Inmobiliaria Colonial, S.A. and its subsidiaries

Report on limited review of condensed
interim consolidated financial statements
for the six months period ended at 30 June 2017

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

REPORT ON LIMITED REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To the shareholders of Inmobiliaria Colonial, 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, S.A (hereinafter, "the parent company") and its subsidiaries (hereinafter, "the group"), which comprise the statement of financial position as at 30 June 2017, and the statement of 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 requirements 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 30 June 2017 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 1, 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 31 December 2016. This matter does not modify our conclusion.

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

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Other Matters

On 24 February 2017 other auditors issued an audit opinion on the consolidated annual accounts of the group for the year ended 31 December 2016 in which they expressed an unqualified opinion. Additionally, on 27 July 2016 the same auditors issued the report on limited the review of condensed interim consolidated financial statements for the six months period ended 30 June 2016 in which they expressed an unqualified conclusion.

This report has been prepared at the request of Inmobiliaria Colonial, S.A. management 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.

Report on Other Legal and Regulatory Requirements

The accompanying interim consolidated directors' Report for the six months period ended 30 June 2017 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 30 June 2017. 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, S.A. and its subsidiaries´ accounting records.

PricewaterhouseCoopers Auditores, S.L.

José M Solé Farré

28 July 2017

Inmobiliaria Colonial, S.A. and Subsidiaries

Condensed Consolidated Interim Financial Statements and Consolidated Interim Directors' Report for the six-month period ended 30 June 2017

Translation of Condensed Consolidated Interim Financial Statements and Consolidated Interim Directors' Report originally issued in Spanish. In the event of discrepancy, the Spanish version prevails.

Translation of Condensed Consolidated Interim Financial Statements and Consolidated Interim Directors' Report originally issued in Spanish. In the event of discrepancy, the Spanish version prevails.

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2017

(Thousand Euro)

ASSETS	Note	30 June 2017	31 December 2016	LIABILITIES AND EQUITY	Note	30 June 2017	31 December 2016
Intangible assets		2,666	2,549	Share capital		981,175	892,058
Property, plant and equipment		43,465	44,061	Share premium		895,301	731,326
Investment property	4	7,926,295	7,762,627	Parent company reserves		238,501	250,634
Non-current financial assets	5	179,694	150,676	Consolidated reserves		406,163	199,417
Non-current deferred tax assets		409	454	Adjustments to equity for changes in the measurement of financial instruments		(530)	(571)
NON-CURRENT ASSETS		**8,152,529**	**7,960,367**	Measurement of available-for-sale financial assets		10,829	1,317
				Other equity instruments		3,583	3,697
				Treasury shares		(81,465)	(49,811)
				Profit/(loss) for the year		437,192	273,647
				Capital and reserves attributable to shareholders of the Parent Company		**2,890,749**	**2,301,714**
				Non-controlling interests		**1,888,662**	**1,706,205**
				EQUITY	8	**4,779,411**	**4,007,919**
				Bank borrowings and other financial liabilities	9	712,165	777,531
				Issues of bonds and similar securities	9	2,511,450	2,509,956
				Non-current deferred tax liabilities	11	306,779	356,658
				Non-current provisions		11,718	13,674
				Other non-current liabilities		39,773	54,630
Trade and other receivables	7	133,702	116,954	**NON-CURRENT LIABILITIES**		**3,581,885**	**3,712,449**
Current financial assets		614	441				
Tax assets	11	23,841	44,689	Bank borrowings and other financial liabilities	9	56,990	93,549
Cash and cash equivalents	9	218,883	105,200	Issues of bonds and similar securities	9	324,063	313,927
CURRENT ASSETS		**377,040**	**267,284**	Trade and other payables	10	164,091	69,760
				Tax liabilities		20,391	17,328
Non-current assets held for sale	6	**408,352**	**-**	Current provisions		11,090	12,719
				CURRENT LIABILITIES		**576,625**	**507,283**
TOTAL ASSETS		**8,937,921**	**8,227,651**	**TOTAL LIABILITIES AND EQUITY**		**8,937,921**	**8,227,651**

Notes 1 to 16 in the accompanying notes form an integral part of the condensed consolidated statement of financial position for the six-month period ended 30 June 2017.

Translation of Condensed Consolidated Interim Financial Statements and Consolidated Interim Directors' Report originally issued in Spanish. In the event of discrepancy, the Spanish version prevails.

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

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017

(Thousand Euro)

Statement of comprehensive income	**Note**	**June 2017**	**June 2016**
Revenues	12	140,711	136,975
Other income		586	1,475
Personnel expenses		(11,997)	(10,539)
Other operating expenses		(21,428)	(18,934)
Depreciation/Amortisation		(1,084)	(1,230)
Net change in provisions		3,447	(238)
Net gains on sales of assets		297	-
Operating profit		**110,532**	**107,509**
Change in the value of investment property	12	522,961	356,934
Profit/(loss) due to changes in the value of assets and impairment	12	(1,958)	(3,359)
Financial income	12	3,408	1,780
Financial expense	12	(41,687)	(44,042)
Profit/(loss) due to the impairment of financial assets	12	(92)	(182)
Profit/(loss) before tax		**593,164**	**418,640**
Income tax	11	43,298	(15,868)
Net consolidated profit/(loss)		**636,462**	**402,772**
Net profit for the year attributed to the Parent Company		437,192	229,596
Profit attributed to non-controlling interests	8	199,270	173,176
Basic earnings per share (Euro)	3	1.22	0.72
Diluted earnings per share (Euro)	3	1.22	0.72

Other comprehensive income/(expense)			
Net consolidated profit/(loss)		**636,462**	**402,772**
Other items of comprehensive income recognised directly in equity		**9,559**	**(294)**
Profit/(loss) on financial hedging instruments	8 and 9	62	(392)
Profit/(loss) on available-for-sale financial assets	5	9,512	-
Tax effect of the above-mentioned profit/(loss)	8 and 9	(15)	98
Transfers to comprehensive income		**27**	**2,232**
Profit/(loss) on financial hedging instruments		36	2,558
Tax effect of the above-mentioned profit/(loss)		(9)	(326)
Consolidated comprehensive income/(expense)		**646,048**	**404,710**
Comprehensive profit/(loss) for the year attributed to the Parent Company		446,745	230,694
Comprehensive profit/(loss) attributed to non-controlling interests		199,303	174,016
Comprehensive basic earnings per share (Euros)		1.25	0.73
Comprehensive diluted earnings per share (Euros)		1.25	0.73

Notes 1 to 16 in the accompanying notes form an integral part of these condensed consolidated statement of comprehensive income for the six-month period ended 30 June 2017

Translation of Condensed Consolidated Interim Financial Statements and Consolidated Interim Directors' Report originally issued in Spanish. In the event of discrepancy, the Spanish version prevails.

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

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED
30 JUNE 2017

(Thousand Euro)

	Note	Share capital	Share premium	Parent company reserves	Parent Company prior year losses	Consolidated reserves	Adjustments to equity for changes in the measurement of financial instruments	Adjustments to the measurement of available-for-sale financial assets	Other equity instruments	Treasury shares	Profit/(loss) for the year	Non-controlling interests	Total
Balance at 31 December 2015	**8**	**797,214**	**560,606**	**1,163,954**	**(1,147,975)**	**64,881**	**(2,504)**	**-**	**2,895**	**(17,065)**	**415,413**	**1,612,048**	**3,449,467**
Total recognized income and expense during the period		-	-	-	-	-	2,067	1,317	-	-	273,647	287,189	**564,220**
Transactions with shareholders:													
Share capital increase		94,844	170,720	(1,905)	-	-	-	-	-	-	-	-	**263,659**
Offset of prioer-year losses		-	-	(938,993)	938,993	-	-	-	-	-	-	-	**-**
Treasury share portfolio		-	-	(957)	-	(861)	-	-	-	(31,521)	-	(453)	**(33,792)**
Distribution of 2015 profit/(loss)		-	-	28,535	208,982	130,063	-	-	-	-	(415,413)	(48,752)	**(96,585)**
Income from equity instruments		-	-	-	-	-	-	-	629	-	-	462	**1,091**
Changes in the scope of consolidation		-	-	-	-	5,270	(134)	-	-	(1,225)	-	(144,378)	**(140,467)**
Other changes		-	-	-	-	64	-	-	173	-	-	89	**326**
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 recognized income and expense during the period		-	-	-	-	-	41	9,512	-	-	437,192	199,303	**646,048**
Transactions with shareholders:													
Share capital increase		89,117	163,975	(3,193)	-	-	-	-	-	-	-	-	**249,899**
Treasury share portfolio		-	-	(1,030)	-	(666)	-	-	-	(43,430)	-	434	**(44,692)**
Distribution of 2016 profit/(loss)		-	-	(7,910)	-	218,808	-	-	-	-	(273,647)	(27,000)	**(89,749)**
Income from equity instruments		-	-	-	-	-	-	-	(114)	-	-	302	**188**
Changes in the scope of consolidation		-	-	-	-	79	-	-	-	(2)	-	9,657	**9,734**
Other changes		-	-	-	-	(11,475)	-	-	-	11,778	-	(239)	**64**
Balance at 30 June 2017	**8**	**981,175**	**895,301**	**238,501**	**-**	**406,163**	**(530)**	**10,829**	**3,583**	**(81,465)**	**437,192**	**1,888,662**	**4,779,411**

Notes 1 to 16 in the accompanying notes form an integral part of the condensed consolidated statement of changes in equity for the six-month period ended 30 June 2017.

Translation of Condensed Consolidated Interim Financial Statements and Consolidated Interim Directors' Report originally issued in Spanish. In the event of discrepancy, the Spanish version prevails.

INMOBILIARIA COLONIAL, S.A. AND SUBSIDIARIES
(COLONIAL GROUP)
CONDENSED CONSOLIDATED CASH FLOW STATEMENTS FOR THE
SIX MONTH PERIOD ENDED 30 JUNE 2017

(Thousand Euro)

	Note	June 2017	June 2016
CASH FLOWS FROM CONTINUING OPERATIONS			
1. CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit/(loss)		110,532	107,509
Adjustment to profit/(loss)			
Depreciation/amortisation charge (+)		1,084	1,230
Change in provisions (+/-)		(3,447)	238
Other		(6,787)	(18,656)
Profit/(loss) on the sale of investment property (+/-)	4	(297)	-
Adjusted profit/(loss)		101,085	90,321
Taxes paid (-)		17,350	9,188
Increase/(decrease) in current assets and liabilities			
Increase/(decrease) in receivables (+/-)		(8,049)	(11,001)
Increase/(decrease) in payables (+/-)		15,876	(20,553)
Increase/(decrease) in other assets and liabilities (+/-)		823	3,355
Total net cash flows from operating activities		127,085	71,310
2. CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in (-)			
Intangible assets		(540)	(577)
Property, plant and equipment		(2,022)	(82)
Investment property	4	(42,537)	(65,842)
Shareholdings, financial assets and other	5	(19,363)	(80,360)
		(64,462)	(146,861)
Divestments (+)			
Investment property	4	4,940	-
		4,940	-
Total net cash flows from investing activities		**(59,522)**	**(146,861)**
3. CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid (-)	8	(27,000)	(28,860)
Repayment of bank borrowings (-)	9	(282,672)	(30,023)
Repayment of bondholders (-)	9	-	(155,800)
Interest paid (+)		(34,445)	(43,007)
Transactions with treasury shares (+/-)	8	(44,348)	(1,312)
		(388,465)	(259,002)
New financing from credit institutions (+)	9	185,788	242,489
Share capital increase (+)	8	253,092	-
Share capital increase expenses	8	(3,193)	(724)
Other collections/payments on current financial investments and other (+/-)		(1,102)	(2,143)
		434,585	239,622
Total net cash flows from financing activities		**46,120**	**(19,380)**
4. NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS			
Cash flows from continuing operations		**113,683**	**(94,931)**
Cash and cash equivalents at beginning of period from continuing operations	**9**	**105,200**	**217,776**
Cash and cash equivalents at end of the year	**9**	**218,883**	**122,845**

Notes 1 to 16 in the accompanying notes form an integral part of the condensed consolidated cash flow statement for the six-month period ended 30 June 2017.

Inmobiliaria Colonial, S.A. and Subsidiaries

Notes to the Condensed Consolidated Interim Financial Statements for the six-month period ended 30 June 2017

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

a) Introduction

Inmobiliaria Colonial, S.A. (formerly Grupo Inmocaral, S.A., incorporated as Grupo Fosforera, S.A., hereinafter the Parent Company), was incorporated as a public limited liability company ("sociedad anonima") in Spain for an indefinite period on 8 November 1956. It's registered address is located at Avenida Diagonal, 532 in Barcelona.

Parent Company shareholders at a general meeting held on 29 June 2017 adopted a resolution to apply the SOCIMI tax regime and adopt the relevant changes to the bylaws to adapt them to the requirements of that regime. Those requirements include the change to the name of Inmobiliaria Colonial, SOCIMI, S.A. At the date of the preparation of these condensed consolidated interim financial statements that changed has yet to be entered into the Mercantile Registry, although it is expected to take place in the short-term.

On 30 June 2017 the tax authorities requested the parent company apply the SOCIMI tax system effective 1 January 2017.

The parent company's corporate purpose set out in its bylaws consists of:

- The acquisition and development of urban real estate for subsequent rental.

- Holdings in other listed real estate investment trusts (SOCIMI) or in other non-resident entities in Spain that have the same corporate purpose as those entities and are subject to a similar regime as the one for SOCIMI with respect to the mandatory profit distribution policy enforced by law or the bylaws.

- Holdings in other entities that are resident or non-resident in Spain and whose corporate purpose is the acquisition of urban real estate for subsequent rental. These entities are subject to the same regime as the one for SOCIMI with respect to the mandatory profit distribution policies enforced by law or by the bylaws and they comply with the investment requirements for these companies; and

- The possession of shares in collective real estate investment vehicles regulated by Collective Real Estate Investment Institution Law 35/2003 (4 November), or any replacement legislation enacted in the future.

Furthermore, together with the business relating to its primary corporate purpose, the Parent Company may carry out other auxiliary activities which are understood to be those which provide less than 20% of the Parent Company's income in any tax period or those which may be considered to be auxiliary in accordance with applicable legislation at any given time including, in any event, the administration, rehabilitation and operation of real estate assets, as well as the performance of all types of studies, reports, appraisals, measurements and valuations and, in general, the rendering of real estate advisory and consulting services, the management, development and marketing of real estate assets and the rendering of technical assistance services through contracts with other companies or private or public entities.

Corporate activities that are expressly excluded are those that are reserved for specific types of companies in accordance with the law.

All activities included as a corporate purpose will be carried out in accordance with the legislation in force at any given moment and expressly exclude any activities that are exclusively reserved for natural or legal persons other than this Company in accordance with current legislation.

The listed activities may also be carried on totally or partially by the parent company through shareholdings in other companies with an identical or similar corporate purpose.

Inmobiliaria Colonial, S.A. and Subsidiaries (hereinafter "the Group"), primarily engages in the acquisition, lease and sale of offices and may make smaller investments in other yield-bearing assets that it develops in Spain (mainly Barcelona and Madrid) and in France (Paris) through the group led by Société Foncière Lyonnaise, S.A. (hereinafter SFL subgroup or SFL for the subsidiary).

The Parent Company's tax regime and that of most of its subsidiaries is regulated by Law 11/2009 (26 October), as amended by Law 16/2002 (27 December), which regulates listed real estate trust companies (SOCIMI). Article 3 establishes the investment requirements for these types of companies, as follows:

> 1. SOCIMI must invest at least 80% of the value of their assets in urban real estate assets intended for lease, land for the development of properties that will be used for that purpose, provided that the development commences within three years following the acquisition of the land, as well as in shares in the capital or equity of other entities as defined by Article 2.1 of that Law.
>
> Asset value will be determined as the average of the individual quarterly balance sheets for the year and the SOCIMI may calculate that value substituting carrying amounts for the market values of the items recognized in those balance sheets, and that substitution will be applied to all balance sheets for the year. For these purposes, cash or credit rights deriving from the transfer of those properties or shares that has taken place in the same year or in prior years will not be included provided, in the latter case, the reinvestment deadline referred to by Article's 6 of that Law has not elapsed.
>
> 2. At least 80% of the income for the tax period relating to each year, excluding those deriving from the transfer of shares and associated real estate, both subject to compliance with the entity's primary corporate purpose, and once the holding period referred to in the following section has elapsed, must originate from the lease of real estate and dividends or shares in profits deriving from such shares.
>
> This percentage will be calculated based on consolidated profit/(loss) in the event that the parent controls a group, as defined by Article 42 of the Commercial Code, regardless of the place of residence and the obligation to prepare consolidated annual accounts. That group will be exclusively formed by the SOCIMI and the rest of the entities referred to by Article 2.1 of that Law.
>
> 3. The properties that form part of the SOCIMI's assets must be leased for at least three years. For calculation purposes, the period for which the buildings have been available for lease is included, up to a maximum of one year.
>
> The period will be calculated as follows:
>
> a) In the case of properties included in the SOCIMI's assets before applying the regime, from the start of the first tax period in which the special tax regime established by this Law is applied, provided that at that date the asset is leased or offered for lease. If this is not the case, the provisions of the following paragraph will be applicable.
>
> b) In the case of real estate developed or acquired subsequently by the SOCIMI, starting on the date on which they are leased or offered for lease for the first time.
>
> c) In the case of shares or interests in the entities referred to in Article 2.1 of this Law, they must remain as an asset at the SOCIMI for at least three years after their acquisition or, if appropriate, from the start of the first tax period in which the special tax regime established by this Law is applied.

As is established by Transitional Provision One of Law 11/2009 (26 October), amended by Law 16/2012 (27 December) regulating listed public limited liability real estate investment trusts, the latter may opt to pay tax under the special tax regime under the terms of Article 8 of this Law even when it does not meet the requirements therein provided that these requirements are met within two years of the date of the decision to apply that regime.

The failure to comply with that condition will mean that the SOCIMI will be subject to the general corporate income tax system starting in the same tax period in which such non-compliance arises, unless corrected in the following year. The SOCIMI will be obligated to pay, together with the tax payable in that tax period, the difference between the amount rising for that tax resulting from the application of the general system and the amount paid due to the application of the special tax regime in the preceding tax periods, notwithstanding any late-payment interest, surcharges and penalties that may be appropriate.

The corporate income tax rate applicable to SOCIMI is 0%. However, when the dividends that the SOCIMI distributes to its shareholders that hold an interest exceeding 5% are exempt or the shareholder is taxed at a rate lower than 10%, the SOCIMI will be subject to a special 19% tax that will be considered to be corporate income tax payable based on the amount of the dividend distributed to those shareholders. If applicable, this special tax must be paid by the SOCIMI within two months after the date on which the dividend is distributed.

Inmobiliaria Colonial, S.A. is listed on the organized secondary markets in Madrid, Barcelona, Valencia and Bilbao.

During the first half of 2017 the Parent Company improved the credit rating obtained in 2015 from Standard & Poor’s Rating Credit Market Services Europe Limited, moving from “BBB-” long-term and “A-3” short-term, to “BBB” long-term and “A-2” short-term, both with a stable outlook. Moody’s gave the Parent Company a rating of “Baa2” with a stable outlook. The subsidiary SFL improved its credit rating from “BBB” long-term and “A-2” short-term, both with a stable outlook, to a positive outlook.

Given the activities in which the Group engages, it has no environmental expenses, assets, provisions or contingencies that could be significant with respect to its equity, financial situation and results. For this reason no specific disclosures are included in the accompanying notes to the financial statements with respect to environmental matters, although the Group follows an active environmental policy in its construction and maintenance processes, as well as in its property equity conservation program.

The Group’s consolidated annual accounts for 2016 were approved by the shareholders at a General Meeting held on 29 June 2017.

b) Basis of presentation of the condensed consolidated interim financial statements

In accordance with European Parliament and Council Regulation (CE) 1606/2002 (19 July 2002), all of the companies governed by the Law of a European Union Member State, and whose shares are listed on a regulated market in a Member State must present consolidated annual accounts for the years commencing on or after 1 January 2005 in accordance with International Financial Reporting Standards (hereinafter IFRS) previously adopted by the European Union.

The Group's consolidated annual accounts for 2016 were prepared by the Directors of the Parent Company in accordance with IFRS adopted by the European Union, applying the consolidation standards, accounting policies and measurement criteria described in Note 4 of the notes to those consolidated annual accounts, such that they reflected a true and fair view of the Group's consolidated equity and its consolidated financial situation at 31 December 2016, as well as the consolidated results of its operations, changes in consolidated equity and consolidated cash flows for the year then ended.

These condensed consolidated interim financial statements for the six-month period ended 30 June 2017 are presented in accordance with IAS 34 on Interim Financial Reporting and were prepared by the Parent Company's Directors on 23 July 2013, in accordance with the provisions of Article 12 of Royal Decree 1362/2007.

In accordance with the provisions of IAS 34, interim financial information is prepared only with the intention of providing updates to the content of the latest consolidated annual accounts prepared by the Group, emphasizing any new activities, events and circumstances that have taken place during the six-month period and not duplicating the information previously published in the consolidated annual accounts for 2016. Accordingly, in order to adequately understand the information presented in these condensed consolidated interim financial statements, they must be read together with the Group's consolidated annual accounts for 2016.

The accounting policies and methods used when preparing these condensed consolidated interim financial statements are the same as those applied to the consolidated annual accounts for 2016. The adoption of the SOCIMI tax regime effective 1 January 2017 (Note 1-a) means that the Parent Company also applies Law 11/2009 (26 October), as amended by Law 16/2002 (27 December), which regulates listed real estate trust companies (SOCIMI), to the preparation of these condensed consolidated interim financial statements.

However, since the accounting principles and measurement methods applied to prepare the Group's consolidated interim financial information for the six month period ended 30 June 2017 may differ from the ones employed by some of the Group companies, the necessary adjustments and reclassifications have been made during the consolidation process to ensure consistency and to bring them into line with the IFRS-EU and the measurement principles and standards applied by the Parent Company.

SFL Group is included in the scope of consolidation and was subject to a limited review at 30 June 2017 on a joint basis by the auditors Delight & Associés and PricewaterhouseCoopers Audit.

Standards and interpretations applicable this year

During the six-month period ended 30 June 2017 new accounting standards have entered into force and, therefore, they have been taken into account when preparing these condensed consolidated interim financial statements. These standards are as follows:

- IAS 7 (Amendment) – "Disclosure Initiatives"

- IAS 12 (Revised) "Recognition of deferred tax assets for unrealized losses".

- IFRS annual improvements Cycle 2014-2016, IFRS 12 "Disclosure of interests in other entities".

The impact of their interpretation has not been significant.

Standards and interpretations issued but not yet in force, although they may be adopted early

At the date these condensed consolidated interim financial statements were signed, the following standards, amendments or interpretations had been published by the IASB but had not yet entered into force, although they may be adopted early:

- IFRS 9, "Financial instruments"

- IFRS 15 "Revenue from contracts with customers".

The Group did not consider applying these amendments early. Nevertheless, the Group is analyzing the impact that these new standards could have on the consolidated annual accounts when they enter into force. The preliminary analysis performed up to the date on which these condensed consolidated interim financial statements were prepared shows that no significant impacts are expected to affect the consolidated annual accounts as a result of the adoption of those standards, other than those deriving from changes in the presentation and disclosures that are required by those new standards.

Standards and interpretations issued but not yet effective

At the date these condensed consolidated interim financial statements were drawn up, the following standards, amendments and interpretations had been published by the IASB but had not yet come into force, either because their effective date is later than the date of the condensed consolidated interim financial statements, or because they have not yet been adopted by the European Union:

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

- IFRS 16, "Leases"

- IAS 7 (Amendment) – "Disclosure Initiatives"

- IAS 12 (Amendment) “Recognition of deferred tax assets for unrealized losses”.

- IFRS 15 (Amendment) “Clarifications to IFRS 15 “Revenue from contracts with customers”.

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

- IFRS 4 (Amendment) “Applying IFRS 9 “Financial instruments” with IFRS 4 “Insurance contracts”.

- IFRS annual improvements Cycle 2014-2016: The amendments affect IFRS 1, IFRS 12 and IAS 28 and will apply to the years commencing on or after 1 January 2018 in the case of the amendments to IFRS 1 and IAS 28 and 1 January 2017 for those relating to IFRS 12, if all are adopted by the EU. The main amendments relate to:

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

    • IFRS 12 “Disclosure of interests in other entities”: Clarification of the scope of the standard.

    • IAS 28 (Amendment) “Investments in associates and joint ventures”: Fair value measurement of an investment in an associate or joint venture.

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

- IFRIC 22 “Foreign currency transactions and advance consideration”

- IFRS 17, “Insurance Contracts”

- IFRIC 23, “Uncertainty over income tax treatments”

The application of new standards, amendments or interpretations will be considered by the Group once ratified and adopted by the European Union, as is indicated in Note 2-b of the consolidated annual accounts for the year ended 31 December 2016.

In any event, the Parent Company’s Directors have evaluated the potential impacts of the future application of the standards and they consider that their entry into force will not have a significant effect on the Group’s consolidated financial statements, as is indicated in the annual accounts for 2016.

c) Responsibility for the information and estimates made

The information set out in those condensed consolidated interim financial statements for the first half of 2017 is the responsibility of the Parent Company’s Directors, who have verified that the various controls established to ensure the quality of the financial/accounting information that is prepared have been effective.

Consolidated results and the calculation of consolidated equity are sensitive to accounting principles and policies, measurement criteria and estimates made by the Parent Company's Directors when preparing the condensed consolidated interim financial statements. The main accounting standards and policies and measurement criteria are indicated in Note 4 of the notes to the consolidated annual accounts for 2016, except for the matters indicated in Note 1-b above relating to the “Standards and interpretations entering into force this year”.

In the accompanying condensed consolidated interim financial statements, occasional estimates are used by the senior management of the Parent Company and the consolidated companies to quantify certain assets, liabilities, income, expenses and commitments recognized in those statements. Basically, these estimates were made based on the best information available and refer to the following matters:

- The market value of investment property (Note 4). That market value has been obtained from the appraisals periodically prepared by independent experts. Those appraisals were performed on 30 June 2017 in accordance with the methods described in Note 4.

- The measurement of the non-current assets held for sale (Note 6) and property, plant and equipment for own use.

- Estimate of the appropriate provisions for insolvencies affecting receivables.

- The recovery of tax-loss carryforwards and deferred tax assets recognized in the condensed consolidated statement of financial position (Note 11).

- The market value of certain financial instruments, including derivative financial instruments (Note 5).

- The evaluation of litigation, commitments and contingent assets and liabilities at the year-end (Note 1-d).

Although the described estimates were made on the basis of the best information available regarding the analyzed events, any that take place in the future might make it necessary to change these estimates (upwards or downwards). Changes would be made prospectively, in accordance with IAS 8, recognizing any effects of the changes in the estimate in the consolidated statement of comprehensive income.

During the six-month period ended 30 June 2017 there have been no significant changes in the estimates made at the end of 2016.

d) Contingent assets and liabilities

Note 17 of the notes to the Group's consolidated financial statements for the year ended 31 December 2016 provides information regarding guarantee commitments to third parties and contingent liabilities. During the first half of 2017 there have been no substantial changes in the matters described in that Note.

e) Comparability

The information set out in these condensed consolidated interim financial statements for the first half of 2017 are presented for the purposes of comparison with the information relating to the six-month period ended 30 June 2016 with respect to the consolidated statement of comprehensive income and the consolidated cash flow statement and is compared against the information at the end of 2016 with respect to the consolidated statement of financial position and the consolidated statement of changes in equity.

f) Seasonality of the Group's transactions

Given the activities in which the Group companies are engaged, its transactions do not have any significant cyclical or seasonal nature. For this reason no specific breakdowns are included in these explanatory notes to the condensed consolidated interim financial statements for the six-month period ended 30 June 2017.

g) Relative importance

When determining the information to be disclosed in the notes to the annual accounts regarding the various headings in the financial statements or other matters, the Group has taken into account their relative importance with respect to the summarized consolidated financial statements for the first half of the year, in accordance with IAS 34.

h) Events after the reporting period

On 25 July 2017 the subsidiary SFL concluded a sale commitment covering the In/Out property, which will be definitively transferred during the second half of 2017. The price of the sale commitment has been taken into consideration in the appraisal of the property at 30 June 2017.

There have been no other significant events after the reporting period.

2. Changes in the Group's structure

The Appendix to the consolidated annual accounts for the year ended 31 December 2016 provides relevant information regarding the Group companies consolidated at that date.

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

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

- The remaining 50% of the share capital has been subscribed by the Parent Company, of which only 25% has been paid in, i.e. Euro 2,500 thousand. Subscribed share capital not paid in will be satisfied by the Parent Company when agreed by the Board of Directors of the subsidiary Inmocol.

The Parent Company acquired 4700 shares in the subsidiary SFL during the first half of 2017 for Euro 265 thousand, thereby increasing its interest from 58.545% to 58.556% in share capital.

The following changes in the scope of consolidation took place in 2016 in accordance with the matters described in Note 2-f of the consolidated annual accounts for the year ended 31 December 2016:

- The Parent Company acquired 100% of the share capital in the Spanish company Moorage Inversiones 2014, S.L. (hereinafter Moorage) on 25 May 2016. This company owns land located in Barcelona (Note 4). That acquisition totaled Euro 44,745 thousand, including acquisition costs. Of that amount, Euro 15,680 thousand was deferred until 25 May 2018 and recognized under the heading “Other non-current liabilities” in the consolidated statement of financial position (Note 10). A guarantee has been provided for the deferred amount.

- The Parent Company acquired 2,038,956 shares representing a 4.3.8 percent interest in the share capital of the subsidiary SFL from Reig Capital Group Luxembourg Sàrl (hereinafter Reig) on 29 June 2016. The acquisition took place in two transactions: (i) The contribution to the Parent Company of 1,019,478 shares in SFL as consideration for the subscription of 90,805,920 shares in Colonial (Note 8) valued and Euro 63,564 thousand and (ii) the sale to the Parent Company of 1,019,478 shares at a price of Euro 2.00 per share, for a total of Euro 50,974 thousand. After that transaction was completed the Parent Company held 26,765,356 shares in the subsidiary SFL, representing 57.52% of its share capital. That transaction increased the equity attributable to the Parent Company by Euro 2,368 thousand.

- On 30 June 2016 the Parent Company acquired 100% of the share capital in the Spanish company Hofinac Real Estate, S.L. (hereinafter Hofinac), which owned two properties located in Madrid (Note 4), through the non-monetary contribution of 100% of the shares in Hofinac to the Parent Company as consideration for the subscription of 288,571,430 shares in Colonial (Note 8) valued at Euro 202,000 thousand.

- The Parent Company acquired 475,247 shares in SFL representing 1.02% of its share capital from APG Strategic Real Estate Pool (hereinafter APG) on 4 August 2016. The acquisition took place in two transactions: (i) the contribution to the Parent Company of 237,463 shares in SFL as consideration for the subscription of 2,116,508 shares in Colonial valued at Euro 13,922 thousand (ii) the sale to the Parent Company of 237,624 shares at a price of Euro 50.00 per share for a total amount of Euro 11,881 thousand. That transaction increased the equity attributable to the Parent Company by Euro 1,900 thousand.

- Finally, on 29 December 2016 the Parent Company acquired 100% of the share capital in the Spanish company Fincas y Representaciones, S.A. (hereinafter Finresa), which owns a building located in Madrid in parentheses Note 4) as well as other assets totaling Euro 47,678 thousand and Euro 8,842 thousand, respectively, from Fundación Amparo del Moral.

3. Profit/(loss) per share from ordinary and discontinued operations

Basic earnings per share amounts are calculated by dividing net profit attributable to the Parent's shareholders (after tax and non-controlling interests) by the weighted average number of shares outstanding during this period.

Diluted earnings per share are calculated in a similar way as basic earnings per share, but the weighted average number of shares outstanding is adjusted to take into account the potential dilutive effect of any convertible bonds outstanding at the end of the year. There are no bonds pending conversion into Parent Company shares at 30 June 2017

	Thousand euro	
	30 June 2017	30 June 2016
Consolidated profit/(loss) for the year attributable to Parent Company shareholders:	**437,192**	**229,596**
- deriving from continuing operations	437,192	229,596
	Number of shares	Number of shares
Average number of ordinary shares (thousands)	357,379	318,166
Average number of diluted ordinary shares (thousands)	357,379	318,166
	Euro	Euro
Basic and diluted profit per share:	**1.22**	**0.72**
- deriving from continuing operations	1.22	0.72

4. Investment properties

Movements in this heading during the six-month period ended 30 June 2017, as well as during 2016, where as follows:

	Thousand euro			
	Investment properties	Assets in progress	Prepayments for assets	**Total**
Balance at 31 December 2015	**6,574,272**	**169,041**	**-**	**6,743,313**
Additions	91,723	73,196	-	**164,919**
Additions to the scope of consolidation (Note 2)	270,050	31,866	-	**301,916**
Disposals	(7,532)	-	-	**(7,532)**
Transfers	(22,881)	22,572	-	**(309)**
Changes in value	557,296	3,024	-	**560,320**
Balance at 31 December 2016	**7,462,928**	**299,699**	**-**	**7,762,627**
Additions	7,752	27,624	8,253	**43,629**
Additions to the scope of consolidation (Note 2)	-	10,080	-	**10,080**
Disposals	(4,650)	-	-	**(4,650)**
Transfers (Note 6)	(330,000)	(78,352)	-	**(408,352)**
Changes in value (Note 12)	510,613	12,348	-	**522,961**
Balance at 30 June 2017	**7,646,643**	**271,399**	**8,253**	**7,926,295**

The additions that took place during the first half of 2017 essentially relate to development or rehabilitation projects involving properties owned by the SFL subgroup for a total of Euro 19,967 thousand and properties owned by the rest of the group companies totaling Euro 15,409 thousand, including Euro 1,086 in capitalized financial expenses. The SFL subgroup also made a prepayment totaling Euro 8,253 thousand for the acquisition of the Emile Zola 112-122 building in Paris.

The disposals that took place during the first half of 2017 relate to the sale of several premises located at calle Orense in Madrid for a total selling price of Euro 5,600 thousand, on which a net profit of Euro 290 thousand was obtained, taking into consideration the indirect selling costs.

In addition, and as is mentioned in Note 2, the subsidiary Inmocol entered into the scope of consolidation, including the land contributed by the shareholder of that company with a value of Euro 10,000 thousand, plus Euro 80 thousand in acquisition costs.

Finally, the subsidiary SFL transferred the In/Out building to the heading “Non-current assets held for sale” in the condensed consolidated statement of financial position in the amount of Euro 408,352 thousand, in accordance with the resolution adopted by the Board of Directors of the subsidiary SFL. A sale commitment agreement was concluded on 25 July 2017 (Note 1-h).

In accordance with IAS 40, the Group calculates the fair value of its investment property on a regular basis. This fair value is calculated using as a reference the appraisals prepared every six months by independent experts (Jones Lang LaSalle and CB Richard Ellis Valuation in Spain, and Jones Lang LaSalle and Cushman & Wakefield in France) and, therefore, at the end of each period the fair value reflects the market conditions of the investment properties at that date. The appraisal reports by independent experts only contain the usual warnings and/or limitations on the scope of the results of the appraisals, which refer to acceptance of the information provided by the Group.

The heading “Changes in the value of investment property” in the condensed consolidated statement of comprehensive income includes the profits totaling Euro 522,961 thousand (Note 12) deriving from the restatement of investment properties during the six-month period ended 30 June 2017.

The sensitivity of the appraisals to 0.25% changes in the yield rates have the following impact on the appraisals used by the Group at 30 June 2017 and 31 December 2016 to determine the value of its real estate assets:

Sensitivity of the appraisal to 0.25% changes in the yield rates	Thousand euro		
	Measurement	Decrease of 0.25%	Increase of 0.25%
June 2017	8,496,808	586,032	(509,801)
December 2016	7,927,918	518,842	(454,174)

During January 2017 the subsidiary SFL acquired a building located at Avenida Emile Zola 112-122 in Paris, for Euro 165,000 thousand. The transaction will take effect once the current occupant has moved to its new location during the fourth quarter of 2017.

5. Non-current financial assets

During the first quarter of 2017 the Parent Company acquired 1,404,000 shares in Axiare Patrimonio SOCIMI, S.A., representing 1.78% of the Company's current share capital for Euro 18,591 thousand, and the final interest in Axiare is 15.49%.

At 30 June 2017 the Parent Company recognized Euro 9,512 thousand under the heading "Adjustments to equity due to the measurement of financial instruments" in the condensed consolidated statement of financial position, as a result of the changes in the fair value of that investment based on the latest NNNAV benchmark published by Axiare at 31 December 2016, which totaled Euro 13.60 per share. Axiare's listed price at 30 June 2017 was Euro 14.96 per share

6. Non-current assets held for sale

Movements in this heading during the first half of 2017 were as follows:

	Thousand euro
	Investment property
Balance at 31 December 2016	**-**
Transfers (Note 4)	408,352
Balance at 30 June 2017	**408,352**

<u>Movements during the first half of 2016</u>

During the first half of 2017 the subsidiary SFL transferred the In/Out building from the heading "Investment property" to the heading "Non-current assets held for sale" in the condensed consolidated statement of financial position, in the amount of Euro 408,352 thousand (Note 1-h).

7. Trade and other receivables

The composition of this current asset heading in the accompanying condensed consolidated statement of financial position at 30 June 2017 and 31 December 2016 is as follows:

	Thousand euro	
	30 June 2017	31 December 2016
Trade receivables for sales and services rendered	20,524	16,337
Apportionment of lease incentives	109,791	103,125
Other payables	3,599	337
Impairment of commercial loans	(3,780)	(3,621)
Other current assets	3,568	776
Total trade and other payables	**133,702**	**116,954**

Trade receivables for sales and services rendered

This heading records the amounts of the trade receivables, essentially relating to the Group's business in France. The billing cycles are monthly, quarterly or annual and there are no significant outstanding balances.

Apportionment of lease incentives

This heading records the amounts of the incentives included in operating lease agreements (grace periods, etc.) offered by the Group to its customers which are taken to the statement of comprehensive income over the minimum term of the lease agreement concerned. Of them, Euro 61,179 thousand is attributed to the statement of comprehensive income over a term exceeding 1 year (Euro 87,596 thousand at 31 December 2016).

8. Equity

Share capital

The public document covering the share capital increase charging monetary contributions and excluding the preferred subscription right relating to the Accelerated Bookbuild Offering among qualified investors was entered into the Mercantile Registry on 5 May 2017. It had the purpose of reinforcing the Parent Company's capital and reserves in order to take advantage of the investment opportunities that are currently available, make repositioning and improvement investments to maximize the quality, occupancy and value of the assets already held in its portfolio, as well as to reinforce its credit rating and, eventually, improve that rating. The result of the placement process gave rise to the issue of 35,646,657 new shares with a par value of Euro 2.50 each, for a total amount of Euro 253,092 thousand. The share capital increase and the share premium totaled Euro 89,117 thousand and Euro 163,975 thousand, respectively. The new shares were listed for trading on 8 May 2017 on the Madrid and Barcelona stock exchanges.

As a result, on 30 June 2017 and 31 December 2016 share capital was represented by 392,470,056 and 356,823,399 fully subscribed and paid shares, respectively, with a par value of Euro 2.5 each.

The reports made to the National Stock Market Commission regarding the number of shares, the significant direct and indirect shareholders of the Parent Company at 30 June 2017 and 31 December 2016 were as follows:

	June 2017		December 2016	
	Number of shares	% shareholding	Number of shares	% shareholding
Name of shareholder:				
Finaccess Group	54,030,105	13.77%	41,139,685	11.53%
Qatar Investment Authority	41,610,141	10.60%	41,593,367	11.66%
Aguila Ltd.	28,800,183	7.34%	21,800,184	6.11%
Inmo S.L.	20,011,190	5.10%	-	-
BlackRock Inc *	10,571,403	2.69%	10,885,211	3.05%
Deutsche Bank A.G. *	8,135,390	2.07%	8,135,390	2.28%
Villar-Mir Group *	5,419,255	1.38%	11,906,969	3.34%
Invesco Limited	4,126,495	1.05%	3,540,788	0.99%
Joseph Charles Lewis	-	-	17,617,708	4.94%

* Excludes certain financial instruments associated with Parent Company shares.

In July 2017 Villar-Mir Group reported the decrease of its interest to 0%.

The Parent Company is not aware of any other significant interests in its capital.

Shareholders at a general meeting held on 24 April 2015 adopted a resolution to delegate to the Board of Directors the authority to issue, on behalf of the Parent Company, and in one or more transactions over a maximum of five years, debentures and/or Bonds convertible into new shares in the Parent Company and/or swappable four shares in the Parent Company or any other entity, expressly attributing to the Board the authority to exclude preferred subscription rights for shareholders in the event of the issue of debentures and/or convertible bonds, as well as to increase share capital by the amount necessary to cover the conversion. The maximum amount of the issue or issues of the shares that may be carried out under this delegated authority may not exceed the joint amount of Euro 350,000 thousand or the equivalent in another currency.

Finally, on 29 June 2017 the shareholders at a general meeting of the Parent Company authorized the Board of Directors to increase share capital through monetary contributions, in accordance with the provisions of Article 297.1 b) of the Spanish Companies Act and within a maximum of 5 years, by up to half of share capital in one or more transactions and at the time and in the amount deemed appropriate. Within the maximum amount indicated above the Board of Directors is authorized to exclude the preferred subscription right under certain conditions, but that authority is limited to a maximum nominal total amount of 20% of share capital.

Share premium

During the first half of 2007 share capital was increased as a result of the accelerated bookbuild offering for qualified investors consisting of the issue of 35,646,657 shares with a par value of Euro 2.50 each, plus a share premium of Euro 4.60 per share. The share premium was increased by Euro 163,975 thousand. This increase was entered into the Barcelona Registry on 8 May 2017.

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

- Shareholders at a general meeting held on 28 June 2016 approved the issue of 288,571,430 new shares with a par value of Euro 0.25 each, plus a share premium of Euro 0.45 per share as consideration for the non-monetary contribution made for the shares in Hofinac. The amount of the share premium increase totaled Euro 129,857 thousand. This increase was entered into the Barcelona Mercantile Registry on 30 June 2016.

- On the same date, shareholders at a general meeting also approved the issue of 90,805,920 new shares with a par value of Euro 0.25 each, plus a share premium of Euro 0.45 per share as consideration for the non-monetary contribution of 1,019,478 shares in SFL. The amount of the share premium increase totaled Euro 40,863 thousand. This increase was entered into the Barcelona Mercantile Registry on 30 June 2016.

The agreement covering the grouping and redemption of shares to be swapped for newly issued shares was executed on 14 July 2016 in the proportion of 1 new share for every 10 pre-existing shares and the par value per share rose from Euro 0.25 to Euro 2.50.

Legal reserve

Pursuant to the Spanish Companies Act, companies must transfer 10% of profits for the year to the legal reserve until it is equivalent to at least 20% of the share capital.

The legal reserve may be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Except for the aforementioned purpose, and as long as it does not exceed 20% of capital, the legal reserve may only be used to offset losses, provided that other available reserves are insufficient for this purpose.

The proposal for distributing 2016 profits approved by shareholders at a general meeting held on 29 June 2017 included an allocation to the legal reserve totaling Euro 5,484 thousand, equivalent to 10% of the profits obtained by Inmobiliaria Colonial, S.A. in 2016.

At 30 June 2017 the Parent Company's legal reserve totaled Euro 39,099 thousand.

Voluntary reserves

A share capital reduction was entered into the Barcelona Mercantile Registry on 17 February 2014 in the amount of Euro 169,439 thousand and restricted voluntary reserves were increased through a decrease in the par value of all shares from Euro 1 to Euro 0.25 per share.

The Parent Company recognized voluntary reserves totaling Euro 1,158,874 thousand at 31 December 2015, of which Euro 169,439 thousand was considered to be unavailable in accordance with the matters described in the preceding paragraph.

The proposed distribution of 2015 profits approved by shareholders at a general meeting held on 28 June 2016 also included an allocation to the legal reserve totaling Euro 28,535 thousand, the distribution of dividends totaling Euro 47,832 thousand and applying Euro 208,983 thousand to offset prior-year losses. Shareholders at the general meeting also approved the partial application of voluntary reserves to offset prior- year losses pending after the offset included in the proposal for distributing 2015 profits in the amount of Euro 938,992 thousand.

After both offsets, voluntary reserves amounted to Euro 218,211 thousand, of which Euro 169,439 thousand continued to be unavailable.

Furthermore, the share capital increases described above gave rise to costs totaling Euro 724 thousand, which were recognized in the heading “Parent Company Reserve” under consolidated equity.

Shareholders at a general meeting held on 29 June 2007 approved the distribution of a dividend totaling Euro 0.165 per share which would be paid out against (i) the Euro 49,355 thousand originating from 2016 profits and (ii) voluntary reserves totaling Euro 13,394 thousand, based on the treasury shares held by the Parent Company on the date the dividend was calculated.

The aforementioned share capital increase gave rise to costs totaling Euro 3,193 thousand, which were recognized under the heading “Parent Company Reserves” under consolidated equity.

Adjustments to equity for changes in the measurement of financial instruments

This heading of the consolidated statement of financial position records the net amount of value changes affecting financial derivatives designated as hedging instruments to cover cash flows.

Movements in the balance of this item are shown in the following table:

	Thousand euro	
	30 June 2017	31 December 2016
Beginning balance	(571)	(2,504)
Changes in the fair value of hedges during the year	14	(101)
Transfer to the statement of comprehensive income	27	2,168
Changes in the scope of consolidation (Note 2)	-	(134)
Ending balance	**(530)**	**(571)**

In 2017 the subsidiary Torre Marenostrum repaid the derivative financial instrument that it had obtained from a financial institution. That instrument had been assigned to hedge the mortgage loan that the subsidiary had obtained from that financial institution and which was renewed (Note 9), although the conditions are not substantially different. Consequently, the subsidiary must transfer the amount of the derivative financial hedge instrument recorded directly under equity at the time of renewal to the statement of comprehensive income on a straight-line basis over the course of the outstanding initial term of the derivative that has been canceled. The subsidiary Torre Marenostrum has obtained a new derivative financial instrument that has been assigned as a hedge of the aforementioned new mortgage loan.

Parent Company treasury shares

At 30 June 2017 and 31 December 2016 the number of shares and their acquisition cost are as follows:

	30 June 2017	31 December 2016
Liquidity agreement (*) -		
No. of shares	243,822	209,603
Carrying amount (Thousand euro)	1,867	1,329
Treasury share contract -		
No. of shares	11,927,197	5,469,985
Carrying amount (Thousand euro)	79,598	35,426

(*) Liquidity Agreement in accordance with the provisions of Standard Three of Circular 3/2007 (19 December) issued by the National Stock Market Commission regarding liquidity agreements for the purposes of their acceptance as a market practice.

On 14 November 2016 the Parent Company's Board of Directors adopted a resolution to implement a treasury share repurchase program under the authorization granted by shareholders at the general meeting held on 30 June 2014. The purpose of the plan was to complete the action plan approved by shareholders at the general meeting held on 21 January 2014 and to take additional initiatives that the Board of Directors may consider advisable with respect to the business' interests. The maximum monetary amount assigned to the program is Euro 68,000 thousand and a maximum of 10,000,000 shares may be acquired, equivalent to 2.8% of the Parent Company's current share capital. The program had a maximum term of six months, i.e. Up until 15 May 2017, although it could be ended early if the maximum number of shares has been reached or the maximum monetary amount consumed prior to that date. The number of shares acquired under the repurchase program at 31 December 2016 totaled 3,162,672 shares for Euro 20,249 thousand. At 30 June 2017 the Parent Company acquired the remaining 6,837,328 shares for Euro 46,630 thousand to end the repurchase program.

Once the aforementioned repurchase program had ended, the Parent Company reactivated the liquidity agreement signed on 22 June 2015. The number of shares acquired during the first half of 2017 under that agreement was 34,219 shares for a total of Euro 539 thousand.

Finally, on 26 April 2017 the Parent Company settled the outstanding obligations relating to the 2016 portion of the long-term compensation plan described in Note 19 of the consolidated annual accounts for 2016 through the delivery of the relevant shares and it transferred 380,116 shares to the beneficiaries of the compensation plan, which had a carrying amount of Euro 2,537 thousand.

SFL treasury shares

The amount of Euro 11,778 thousand in SFL treasury shares at 30 June 2017 was reclassified from the heading "Treasury shares" to the heading "Consolidated reserves" in the condensed consolidated statement of financial position.

Non-controlling shareholders

Movements under this heading in the consolidated statement of financial position is as follows:

	Thousand euro			
	Torre Marenostrum, S.L.	SFL Subgroup	Inmocol Torre Europa, S.A.	**Total**
Balance at 31 December 2015	**22,715**	**1,589,333**	-	**1,612,048**
Profit/(loss) for the year	1,124	284,533	-	**285,657**
Dividends and other	(382)	(48,272)	-	**(48,654)**
Changes in the scope of consolidation (Note 2)	-	(144,378)	-	**(144,378)**
Financial instruments	505	1,027	-	**1,532**
Balance at 31 December 2016	**23,962**	**1,682,243**	-	**1,706,205**
Profit/(loss) for the year	1,219	196,862	1,189	**199,270**
Dividends and other	(1,575)	(24,928)	-	**(26,503)**
Changes in the scope of consolidation (Note 2)	-	(343)	10,000	**9,657**
Financial instruments	33	-	-	**33**
Balance at 30 June 2017	**23,639**	**1,853,834**	**11,189**	**1,888,662**

Details of the items included under "Dividends and other" at 30 June 2017 and 31 December 2016 are set out in the following table:

	Thousand euro	
	30 June 2017	31 December 2016
Dividend paid by the SFL Subgroup to non-controlling shareholders	(19,909)	(42,435)
Dividend paid by Washington Plaza to non-controlling shareholders	(5,516)	(5,934)
Dividend paid by Torre Marenostrum to non-controlling shareholders	(1,575)	(382)
Other	497	97
Total	**(26,503)**	**(48,654)**

9. Bank borrowings and other financial liabilities

Details of “Bank Borrowings and financial liabilities" at 30 June 2017 and 31 December 2016 are as follows:

30 June 2017

	Thousand euro							
	Current	Non-current						Total
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years	Total non-current	
Bank borrowings:								
Credit facilities	50,845	-	-	-	-	-	-	50,845
Loans	3,960	124,028	54,099	154,171	4,245	319,458	656,001	659,961
Syndicated loans	-	-	-	-	-	-	-	-
Interest	1,852	-	-	-	-	-	-	1,852
Loan origination expenses	(2,264)	(2,211)	(1,918)	(1,562)	(979)	(511)	(7,181)	(9,445)
Total bank borrowings	**54,393**	**121,817**	**52,181**	**152,609**	**3,266**	**318,947**	**648,820**	**703,213**
Other financial liabilities:								
Current accounts	57	63,345	-	-	-	-	63,345	63,402
Derivative financial instruments	510	-	-	-	-	-	-	510
Other financial liabilities	2,030	-	-	-	-	-	-	2,030
Total other financial liabilities	**2,597**	**63,345**	**-**	**-**	**-**	**-**	**63,345**	**65,942**
Bank borrowings and other financial liabilities	**56,990**	**185,162**	**52,181**	**152,609**	**3,266**	**318,947**	**712,165**	**769,155**
Issues of bonds and similar securities:								
Bond issue	300,700	-	375,000	-	500,000	1,650,000	2,525,000	2,825,700
Interest	26,701	-	-	-	-	-	-	26,701
Loan origination expenses	(3,338)	(3,033)	(2,464)	(2,460)	(2,203)	(3,390)	(13,550)	(16,888)
Total issue of bonds and similar securities	**324,063**	**(3,033)**	**372,536**	**(2,460)**	**497,797**	**1,646,610**	**2,511,450**	**2,835,513**
Total at 30 June 2017	**381,053**	**182,129**	**424,717**	**150,149**	**501,063**	**1,965,557**	**3,223,615**	**3,604,668**

31 December 2016

	Thousand euro							
	Current	Non-current						
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years	Total non-current	Total
Bank borrowings:								
Credit facilities	84,815	-	-	-	-	-	-	84,815
Loans	5,209	5,268	145,563	56,036	156,331	212,594	575,792	581,001
Syndicated loans	-	-	-	20,000	121,874	-	141,874	141,874
Interest	1,203	-	-	-	-	-	-	1,203
Loan origination expenses	(1,729)	(1,723)	(1,524)	(1,155)	(851)	(214)	(5,467)	(7,196)
Total bank borrowings	**89,498**	**3,545**	**144,039**	**74,881**	**277,354**	**212,380**	**712,199**	**801,697**
Other financial liabilities:								
Current accounts	70	63,346	-	-	-	-	63,346	63,416
Derivative financial instruments (Note 13)	1,428	-	45	-	-	1,941	1,986	3,414
Other financial liabilities	2,553	-	-	-	-	-	-	2,553
Total other financial liabilities	**4,051**	**63,346**	**45**	**-**	**-**	**1,941**	**65,332**	**69,383**
Bank borrowings and other financial liabilities	**93,549**	**66,891**	**144,084**	**74,881**	**277,354**	**214,321**	**777,531**	**871,080**
Issues of bonds and similar securities:								
Issues of bonds	300,700	-	375,000	-	500,000	1,650,000	2,525,000	2,825,700
Interest	16,873	-	-	-	-	-	-	16,873
Loan origination expenses	(3,646)	(3,073)	(2,717)	(2,459)	(2,418)	(4,377)	(15,044)	(18,690)
Total issue of bonds and similar securities	**313,927**	**(3,073)**	**372,283**	**(2,459)**	**497,582**	**1,645,623**	**2,509,956**	**2,823,883**
Total at 31 December 2016	**407,476**	**63,818**	**516,367**	**72,422**	**774,936**	**1,859,944**	**3,287,487**	**3,694,963**

Market value of the issues of bonds and derivative financial instruments -

The market value of the bonds issued by SFL at 30 June 2017 that are listed on the Euronext Paris secondary market is Euro 1,363,244 thousand (par value of Euro 1,300,700). At that date the fair value of the bonds issued by the Parent Company that are listed on the Irish stock exchange is Euro 1,568,632 thousand (par value of Euro 1,525,000).

The fair value of the derivatives has been calculated based on the present value of future cash flows, using appropriate market discounting rates established by an independent expert.

Bank borrowings -

Syndicated loan for the Parent Company concluded on 12 November 2015 -

Prior to the share capital increase carried out by the Parent Company (Note 8), it had drawn down Euro 81,600 thousand from the syndicated loan bringing the total amount drawn down to Euro 203,474 thousand. After the aforementioned share capital increase, the Parent Company used part of the funds received to fully repay the amount drawn down.

New syndicated loan for the Parent Company concluded on 29 March 2017 -

In March 2017 Colonial obtained a new syndicated loan in the amount of Euro 375,000 thousand, falling due in five years. This facility is intended to cover general corporate needs of the Parent Company and involves a total of 10 banks, of which Crédit Agricole is the agent bank. No amount had been drawn down from this loan at 30 June 2017.

New SFL loans -

During 2017, the subsidiary SFL obtained two new loans totaling Euro 100,000 thousand and Euro 75,000 thousand falls due in 6 and 7 years, respectively, from the financial institutions CADIF and Banque Postale. SFL increased the limit of the bilateral loan that it had obtained from Banco Sabadell by Euro 20,000 thousand to bring the maximum limit up to Euro 70,000 thousand. At 30 June 2017 the total balance drawn down from these facilities is Euro 150,000 thousand.

Loans with a mortgage guarantee -

The Group records two mortgage loans covering certain investments at 30 June 2017 and 31 December 2016, as follows:

	Thousand euro			
	30 June 2017		31 December 2016	
	Mortgage debt	Market value of the asset	Mortgage debt	Market value of the asset
Investment property	239,960	940,131	241,000	868,866
Total	**239,960**	**940,131**	**241,000**	**868,866**

Eighty-five percent of the mortgage debt relates to the SFL subgroup and accrues a fixed market rate. The rest relates to the subsidiary Torre Marenostrum, S.L. and is indexed to the EURIBOR plus a spread.

Torre Marenostrum renewed the mortgage loan it holds on 21 April 2017, extending the due date until 2032 (Note 8) and it obtained a new derivative hedge instrument.

Other guarantees provided -

The Parent Company has provided guarantees to official bodies, customers and suppliers as described in the annual accounts for the year ended 31 December 2016. At 30 June 2017 there have been no significant changes.

Compliance with financial ratios and figures -

The Group complies with all financial ratios and figures required by its financing agreements at 30 June 2017.

Cash and cash equivalents -

This heading records cash and cash equivalents totaling Euro 218,883 thousand and Euro 105,200 thousand at 30 June 2017 and 31 December 2016, respectively, of which Euro 10,841 thousand and Euro 13,715 thousand, respectively, are restricted or have been pledged.

Capital management: Policy and objectives -

The basic risks to which the Group is exposed and the risk management policies are described in the annual accounts for the year ended 31 December 2016 and are reproduced in the Directors' Report that forms part of these interim financial statements.

10. Trade payables and other liabilities

The heading “Trade and other payables” in the condensed consolidated statement of financial position includes the amount of the dividend approved by shareholders at a general meeting held on 29 June in the amount of Euro 62,749 thousand, which was paid in the month of July 2017.

During the first half of 2017, the amount of the deferred payment deriving from the acquisition of all of the shares in the subsidiary Moorage (Note 2) totaling Euro 15,680 thousand was reclassified from the heading “Other non-current liabilities” to “Trade and other payables” in the condensed consolidated statement of financial position.

11. Tax situation

Application of the SOCIMI Tax Regime and breakup of the tax group, both taking effect on 1 January 2017 -

The Parent Company chose to apply the SOCIMI tax regime at 30 June 2017 (Note 1-a). The application of that tax regime gave rise to the breakup of the tax group that existed at 31 December 2016 effective 1 January 2017 and the recovery of all balances pending from the tax group.

In addition to the Parent Company, these subsidiaries Danieltown Spain, S.L.U., Moorage Inversions 2014, S.L.U., Hofinac Real Estate, S.L.U. and Fincas y Representaciones, S.A.U. also chose to apply the SOCIMI Tax Regime.

Current tax assets -

In January 2017 the Parent Company collected the consolidated corporate income tax refund for 2015 in the amount of Euro 23,512 thousand.

Deferred tax liabilities -

The breakdown of deferred tax liabilities, together with movements in that heading, are set out in the following table:

	Thousand euro			
Deferred tax liabilities	31 December 2016	Additions	Disposals	30 June 2017
Restatement of assets	340,650	26,315	(72,159)	294,806
Restatement of assets - Spain -	*106,630*	*4,409*	-	*111,039*
Restatement of assets - France -	*234,020*	*21,906*	*(72,159)*	*183,767*
Deferral due to reinvestment	6,308	-	(1,057)	5,251
Other	386	124	-	510
	347,344	**26,439**	**(73,216)**	**300,567**

The accounts also recognized Euro 6,212 thousand in non-current taxes (Euro 9,314 thousand and 31 December 2016), relating to the exit tax paid by the subsidiary SFL as a result of the application of the SIIC regime to one of its properties (Note 4-m of the notes to the Group’s consolidated annual accounts for 2016).

Restatement of assets - Spain -

This heading records the amount of the deferred taxes associated with the Group’s investment properties located in Spain that would accrue if those assets are transferred at the fair value at which they are recognized, using the effective rate that would be applicable to each of the companies taking into account applicable legislation and the existence of unrecorded tax credits.

Movements in deferred taxes recognized in 2017 after the adoption of the SOCIMI Tax Regime essentially relate to the properties owned by the companies that have not chosen to apply that regime, i.e. Torre Marenostrum, S.L. and Inmocol Torre Europa, S.A. and certain adjustments deriving from corporate operations.

Up until 31 December 2016 the deferred taxes associated with the investment properties held by Colonial Group companies which, in turn, formed part of the tax group, were recognized at an effective rate of 18.75% (tax rate of 25% with a 25% limit on the offset of tax-loss carry forwards). As a result, the calculation of the Group's deferred tax liabilities takes into consideration the application of Euro 32,071 thousand in deferred tax assets deriving from tax-loss carry forwards (difference between the 25% tax rate and the effective 18.75% settlement rate applied.

Restatement of assets - France -

The item "Restatement of assets-Friends-" records the amount of the deferred taxes associated with the Group's investment properties located in France, which would accrue if those assets are transferred. It should be noted that almost all of the assets in France are subject to the SIIC regime (Note 4-M of the notes to the consolidated annual accounts for 2016), and therefore they will not give rise to any additional taxes at the time of their transfer. At 31 December 2016 only the assets pertaining to the companies forming part of the Parholding subgroup remained outside of that tax regime.

Colonial Group recognized a deferred tax associated with the restatements of the assets linked to the SIIC regime (the SIIC-4 liability) under this heading, calculated as the minimum dividend required under that regime if all of the capital gains from the investment properties recognized by SFL Group materialize and taking into account an effective tax rate of 11.15% when calculating the deferred tax. The deferred tax arising in this respect totaling Euro 72,159 thousand was reversed after the adoption of the SOCIMI Tax Regime, given that the dividend distributed by the subsidiary SFL to the Parent Company would no longer be subject to that taxation.

12. Income and expense

Revenues

Revenues relate to the lease income deriving from the Group's business activity which essentially focuses on the markets in Barcelona Madrid and Paris. At 30 June 2017 and 2016 revenues totaled Euro 140,711 thousand and Euro 136,975 thousand, respectively, and their distribution by geographic segment is presented in the following table:

Business segment	Thousand euro	
	June 2017	June 2016
Spain	42,084	35,011
France	98,627	101,964
	140,711	**136,975**

Income during the first half of 2017 and 2016 includes the effect of the apportionment of grace periods and scaled rent over the term of the agreement established by the start date and the first option to renew the lease agreements. It also includes the apportionment of the amounts received as entry rights consisting of amounts paid by lessees to reserve a unique space. The impact of the aforementioned apportionments at 30 June 2017 and 2016 gave rise to an increase in revenues totaling Euro 6,515 thousand and Euro 19,528 thousand, respectively.

Change in the value of assets and impairment

The breakdown by nature of "Profit/(loss) due to changes in the value of investment property" (IAS 40) in the condensed consolidated statement of comprehensive income is as follows:

	Thousand euro	
	June 2017	June 2016
Changes in the value of items in the statement of financial position		
Investment property (Note 4)	522,961	356,666
Non-current assets held for sale (Note 6) - Investment property	-	268
Change in the value of investment property	**522,961**	**356,934**
- **Spain**	**140,343**	**71,155**
- **International**	**382,618**	**285,779**

Details of the nature of the impairment recorded under the heading "Profit/(loss) due to changes in the value of assets and impairment" in the condensed consolidated statement of comprehensive income are presented in the following table:

	Thousand euro	
	June 2017	June 2016
Alternative disposals	(96)	(7,530)
Impairment of properties for own use and property, plant and equipment	(1,862)	4,171
Profit/(loss) due to changes in the value of assets and impairment	**(1,958)**	**(3,359)**

Financial income and expense

The breakdown by nature of financial income and expense in the first half of 2017 and 2016 is as follows:

	Thousand euro	
	June 2017	June 2016
Financial income:		
Income from shareholdings	1,966	-
Other interest and similar income	240	532
Income from derivative financial instruments	116	861
Capitalized financial expense	1,086	387
Total financial income	**3,408**	**1,780**
Financial expense		
Financial and similar expenses	(41,411)	(40,808)
Payments in respect of financial derivative instruments	(276)	(3,234)
Total financial expense	**(41,687)**	**(44,042)**
Profit/(loss) due to the impairment of financial assets	**(92)**	**(182)**
Total financial income/(expense)	**(38,371)**	**(42,444)**

13. Segment reporting

All the Group's activities are carried on in Spain and France. The segment reporting during the first half of 2017 and 2016 is as follows:

Segment reporting in the first half of 2017

	Thousand euro						
	Equity					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total Equity		
Income	17,194	24,781	98,977	183	141,135	162	141,297
Revenues	17,190	24,711	98,627	183	140,711	-	140,711
Other income	4	70	350	-	424	162	586
Operating profit/(loss)	15,808	20,087	93,816	81	129,792	(19,260)	110,532
Change in the value of Investment property	71,477	68,695	382,618	171	522,961	-	522,961
Profit/(loss) due to changes in the value of assets due to impairment	-	(2,129)	-	-	(2,129)	171	(1,958)
Financial income/(expense)	-	-	-	-	-	(38,371)	(38,371)
Profit /(loss) before taxes	-	-	-	-	-	593,164	593,164
Net consolidated profit/(loss)	-	-	-	-	-	636,462	636,462
Net profit/(loss) attributed to non-controlling interests	-	-	-	-	-	(199,270)	(199,270)
Net profit/(loss) attributed to company shareholders	-	-	-	-	-	437,192	437,192

There have been no significant transactions between segments during the six-month period ended 30 June 2017.

None of the Group's customers represent more than 10% of revenues from ordinary activities.

Segment reporting during the first half of 2016

	Thousand euro						
	Equity					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total Equity		
Income	14,939	19,900	103,322	181	138,342	108	138,450
Revenues	14,939	19,891	101,964	181	136,975	-	136,975
Other income	-	9	1,358	-	1,367	108	1,475
Operating profit/(loss)	13,025	15,413	96,609	122	125,169	(17,660)	107,509
Change in the value of Investment property	31,923	38,417	285,779	815	356,934	-	356,934
Profit/(loss) due to changes in the value of assets due to impairment	(7,530)	-	-	-	(7,530)	4,171	(3,359)
Financial income/(expense)	-	-	-	-	-	(42,444)	(42,444)
Profit/(loss) before taxes	-	-	-	-	-	418,640	418,640
Net consolidated profit/(loss) on continuing operations	-	-	-	-	-	402,772	402,772
Net consolidated profit/(loss)	-	-	-	-	-	402,772	402,772
Net consolidated profit/(loss) attributed to non-controlling interests	-	-	-	-	-	(173,176)	(173,176)
Net consolidated profit/(loss) attributed to company shareholders	-	-	-	-	-	229,596	229,596

There were no significant transactions between segments during the six-month period ended 30 June 2016.

None of the Group's customers represents more than 10% of revenues from ordinary activities.

14. Related-party transactions and balances

At 30 June 2017 and 31 December 2016 the Group does not record any balances with related parties or associates. During the first half of 2017 and 2016 the following transactions took place with related parties:

	Thousand euro	
	June 2017	June 2016
	Lease income	Lease income
Gas Natural, S.D.G	2,601	2,684
Total	**2,601**	**2,684**

15. Remuneration and other benefits for the Board of Directors and members of senior management

The Parent Company's Board of Directors consists of 9 men and 1 woman at 30 June 2017, as follows:

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

The Director Mr. Juan Villar-Mir de Fuentes left the Board in 2017.

Directors' remuneration

The compensation accrued during the first half of 2017 and 2016 by the Members of the Parent Company's Board of Directors classified by item are as follows:

30 June 2017

	Thousand euro		
	Inmobiliaria Colonial, S.A.	Other group companies	Total
Remuneration accrued by the Executive Directors (*):	**1,209**	**75**	**1,284**
Per diems:	**352**	**41**	**393**
Director per diems	341	41	382
Additional per diems for the Chair	11	-	11
Per diems for the Executive Directors	-	**22**	**22**
Fixed compensation:	**405**	**50**	**455**
Directors' remuneration	258	50	308
Additional remuneration for the Executive Committee	-	-	-
Additional remuneration to the Audit and Control Committee	72	-	72
Additional remuneration for the Nomination and Remuneration Committee	75	-	75
Remuneration for Executive Directors	-	**35**	**35**
Total	**1,966**	**223**	**2,189**

Amount of remuneration received by the Executive Directors (*):	1,209	132	1,341

(*) The amount relating to the accrued expense associated with the long-term incentive plan is excluded.

30 June 2016

	Thousand euro		
	Inmobiliaria Colonial, S.A.	Other group companies	Total
Remuneration accrued by the Executive Directors (*):	**1,150**	**75**	**1,225**
Per diems:	**263**	-	**338**
Director per diems	254	-	311
Additional per diems for the Chair	9	-	27
Per diems for the Executive Directors	-	-	-
Fixed compensation:	**448**	**45**	**448**
Directors' remuneration	243	45	243
Additional remuneration for the Executive Committee	59	-	59
Additional remuneration for the Audit and Control Committee	75	-	75
Additional remuneration for the Nomination and Remuneration Committee	71	-	71
Remuneration for Executive Directors	-	**30**	**30**
Total	**1,861**	**150**	**2,011**

Amount of the remuneration obtained by the Executive Directors (*):	1,150	105	1,255

(*) The amount relating to the accrued expense associated with the long-term incentive plan described in Note 19 of the annual accounts for 2016 is excluded.

The compensation accrued during the first half of 2017 by the members of the Parent Company's Board of Directors for holding those positions consisting of a fixed amount and per diems for meeting attendance amounted to Euro 757 thousand (Euro 711 thousand during the first half of 2016). Certain non-executive directors at the Parent Company received Euro 91 thousand from SFL for holding the position of Administrators of that company (Euro 45 thousand during the first half of 2016).

The monetary compensation for executive directors during the first half of 2017 received for all items from the Parent Company totaled Euro 1,209 thousand and they received benefits in-kind totaling Euro 1,257 thousand relating to the long-term share-based compensation plan (Euro 1,150 thousand and Euro 1,196 thousand during the first half of 2016, respectively). The executive directors of the Parent Company received Euro 132 thousand from SFL for holding the position of Administrators of that company (Euro 105 thousand during the first half of 2016).

The Parent Company has obtained a directors and officers civil liability insurance policy covering all Directors, members of senior management and employees at the Parent Company which covers damages caused due to actions or omissions at 30 June 2017 and 2016.

Shareholders at a general meeting held on 28 June 2016 approved the granting of a defined contribution plan to executive directors covering retirement, disability and death. The annual total contributions amounted to Euro 178 thousand and Euro 175 thousand in 2017 and 2016, respectively The Parent Company recognized Euro 89 thousand in this respect under the heading “Personnel expenses” in the condensed consolidated comprehensive income statement at 30 June 2017 (during the first half of 2016 it did not recognize any impact whatsoever deriving from that agreement).

In addition to the matters indicated in the preceding paragraph, the Group has not granted any loans or provided any pension plans or life insurance for the former and current members of the Parent Company's Board of Directors.

At 30 June 2017 and 2016 two members of the Board of Directors had signed special guarantee clauses for certain cases of dismissal or changes in control, all of which have been approved by shareholders at a general meeting.

During the first half of 2017 and 2016 no agreements outside of the Parent Company's ordinary course of business have been terminated, amended or ended early with respect to the Board of Directors or any person acting on their behalf.

Senior Management compensation

The Parent Company's senior management consists of all senior executives and other persons that report to the CEO and are responsible for the management of the Parent Company. Senior management consists of two men and two women at both 30 June 2017 and 2016.

Compensation for senior management during the first half of 2017 totals Euro 1,641 thousand, of which Euro 988 thousand relates to benefits-in-kind consisting of a long-term incentive plan (Euro 1,663 thousand during the first half of 2016, including Euro 939 thousand relating to the long-term incentive plan).

One member of senior management has signed a special guarantee clause for certain cases of dismissal or changes of control at 30 June 2017 and 2016.

Extension of the term of the long-term compensation plan linked to compliance with several management indicators.

Shareholders at a general meeting held on 29 June 2017 approved the extension of the term of the share-based compensation plan approved by shareholders at a general meeting held on 21 January 2014 for an additional 2 years, under the same terms and conditions.

16. Average headcount

The average number of employees at the Group at 30 June 2017 and 2016, as well as the average number of employees during the first half of 2017 and 2016, by professional category and gender, was as follows:

	No. of employees				Average 1st half of 2017		Average 1st half of 2016	
	June 2017		June 2016					
	Male	Female	Male	Female	Male	Female	Male	Female
General and Area Management	12	5	12	5	12	5	12	5
Technicians and middle managers	33	31	28	30	31	32	29	28
Administrative personnel	16	50	17	49	17	49	15	51
Other	4	1	1	1	4	1	1	1
	65	**87**	**58**	**85**	**64**	**87**	**57**	**85**

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Inmobiliaria Colonial, S.A.
and Subsidiaries

Consolidated Directors' Report
for the first half of 2017

1. Company situation.

Macroeconomic environment

Global economic growth acceleration was strengthened during the first few months of 2017. Global activity indicators continue to show considerable progress in the second quarter of the year. According to CaixaBank Research forecasts, global growth is expected to gather pace from 3.1% in 2016 to 3.5% in 2017. Both the advanced and emerging economies are enjoying this expansion. The key supports to this expansion are evident: 1) a monetary policy in the advanced countries that is still accommodative, 2) the moderate recovery in commodities and 3) key emerging countries exiting their recessions (a case in point is Brazil). However, falling inflation and political factors are still risks to be taken into account. In particular, global inflation has followed a clearly downward trend over the past months with a lot of countries reporting lower figures than expected, both for headline and core inflation. On the other hand, there are still some sources of political uncertainty which could affect the baseline scenario.

Growth in the Eurozone continues at a steady rate and has been more widespread than in the past. Improvements in activity indicators over the past months show that growth in the Eurozone has withstood episodes of financial instability and the political events which have occurred. In view of this, the main analysts forecast a growth of 1.9% in 2017. Over the past months, the main political risks have decreased, however, some sources of risk still remain. Consumption continues to drive economic growth in the Eurozone and private consumption is expected to remain to be one of the driving forces for the Eurozone's recovery, which should continue over the coming months given the low interest rates and improvements in the labour market.

The Spanish economy maintains positive growth. This year's strong growth rate is largely due to improvements in the external environment. According to the main analysts, the three key aspects are the following: 1) less political uncertainty following the elections in France and the Netherlands; 2) reinforced British rule results in a soft Brexit and 3) a more moderate increase in oil prices than previously expected, a fact which particularly benefits the Spanish economy, given its high dependence on oil imports.

In France, political uncertainty has disappeared, following the noteworthy victory of Emmanuel Macron's party winning the absolute majority in the French parliament, which will make it easier to implement its agenda of reforms and can continue to boost the European integration process. GDP growth is expected to be 1.4% in 2017 and 1.6% in 2018, thanks to lower energy prices, tax reductions in the labour market and for companies, as well as permanently low interest rates. It is worth mentioning that during the first few months of the year, employment increased to its highest rate in 10 years.

Source: La Caixa monthly report

Situation of the lease market

Barcelona

During the first half of 2017, a total of 128,000 sq m of offices were signed in Barcelona, which was 51% higher than the volume obtained in the previous quarter. In total, take-up in the first half of 2017 represents an increase of +47% with respect to the previous year, with more than 200,000 sq m signed. It is worth mentioning that the number of transactions above 1,500 sq m has significantly increased with 32 transactions, compared to 19 transactions during the first half of the previous year. Regarding sectors, the services sector continues leading the demand, with an outstanding performance by multinational internet and e-commerce companies.

The average vacancy rate in Barcelona during the first half of 2017 decreased to 7.8%. The lack of supply of quality office space, coupled with steady take-up levels are fuelling a gradual decrease in vacancy rates with a downward trend expected in the future. Vacancies in Grade A and B buildings were below 2% in the Paseo de Gràcia/Diagonal area. In this respect, it is extremely difficult to find available space above 800 sq m in this area in particular.

On the other hand, in the coming year a total of approximately 50,000 sq m of new office constructions will be released in Barcelona, but these levels of new supply are not enough to fulfill current demand for office space, due to the fact that most of the supply is already pre-let. It is worth mentioning that the 22@ is the main area of new development in the city due the lack of land plots in the city centre.

During the second quarter of 2017, the maximum rents in the CBD continued to experience significant growth, reaching rental levels of €22.50/sq m/month with some transactions at even higher prices.

Madrid

Improved economic activity and increased employment is reflected in a significant increase in the take up for office spaces. During the second quarter of 2017, the take up in Madrid was 156,000 sq m of offices, +60% more than in the previous quarter. It is worth mentioning that the cumulative take up of the first half of 2017 represents 279,000 sq m, an increase of +30% with respect to the first half of the previous year.

From a demand point of view, there was a clear trend by companies to increase space in the same building or look for new spaces for expansion in the best buildings. It is estimated that 50% of the demand was for these types of transactions; this fact confirms that the net absorption is positive. By sectors, the main drivers of the office rental market were multinational companies in the technology, financial, automobile and engineering sectors and companies related with the tourism/hotel sector.

The vacancy rate during the second quarter of 2017 decreased by 60bp, reaching 11.2%. In the CBD, the vacancy rate significantly decreased to 7.7%. Despite the release of projects in various Class A buildings in the CBD, there continues to be a lack of quality product in general terms. This situation is not expected to change over the coming quarters due to the fact that future supply in construction will remain limited.

In the second quarter of 2017, the rental prices for the best offices in the capital reached €30/sq m/month, representing a significant increase compared to previous quarters.

Paris

After a lot of activity in the first quarter of 2017, the office take up during the second quarter of 2017 slowed down, due to the election uncertainty in May. In total, take-up in the Paris region (Ile-de-France) during the first half of the year reached 1,164,600 sq m, resulting in an increase of 4% compared to the first half of the previous year.

In terms of transaction size, it is worth mentioning the medium-sized transactions (between 1,000 and 5,000 sq m) representing an increase of 8% with respect to the first half of the previous year. Regarding large transactions (from 5,000 sq m) the total take-up was 16% higher than in 2016.

As a consequence, demand remains strong and the outlook for the second half of 2017 is positive, but there is a significant lack of available space. Currently there is a lack of supply in the centre of Paris with a vacancy rate close to 3% in CBD and below 2% in the Paris 5/6/7 and 12/13 arrondissement. In addition, the pipeline of new office projects over the coming two years is scarce in the CBD (approximately 250,000 sq m) and a significant part of this is already pre-let.

Prime rental prices in the Paris CBD at the end of the first half of 2017 reached €760/sq m/year. The figure is mainly due to the significant increase in the number of transactions for rents above €750/sq m/year. The consensus of analysts and consultants place the Paris CBD as one of the European markets with good growth expectations in rents in the short term.

Organizational and operational structure

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

The Company has a market capitalization of approximately Euro 3,000 million, with a free float of around 70%. It manages assets exceeding Euro 8,600 million.

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

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

- A business model focusing on the transformation and creation of offices of the highest quality in prime locations, principally in CBD's (Central Business District).

- Maximum commitment to the creation of offices that respond to the highest demands of the market, placing special emphasis on efficiency and sustainability.

- A diversified pan- European strategy in the office markets in Barcelona, Madrid and Paris.

- An investment strategy that combines "Core" and "Prime Factory" acquisitions with "value added" components.

- A clearly industrial real estate approach to create value that exceeds the average in the market.

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

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

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

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

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

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

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

2. Business evolution and results

Introduction

At 30 June 2017, the Group's rental revenues reached 141 million euros, generated by its recurring business (property rentals).

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

The impact on the profit and loss account due to the change in fair value of property investments at 30 June 2017 reached €523m, in accordance with the independent appraisals prepared by CB Richard Ellis, Jones Lang Lasalle and Cushman & Wakefield. This adjustment was recognized in both France and Spain and is the result of the 11.2% increase in uniform terms of the lease assets over 12 months (11.0% in Spain and 11.3% in France).

The Group capitalised 1.1 million euros of borrowing costs related to developments in progress.

Net financial expenses amounted to Euro 38.4 million, including Euro 1 million that relates to the financial cost of projects in progress that have been capitalized.

Taking into account the result attributable to non-controlling interests (Euro 199 million loss), profits after taxes attributable to the Group total Euro 437 million.

Profit/(loss) for the year

The results of the first half of 2017 further consolidate the positive trend of previous years. The industrial real estate strategy of the Colonial Group, together with a unique prime office portfolio, have generated again, very attractive, returns for our shareholders.

1. The EPRA Net Asset Value at the close of the first half amounted to 11%, reaching €8.07/share, generating a Total Shareholder Return[1] of +33% year-on-year (+14% in 6 months).

2. The recurring net profit per share and the cash flow (FFO[2]) per share of the company amount to +15% and +7%, respectively.

3. All of the operative parameters show positive signs:

> EPRA vacancy at minimum levels: 4%

> Significant increase in signed rental contract prices (+16% release spread)

> Increase in rental income of +2.7% (+3.3% "like-for-like")

4. The asset value increased +7% like-for-like in 6 months reaching Euro 8,666 million.

(1) Total return understood as growth of NAV per share + dividends
(2) Net recurring results excluding amortizations and the accrual of the incentive plan

5. The net profit attributable to the Group amounted to Euro 437 million, boosted by the increase in the recurring result, the value creation in the asset portfolio and the one-off positive impact of becoming a SOCIMI.

Increase in the recurring results

The recurring result amounted to Euro 37 million, an increase of 19%, compared to the first half of the previous year mainly due to three factors:

1. A solid 3% increase year-on-year in rental income

2. The reduction in financial expenses based on an active management of the balance sheet

3. A higher attributable results coming from Paris due to a larger stake in SFL

Growth in rental income

The Colonial Group achieved a 3% like-for-like growth in gross rental income compared to the first half of the previous year, which is among the highest increases in the sector.

In Spain, the rental income increased 4% like-for-like, thanks to the strong performance of the Barcelona portfolio with an increase of 10% like-for-like. The Paris portfolio increased 3% like-for-like, with contracts signed on the Edouard VII, #Cloud and Cézanne Saint Honoré buildings.

Real estate value creation

At the close of the first half of 2017, the asset value of the Colonial Group amounted to Euro 8,666 million (Euro 9,102 million including transfer costs), an increase of +7% like-for-like in 6 months (+11% like-for-like in 12 months).

The value of the assets in Spain increased by +7% like-for-like in the last 6 months, (+11% year-on-year growth).

It is worth highlighting the portfolio in Barcelona with an increase of +9% like-for-like in 6 months (+13% year-on-year). The Madrid portfolio increased +6% like-for-like in 6 months (+10% year-on-year).

The asset value of the portfolio in Paris increased +7% like-for-like in the last 6 months (+11% in 12 months).

The increase in asset value is a consequence of three factors:

1. A growing interest by investors in prime assets, driving down yields.

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

3. The Group's industrial approach that permits superior value creation through portfolio repositioning and the successful execution of real estate transformation projects.

Highlights of the rental portfolio

Performance of the contract portfolio

In a rental market where clients demand increasingly higher standards, in the first half of the year, the Colonial Group signed 55 rental transactions corresponding to a rental contract volume of 69,422 sq m with an annualized income of Euro 25 million.

The Colonial Group has been able to attract top tier clients that demand unique locations. This has resulted in the signing of rental prices which represent a high increase compared to December 2016 ERVs and a +16% increase in renewals compared to previous rental prices.

In Barcelona, more than 36,000 sq m were signed on buildings located in Avenida Diagonal (Prime CBD), as well as in the growth market 22@. The maximum rents obtained in the Barcelona portfolio reached €23.5/sq m/month, setting the benchmark for this city. The most important transactions are as follows:

> 11,672 sq m with the Ajuntament de Barcelona on Diagonal Glories in the 22@ district

> 5,595 sq m with Liberty Seguros on Illacuna in the 22@ district

> 7,058 sq with CaixaBank on the Diagonal, 530 building

> 4,448 sq m with Caixabank on the Diagonal, 609-615 building

In Madrid, it is worth highlighting the signing of 4,100 sq m with a PropTech company on the Alfonso XII building with rental prices +28% higher than that of the previous tenant. Likewise, 4,600 sq m were renewed with a public entity in Santa Engracia, a building acquired in the Alpha I framework.

In the Genova 17 building, more than 1,000 sq m of office space was taken up. In addition, more than 1,000 sq m have been rotated on the retail part, reaching a rental price of €38.5/sq m/month, an increase of +119% compared to the previous rent. This transaction clearly reflects the benefits of an integrated real estate management of our assets to maximize value.

Our business in Paris continues with very solid activity indices: contracts have been signed on more than 11,000 sq m, positioning the maximum rental prices at €774/sq m/month. The following transactions are worth highlighting:

> 1,350 sq m with a Real Estate advisory firm and 1,596 sq m with a fashion company in Grenelle

> 1,580 sq m with a consulting firm on the Cézanne Saint-Honoré property

> 1,033 with Mizuho Bank on the Washington Plaza building

<u>Portfolio occupancy</u>

The excellent letting performance has enabled Colonial to achieve and maintain very solid occupancy levels, clearly higher than the market average in the three cities in which the Group operates.

At the close of the first half of 2017, the Colonial Group reached a financial occupancy of 96%[1], maintaining similar levels to those of the first half of the previous year.

The portfolio in Spain reached 97% of financial occupancy, with Barcelona at 98% and Madrid at 97%. It is worth highlighting the improvement in occupancy in the Madrid portfolio in the last quarter, thanks to the transaction signed on the Alfonso XII building.

The Paris portfolio reached an occupancy ratio of 96% at 30 June 2017.

These high occupancy levels exceed those of our competitors, in Spain as well as in France and significantly strengthen the negotiating position of the Colonial Group to capture rental price increases.

Active portfolio management

<u>Acquisitions</u>

Accelerating the fulfilment of growth objectives in the strategic plan, Colonial commenced 2017 with the execution of the Alpha II project, which includes the acquisition of four assets for an investment volume of almost Euro 400 million (total investment volume including future capex of development projects). Specifically, three development projects were acquired: Plaza Europa 34 in Barcelona, Paseo de la Castellana 163 in Madrid and 112-122 Av. Emile Zola in Paris. Additionally, Colonial purchased the Spanish headquarters of the Bertelsmann Group, located in the CBD in Barcelona (Travessera de Gracia 47-49).

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

All of these acquisitions offer a substantial upside potential of industrial value creation based on: (1) the property transformation of the buildings into top quality products and (2) the location in market segments with solid fundamentals.

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

Asset rotation

The Colonial Group continuously reviews the potential for future value creation for each one of its assets in the portfolio.

As a consequence of this analysis, a "promise of sale" has been signed for the disposal of the In&Out asset in Paris, after the close of the first half of the year for a price of Euro 445 million. This transaction will enable the Group to capture a 27% premium on the appraisal value at 31 December 2016 on a building without further value creation potential through real estate management, and located in a secondary area of the French capital.

The transaction is expected to be formalized in the second half of 2017.

Active balance sheet management

Solid financial structure

The Colonial Group has a capital structure with an LTV of 36% at 30 June 2017 and a solid level of "Investment Grade" credit rating:

1. The Standard and Poor's ratings agency has revised the Colonial Group's rating upwards to BBB with a stable outlook.

2. Moody's ratings agency issued a credit rating of Baa2 with a stable outlook.

These ratings position Colonial among the companies with the best credit rating in the Spanish real estate sector. Both ratings agencies have positively assessed the high quality and resilience of the prime office portfolio of the Group, as well as its diversification in three markets: Paris Madrid and Barcelona, in combination with a solid capital structure.

Conversion to a SOCIMI

The General Shareholders' Meeting 2017 approved to adopt the Spanish REIT regime (SOCIMI) with retroactive effect from 1 January 2017.

The conversion to a SOCIMI has the following benefits:

1. A reduction in the effective tax rate to 0%.

2. An improvement in the cash flow of the company.

3. An immediate and one-off positive impact of Euro 72 million in equity and consolidated profits.

4. The possibility to continue using the tax shield of the Group to structure investment and disposal transactions.

5. Better access to capital, being able to attract additional institutional investors with a possible increase in the liquidity of Colonial's share price.

Successful capital increase and inclusion in the IBEX35

At the beginning of May, the Colonial Group successfully completed a capital increase for an amount of Euro 253 million. The transaction consisted in the issuance of 35,646,657 new shares at a price of €7.1/share. The capital increase was executed through an accelerated bookbuild process and was 3x oversubscribed by top tier investors. The transaction was carried out with a minimum discount over the share price and neutral over the last reported NAV.

Additionally, on 19 June, the Colonial Group was included in the IBEX 35, the benchmark index for the Spanish Stock Exchange, which the increases visibility of the company for institutional investors. To date, the market capitalization of the company amounts to approximately Euro 3,000 million with a free-float of 66% and an average daily trading volume of more than Euro 19 million in the last month. The share price has increased 16% YTD outperforming the IBEX and EPRA indices.

The target price of the analysts' consensus is Euro 7.8/share with a maximum target price of Euro 9.2/share.

3. Liquidity and capital resources

See the section "Capital Management: Policy and objectives" in Note 12 of the consolidated annual accounts for the year ended 31 December 2016, as well as Note 9 of these condensed consolidated interim financial statements for the six-month period ended 30 June 2017.

4. Risk management policies and objectives

Risk management

Colonial is exposed to diverse risk factors in the countries in which it operates and due to the nature of its business. Colonial's Board of Directors is responsible for determining the risk control and management policy, identifying the Group's main risks and implementing and supervising the risk control and management system implemented by Colonial which establishes the baselines for efficient and effective management of risks throughout the organization. The risks associated with the Group's business are set out below.

Strategic risk

The risks relating to the industry and the environment in which the Group carries out its business are analyzed together with the markets in which it operates and the strategies it adopts to carry on that business.

- Risks associated with the environment in the sector: Colonial Group pays particular attention to financial, political, legal and social risks in the countries in which it operates (Spain and France). The real estate sector has been energized over the past few years, characterized by reaching very significant investment levels. This situation, together with the maturity of the French real estate sector and the projection for growth in the Spanish economy and employment, allow the Group to face coming years with an optimistic outlook in terms of yields on its investments and sustainable growth.
- Risks associated with a competitive sector: The investment real estate sector is highly competitive, reaching high levels of investments over the past few years led by specialized international investment funds and by listed real estate trusts (SOCIMI). Colonial Group, which in 2017 approved the application of the special SOCIMI tax regime, remains in an enviable position in the European real estate sector due to the high quality and value of its assets and the strategy of concentrating on its office lease business, essentially in the so-called *prime* areas or the "Central Business Districts" (*CBD*). The successful execution of the investment and growth strategy implemented by Colonial Group in 2015, 2016 and the first half of 2017 has reinforced the Group's good positioning in the sector.
- Risks relating to the value of its assets: The Group appraises all real estate assets every six months and those appraisals are prepared by independent experts through the application of objective market criteria. Colonial dedicates a significant amount of its resources to investments and the maintenance of its real estate assets in order to optimize the value and the positioning of those assets in the market, therefore also optimizing income and yields obtained from those assets.

Corporate Risks

The risks relating to the organizational structure, business culture, corporate policies and the attribution of the taking of key decisions by governing bodies are analyzed.

- Reputation and social commitment risk: The corporate social responsibility policy is intended to establish the principles and baseline commitments that the Group voluntarily maintains with its stakeholders. The management of those expectations forms part of the Group's objectives in terms of sustainability and the creation of value for the stakeholders.
- Corporate governance risk: The management of corporate governance by the Group is intended to maintain its commitment to continue making advances through a model based on the principles of efficiency, regulatory compliance and transparency, in alignment with the main international standards and regulations.
- Medium and long-term business plans: The absence of business plans raises the uncertainty affecting the viability and the future of companies. Colonial has a medium and long-term business plan that is constantly reviewed by the governing bodies. It is adapted on a continuous basis to the trends in the investment real estate sector and economic, financial and social situations in its operating environment which guarantees the viability of the Group and is intended to anticipate its financial needs, thereby allowing it to attain its sustainability and growth objectives.

Operational Risks:

This area makes reference to the risks relating to losses due to failures or to be in adequate management of operations.

- Financial risks: The Group efficiently manages financial risks in order to maintain adequate liquidity and debt levels, minimize the cost of financing and guarantee compliance with its business plans:
    - Interest rate exposure risk: The management of this risk is intended to reduce the volatility of interest rates to limit and control the impact of such changes on profits and cash flows, while maintaining adequate overall debt costs. Colonial Group obtains financial instruments to hedge against changes in the effective interest rate. A high percentage of the Group's gross financial debt is referenced to fixed interest rates.
    - Financing and debt risks: The Group's financial structure requires the diversification of its sources of financing in terms of financial institutions, products and maturity dates. After obtaining the new BBB credit rating during the first half of 2017 and after obtaining a new loan, the due dates of debt were extended and diversified. Colonial Group's net financial debt remains at adequate levels, measured through the *"Loan to Value* "debt ratio, which provides the Group with sufficient financial capacity to implement its projects and assumes significant growth levels over the coming years.
    - Liquidity risk: As was mentioned in the preceding paragraph, the Group has the sources of financing that are necessary to assume current projects, as well as those established in its business plan. The Group's capacity to attract capital, obtain liquidity and new lines of financing has been increased and during the first half of 2017 it carried out an accelerated bookbuild offering (ABO) and obtained a new loan.
- Risks relating to equity management: The sustainable management of equity requires significant levels of investment that the Group makes to acquire, build, rehabilitate and maintain the high quality level of its real estate assets, which are notable for their high levels of energy efficiency. This equity management strategy is included in the organization and in the Group's business plan.
- Risk of damages and impairment affecting real estate assets: Colonial Group's real estate assets are exposed to the general risk of damages that may occur or fires, floods or other natural or non-natural events. Colonial has obtained insurance to cover the cost of reconstructing the properties it owns, as well as any damages caused to third parties.
- IT system security risk: The digital revolution has provided great benefits to innovation and growth, but it also represents a source of new threats. The Group is aware of these growing threats and it reviews the control measures in place to secure its information systems and to face and mitigate that risk.

Compliance risk:

Regulatory risks associated with compliance with the obligations deriving from applicable legislation are analyzed together with contracts with third parties and the obligations that are self-imposed by the Group, essentially through its code of ethics and conduct.

- Risks deriving from the failure to comply with contractual obligations: When carrying out its activities Colonial is exposed to the inherent risk of failing to comply with its contractual obligations to its customers, financial institutions, suppliers, employees, etc. The process of identifying and measuring the risk of contractual non-compliance that may derive from court proceedings taken against the Group allows appropriate corrective action to be taken to mitigate the risk or any possible impacts. The Company has also obtained insurance covering potential legal costs or damages involving directors and officers.
- Tax risks: Colonial Group is exposed to the general tax system in the countries in which it operates, as well as the specific tax regime applicable to SOCIMI. Colonial has a tax policy, a tax strategy and a tax risk management system and it establishes adequate measures to control and monitor risk management in that area.

Reporting risks:

In order to provide coverage for these types of risks, which may give rise to errors or non-compliant situations with respect to the public information issued by the Group, and to guarantee the reliability of that public information, Colonial developed an organizational and supervisory model for the Financial Reporting Internal Control Systems (FRICS) and Internal Audit is responsible for performing the tests that are necessary to verify compliance with policies, manuals and procedures defined by the FRICS, validating the effectiveness of the controls implemented within those processes.

5. Events after the reporting period

On 25 July 2017 the subsidiary SFL concluded a sale commitment covering the In/Out property, which will be definitively transferred during the second half of 2017. The price of the sale commitment has been taken into consideration in the appraisal of the property at 30 June 2017.

There have been no other significant events after the reporting period.

6. Foreseeable development

Colonial Group operates in three markets, Barcelona, Madrid and Paris which today offer very solid fundamentals. The center of Paris is one of the markets with the highest level of tension between supply and demand (absence of prime supplies against very solid demand).

Barcelona and Madrid are office markets with the best growth profile for current and future rent anywhere in Europe.

Barcelona and Madrid

The projections prepared by the main real estate consulting firms regarding rent levels in the lease market in Barcelona foresee more than 4% growth in rent in the period 2017-2020, allowing Barcelona to position itself as one of the leading European cities in terms of rent growth.

Despite continuing with the recovery that started three years ago, in Madrid rent is still very much below the level seen in London, Paris or Frankfurt. Labor costs in Madrid are much more moderate compared to those large European cities.

Paris

The Paris market is one of the most important worldwide. Over the past few quarters there have been clear indications of improving demand, especially in the CBD zone where there is a clear scarcity of prime product.

As a result, the main consulting firms expect prime properties in CBD zones to consolidate the positive trend that started at the end of 2014.

Future strategy

The investment market has recorded record contracting volumes. In the current low interest rate environment the expectation is that high investor interest in the Paris market will continue, as the most important office market in the Eurozone.

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

In particular, it focuses its efforts on finding quality product in market areas with potential and assets with the potential of becoming prime product through their repositioning.

7. Research and development activities

Inmobiliaria Colonial, S.A. does not habitually carry out any research and development activities as a result of the Group's characteristics, its business and its structure.

8. Treasury shares

During the first half of 2017, Inmobiliaria Colonial S.A. carried out transactions involving treasury shares. The Parent Company maintains a final balance of 12,171,019 shares with a par value of Euro 30,428 thousand (Euro 2.50 per share) at 30 June 2017, which represent 3.1% of the Parent Company's share capital.

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

A glossary explaining the alternative performance measures is set out below, including the their definition and relevance to Colonial in accordance with the recommendations of the European Securities and Markets Authority (ESMA) published in October 2015 (*ESMA Guidelines on Alternative Performance Measures*). These *Alternative Performance Measures* have not been audited or reviewed by the Company's auditor (Deloitte, S.L.).

Alternative Performance Measure	**Calculation method**	**Definition/Relevance**
EBIT ***(Earnings before interest and taxes)***	Calculated as "*operating profit*" plus "*changes in the value of investment property*" and "*Profit/(loss) due to changes in the value of assets and impairment*".	Indicates the Group's capacity to generate profits only taking into consideration its production activity, less the effect of debt and taxes.
EBITDA **(*Earnings Before Interest, Taxes, Depreciation and Amortization*)**	Calculated as "*operating profit*" adjusted by "*depreciation/amortization*" and "*net changes in provisions*".	Indicates the Group's capacity to generate profits, eliminating allocations to depreciation/amortization and the effect of debt and taxes.
Gross financial debt (GFD)	Calculated as the sum of the headings *"Bank borrowings and other financial liabilities"* and *"Issues of debentures and similar securities"*, excluding *"Interest"* (accrued), *"Origination fees"* and *"Other financial liabilities"* in the consolidated statement of financial position.	Relevant figure for analyzing the Group's financial situation.
EPRA[1] NAV **(*EPRA Net Asset Value*)**	It is calculated based on the Company's capital and reserves, adjusting certain items in accordance with EPRA recommendations.	Standard analysis ratio in the real estate sector and recommended by EPRA.
EPRA[1] NNNAV **(EPRA "triple net")**	Calculated by adjusting the following items in the EPRA NAV: the market value of financial instruments, the market value of financial debt, taxes that would accrue on the sale of the assets at their market value, applying a credit for reinvestment and the tax credit recognized in the balance sheet based on going-concern accounting policies.	Standard analysis ratio in the real estate sector and recommended by EPRA.
Market value excluding transaction costs or *Gross Asset Value (GAV) excluding Transfer costs*	Measurement of all of the assets in the Group's portfolio by independent appraisers, less transaction costs or *transfer costs.*	Standard analysis ratio in the real estate sector.
Market value including transaction costs or GAV *including Transfer costs*	Measurement of all of the assets in the Group's portfolio performed by independent appraisers, before deducting transaction costs or *transfer costs.*	Standard analysis ratio in the real estate sector.

[1] EPRA (*European Public Real Estate Association*) which recommends the standards for the best practices to be followed in the real estate sector. The method of calculating these APM has followed the indications made by EPRA.

Alternative Performance Measure	**Calculation method**	**Definition/Relevance**
***Like-for-like* Rent**	Amount of the lease income included in the heading "*Revenues*" that is comparable between two periods. To obtain them the income from investments or divestments carried out in both periods is excluded, together with the income deriving from assets included in the projects and rehabilitation portfolio, as well as other atypical adjustments (for example, penalties for the early termination of lease agreements).	It allows a comparison, on a uniform basis, of the evolution of rent income from an asset or a group of assets.
***Like-for-like* Measurement**	Amount of the market measurement, excluding transaction costs or the market measurement including transaction costs that are comparable between two periods. To obtain it the income from leases deriving from investments or divestments carried out in both periods is excluded.	It allows a comparison, on a uniform basis, of the evolution of the market measurement of the portfolio.
***Loan to Value* Group or LtV Group**	Calculated as the result of dividing gross financial debt less the amount of the heading *"cash and cash equivalents"* by the market measurement, including transaction costs relating to the Group's asset portfolio.	It allows for the analysis of the ratio between net financial debt and the measurement of the Group's asset portfolio.
LtV Holding or LtV Colonial	Calculated as the result of dividing gross financial debt less the amount of the heading *"cash and cash equivalents"* by the sum of the market measurement, including transaction costs relating to the Parent Company's asset portfolio and the EPRA NAV of all financial interests in subsidiaries.	It allows for the analysis of the ratio between net financial debt and the measurement of the parent company's asset portfolio.

The Alternative Performance Measures included in the preceding table derive from headings in the Inmobiliaria Colonial consolidated annual accounts or the disclosures in the headings (sub-headings) included in the relevant notes to the consolidated annual accounts, except for the matters indicated below.

A reconciliation of those alternative performance measures that do not originate in full from headings or subheadings in the Inmobiliaria Colonial consolidated annual accounts is set out below, based on the provisions of paragraph 28 of the aforementioned recommendations.

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

EPRA NAV (EPRA *Net Asset Value*)	**30/06/2017**	**31/12/2016**
	(Million euro)	
"EQUITY ATTRIBUTABLE TO PARENT COMPANY SHAREHOLDERS"	**2,891**	**2,302**
It includes:		
(i.a) Restatement of investment assets	12	11
(i.b) Restatement of assets under development	n.a.	n.a.
(i.c) Restatement of other investments	106	51
(ii) Restatement of financial leases	n.a.	n.a.
(iii) Restatement of assets held for sale	n.a.	n.a.
Excludes:		
(iv) Market value of financial instruments	0	2
(v.a) Deferred taxes	159	221
(v.b) Goodwill deriving from deferred assets	n.a.	n.a.
Includes/excludes:		
Adjustments of (i) to (v) with respect to strategic alliance interests	n.a.	n.a.
EPRA NAV	**3,168**	**2,587**

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

EPRA NNNAV (EPRA "triple net")	**30/06/2017**	**31 December 2016**
	(Million euro)	
EPRA NAV	**3,168**	**2,587**
It includes:		
(i) Market value of financial instruments	(0)	(2)
(ii) Market value of debt	(102)	(79)
(iii) Deferred taxes	(160)	(222)
EPRA NNNAV	**2,906**	**2,284**

- **Market value excluding transaction costs or GAV *excluding Transfer costs***

Market value excluding transaction costs or GAV *excluding Transfer costs*	30/06/2017	31/12/2016
	(Million euro)	
Barcelona	827	761
Madrid	1,339	1,273
Paris	6,144	5,736
Trading portfolio	**8,311**	**7,771**
Projects	**174**	**144**
Other	**12**	**14**
Value of the Axiare shareholding	**169**	**141**
Total market value excluding transaction costs	**8,666**	**8,069**
Spain	2,522	2,333
France	6,144	5,736

- **Market value including transaction costs or GAV *including Transfer costs***

Market value including transaction costs or GAV *including Transfer costs*	30/06/2017	31/12/2016
	(Million euro)	
Total market value excluding transaction costs	**8,666**	**8,069**
Plus: transaction costs	436	409
Total market value including transaction costs	**9,102**	**8,478**
Spain	2,580	2,387
France	6,522	6,092

- ***Like-for-like* Rent**

Like-for-like Rent	Barcelona	Madrid	Paris	TOTAL
	(Million euro)			
Rent income 1st half of 2015	**13**	**17**	**81**	**111**
like-for-like	2	1	8	10
Projects and additions	0	0	10	10
Investments and divestments	0	2	1	3
Other and indemnities	0	0	2	2
Rent income 1st half of 2016	**15**	**20**	**102**	**137**
like-for-like	1	0	3	4
Projects and additions	0	(1)	(4)	(5)
Investments and divestments	1	5	0	6
Other and indemnities	0	0	(2)	(2)
Rent income 1st half of 2017	**17**	**25**	**99**	**141**

- ***Like-for-like* Measurement**

Like-for-like Measurement	30/06/2017	31/12/2016
	(Million euro)	
Measurement at 1 January	**8,069**	**6,913**
like-for-like Spain	161	151
like-for-like France	408	494
Acquisitions	32	524
Divestments	(4)	(13)
Measurement at 31 December	**8,666**	**8,069**

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

Loan to Value Group or LtV Group	**30/06/2017**	**31/12/2016**
	(Million euro)	
Gross financial debt	3,537	3,633
Less: *"Cash and cash equivalents"*	(219)	(105)
(A) Net financial debt	**3,318**	**3,528**
Market value including transaction costs	9,102	8,478
Plus: Parent Company treasury shares valued at EPRA NAV	99	41
(B) Market value including transaction costs and Parent Company treasury shares	**9,201**	**8,519**
***Loan to Value* Group (A)/(B)**	**36.1%**	**41.4%**

- **LtV Holding or LtV Colonial**

LtV Holding or LtV Colonial	**30/06/2017**	**31/12/2016**
Holding Company	*(Million euro)*	
Gross financial debt	1,525	1,647
Less: *"Cash and cash equivalents"*	(185)	(80)
(A) Net financial debt	**1,340**	**1,567**
(B) Market value including transaction costs	**4,924**	**4,439**
***Loan to Value* Holding (A)/(B)**	**27.2%**	**35.3%**