	-	156,358	**156,358**
Financial instruments	38	-	-	-	(322)	**(284)**
Balance at 30 June 2018	**25,856**	**2,099,478**	**11,396**	**490**	**157,849**	**2,295,069**

The breakdown of the items included in "Dividends and other" at 30 June 2018 and at 31 December 2017, is as follows:

	Thousands of Euros	
	30 June 2018	31 December 2017
Dividend paid by the SFL subgroup to non-controlling interests	(44,089)	(19,909)
Dividend paid by Washington Plaza to non-controlling interests	(6,921)	(5,516)
Dividend paid by Torre Marenostrum to non-controlling interests	(618)	(1,575)
Dividend paid by Axiare Patrimonio to non-controlling interests	(645)	-
Others	886	991
Total	**(51,377)**	**(26,009)**

9. Bank borrowings and other financial liabilities

The breakdown of “Bank borrowings and other financial liabilities” at 30 June 2018 and 31 December 2017 by maturities is as follows:

30 June 2018

	Thousands of Euros							
	Current	Non-current						Total
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total non-current	
Bank borrowings:								
Lines of credit	42	-	-	-	-	-	-	42
Loans	34,829	39,363	67,955	276,893	209,798	274,014	868,023	902,852
Syndicated loans	-	-	-	-	-	-	-	-
Interest	1,573	-	-	-	-	-	-	1,573
Debt arrangement expenses	(3,273)	(3,560)	(3,212)	(2,715)	(1,253)	(2,477)	(13,217)	(16,490)
Total bank borrowings	**33,171**	**35,803**	**64,743**	**274,178**	**208,545**	**271,537**	**854,806**	**887,977**
Other financial liabilities:								
Current accounts	-	55,645	-	-	-	-	55,645	55,645
Interest on current accounts	38	-	-	-	-	-	-	38
Derivative financial instruments	333	-	-	-	4,538	3,154	7,692	8,025
Other financial liabilities	2,473	-	-	-	-	-	-	2,473
Total other financial liabilities	**2,844**	**55,645**	**-**	**-**	**4,538**	**3,154**	**63,337**	**66,181**
Total bank borrowings and other financial liabilities	**36,015**	**91,448**	**64,743**	**274,178**	**213,083**	**274,691**	**918,143**	**954,158**
Bonds and similar securities issued:								
Bond issue	375,000	-	-	500,000	1,000,000	2,600,000	4,100,000	4,475,000
Interest	33,054	-	-	-	-	-	-	33,054
Arrangement expenses	(5,404)	(4,769)	(4,761)	(4,504)	(4,287)	(7,886)	(26,207)	(31,611)
Total bonds and similar securities issued	**402,650**	**(4,769)**	**(4,761)**	**495,496**	**995,713**	**2,592,114**	**4,073,793**	**4,476,443**
Total at 30 June 2018	**438,665**	**86,679**	**59,982**	**769,674**	**1,208,796**	**2,866,805**	**4,991,936**	**5,430,601**

31 December 2017

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

a) Issues of the Parent's straight bonds -

In April 2018, the Parent issued new straight bonds under the EMTN programme for a nominal amount of €650,000 thousand maturing in April 2026, with an annual coupon of 2% and an issue price of 99.481% of their nominal value.

The breakdown of the issues of straight bonds made by the Parent at 30 June 2018 is as follows:

				(Thousands of Euros)		
Issue	Duration	Maturity	Fixed-rate coupon payable annually	Amount of the issue	30 June 2018	31 December 2017
05/06/2015	5 years	05 /06/2019	1.863%	750,000	375,000	375,000
05/06/2015	8 years	05/06/2023	2.728%	500,000	500,000	500,000
28/10/2016	8 years	28/10/2024	1.450%	600,000	600,000	600,000
10/11/2016	10 years	10/11/2026	1.875%	50,000	50,000	50,000
28/11/2017	8 years	28/11/2025	1.625%	500,000	500,000	500,000
28/11/2017	12 years	28/11/2029	2.500%	300,000	300,000	300,000
17/04/2018	8 years	17/04/2026	2.000%	650,000	650,000	-
Total issues					**2,975,000**	**2,325,000**

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

At 30 June 2018 and 31 December 2017, the fair value of the bonds issued by the Parent was €2,943,815 thousand and €2,378,881 thousand respectively.

Compliance with financial ratios –

These straight bonds establish the obligation, at 30 June and 31 December of each year, to meet a financial ratio, whereby the value of the non-guaranteed asset of the Colonial Group in the consolidated statement of financial position at each of these dates must at least be equal to the financial debt not guaranteed. This ratio is met at 30 June 2018.

b) Issue of SFL straight bonds -

In May 2018, SFL issued new straight bonds for a nominal amount of €500,000 thousand and maturity in May 2025, with an annual coupon of 1.50% and an issue price of 99.199% of their nominal value.

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

				(Thousands of Euros)		
Issue	Duration	Maturity	Fixed-rate coupon payable annually	Amount of the issue	30 June 2018	31 December 2017
20/11/2014	7 years	20/11/2021	1.875%	500,000	500,000	500,000
16/11/2015	7 years	16/11/2022	2.250%	500,000	500,000	500,000
29/05/2018	7 years	29/05/2025	1.500%	500,000	500,000	-
Total issues					**1,500,000**	**1,000,000**

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

At 30 June 2018 and 31 December 2017, the fair value of the bonds issued SFL was €1,551,015 thousand and €1,062,635 thousand respectively.

c) Syndicated financing of the Parent -

New Parent Syndicated Loan signed on 16 May 2018 -

In May 2018, the Parent refinanced the syndicated loan signed in November 2015, amounting to €350,000 thousand and maturing in November 2021, increasing the nominal amount to €500,000 thousand, extending its maturity until December 2023 and reducing the financing spread. This line of credit is aimed at covering its general corporate needs. A total of 13 banks took part in the process, with Natixis acting as agent bank. As at 30 June 2018, the borrowing has not yet been drawn down.

The breakdown of the Parent's syndicated debt at 30 June 2018 is provided below:

Thousands of euros	**Maturity**	30 June 2018		31 December 2017	
		Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Credit facility	December 2023	500,000	-	350,000	150,000
Credit facility	March 2022	375,000	-	375,000	13,400
Total syndicated financing of the Parent		**875,000**	**-**	**725,000**	**163,400**

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

Compliance with financial ratios –

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

Ratios
Loan-to-value ratio ≤ 55% Interest coverage ratio ≥ 2x Secured Mortgage debt / Value of property assets ≤15% *(25% for the new syndicated loan)* Secured other debt / Value of non-property assets ≤15% *(25% for the new syndicated loan)* Value of the consolidated assets ≥ €4.5 billion

At 30 June 2018, the Parent complied with all the financial ratios.

d) SFL syndicated loan

The breakdown of SFL's syndicated loan at 30 June 2018 is shown in the following table:

Thousands of euros	**Maturity**	30 June 2018		31 December 2017	
		Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Credit facility	October 2019	-	-	150,000	-
Credit facility	July 2020	400,000	-	400,000	-
Total SFL syndicated loan		**400,000**	**-**	**550,000**	**-**

The credit facility maturing in October 2019 was cancelled in June 2018.

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

Compliance with financial ratios -

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

Ratios
Loan-to-Value Ratio≤ 50% Interest coverage ratio ≥ 2 Secured debt/equity value ≤ 20% Appraisal value of unmortgaged properties ≥ €2 billion Gross financial debt subsidiaries / Gross consolidated financial debt < 25%

At 30 June 2018, SFL complied with the financial ratios stipulated in the respective financing agreements.

e) Mortgage-backed loans

At 30 June 2018 and 31 December 2017, the Group held the following mortgage-backed loans for certain investment properties as follows:

	Thousands of Euros			
	30 June 2018		31 December 2017	
	Mortgage debt	Market value of collateral	Mortgage debt	Market value of collateral
Investment property	852,532	2,530,756	237,980	1,054,197
Total	**852,532**	**2,866,206**	**237,980**	**1,054,197**

72% of the mortgage debt, amounting to €616,533 thousand, relates to bilateral loans arranged by the Axiare subgroup. These are floating rate loans tied to EURIBOR plus an additional margin, though a number of derivative financial instruments have been arranged to cover 68% of the outstanding notional amount at 30 June 2018 (Note 9-l).

The remainder relates to the SFL subgroup (€202,280 thousand at a fixed rate) and to the subsidiary Torre Marenostrum, S.L. (€33,720 thousand referenced to EURIBOR plus an additional spread).

Compliance with financial ratios -

The Group's mortgage-backed loans are subject to compliance with various financial ratios (LTV and Debt Service Coverage Ratio, whose thresholds vary according to the assets financed). At 30 June 2018 and 31 December 2017, the Company complied with the financial ratios required in its mortgage loan agreements.

f) Other loans

At 30 June 2018, SFL had four bilateral loans not secured by a mortgage guarantee, that were subject to compliance with various ratios. The total limits and balances drawn down are as follows:

Thousands of euros	**Maturity**	30 June 2018		31 December 2017	
		Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Other loans:					
BECM	April 2019	-	-	150,000	150,000
Banco Sabadell	June 2020	70,000	-	70,000	10,000
BNP Paribas	May 2021	150,000	50,000	150,000	75,000
CADIF	June 2023	175,000	-	175,000	175,000
Banque Postale	June 2024	75,000	-	75,000	-
Total other loans		**470,000**	**50,000**	**620,000**	**410,000**

The BECM loan maturing in April 2019 has been repaid early.

Compliance with financial ratios

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

Ratios
Loan-to-Value Ratio ≤ 50% Interest coverage ratio ≥ 2 Secured debt/equity value ≤ 20% Appraisal value of unmortgaged properties ≥ €2 million Gross financial debt subsidiaries / Gross consolidated financial debt < 25%

At 30 June 2018, SFL complied with the financial ratios stipulated in the respective financing agreements.

Lastly, at 30 June 2018, the companies of the Utopicus subgroup had four loans drawn down for a total of €317 thousand. These loans are not subject to compliance with any ratio.

g) Lines of credit

At 30 June 2018 the Group had fully drawn-down lines of credit for a total amount of €42 thousand (€33,459 thousand at 31 December 2017).

h) Other financial liabilities - Current accounts

At 30 June 2018, the Group had a current account with the amount of €55,645 thousand lent to the company of the SCI Washington Group. This current account accrues an additional spread on the three-month Euribor. At 31 December 2017, the Group maintained the same amount loaned.

i) Guarantees given

Additionally, the Parent Company has guarantees granted to government agencies, customers and suppliers. The following variations have occurred in relation to those detailed in the financial statements for the year ended 31 December 2017:

- In February 2018, the bank guarantee presented to the CNMV in guarantee of the Voluntary Takeover Bid for shares of Axiare Patrimonio SOCIMI, S.A., issued by Caixabank for an amount of €1,033,676 thousand, and guaranteed with a cash deposit, was cancelled.
- In May 2018, the bank guarantee deposited as security for the deferred payment on the acquisition of 100% of the shares in the subsidiary Moorage, amounting to €15,680 thousand, was cancelled.

j) Cash and cash equivalents -

At 30 June 2018 and 31 December 2017, this heading included cash and cash equivalents amounting to €745,257 thousand and €1,104,601 thousand, respectively, of which €11,769 thousand and €11,991 thousand were restricted or pledged, respectively.

The balance at 31 December 2017 included €1,033,676 thousand relating to the cash required to meet the voluntary takeover bid for the shares of Axiare Patrimonio, SOCIMI, S.A., which was secured by the aforementioned bank guarantee and which has already been cancelled.

k) Capital management: policy and targets

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 2017, and are reproduced in the management report which forms part of these interim financial statements.

l) Derivative financial instruments:

The following table itemises the derivative financial instruments and their fair value as of 30 June 2018 and 31 December 2017:

Derivative financial instrument	Company	Counterparty	Interest rate	Maturity	Notional value (thousands of euros)	Fair value – Asset / (Liability)
Swap	SFL	CA-CIB	0.23%	2022	100,000	(584)
Cap	SFL	CADIF	0.25%	2022	100,000	1,057
Swap	Axiare*	Bankinter	-0.13%	2021	31,200	75
Swap	Axiare*	BBVA	-0.18%	2021	7,000	(19)
Forward Swap (start 12/2018)	Axiare*	BBVA	0.304%	2021	24,000	172
Forward Swap (start 12/2018)	Axiare*	CaixaBank	0.185%	2021	17,000	(117)
Swap	Axiare*	CaixaBank	0.515%	2022	9,350	(179)
Swap	Axiare*	CaixaBank	0.657%	2025	42,284	(1,387)
Swap	Axiare*	Santander	0.4175%	2022	22,000	(415)
Swap	Axiare*	Santander	0.784%	2022	38,115	(1,078)
Swap	Axiare*	Santander	0.2475%	2022	18,000	(144)
Swap	Axiare*	Santander	0.197%	2022	18,000	(144)
Swap	Axiare*	ING	0.95%	2022	18,650	(677)
Swap	Axiare*	DB	0.27%	2022	18,650	(179)
Swap	Axiare*	DB	0.20%	2022	21,171	(201)
Swap	Axiare*	CaixaBank	0.314%	2023	20,816	(162)
Swap	Venusaur*	DB	0.43%	2023	57,000	(593)
Forward Swap (start 03/2019)	Axiare*	Santander	0.601%	2023	20,520	(280)
Swap	Axiare*	CaixaBank	1.287%	2028	25,000	(1,539)
CAP	Colonial	ING	1.25%	2018	300,000	-
CAP	Colonial	Morgan Stanley	1.25%	2018	130,000	-
Vanilla swap	Torre Marenostrum	CaixaBank	0.94%	2032	27,728	(327)
Total at 30 June 2018					**1,029,853**	**(6,721)**

* Arising from the business combination described in Note 2-a.

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

With the business combination between the Parent and Axiare Patrimonio SOCIMI, S.A., the Parent has integrated the derivative financial instrument contracts of the subsidiary. The nominal amount of the aforementioned derivatives amounted to €394,249 thousand.

After the date of the business combination, 1 financial instrument was cancelled, generating a financial expense of €1,452 thousand, which was recognised under "Finance Costs" in the condensed consolidated comprehensive income statement (see Note 12-d).

The impact on the consolidated comprehensive income statement for the accounting of derivative financial instruments for the six-month period ended 30 June 2018 and 2017 amounted to €2,451 thousand and €160 thousand, respectively, of net finance costs.

Hedge accounting -

At 30 June 2018, hedge accounting was applied to the derivatives of various subsidiaries, recording the differences in market valuation (MtM) between periods directly in other consolidated comprehensive income.

At 30 June 2018, the accumulated impact on other consolidated comprehensive income as a result of hedge accounting was a balance receivable of €2,639 thousand, net of the tax effect and consolidation adjustments. At 31 December 2017, the impact recorded in other consolidated comprehensive income amounted to €559 thousand.

Fair value of derivative financial instruments -

The fair value of the derivative financial instruments was calculated by discounting estimated future cash flows based on an interest rate curve and on assigned volatility at 30 June 2018, using the appropriate discount rates established by an independent expert.

10. Trade and other payables

During the first half of 2018, the deferred payment for the acquisition of all the shares in the subsidiary Moorage, amounting to €15,680 thousand, was paid and the bank guarantee provided as security for the deferred payment was cancelled.

At 30 June 2018, the Parent held a balance of €14,732 thousand arising from the payment of the dividend that was in process at that date. The aforementioned amount corresponded to the amount of withholdings made by the Parent to its shareholders and for which they may request a refund provided that they comply with the requirements for doing so. At the date of preparation of these condensed consolidated financial statements, the aforementioned amount has been reimbursed either to the shareholder who has proven to be entitled to the refund or to the tax authorities.

11. Tax situation

Current tax assets -

In January 2018 the Parent collected from the tax authorities the amount of the consolidated income tax settlement for 2016, which amounted to €12,113 thousand.

Deferred tax liabilities –

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

	Thousands of Euros			
Deferred tax liabilities	31 December 2017	Increase	Derecognitions	30 June 2018
Asset revaluations	344,089	5,370	-	349,459
Asset revaluations (Spain)	*146,113*	*2,317*	-	*148,430*
Asset revaluations-France-	*197,976*	*3,053*	-	*201,029*
Deferral for reinvestment	5,158	-	(94)	5,064
Others	596	-	(122)	474
	349,843	**5,370**	**(216)**	**354,997**

Additionally, there are €18,288 thousand of non-current taxes (€21,390 thousand at 31 December 2017) relating to the exit tax borne by the subsidiary SFL arising from the option for the SIIC regime of two of its properties (see Note 4-m to the notes to the consolidated financial statements of the Group for 2017).

Asset revaluations (Spain)

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

Following the adoption of the REIT Tax Regime, the changes in the deferred taxes recognised from 2017 corresponded mainly to the properties owned by the companies that did not choose to operate under this regime, i.e., Torre Marenostrum, S.L. and Inmocol Torre Europa, S.A., and to certain adjustments arising from corporate transactions.

In this regard, until 31 December 2016, the deferred taxes associated with the investment property of the Colonial Group companies, which in turn formed part of the tax group, were recorded at an effective rate of 18.75% (tax rate of 25% with a limit on the offsetting of tax losses of 25%). Consequently, in calculating its deferred tax liabilities, the Group considers applying the deferred tax asset of €44,725 thousand arising from the tax losses (the difference between the 25% tax rate and the effective settlement rate applied of 18.75%).

Asset revaluations (France)

"Asset revaluations (France)" records the amount of the deferred taxes associated with the Group's investment property located in France, which would accrue if those assets are sold. It should be noted that practically all the assets in France are subject to the SIIC regime (see Note 4-m to the notes to the 2017 consolidated financial statements) and, therefore, will not generate any additional tax when they are transferred. Only the assets of the companies forming part of the Parholding subgroup fall outside of that tax regime at 31 December 2017.

12. Income and expense

a) Revenue

Revenue comprises basically rental income from the Group's rental properties which are concentrated in the cities of Barcelona, Madrid and Paris. Revenue for the six-month periods ended 30 June 2018 and 2017 stood at €170,719 thousand and €140,711 thousand, respectively. The breakdown by geographic segment is as follows:

Rental segment	Thousands of Euros	
	June 2018	June 2017
Spain	74,653	42,084
France	96,066	98,627
	170,719	**140,711**

Revenue in the first half of 2018 and 2017 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. As of 30 June 2018, the impact of the accruals has been a decrease in turnover of €228 thousand (€6,515 thousand increase for the same period in 2017).

b) Impairment charges and net gains/(losses) on assets

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

	Thousands of Euros	
	June 2018	June 2017
Changes in value on statement of financial position		
Investment property (Note 5)	324,210	522,961
Changes in value of investment property	**324,210**	**522,961**
- **Spain**	**165,031**	**140,343**
- **International**	**159,179**	**382,618**

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

	Thousands of Euros	
	June 2018	June 2017
Derecognitions of replaced assets	-	(96)
Impairment of goodwill (Note 4)	(25,662)	-
Impairment of properties for own use and property, plant and equipment	521	(1,862)
Impairment charges and net gains/(losses) on assets	**(25,141)**	**(1,958)**

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

The breakdown of the Group's net gains/(losses) on sales of assets (Note 5), and their geographical distribution, is detailed as follows:

	Thousands of Euros					
	Spain		France		Total	
	June 2018	June 2017	June 2018	June 2017	June 2018	June 2017
Sale price	37,130	5,600	-	-	37,130	5,600
Asset derecognition	(37,071)	(4,643)	-	-	(37,071)	(4,643)
Derecognition grace periods	(209)	-	-	-	(209)	-
Indirect costs and other	863	(660)	-	-	863	(660)
Net gain/(loss) on sales of assets	**713**	**297**	**-**	**-**	**713**	**297**

d) Finance income and costs

The breakdown of financial profit/(loss) in the first six months of 2018 and 2017, by types, is as follows:

	Thousands of Euros	
	June 2018	June 2017
Finance income:		
Revenue from equity investments	35	1,966
Interest and similar income	838	240
Income from financial derivatives	5	116
Capitalised finance costs	2,775	1,086
Total finance income	**3,653**	**3,408**
Finance costs:		
Finance and similar expenses	(57,327)	(41,411)
Expenses for the cancellation of financial instruments	(1,452)	-
Financial derivative expense	(1,004)	(276)
Total finance costs	**(59,783)**	**(41,687)**
Impairment of financial assets	**(241)**	**(92)**
Total financial loss	**(56,371)**	**(38,371)**

13. Segment reporting

All the Group's activities are carried out in Spain and France. The information, by segments, for the first six months of 2018 and 2017 is as follows:

Segment reporting, first six months of 2018

	Thousands of Euros						
	equity					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Remaining	Total Equity		
Revenue	19,730	51,800	96,650	3,153	171,333	735	172,068
Revenue	19,718	51,696	96,066	3,153	170,633	86	170,719
Other revenue	12	104	584	-	700	649	1,349
Operating profit /(loss)	17,869	43,170	90,640	2,835	154,514	(25,018)	129,496
Change in fair value of investment property	81,708	86,593	159,179	(3,270)	324,210	-	324,210
Impairment charges and net gains/(losses) assets and due to impairment	-	-	-	-	-	(25,141)	(25,141)
Net finance income/(expense)	-	-	-	-	-	(56,371)	(56,371)
Loss before tax	-	-	-	-	-	372,194	372,194
Consolidated net profit	-	-	-	-	-	356,414	356,414
Net profit attributable to non-controlling interests	-	-	-	-	-	(102,502)	(102,502)
Net profit/(loss) attributable to shareholders of the Company	-	-	-	-	-	253,912	253,912

There were no significant inter-segment transactions in the six-month period ended 30 June 2018.

Segment reporting, first six months of 2017

	Thousands of Euros						
	equity					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Remaining	Total Equity		
Revenue	17,194	24,781	98,977	183	141,135	162	141,297
Revenue	17,190	24,711	98,627	183	140,711	-	140,711
Other revenue	4	70	350	-	424	162	586
Operating profit /(loss)	15,808	20,087	93,816	81	129,792	(19,260)	110,532
Change in fair value of investment property	71,477	68,695	382,618	171	522,961	-	522,961
Impairment charges and net gains/(losses) on assets	-	(2,129)	-	-	(2,129)	171	(1,958)
Net finance income/(expense)	-	-	-	-	-	(38,371)	(38,371)
Loss before tax	-	-	-	-	-	593,164	593,164
Consolidated net profit	-	-	-	-	-	636,462	636,462
Net profit/(loss) attributable to non-controlling interests	-	-	-	-	-	(199,270)	(199,270)
Net profit/(loss) attributable to shareholders of the Company	-	-	-	-	-	437,192	437,192

There were no significant inter-segment transactions in the six-month period ended 30 June 2017.

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

14. Related-party transactions and balances

At 30 June 2018 and 31 December 2017 the Group did not have any balances outstanding with related parties and associates. The following transactions with related parties were carried out in 2018 and 2017:

	Thousands of Euros	
	June 2018	June 2017
	Lease income	Lease income
Gas Natural Fenosa, S.D.G	2,645	2,601
Total	**2,645**	**2,601**

15. Director and senior management compensation and other benefits

a) Composition of the Board of Directors

The Parent's Board of Directors is composed of 10 men and 1 woman at 30 June 2018, with its composition being as follows:

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

On 24 May 2018, the General Shareholders' Meeting appointed Javier López Casado as the new Proprietary Director.

b) Remuneration of Board members

Remuneration received in the first half of 2018 and 2017 by the current members of the Parent's Board of Directors, classified by item, was as follows:

30 June 2018

	Thousands of Euros		
	Inmobiliaria Colonial, SOCIMI, S.A.	Other group companies	Total
Compensation accrued by executive directors (*):	**1,234**	**75**	**1,309**
Attendance fees:	**342**	**38**	**380**
Directors' attendance fees	324	38	362
Additional attendance fees for the Chairman	18	-	18
Attendance fees of Executive Directors	-	**19**	-
Fixed remuneration:	**381**	**50**	**431**
Directors' remuneration	243	50	293
Additional remuneration of the Audit and Control Committee	63	-	63
Additional remuneration for the Nomination and Remuneration	75	-	75
Executive Directors' remuneration	-	**35**	**35**
Total	**1,957**	**217**	**2,174**

Remuneration for Executive Directors (*):	1,234	129	1,363

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

30 June 2017

	Thousands of Euros		
	Inmobiliaria Colonial, SOCIMI, S.A.	Other group companies	Total
Compensation accrued by executive directors (*):	**1,209**	**75**	**1,284**
Attendance fees:	**352**	**41**	**393**
Directors' attendance fees	341	41	382
Additional attendance fees for the Chairman	11	-	11
Attendance fees of Executive Directors	-	**22**	**22**
Fixed remuneration:	**405**	**50**	**455**
Directors' remuneration	258	50	308
Additional remuneration of the Audit and Control Committee	72	-	72
Additional remuneration for the Nomination and Remuneration	75	-	75
Executive Directors' remuneration	-	**35**	**35**
Total	**1,966**	**223**	**2,189**

Remuneration for Executive Directors (*):	1,209	132	1,341

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

In the first half of 2018, members of the Board of Directors of the Parent accrued remuneration of €723 thousand (€757 thousand during the first half of 2017) in relation to fixed compensation and per diem allowances for membership on the Board. Additionally, certain non-executive directors of the Parent received €88 thousand from SFL for their role as directors of that company (€91 thousand for 2017).

The monetary remuneration of executive directors in the first half of 2018 for all items received from the Parent amounted to €1,234 thousand and they also received €1,828 thousand in remuneration in kind under the long-term share delivery plan (€1,209 thousand and €1,257 thousand in the first half of 2017, respectively). Executive directors of the Parent also received €129 thousand from SFL for their role as directors of that company (€132 thousand in the first half of 2017).

At 30 June 2018 and 2017, the Parent Company had taken out civil liability insurance policies covering all the Directors, senior management and employees of the Parent, which include, for both years, the civil liability insurance premium for damage caused by acts or omissions amounting to €400 thousand and €392 thousand, respectively.

The General Shareholders' Meeting held on 28 June 2016 approved the granting of a defined-contribution scheme for executive directors covering retirement and, when applicable, disability and death, with overall annual contributions of €180 thousand and €178 thousand in 2018 and 2017, respectively. At 30 June 2018, the Parent Company had recognised €90 thousand for this item under "Staff costs" in the condensed consolidated comprehensive income statement (in the first half of 2017 it recognised €89 thousand arising from this agreement).

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

At 30 June 2018 and 2017, two members of the Board of Directors had signed golden parachute clauses in the event of certain cases of termination or change of control, all of which were approved at the General Shareholders' Meeting.

In the first half of 2018 and 2017, there were no finalisations, modifications or early terminations of contracts outside of the normal business activities between the Parent and the members of the Board of Directors or any other person acting on their behalf.

c) Remuneration of senior management

The Parent's senior management team comprises senior executives and other persons responsible for the management of the Parent Company and reporting to the CEO. The senior management team was made up of two men and two women at 30 June 2018 and 2017.

Monetary compensation earned by senior management in the first half of 2018 amounted to €730 thousand. Furthermore, they received €1,436 thousand corresponding to the long-term incentives plan (€653 thousand and €988 thousand, respectively, in the same period of 2017).

At its meeting held on 27 July 2016, the Board of Directors approved the granting of a defined-contribution scheme for a member of senior management covering retirement and, when applicable, disability and death. At 30 June 2018 and 2017, the Parent recognised €62 thousand and €60 thousand, respectively, in this connection under "Staff costs" in the consolidated comprehensive income statement.

At 30 June 2018 and 2017, one member of senior management had signed a golden parachute clause, in the event of termination under certain circumstances or a change of control.

16. Average headcount

The Group headcount at 30 June 2018 and 2017, and the average headcount in the first half of 2018 and 2017, employed in continuing operations, broken down by job category and gender, is as follows:

	Number of employees				Average first half 2018		Average first half 2017	
	June 2018		June 2017					
	Men	Women	Men	Women	Men	Women	Men	Women
General and area managers	16	7	12	5	17	7	12	5
Technical graduates and middle managers	38	41	33	31	37	41	31	32
Administrative	20	63	16	50	18	61	17	49
Others	5	1	4	1	5	2	4	1
	79	**112**	**65**	**87**	**77**	**111**	**64**	**87**

Inmobiliaria Colonial, SOCIMI, S.A.
and Subsidiaries

Consolidated Management Report
for the six-month period of 2018

1. Company situation

Macroeconomic context

The first half of 2018 ended with a ca. 3.8% growth, the same figure reached in 2017. However certain continuity is expected regarding the growth acceleration of the global economy. The growth forecast by analysts increased to 3.9% in 2018.

The Eurozone consolidates its position in the expansionary phase of the cycle. Unlike the USA, the Eurozone is in a less mature phase of the business cycle and continues to have a positive outlook despite a somewhat less dynamic start to the year. In particular, temporary factors (adverse weather conditions, strikes, etc.) as well as the volatility of the foreign sector, played a key role in the slowdown of the indicators during the first few months of the year.

Although growth is easing off in Europe, the Spanish economy continues to progress strongly in the second quarter (0.66% quarter-on-quarter, an increase of 0.7%).

In France, growth expectations remain positive. The GDP is expected to increase 2.0% in 2018 and 2.0% in 2019.

Source: "La Caixa" monthly report & Jones Lang Lasalle report

Rental market situation

Barcelona

During the second half of 2018, a total of 115,000 sq m of offices were signed in Barcelona, an increase of +42% compared to the previous quarter and above the quarterly average registered since the beginning of the economic recovery in 2014. Take-up in the first half of 2018 was in line with the same period of the previous year, with the latter being an exceptional year. All sub-markets have performed well and it is particularly worth mentioning the city centre and the 22@ district with the highest take-up, with pre-lets in the latter continuing to be standard.

The average vacancy rate in Barcelona during the second quarter of 2018 decreased to 6.7%, continuing the downward trend which commenced in 2014. In the CBD, the vacancy rate was below 4%, at historically low levels. In the Diagonal-Paseo de Gracia area the vacancy rate reached 2.4%.

It is important to point out that, due to the lack of large quality spaces in some areas of the city, there has been an increase in the number of pre-let transactions, which is quite unusual in the office market in Spain. Despite the fact that in recent months a number of buildings have entered into operation, especially in the 22@ area, these have not brought new supply, due to the fact that they were already pre-let. Forecasts continue along the same lines, as many projects due to be delivered are already partially or totally pre-let.

As a consequence, maximum rents in the CBD during the second quarter of 2018 continued the positive trend which commenced in 2013, reaching rental levels of €24.3/sq m/month.

Madrid

During the second quarter of 2018, the take-up in Madrid was 108,000 sq m, which represents an increase of +16% with respect to the average of the same period over the last five years, where the take-up volume was 93,000 sq m. Take-up in this half of the year was slightly lower than the first half of the previous year, mainly due to a lack of Grade A products on the market.

From a demand point of view there is a clear trend of tenants relocating to better quality spaces, abandoning obsolete spaces. The most active sectors in the market continue to be technological companies and professional services companies, giving increasingly more importance to spaces dedicated to co-working.

Regarding office supply in Madrid, there have been no substantial changes. During this second quarter of the year, no projects have been delivered within the M30. Only the work that was being carried out on two properties in the A1 area has been completed, providing a total of 32.000 sq m of Grade A, of which 10,000 sq m have already been pre-let. As a consequence, the vacancy rate continued to gradually reduce to stand at 10.5%. In the CBD, the vacancy rate reached 6.5%, with available Grade A space considerably lower than this figure.

Due to the lack of quality product, together with solid demand, pressure is being put on prime rents, which are already in the range of €33/sq m/month. This represents a quarterly increase of +3% and a yearly increase of +10%. According to broker reports, Madrid is positioned as the European city with the greatest expected rental growth over the next five years.

<u>París</u>

During the first half of 2018, take-up in the Paris region (Île-de-France) was close to 1,333,000 sq m, an increase of +15% compared to the previous year and much higher than the average over the last ten years (1,100,000 sq m).

In terms of the transactions carried out, of special mention are the number of medium-sized transactions (between 1,000 sq m and 5,000 sq m), reaching a total of 67 transactions in the first half of 2018, registering an increase of +24% compared to the previous year. Also worth mentioning is the +7% increase in surface areas below 1,000 sq m. During the first half of 2018, four large transactions were signed: the future headquarters of VINCI (62,600 sq m), the rental of 48,500 sq m by TECHNIP, the regrouping of NESTLE in France (46,800 sq m) and the creation of the new headquarters of DANONE (25,100 sq m).

Available office space fell below 3.1 million sq m, resulting in a vacancy rate below 5.6%. This decrease in the available office space reached levels below those of 2009. The availability of new and/or quality spaces in the Paris city centre remains low (14% of available space).

Immediate supply in the centre of Paris decreased by 12% compared to the previous year. The vacancy rate in the CBD stood at 2.1%, an historical low. As a consequence, there are tenants who are trying to position themselves in projects which are still under development.

Prime rental prices in the Paris CBD reached €780/sq m/year at the end of the second quarter of 2018, with several leases signed above €770/sq m/year and with various transactions above €800/sq m/year.

Sources: Reports by Jones Lang Lasalle, Cushman & Wakefield, CBRE & Savills

Organisational structure and functioning

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

The Company has a market capitalization of approximately Euro 4,400 million, with a free float of around 66%. It manages assets exceeding Euro 11,000 million.

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

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

- A business model focusing on the transformation and creation of offices of the highest quality in prime locations, principally in CBD's (Central Business District).
- Maximum commitment to the creation of offices that respond to the highest demands of the market, placing special emphasis on efficiency and sustainability.
- A diversified pan- European strategy in the office markets in Barcelona, Madrid and Paris.

- An investment strategy that combines "Core" and "Prime Factory" acquisitions with "value added" components.
- A clearly industrial real estate approach to create value that exceeds the average in the market.

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

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

Over the past three years the Group has successfully executed its acquisition program and made investments exceeding Euro 2,000 million (committed amounts including future Capex). All acquisitions involve assets in good locations with good fundamentals, potential for additional returns through property repositioning, while always maintaining maximum financial discipline.

At the end of the first half of 2018, the Colonial Group had a robust capital structure with a solid Investment Grade rating. The LTV of the company stood at 39% at June 2018.

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

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

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

2. Business performance and results

Introduction

Revenue totalled 170 million euros at 30 june 2018, and was generated by the Group's recurring business (property rentals).

Profit from operations amounted to 129 million euros.

According to the independent appraisals by CB Richard Ellis, Jones Lang Lasalle and Cushman & Wakefield, the Group's investment property was revalued by 324 million euros. This revaluations, which was registered in France as well as in Spain, is the result of a 4% increase like-for-like in the appraisal values of the assets in operation with respect to December 2017 (6% in Spain and 4% in France).

The Group capitalised 2.8 million euros of borrowing costs related to developments in progress.

The net finance cost amounted to 56 million euros, including 2.8 million euros relating to the finance costs of developments in progress that were capitalised.

Once the results attributable to the minorities of (103) million euros were deducted, the results after taxes attributable to the Group amounted to 254 million euros.

Profit (loss) for the year

The highlights of rental business are as follows:

The first half of 2018 was outstanding for the Colonial Group with a Total Shareholder Return of +15% based on a +13% Net Asset Value per share YoY increase in combination with a dividend yield of +2%.

On July 2nd, the merger of Colonial with Axiare has been finalized consolidating Colonial as leader in prime offices, offering our clients more than 1.2 million sq m of office space, through 73 assets in the best locations of Madrid, Barcelona and Paris.

The merger of both companies represents a transformational event in the strategic plan, accelerating the Group's growth with the incorporation of a top quality office portfolio in Spain.

The results of the first half of 2018 clearly reflect the successful growth strategy of the new Group, as seen in the following figures:

> Gross Asset Value: €11,190m, +29% vs. the previous year (+10% like-for-like in 12 months)
> Gross rental income: €170m, +21% vs. the previous year (+5% like-for-like)
> Recurring net profit: €41m, +12% vs. the previous year
> EPRA NAV of €9.11/share, +13% vs. the previous year
> Total Shareholder Return[1]: +15% in one year

The Group resulting from the merger has obtained very solid operating results, capturing high increases in rental prices in all markets

> 55 signed contracts corresponding to more than 97,000 sq m and €19m in annual rental income
> EPRA vacancy at levels of 5%
> Capture of rental price increases: +8% vs. market rents (ERV) at December 2017 and +26% in release spreads[2]

Significant growth in rental income

Significant increase of +21% in rental income based on (1) the incorporation of the Axiare business since February, (2) additional income from acquisitions and project delivery and (3) a solid +5% like-for-like increase.

Like-for-like growth in rental income in all the markets in which the Group operates:

> Barcelona +3% due to increases in rental prices in the entire portfolio
> Madrid +8% mainly boosted by increases in rental prices and new contracts signed in Alfonso XII, Alcalá and José Abascal 45.
> Paris +5% due to increases in rental prices and new contracts signed in Washington Plaza, Cézanne Saint Honoré and103 Grenelle & Percier

These like-for-like growth levels are clearly above the average of the comparable data of our Spanish and European peers.

Real estate value creation

At the end of the first half of 2018, the Group's Gross Asset Value amounted to €11,190m (€11,730m including transfer costs), which represents an increase of +29% vs. previous year (+21% in 6 months).

In like-for-like terms, Colonial's portfolio has been revalued by +10% vs. the previous year (+4% in the first half of 2018).

This increase in value is a consequence of the rental price increases throughout the full asset porfolio, complemented by increases in value obtained through the successful execution of projects in the portfolio.

The Barcelona and Madrid portfolios obtained +10% like-for-like growth year-on-year. It is important to highlight the strong +9% revaluation in the last 6 months in Barcelona.

The Paris portfolio increased +10% like-for-like year-on-year (+3% like-for-like in the first 6 months of 2018) clearly establishing a reference for growth in the Paris market.

Solid fundamentals in all segments

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

Lettings with significant growth in rental prices

During the first half of 2018, the Colonial Group has signed 55 rental contracts, corresponding to more than 97,000 sq m and an annual rental income of €19m.

(1) Increase of NAV per share + dividend paid
(2) Renewals signed vs. previous rents

More than 51,600sq m of rental contracts were signed in the office portfolio, capturing important increases in rental prices.

Compared with the market rent (ERV) at December 2017, the signed rental prices were +8% higher. In Barcelona, signed rental prices were +14% higher than ERVs. In the Madrid portfolio, they were +7% higher, and in the Paris portfolio +6% higher.

In addition, double digits release spread have been signed in Spain: Barcelona +14% and Madrid +28% (in France there were no renewals).

Solid occupancy levels

The total vacancy of the Colonial Group (including all uses: offices, retail and logistics) stood at 5% at the end of the first half of 2018.

The Barcelona and Paris office portfolios stand out with vacancy ratios of 1% and 3%, respectively.

The office portfolio in Madrid has a vacancy rate of 12%: 9.6% corresponds to the Axiare portfolio and 1.6% to the recent delivery of the Discovery Building project in the CBD, which is generating strong interest in the rental market. The rest of the Madrid portfolio has a vacancy rate of 1%.

The total available surface areas of both, Axiare Portfolio and Discovery building, represent a top quality offer for the Madrid market where there is a clear scarcity of Grade A products. Consequently, there is significant potential for additional rental income to be captured in the coming quarters.

At the end of the first half of 2018, the logistics portfolio of the Colonial Group had an EPRA vacancy rate of 3%.

Growth drivers

The Colonial Group has an attractive growth profile which is based on the following drivers:

A. Merger and Integration of Colonial-Axiare

Colonial is making satisfactory progress on all of the objectives communicated at the launch of the transaction.

1. Consolidation of prime offices leadership in Spain and Europe
   Immediate increase in rents from €302m at December 2017 to €367m in June 2018 with a prime offices portfolio.

2. Reinforced competitive position in the Madrid market
   Colonial is closing rental negotiations that leverage on the complementarity of Colonial's new portfolio to optimize prices and maximize the real estate value creation.

3. Integration of Axiare in Colonial's business model
   The integration of all of Axiare's business processes has started in order to optimize each phase of the real estate value chain through Colonial's internal model.

4. Cost synergies confirmed
   The initial target of cost synergies has been confirmed and additional potential savings have been identified with an accelerated implementation plan for crystallization in the next 12 months.

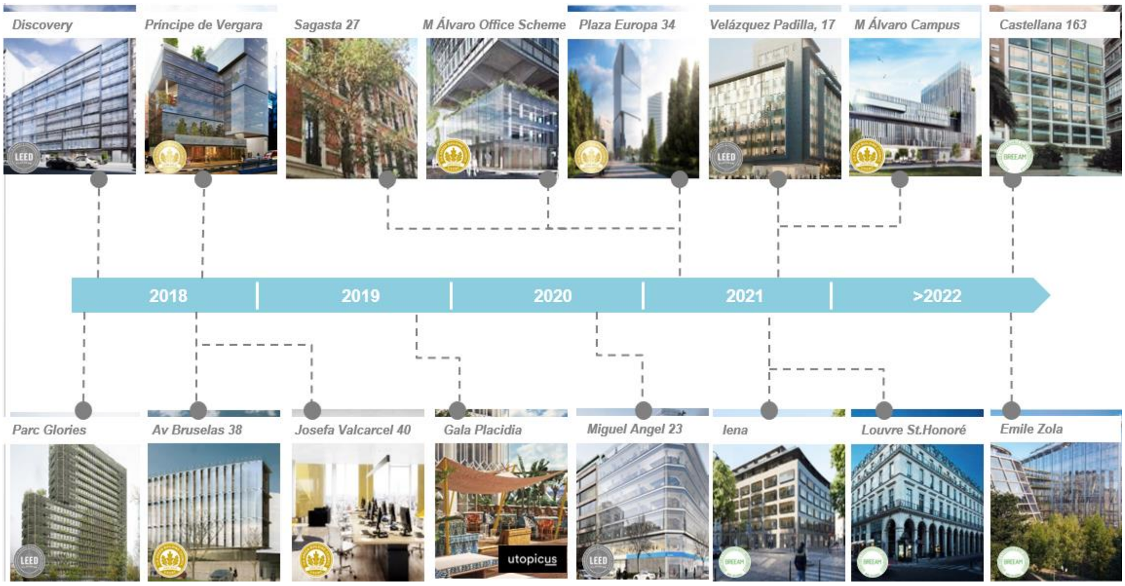
5. Optimization of the Group's resulting asset portfolio
   - High level of progress in the analysis of value creation in every asset to determine the optimum portfolio resulting from the merger.
   - Confirmation of the Business Plan of the assets with more detailed information.
   - Review and optimization of the schemes in the project portfolio and maximization of synergies with Colonial's pre-transaction portfolio.
   - Analysis of non-strategic assets will be finalized in the coming months.

6. Potential for improvement in the financial structure
   Satisfactory progress in the identification of potential improvements and their subsequent implementation, €177m of Axiare debt cancelled YTD.

7. Enhanced visibility and liquidity of the resulting Company in the capital markets
   In July, the new Colonial reached a capitalization on the stock market of more than €4.4bn with an elevated free-float volume reaching €2.9bn.
   Consequently, Colonial has been included in the EuroStoxx 600 index, one of the most important indices in Europe for international institutional investors.

B. A contract portfolio to capture the cycle: an attractive contract maturity profile to continue capturing significant rental price increases, as shown in the first and second quarter results of 2018.

C. An attractive project pipeline: Colonial has a project pipeline to develop more than 340,000 sq m of top quality products. The project pipeline will offer attractive returns and value creation underpinned by solid fundamentals.



D. Acquisition Program – Alpha projects: Colonial has implemented in the last years the targets of organic investments announced to the capital markets: acquisitions of assets, prioritizing off-market transactions, and identifying assets with value-added potential in market segments with solid fundamentals.

Alpha III Project

With the execution of the Alpha III project at the beginning of 2018, that includes the acquisition of five assets, four in Madrid and one in Barcelona, with a total committed investment volume of €480m, the 2018 target has been delivered in advance at the start of the year.

Prime asset acquisition in Barcelona - Diagonal 525

After the closing date of the first half, Colonial has acquired in July an office building with a GLA of 5,710 sq m above ground, located in the prime area of Avenida Diagonal in Barcelona.

The building is located at 525 Avenida Diagonal and intersects with Avenida de Sarriá. The area is considered the Prime Central Business District of Barcelona and has traditionally been occupied by financial institutions, law firms and other service companies. The building also benefits from numerous nearby services and public transportation that provides accessibility to all areas of the city.

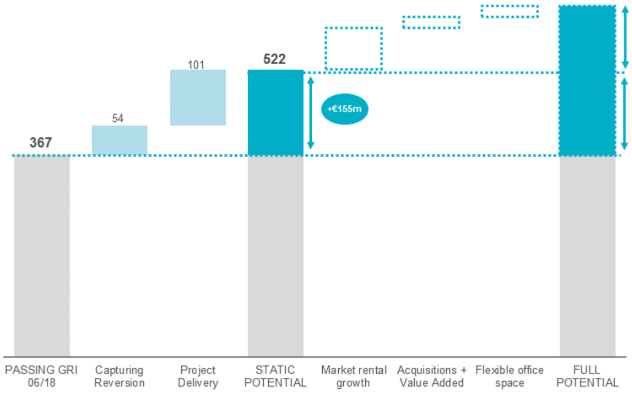
The building is currently 100% occupied by a sole tenant, however Colonial will carry out a full refurbishment of the building in order to create an emblematic property in the heart of Barcelona's business district. The total cost of the project, including future capex, will be €37m, representing a capital value of 6.460 €/sq m. This total cost is substantially below prices of recent comparable transactions in this area of the Diagonal.

It should be noted that currently there are no new office projects in the Central Business District of Barcelona and that the vacancy rates of Grade A buildings are at historical lows of 1%.

With this acquisition, Colonial once again proves its capacity to create value for its shareholders through the sourcing of off-market transactions with potential for real estate transformation.

Reversionary potential of the current portfolio

The portfolio of the Colonial Group has a reversionary potential to reach a rental income of €522m. This represents a +42% increase compared to the current annual rents of €367m ("topped-up[(1)]" rents as of 06/2018).



(1) *Topped-up passing rental income: annualized cash GRI adjusted for the expiration of rent free periods as per EPRA BPR*

(2) *Includes Diagonal 525 acquisition*

Active management of the capital structure

Active management of the balance sheet

In the first half of 2018, the Colonial Group successfully executed two bond issuances for a total of €1,150m:

1. €650m bond issuance in Spain with an 8 year maturity (maturing on 17 April 2026) and an annual coupon of 2%
2. €500m bond issuance for the SFL subsidiary in France with a 7 year maturiy (maturing on 29 May 2025) and an annual coupon of 1.5%

Both issues were subscribed by top tier institutional investors and the demand considerably exceeded the issue volume. Both transactions led to an increase in the liquidity of the Group, improving the maturity profile of the debt with very competitive financial costs.

In addition, in the month of July, Colonial materialized an early buy back of the totality of the bond issue maturing in 2019 for a nominal amount of €375m. This transaction enabled the extension of the average maturity of Colonial's debt in an interest rate environment at historic lows, as well as a reduction in financials costs, substantially improving the recurring net profit.

At the end of the first half of 2018, the Colonial Group had a robust capital structure with a solid Investment Grade rating. The LTV of the company stood at 39% at June 2018.

Solid share price performance

Colonial's shares closed the first half of 2018 with a revaluation of 14%, 17% as of report date, outperforming its peers in Spain and France as well as the benchmark indices EPRA and IBEX 35.

The share price performance is strongly correlated with the achievement of milestones on Colonial's Business Plan, reflecting the Capital Market's support of the Colonial Group's strategy.

With respect to analyst coverage, there are currently 25 analysts, both national and international, covering the company. It is worth highlighting the new reports by JP Morgan and BPI, with a target price of €11.2/share, as well as Renta4 and Barclays with a target price of €11.1/share and €11.0/share respectively.

It is worth highlighting that during the past few months, 4 research firms (Natixis, JP Morgan, Barclays & Renta4Banco) initiated coverage on Colonial and 19 analyst have revised upwards their target price.

3. Liquidity and capital resources

See "Capital Management and Risk Management Policy" in Note 12-m to the consolidated financial statements for the year ended 31 December 2017 and Note 9 to these condensed interim financial statements.

4. Risk management policies and objectives

Risk Management

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

Strategic Risks:

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

- Risks associated with the sector situation: The Colonial Group pays special attention to the economic, political, legal and social risks related to the countries in which it operates (Spain and France). The European real estate sector has maintained the dynamism of the previous year in spite of the political uncertainty and economic policies of the last year, characterised by reaching very significant investment levels. The maturity of the French real estate sector and the high level of investment in the Spanish real estate sector in recent years have enabled the Group to have a more optimistic outlook over the coming years in terms of increased returns from its investments and sustainable growth.

- Risks associated with a competitive sector: The real estate sector is characterised as being highly competitive, reaching high levels of investment in recent years, and was driven by specialised international investment funds and by listed real estate investment companies (REITs). Colonial, which in 2017 chose to adhere to the special REIT tax regime, has maintained a benchmark position in the European real estate sector as a result of the high quality and value of its assets and its strategy of focusing mainly on its office rental activities in *prime* or Central Business District (*CBD*) areas. The successful investment and growth strategy carried out in 2015, 2016 and 2017, as well as the successful outcome of the takeover bid for Axiare at the beginning of 2018 and the subsequent merger of this company on 2 July 2018, have strengthened the Group's position as a leader in the sector.
- Risks related to the value of assets: Every six months, the Group carries out appraisals on all of its property assets through independent experts and by applying objective market criteria. Colonial allocates a significant portion of its resources to investing in and maintaining its property assets to enhance their value and position on the market and optimise income and returns.

Corporate Risks:

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

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

- Corporate governance risk: The Group's management of corporate governance focuses on maintaining its commitment to continue making progress on a model based on the principles of efficiency, regulatory compliance and transparency, that are in line with the main international regulations and standards.
- Anticipation of new trends: As is the case with other sectors, the real estate sector requires continuous adaptation to emerging trends. The growing implementation of digitalisation in all sectors, the new technology supplied in the real estate sector, and the increase in co-working spaces results in constant changes that specifically affect the real estate sector. In 2018 the Colonial Group is carrying out specific activities in this area through its coworking platform, acquired in 2017, and through the development of digitalisation projects and new technologies in the development of services and new business models in the real estate sector.

Operational Risks:

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

- Financial risks: The Group efficiently manages its financial risks with the aim of maintaining adequate levels of liquidity and debt, minimising borrowing costs and ensuring compliance with its business plans:
  - *Risk of exposure to interest rate fluctuations:* The management of this risk is to reduce interest rate volatility to limit and control the impact of interest rate fluctuations on profit and cash flows and to keep overall borrowing costs at reasonable levels. The Colonial Group 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. The acquisition and integration of Axiare in 2018 did not lead to a change in the credit rating of BBB, which remained stable. In addition, a new bond issue of €650 million was undertaken and a new syndicated loan of €500 million was arranged, replacing and improving the conditions of the previous one. All of this has led to an improvement in the financial structure, extending and diversifying the maturity of the debt and keeping the Group's net financial debt (*“Loan to Value”)* at adequate levels, thus providing sufficient financial capacity to undertake the projects planned and to assume significant growth levels in the coming years.
  - *Liquidity risk:* As mentioned in the preceding paragraph, the Group has the necessary sources of financing to undertake its current projects in addition to those laid down in its business plan. The Group increased its capacity to attract capital and obtain liquidity and new lines of financing, whereby in 2018 it launched a new bond issue and arranged a new loan.
- Asset management risks: Sustainable property management requires that the Group allocate a significant portion of its investments to acquiring, constructing, renovating and maintaining the high quality of its properties, which stand out as a result of their high energy efficiency. This property management strategy is a key part of the Group's organisation and business plan.
- Risk of loss or damage to property assets: The Colonial Group’s properties are exposed to general risks of damage as a result of fires, flooding or other events, regardless of whether or not they are attributable to natural causes. Colonial has arranged hedges to cover the reconstruction costs of the properties it owns, as well as any damage caused to third parties.
- Security risk of information systems: The digital revolution brought about great benefits in innovation and growth, however, it also constitutes a source of new threats. The Group, aware of these growing threats, reviews the control measures to secure its information systems and to undertake and mitigate this risk.

Compliance Risks:

Potential 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.

- Regulatory compliance risks: The process of identifying and assessing risks of regulatory or contractual breach that may give rise to legal proceedings against the Group allows it to take the appropriate corrective measures to mitigate these risks or, where applicable, any possible impact thereof, through the controls established in the crime prevention model defined and implemented by the Group. The Company has also taken out insurance to cover any legal costs or possible damage against directors and executives.
- Tax risks: The Colonial Group must adhere to the general tax legislation of the countries in which it operates, as well as any specific regulations for the REIT regime. Accordingly, Colonial has a tax policy, a tax strategy and a tax risk management system, establishing adequate measures to control and monitor the management of risks in this connection.

Reporting Risks:

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

5. Events after the reporting period

On 4 July 2018, the merger deed executed on 2 July 2018 between Inmobiliaria Colonial, SOCIMI, S.A. and Inmobiliaria Colonial, S.A. was registered in the Madrid Companies Registry. (acquiring company) and Axiare Patrimonio SOCIMI, S.A. (absorbed company). In this respect, in order to meet the exchange of the merger, the Parent issued 19,273,622 new ordinary shares of €2.50 nominal value each of the same class and series as those currently in circulation, representing 4.43% of the share capital of Colonial prior to the merger, to be delivered to Axiare's shareholders in accordance with the exchange rules and procedures established for this purpose. The total amount of the increase amounted to €157,909 thousand, of which €48,184 thousand are related to share capital and €109,725 thousand to share premium. The new shares were admitted to trading on 9 July 2018.

On 2 July 2018, the Parent acquired a property located in Barcelona at Avenida Diagonal 525, and provided the seller with guarantees to guarantee payment of the deferred amounts.

On 18 July 2018, the Parent paid off early €119,000 thousand of loans from Axiare Patrimonio SOCIMI, S.A.

On 23 July 2018, the Parent Company paid off early the €375,000 thousand outstanding balance for the issue of non-convertible bonds maturing in June 2019.

There have been no other significant subsequent events.

6. Future outlook

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

Barcelona & Madrid

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

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

Paris

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

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

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

Strategy for the future

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

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

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

7. Research and development activities

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

8. Treasury shares

During the first half of 2018, Inmobiliaria Colonial, SOCIMI, S.A. delivered 421,813 treasury shares to the beneficiaries of the long-term incentive plan. At 30 June 2018, the Parent held a closing balance of 4,087,627 shares with a par value of €10,219 thousand (€2.5 per share), representing 0.9% of the Parent's share capital.

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

The following glossary of the *Alternative Performance Measures* includes the definition and relevance thereof for Colonial in accordance with the guidelines of the European Securities and Markets Authority (ESMA) published in October 2015 (*ESMA Guidelines on Alternative Performance Measures*). These *Alternative Performance Measures* have not been audited or revised by the company's auditor (Deloitte, S.L.).

Alternative Performance Measure	**Calculation method**	**Definition/Relevance**
EBIT **(Earnings before interest and taxes)**	Calculated as the "*Operating profit*" plus "*Variations in value of investment properties*" and "*Profit (loss) due to variation in value of assets and impairment*".	Indicator of the profit generating capacity of the Group, considering only its productive activity less debt and tax effects.
EBITDA **(Earnings Before Interest, Taxes, Depreciation and Amortization)**	Calculated as the "*Operating profit*" adjusted for "*Amortisation*" and the "*Net change in provisions*".	Indicator of the profit generating capacity of the Group, considering only its productive activity, eliminating any provisions for amortisation, debt and tax effects.
Gross financial debt (GFD)	Calculated as the sum of the items *"Bank borrowings and other financial liabilities"* and *"Issuance of bonds and other similar securities"*, excluding *"Interest"* (accrued), *"Arrangement expenses"* and *"Other financial liabilities"* in the consolidated statement of financial position.	Relevant indicator for analysing the financial position of the Group.
EPRA1 **NAV** **(EPRA Net Asset Value**)	Calculated based on the equity of the Company and adjusting specific items according to EPRA recommendations.	Standard analysis ratio for the real estate sector, recommended by EPRA.
EPRA[1] NNNAV **(EPRA "triple net")**	Calculated by adjusting the following items in the EPRA NAV: The market value of the financial instruments, the market value of the financial debt, any taxes that would be accrued with the sale of assets at market value, applying the reinvestment tax rebate and the tax credit recognised in the balance sheet taking into account the going concern criteria.	Standard analysis ratio for the real estate sector and recommended by EPRA.
Market Value excluding transaction costs or Gross Asset Value (GAV) excluding transfer costs	Valuation of all the assets in the Group's portfolio carried out by external Group valuers, deducting the transaction or *transfer costs.*	Standard analysis ratio for the real estate sector.
Market Value including transaction costs or GAV including transfer costs	Appraisal of all the assets in the Group's portfolio carried out by external Group valuers, before deducting the transaction or *transfer costs.*	Standard analysis ratio for the property sector.

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

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

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

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

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

EPRA NAV (EPRA *Net Asset Value*)	**30/06/2018**	**31/12/2017**
	(Millions of euros)	
"EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT"	**3,865(1)**	**3,592**
Includes:		
(i.a) Revaluation of investment assets	16	13
(i.a) Revaluation of assets under development	n.a.	n.a.
(i.c) Revaluation of other investments	52	(58)
(ii) Revaluation of finance leases	n.a.	n.a.
(iii) Revaluation of assets held for sale	n.a.	n.a.
Excludes:		
(iv) Market value of financial instruments	7	(1)
(v.a) Deferred taxes	201	198
(v.b) Goodwill resulting from deferred assets	n.a.	n.a.
Includes/excludes:		
Adjustments of (i) to (v) in relation to the interests of strategic alliances	n.a.	n.a.
EPRA NAV	**4,141**	**3,744**

(1) Equity attributable to the shareholders of the Parent at 30 June 2018, including the impact of the merger with Axiare executed in July 2018.

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

EPRA NNNAV (EPRA "triple net")	**30/06/2018**	**31/12/2017**
	(Millions of euros)	
EPRA NAV	**4,141**	**3,744**
Includes:		
(i) Market value of financial instruments	(7)	1
(ii) Market value of the debt	(95)	(117)
(iii) Deferred taxes	(201)	(200)
EPRA NNNAV	**3,838**	**3,428**

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

Market Value excluding transaction costs or GAV *excluding transfer costs*	30/06/2018	31/12/2017
	(Millions of euros)	
Barcelona	973	836
Madrid	2,760	1,497
Paris	6,242	6,064
Operating portfolio	**9,974**	**8,398**
Projects	**762**	**519**
Logistics and others	**454**	**16**
Shareholding value in Axiare	**0**	**349**
Total Market Value excluding transaction costs	**11,190**	**9,282**
Spain	4,781	3,053
France	6,409	6,229

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

Market Value including transaction costs or GAV *including transfer costs*	30/06/2018	31/12/2017
	(Millions of euros)	
Total Market Value excluding transaction costs	**11,190**	**9,282**
Plus: transaction costs	540	459
Total Market Value including transaction costs	**11,730**	**9,741**
Spain	4,919	3,121
France	6,811	6,619

- **Like-for-like rentals**

Like-for-like Rentals	Barcelona	Madrid	Paris	Logistics and others	TOTAL
	(Millions of euros)				
Rental income 1st half 2016	**15**	**20**	**102**	**0**	**137**
like-for-like	1	0	3	0	4
Projects and registrations	0	(1)	(4)	0	(5)
Investments and divestments	1	5	0	0	6
Others and compensation	0	0	(2)	0	(2)
Rental income 1st half 2017	**17**	**25**	**99**	**0**	**141**
like-for-like	1	2	4	0	7
Projects and registrations	0	1	0	0	1
Investments and divestments	0	2	(7)	0	4
Axiare	2	16	0	8	26
Others and compensation	0	0	0	0	0
Rental income 1st half 2018	**20**	**46**	**96**	**8**	**170**

- **Like-for-like appraisal**

Like-for-like Appraisal	30/06/2018	31/12/2017
	(Millions of euros)	
Valuation at 1 January	**9,282**	**8,069**
like-for-like Spain	172	265
like-for-like France	180	679
Acquisitions	1,594	625
Divestments	(38)	(356)
Valuation at 31 December	**11,190**	**9,282**

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

Loan to Value Group or LtV Group	30/06/2018	31/12/2017
	(Millions of euros)	
Gross financial debt	5,378	4,170
Less: "Cash and cash equivalents"	(745)	(1,104)
(A) Net financial debt	**4,633**	**3,066**
Market Value including transaction costs	**11,730**	9,741
Plus: Treasury shares of the Parent valued at EPRA NAV	37	39
(B) Market Value including transaction costs and Parent's treasury shares	**11,767**	**9,780**
Loan to Value Group (A)/(B)	**39.4%**	**31.3%**

- **LtV Holding or LtV Colonial**

LtV Holding or LtV Colonial	30/06/2018	31/12/2017
Holding Company	*(Millions of euros)*	
Gross financial debt	3,592	2,488
Less: “Cash and cash equivalents” of the Parent and Spanish subsidiaries wholly owned thereby	(689)	(1,085)
(A) Net financial debt	**2,903**	**1,403**
Market Value including transaction costs	11,730	5,523
Plus: Treasury shares of the Parent valued at EPRA NAV	37	39
(B) Market Value including transaction costs	**7,420**	**5,562**
Loan to Value Holding (A)/(B)	**39.1%**	**25.2%**