Deloitte.

Deloitte, S.L.
Avda. Diagonal, 654
08034 Barcelona
España

Tel.: +34 932 80 40 40
Fax: +34 932 80 28 10
www.deloitte.es

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Inmobiliaria Colonial, S.A.,

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Inmobiliaria Colonial, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

Directors' Responsibility for the Consolidated Financial Statements

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the consolidated equity, consolidated financial position and consolidated results of Inmobiliaria Colonial, S.A. and Subsidiaries in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain (identified in Note 2-a to the accompanying consolidated financial statements) and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation by the Parent's directors of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, tomo 13.650, sección 8ª, folio 188, hoja M-54414, inscripción 96ª. C.I.F.: B-79104469.
Domicilio social: Plaza Pablo Ruiz Picasso, 1, Torre Picasso, 28020, Madrid.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of Inmobiliaria Colonial, S.A. and Subsidiaries as at 31 December 2015, and their consolidated results and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2015 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2015. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Inmobiliaria Colonial, S.A. and Subsidiaries.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Francesc Ganyet

19 February 2016

Inmobiliaria Colonial, S.A. and Subsidiaries

Consolidated Financial Statements for the year ended 31 December 2015, prepared in accordance with International Financial Reporting Standards and Consolidated Management Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2015

(Thousands of Euros)

ASSETS	Note	31 December 2015	31 December 2014	EQUITY AND LIABILITIES	Note	31 December 2015	31 December 2014
Intangible assets	-	3,090	2,486	Share capital		797,214	797,214
Property, plant and equipment	8	33,118	32,985	Share premium		560,606	560,606
Investment property	9	6,743,313	5,663,309	Reserves of the Parent		1,163,954	1,165,187
Non-current financial assets	10	8,954	10,070	Prior years' losses at the Parent		(1,147,975)	(944,584)
Non-current deferred tax assets	18	865	1,422	Reserves in consolidated companies		64,881	(621,819)
Other non-current assets	11	156	126	Valuation adjustments recognised in equity - financial instruments		(2,504)	(6,368)
NON-CURRENT ASSETS		**6,789,496**	**5,710,398**	Other equity instruments		2,895	1,904
				Treasury shares		(17,065)	(21,291)
				Profit for the year		415,413	491,994
				Equity attributable to shareholders of the Parent		**1,837,419**	**1,422,843**
				Non-controlling interests		**1,612,048**	**1,376,108**
				EQUITY	13	**3,449,467**	**2,798,951**
				Bank borrowings and other financial liabilities	14 and 15	512,615	1,479,951
				Bonds and similar securities issued	14	2,539,285	1,195,564
				Non-current deferred tax liabilities	18	246,980	203,750
				Non-current provisions	17	12,519	13,611
				Other non-current liabilities	16	28,018	24,891
				NON-CURRENT LIABILITIES		**3,339,417**	**2,917,767**
Non-current assets held for sale	24	12,727	16,539	Bank borrowings and other financial liabilities	14 and 15	59,937	73,468
Trade and other receivables	12	71,966	58,008	Bonds and similar securities issued	14	175,955	8,775
Current financial assets	-	9	63	Trade payables	16	85,642	104,302
Tax assets	18	37,552	14,513	Tax liabilities	18	8,902	16,035
Cash and cash equivalents	14	217,776	125,956	Current provisions	17	10,206	6,179
CURRENT ASSETS		**340,030**	**215,079**	**CURRENT LIABILITIES**		**340,642**	**208,759**
TOTAL ASSETS		**7,129,526**	**5,925,477**	**TOTAL EQUITY AND LIABILITIES**		**7,129,526**	**5,925,477**

The accompanying Notes 1 to 27 and the Appendix are an integral part of the consolidated statement of financial position for the year ended 31 December 2015.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015

(Thousands of Euros)

Statement of comprehensive income	Note	2015	2014
Revenue	20	231,185	211,477
Other income	20	3,143	2,606
Staff costs	20	(23,296)	(25,432)
Other operating expenses	20	(36,481)	(54,333)
Depreciation and amortisation charge		(1,676)	(1,444)
Net change in provisions		(3,322)	(17,941)
Net gain/(loss) on sales of assets	20	-	(27)
Operating profit		**169,553**	**114,906**
Changes in fair value of investment properties	20	719,982	331,953
Impairment charges and net gains/(losses) on assets	20	(2,474)	(124,579)
Finance income	20	10,466	19,402
Share of profit/(loss) of companies accounted for using the equity method	20	-	(2,176)
Finance costs	20	(143,852)	(232,366)
Impairment of financial assets		2,267	(3,733)
Profit before tax		**755,942**	**103,407**
Income tax expense	18	(52,797)	(175,783)
Consolidated net profit/(loss) from continuing operations		**703,145**	**(72,376)**
Profit from discontinued operations	24	-	700,861
Consolidated net profit		**703,145**	**628,485**
Net profit for the year attributable to the Parent		415,413	491,994
Net profit attributable to non-controlling interests	13	287,732	136,491
Basic earnings per share (€)	5	0.130	0.228
Diluted earnings per share (€)	5	0.130	0.228

Other comprehensive income			
Consolidated net profit		**703,145**	**628,485**
Other components of comprehensive income recognised directly in equity		**357**	**3,955**
Gains on hedging instruments	15	615	4,329
Tax effect on prior years' profit or loss		(258)	(374)
Transfers to comprehensive income		**8,122**	**10,742**
Gains on hedging instruments	15	8,122	10,742
Consolidated comprehensive profit		**711,624**	**643,182**
Comprehensive profit for the year attributable to the Parent		419,277	503,984
Comprehensive profit attributable to non-controlling interests		292,347	139,198
Comprehensive basic earnings per share (euros)		0.132	0.234
Comprehensive diluted earnings per share (euros)		0.132	0.234

The accompanying Notes 1 to 27 and the Appendix are an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2015

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED
31 DECEMBER 2015

(Thousands of Euros)

	Note	Share capital	Share premium	Reserves of the Parent	Prior years' losses at the Parent	Reserves in consolidated companies	Valuation adjustments recognised in equity - financial instruments	Treasury shares	Other equity instruments	Profit/(loss)	Non-controlling interests	Total
Balance at 31 December 2013	**13**	**225,919**	**109**	**1,083,485**	**(837,243)**	**(193,463)**	**(18,358)**	**(59,945)**	**2,488**	**(546,928)**	**1,272,765**	**928,829**
Total recognised income and expense for the period		-	-	-	-	-	11,990	-	-	491,994	139,198	**643,182**
Share capital increase		740,714	558,492	(49,977)	-	-	-	-	(2,025)	-	-	**1,247,204**
Share capital reduction		(169,439)	-	169,439	-	-	-	-	-	-	-	**-**
Allocation of 2013 loss		-	-	-	(107,341)	(439,587)	-	-	-	546,928	(49,288)	**(49,288)**
Issuance of other equity instruments		20	2,005	(15)	-	-	-	-	15	-	-	**2,025**
Treasury share portfolio		-	-	(35,267)	-	(524)	-	38,654	-	-	(132)	**2,731**
Share-based payment transactions		-	-	-	-	-	-	-	1,426	-	207	**1,633**
Changes in scope of consolidation and other changes		-	-	(2,478)	-	11,755	-	-	-	-	13,358	**22,635**
Balance at 31 December 2014	**13**	**797,214**	**560,606**	**1,165,187**	**(944,584)**	**(621,819)**	**(6,368)**	**(21,291)**	**1,904**	**491,994**	**1,376,108**	**2,798,951**
Total recognised income and expense for the period		-	-	-	-	-	3,864	-	-	415,413	292,347	**711,624**
Share capital increase		-	-	-	-	-	-	-	-	-	-	**-**
Distribution of 2014 profit		-	-	-	(203,391)	695,385	-	-	-	(491,994)	(57,305)	**(57,305)**
Treasury share portfolio		-	-	(1,182)	-	(926)	-	(4,006)	-	-	70	**(6,044)**
Share-based payment transactions		-	-	-	-	-	-	-	991	-	873	**1,864**
Changes in scope of consolidation and other changes		-	-	(51)	-	(7,759)	-	8,232	-	-	(45)	**377**
Balance at 31 December 2015	**13**	**797,214**	**560,606**	**1,163,954**	**(1,147,975)**	**64,881**	**(2,504)**	**(17,065)**	**2,895**	**415,413**	**1,612,048**	**3,449,467**

The accompanying Notes 1 to 27 and the Appendix are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2015.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

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

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

(Thousands of Euros)	Note	2015	2014
CASH FLOWS IN CONTINUING OPERATIONS			
1. CASH FLOWS IN OPERATING ACTIVITIES			
Profit from operations		169,553	114,906
Adjustments to profit			
Depreciation and amortisation (+)		1,676	1,444
Net change in provisions (+/-)	20	3,322	17,941
Others	20	3,351	(8,025)
Gains/(losses) on sale of investment property (+/-)	20	-	27
Adjusted profit		177,902	126,293
Taxes paid (-)		(39,392)	8,883
Dividends received from associates (+)	10	-	7,279
Increase/(decrease) in current assets and liabilities			
Increase/(decrease) in receivables (+/-)		(13,230)	(24,765)
Increase/(decrease) in payables (+/-)		(15,754)	(2,774)
Increase/(decrease) in other assets and liabilities (+/-)		3,097	-
Total net cash flows in operating activities		**112,623**	**114,916**
2. CASH FLOWS IN INVESTING ACTIVITIES			
Investments in (-)			
Intangible assets		(708)	(1,027)
Property, plant and equipment	8	(165)	(88)
Investment property	9	(324,604)	(375,186)
Equity investments, financial assets and other		(28,869)	-
		(354,346)	(376,301)
Disposals of (+)			
Property, plant and equipment	8	-	121
Financial assets	10	-	303,351
		-	303,472
Total net cash flows in investing activities		**(354,346)**	**(72,829)**
3. CASH FLOWS IN FINANCING ACTIVITIES			
Dividends paid (-)	13	(57,305)	(49,288)
Repayment of bank borrowings (-)	14	(1,104,350)	(2,188,969)
Repayment of debt with bondholders (-)	14	(243,500)	-
Interest paid (+/-)	20	(139,462)	(189,284)
Cancellation of derivative financial instruments	20	-	(22,384)
Treasury share transactions (+/-)	13	(7,249)	2,731
		(1,551,866)	(2,447,194)
New bank borrowings obtained (+)	14	136,018	1,209,206
New bondholder borrowings obtained (+)	14	1,750,000	-
Capital increase (+)	13	(51)	1,263,338
Expenses associated with capital increases	13	-	(49,977)
Other proceeds/(payments) for current financial assets and other (+/-)		(558)	54,939
		1,885,409	2,477,506
Total net cash flows in financing activities		**333,543**	**30,312**
4. NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS			
Cash flow for the year in continuing activities		**91,820**	**72,399**
Cash and cash equivalents at beginning of year from continuing operations	**14**	**125,956**	**53,557**
Cash transferred to discontinued operations		**-**	**-**
Cash and cash equivalents at end of year	14	**217,776**	**125,956**

The accompanying Notes 1 to 27 and the Appendix are an integral part of the consolidated statement of cash flows at 31 December 2015.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

Inmobiliaria Colonial, S.A. and Subsidiaries

Notes to the consolidated financial statements for the year ended 31 December 2015

1. Colonial Group business activity

Group activity

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

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

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

On 5 June 2015 the Parent obtained a "BBB-" long-term credit rating and an "A-3" short-term credit rating from Standard & Poor's Rating Credit Market Services Europe Limited. The SFL subsidiary also improved its rating from "BBB-" to "BBB" in the long term, and from "A-3" to "A-2" in the short term.

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

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

These consolidated financial statements have been prepared under the International Financial Reporting Standards (IFRSs) as adopted by the European Union, taking into account all mandatory accounting policies and rules and measurement bases, the Spanish Code of Commerce, the Spanish Limited Liability Companies Law, the Spanish Securities Markets Law and other applicable company law, as well as regulations laid down by the Spanish National Securities Market Commission (CNMV), to present a true and fair view of the Colonial Group's consolidated equity and financial position at 31 December 2015 and of the comprehensive income from its operations, the changes in consolidated equity and the consolidated cash flows for the year then ended.

The consolidated financial statements of Inmobiliaria Colonial, S.A. and Subsidiaries for the year ended 31 December 2015 were prepared on the basis of the accounting records kept by the Parent and by the other

companies comprising the Colonial Group and were authorised for issue by the Parent's directors at the Board meeting held on 19 February 2016.

However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements at 31 December 2015 may differ from those used by certain Group companies, the required adjustments and reclassifications were made on consolidation to unify the policies and bases used and to make them compliant with International Financial Reporting Standards.

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

The Group's consolidated financial statements for the year ended 31 December 2014 were approved by the shareholders of the Parent at the General Meeting held on 24 April 2015.

b) Adoption of International Financial Reporting Standards

The Colonial Group's consolidated financial statements were prepared in accordance with IFRSs, pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002. In Spain, the requirement to present consolidated financial statements in accordance with the IFRSs approved in Europe is in turn regulated by final provision eleven of Law 62/2003, of 30 December, on tax, administrative, labour and social security measures.

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

Standards and interpretations effective in 2015

New accounting standards became effective in 2015 and were accordingly taken into account in preparing these consolidated financial statements. The new standards are as follows:

Approved for use in the European Union		**Mandatory application for annual periods beginning on or after**
IFRIC 21 Levies (issued in May 2013)	Guidance on when to recognise a liability for levies charged for participation in a market on a specified date	17 June 2014 (1)
Improvements to IFRSs 2011-2013 Cycle (issued in December 2013)	Minor amendments to a series of standards	01 January 2015 (2)

(1) The European Union endorsed IFRIC 21 (EU Bulletin 14 June 2014), replacing the original entry date in force established by the IASB (1 January 2014) with that of 17 June 2014.
(2) The IASB effective date of the standard was for annual periods beginning on or after 1 July 2014.

Standards and interpretations issued but not yet effective

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

New standards, amendments and interpretations		Mandatory application for annual periods beginning on or after
Approved for use in the European Union		
Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (issued in November 2013)	The amendment permits contributions to be recognised as a reduction in the service cost in the period in which payment for the related service is made, if certain requirements are met.	1 February 2015 (1)
Improvements to IFRSs 2010-2012 Cycle (issued in December 2013)	Minor amendments to a series of standards	01 February 2015 (1)
Amendments to IAS 16 and IAS 38 Acceptable Methods of Depreciation and Amortisation (issued in May 2014)	Clarifies acceptable methods of depreciation for property, plant and equipment and amortisation for intangible assets	01 January 2016
Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)	Specifies how to account for the acquisition of interest in a joint operation that constitutes a business.	01 January 2016
Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (issued in June 2014)	Bearer plants will now be recognised at cost, instead of at fair value.	01 January 2016
Improvements to IFRSs 2012-2014 Cycle (issued in September 2014)	Minor amendments to a series of standards	01 January 2016
Amendments to IAS 27 Equity Method in Separate Financial Statements (issued in August 2014)	An investor may now be accounted for using the equity method in separate financial statements	01 January 2016
Amendments to IAS 1 Disclosure Initiative (December 2014)	Miscellaneous clarifications regarding disclosures (materiality, aggregation, order of notes, etc.).	01 January 2016
Not yet approved for use by the European Union		
IFRS 15 Revenue from Contracts with Customers (issued in May 2014)	New standard for the recognition of revenue (substitutes IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31)	01 January 2018
IFRS 9 Financial Instruments (last phase issued in July 2014)	Replaces the rules for the classification, measurement, recognition and derecognition of financial assets and liabilities, hedge accounting and impairment established in IAS 39	01 January 2018
IFRS 16 Leases (issued in January 2016)	New leases standard which replaces IAS 17. Lessees shall include all leases on the balance sheet as if they were financed purchases.	01 January 2019
Amendment to IFRS 10, IFRS 12 and IAS 28 Investment Entities (December 2014)	Clarifications on applying the consolidation exception to investment entities.	01 January 2016
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014)	Clarification regarding the results of these transactions if they are businesses or assets.	No date specified

(1) The IASB effective date of these standards was for annual periods beginning on or after 1 July 2014.

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

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

c) Functional currency

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

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

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

- The market value of property, plant and equipment for own use and investment property (Notes 8 and 9).

  This market value was obtained from the appraisals periodically made by independent experts. Such appraisals were made on 30 June 2015 and 31 December 2015 in accordance with the methods described in Notes 4-b and 4-c.

- Measurement of non-current assets held for sale (Note 24).

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

- The recoverability of tax credits in respect of tax loss carryforwards and deferred tax assets recognised in the consolidated statement of financial position (Note 18).

- The market value of certain financial assets, including derivative financial instruments (Note 15).

- Evaluation of lawsuits, obligations and contingent assets and liabilities at year-end (Notes 17 and 19).

Although these estimates were made on the basis of the best available information at the date of authorising these consolidated financial statements for issue, events that take place in the future might make it necessary to modify these amounts (upwards or downwards), which would mean, except for goodwill impairment charges, which cannot be reversed in the future, prospectively recognising the effects of said changes in the consolidated statement of comprehensive income, pursuant to IAS 8.

e) Basis of consolidation

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

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

2. The results of the subsidiaries acquired or sold during the year are included in consolidated earnings from the effective date of acquisition or until the effective date of disposal, as appropriate.

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

4. Where necessary, the financial statements of the subsidiaries are adjusted to ensure uniformity with the accounting policies applied by the Group's Parent.

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

    a. The equity of their investees is presented within Equity under "Non-controlling interests" in the consolidated statement of financial position.

    b. Profit or loss for the period is recognised under "Net profit attributable to non-controlling interests" in the consolidated statement of comprehensive income.

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

    Full consolidation:

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

    - Subsidiaries are accounted for using the purchase method. The acquisition cost is the fair value of the assets delivered, the equity instruments issued and the liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and identifiable liabilities and contingencies incurred in a business combination are measured initially at fair value at the acquisition date, regardless of the effect of non-controlling interests. When the acquisition cost is higher than the fair value of the Group's interest in the identifiable net assets acquired, the difference is recognised as goodwill. If the acquisition cost is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income (details of the companies consolidated at 31 December 2015 and 2014 are included in the Appendix).

    The equity method:

    - Companies considered to be associates are accounted for using the equity method. Investment in an associate is initially recognised at acquisition cost.

    - Associates are entities in which the Colonial Group has significant influence but neither control nor joint control. Significant interest is generally evidenced by an interest of between 20% and 50% in the voting shares of a company.

    - The Group's share in an associate's post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income, while its share in subsequent changes in equity recognised directly in the associate's reserves is also recognised directly in the Group's equity. The carrying amount of the initial investment is increased or decreased to recognise the accumulated aforementioned changes. If the Group's share of the losses of an associate is equal to or greater than the value of its investment, including any account receivable not guaranteed, no further losses

are recorded by the Colonial Group unless obligations have been incurred or payments have been made on behalf of the associate.

- Unrealised gains on transactions between the Colonial Group and its associates are eliminated to the extent of the Group's interest in that associate. Unrealised losses are similarly eliminated, unless losses are evidence of impairment.

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

f) Changes in the scope of consolidation

The following changes occurred in the scope of consolidation in 2015:

- On 28 May 2015, the Parent acquired 100% of the share capital of the Spanish company Danieltown Spain, S.L.U., the owner of a building on calle Estébanez Calderón, Madrid. The acquisition price was 30,038 thousand euros, plus acquisition costs. This acquisition did not have a significant effect on the Group's equity, assets or its results.

The changes in the scope of consolidation in 2014 were as follows:

- On 25 February 2014, Asentia Project, S.L. (hereinafter, "Asentia") increased its share capital, which was undertaken in full through the conversion of debt into equity by three of Asentia's creditors. Subsequently, various capital increases were carried out, subscribed in full through the conversion of debt into equity by various creditors of Asentia, and reduced Colonial's interest to 3.79% at 31 December 2014.

  As a result of the first share capital increase and the change to the composition of the company's Board, Colonial lost control over Asentia, and the ownership interest was recognised in the consolidated statement of financial position as an available-for-sale financial asset with a value of 0 euros. The effect of the financial collateral furnished on behalf of the Asentia Group was also recognised as a result of this loss of control.

  The impact of the loss of control over the Asentia subgroup on the consolidated statement of comprehensive income for 2014 was as follows:

	Thousands of euros
	2014
Derecognition of assets and liabilities of non-controlling interests	735,531
Recognition of financial collateral	(26,065)
Recycling of the derivatives reserve to the statement of comprehensive income	(5,317)
Other items recycled to the statement of comprehensive income	(3,288)
Profit from discontinued operations	**700,861**
Attributable to shareholders of the Parent (Note 5)	700,740
Attributable to non-controlling interests	121

In 2015 the residual shareholding held at 31 December 2014 was sold to Asentia for 4 thousand euros.

- On 23 July 2014, SFL transferred all its shares (29.63%) in the share capital of SIIC de Paris. This interest was accounted for using the equity method. The sale price, net of transfer costs, amounted to 303,557 thousand euros, generating accounting capital gains of 8,485 thousand euros.

- On 1 October 2014, effective for accounting purposes as of 1 January 2014, all the assets and liabilities of the subsidiary Abix Service S.L.U. (hereinafter "Abix") were transferred en bloc to the Parent. This transaction had no impact on the consolidated financial statements at 31 December 2014.

- On 4 December 2014, SFL acquired 100% of the share capital of the French subsidiaries SNC Condorcet Holding and SNC Condorcet Propco, owners of a property located at rue Condorcet, Paris. The acquisition price was 229,438 thousand euros.

At 31 December 2015 and 2014, Colonial Invest, S.L.U., Colonial Tramit, S.L.U., SB2 SAS, SB3 SAS and SCI SB3 were inactive subsidiaries.

g) Financial position

At 31 December 2015, the Group had a working capital deficiency of 612 thousand euros. When drawing up these notes to the consolidated financial statements, the Parent's directors took into account the capacity for additional drawdowns on credit facilities undertaken by the Group (Note 14).

h) Comparative information

The information relating to 2015 included in these notes to the consolidated financial statements is presented, for comparison purposes, with the information relating to 2014.

i) Grouping of items

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

j) Correction of errors

No significant errors have been found in the preparation of the accompanying consolidated financial statements that would require a restatement of the amounts included in the consolidated financial statements of 2014.

3. Distribution of the Parent's profit

The distribution of 2015 profit proposed by the Board of Directors of the Parent for approval by its shareholders at the Annual General Meeting is as follows:

	Thousands of euros
Profit for the year of the Parent	**285,350**
To the legal reserve	28,535
To dividends	47,833
To offset prior years' losses	208,982
Total distributed	**285,350**

4. Accounting policies

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

a) Business combinations, goodwill (Note 7) and intangible assets

Business combinations and goodwill

Business combinations are accounting for by applying the acquisition (Note 2-e).

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

If the cost of the business combination is less than the acquiree's assets, liabilities and contingent liabilities acquired, the difference is recognised in profit or loss for the year in which it is incurred.

The Parent's directors make a provisional allocation of the purchase price for the business combination at the acquisition date; this initial assessment is re-evaluated, as appropriate, within 12 months from the date control is obtained.

Goodwill is allocated by the Parent's directors to the various cash generating units (CGUs) expected to benefit from the business combination synergies, regardless of other acquired assets and liabilities that are allocated to these CGUs or groups of CGUs.

The Parent's directors test each CGU for impairment at year-end or whenever there are indications that the CGU has suffered an impairment loss by comparing the carrying amount of the aforementioned CGU, including allocated goodwill, with its recoverable amount

If the CGU's recoverable amount exceeds its carrying amount, the CGU and its allocated goodwill are not considered to be impaired. Otherwise, the Group recognises an impairment loss using the following criteria:

- First, the goodwill allocated to the CGU is reduced and, where the impairment loss exceeds this amount.

- The impairment loss is distributed over the CGU's remaining assets in proportion to their respective carrying amounts.

Impairment losses recognised for goodwill may not be reversed subsequently.

Intangible assets

As a general rule, intangible assets are initially measured at their purchase price or their production cost. They are then measured at their cost less the corresponding accumulated amortisation and, where applicable, less any impairment losses. These assets are amortised over their useful life.

b) Property, plant and equipment (Note 8)

Property for own use

Properties for own use, including office furniture and equipment, are recognised at acquisition cost less any accumulated depreciation and any impairment, based on the same measurement assumptions explained in Note 4-c.

Historical cost includes expenses directly attributable to the acquisition of the properties.

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

Other property, plant and equipment

The assets included under "Other property, plant and equipment" are measured at acquisition cost less accumulated depreciation and impairment, revalued pursuant to the applicable enabling legislation. Subsequent additions were measured at cost.

The costs of expansion, modernisation or improvement leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of assets are capitalised as an increase in the cost of the related assets, while upkeep and maintenance costs are charged to the consolidated statement of comprehensive income for the year in which they are incurred.

Group companies depreciate their property, plant and equipment for own use and other items of property, plant and equipment using the straight-line method at annual rates based on the years of estimated useful life. The years of estimated useful life for property for own use located in Spain and France are as follows:

	Years of estimated useful life	
	Spain	France
Properties		
Buildings	50	50
Fixtures	10 to 15	10 to 50
Other installations, tools and furniture	3 to 10	10 to 50
Other property, plant and equipment	3 to 10	5 to 40

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

c) *Investment property (Note 9)*

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

Investment property is carried at fair value at the reporting date and is not depreciated.

The gains or losses arising from fluctuations in the fair value of investment property are taken to income in the same period in which they occur, and are recognised under "Change in fair value of investment property" in the consolidated statement of comprehensive income. These gains or losses are not included in operating profit as the changes in valuation are not directly within the control of the Group's management.

Assets are transferred from investment property in progress to investment property when they are ready for use.

When the Group recognises in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognises the carrying amount of the replaced part, recognising the impact under "Impairment charges and net gains/(losses) on assets" in the consolidated statement of comprehensive income. If the fair value of the assets replaced cannot be reliably determined, the cost of the replacement is included in the carrying amount of the property, whose fair value is later reassessed periodically on the basis of appraisals performed by independent experts.

In accordance with IAS 40, the Group calculates the fair value of its investment property on a regular basis. Fair value is determined based on the valuations made by independent experts (Jones Lang LaSalle in Spain and CB Richard Ellis Valuation, Jones Lang La Salle and BNP Paribas Real Estate, in both 2015 and 2014) at the date of preparing the consolidated statement of financial position, so that the year-end fair values for investment property items reflect prevailing market conditions. The valuation reports prepared by independent experts contain only the standard warnings and/or disclaimers concerning the scope of the findings of the appraisals carried out, referring basically to the comprehensiveness and accuracy of the information provided by the Group.

The Discounted Cash Flow (hereinafter, "DCF") method was primarily used to determine the market value of the Group's property investments in 2015 and 2014.

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

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

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

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

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

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

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

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

The yields and other assumptions used in determining future cash flows in 2015 and 2014 are set out in the tables below:

	Gross	
Yields (%) - Offices	31 December 2015	31 December 2014
Barcelona – Prime Yield		
Leased out	5.54	6.31
Total portfolio	5.57	6.32
Madrid – Prime Yield		
Leased out	4.92	5.80
Total portfolio	4.91	5.80
Paris – Prime Yield		
Leased out	4.08	4.54
Total portfolio	4.08	4.54

Assumptions made at 31 December 2015					
Rental increases (%) - Offices	1	2	3	4	Year 5 and thereafter
Barcelona					
Leased out	0.5	0.75	1.25	2.0	2.0
Total portfolio	0.5	0.75	1.25	2.0	2.0
Madrid					
Leased out	0.5	0.75	1.25	2.0	2.0
Total portfolio	0.5	0.75	1.25	2.0	2.0
Paris					
Leased out	0.8	1.40	2.0	1.9	1.9
Total portfolio	0.8	1.40	2.0	1.9	1.9

Assumptions made at 31 December 2014					
Rental increases (%) - Offices	1	2	3	4	Year 5 and thereafter
Barcelona					
Leased out	2.5	2.5	2.5	2.5	2.5
Total portfolio	2.5	2.5	2.5	2.5	2.5
Madrid					
Leased out	2.5	2.5	2.5	2.5	2.5
Total portfolio	2.5	2.5	2.5	2.5	2.5
Paris					
Leased out	0.5	1.5	2.0	2.0	2.0
Total portfolio	0.5	1.5	2.0	2.0	2.0

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

A change of one-quarter of one point in yields would have the following impact on the valuations used by the Group at 31 December 2015 and 2014 to determine the value of its investment property:

	Thousands of euros		
Sensitivity of valuations to a change of one quarter of a point in yields	Valuation	Decrease of one quarter of a point	Increase of one quarter of a point
December 2015	6,912,522	+431,620	(383,189)
December 2014	5,757,247	+307,574	(302,901)

The table below details the borrowing costs capitalised in 2015 and 2014 (Note 20-g):

	Thousands of euros	
	Amount capitalised during the period	Average interest rate
2015:		
Danieltown Spain, S.L.U.	1	3.40%
SFL subgroup	6,048	2.77%
Total 2015:	**6,049**	**-**
2014:		
SFL subgroup	7,473	3.52%
Total 2014:	**7,473**	**-**

The rental income earned in 2015 and 2014 from the lease of investment properties amounted to 231,185 thousand and 211,477 thousand euros, respectively (Note 20-a), and is recognised under “Revenue” in the accompanying consolidated statement of comprehensive income.

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

Assets held under finance leases

The rights of use and purchase options arising from property, plant and equipment and investment properties classified as finance leases are recorded at the asset's cash value at acquisition, according to the underlying asset whenever the lease terms transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group. At 31 December 2015 and 2014, all these rights related to investment property and are therefore measured at market value and are not depreciated.

"Bank borrowings and other financial liabilities" (Note 14), both current and non-current, in the consolidated statement of financial position include the total liability from lease payments at their present value less deferred expenses. Financial transaction expenses are charged to the consolidated statement of comprehensive income each time a lease payment is made throughout the life of the lease in accordance with financial criteria.

All other leases are deemed to be operating leases and are expensed on an annual accrual basis.

d) Impairment of property, plant and equipment

At each reporting date, the Colonial Group assesses the carrying amounts of its property, plant and equipment to determine if there are indications that the assets have been impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash inflows that are independent of those from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

e) Financial instruments (excluding derivative financial instruments)

Financial assets (Note 10)

Initial measurement

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

Classification and subsequent measurement

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

- Investments accounted for using the equity method are carried at the Group's share of the associate's equity, adjusted for unrealised gains at the time of acquisition.

- Loans and receivables include the credit facilities granted to third parties and associates. They are measured at their nominal value and classified according to maturity. This heading also includes non-current deposits and guarantees granted, primarily in relation to deposits made with official entities in connection with security deposits collected from lessees, in accordance with prevailing legislation.

- Non-derivative financial assets include current and non-current fixed-income securities which are generally held until maturity and measured at amortised cost. Short-term fixed income securities are recognised under “Current financial assets” in the consolidated statement of financial position. Interest income is calculated in the year in which it accrues on a time proportion basis.

Financial liabilities (Note 14)

Financial liabilities consist primarily of loans from banks and are recognised at amortised cost.

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

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

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

f) Receivables (Note 12)

Receivables are carried at recoverable value, i.e., net, where applicable, of the provisions recognised to cover past-due balances where circumstances warrant their consideration as bad debts. At 31 December 2015 and 2014, the Group had no significant receivables past due but not impaired.

In 2015, impairment losses in the amount of 1,167 thousand euros relating to accounts receivable were charged to “Net change in provisions” in the consolidated statement of comprehensive income for the year.

g) Cash and cash equivalents (Note 14)

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

h) Own equity instruments (Note 13)

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

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

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

i) Provisions and contingent liabilities (Notes 17 and 19)

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

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

- Contingent liabilities: possible obligations arising as a consequence of past events, depending on the occurrence of one or more future events over which the consolidated companies do not have control.

The consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled (Note 17). Contingent liabilities are not recognised, but are disclosed in Note 19.

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

j) Employee benefits

Termination benefits

Under current legislation, the Group is required to pay severance to employees terminated under certain conditions. Severance payments which can be reasonably quantified are recorded as an expense in the year in which the decision to terminate the contract is taken and a valid expectation regarding termination is transmitted to third parties. At 31 December 2015, the Parent recorded a provision in this connection for 752 thousand euros.

Pension obligations (Note 17)

At 31 December 2015, the SFL subgroup had several defined-benefit pension plans. Defined benefit obligations are calculated periodically by independent actuarial experts. The actuarial assumptions currently used to calculate these liabilities are adapted to applicable French legislation, in accordance with IAS 19. The actuarial cost recorded in the consolidated statement of comprehensive income in relation to said plans is the sum of the service costs for the period, interest expense and actuarial gains and losses.

Share-based payments (Note 21)

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

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

k) Derivative financial instruments (Note 15)

The Group uses financial derivatives to manage its exposure to variations in interest rates. All derivative financial instruments, whether or not designated as hedging instruments, are carried at fair value: market value in the case of listed securities, or according to option valuation methods or discounted cash flow analysis for non-listed securities. The fair value of the derivative financial instruments is determined based on the valuations made by independent experts (Solventis in 2015 and 2014).

The following valuation criteria have been applied:

- Cash-flow hedges: fair value gains or losses arising on transactions which classify for hedge accounting are recorded, net of taxes, directly in equity, under "Valuation adjustments recognised in equity - financial instruments", until the underlying or expected transaction occurs, at which point gains and losses are released to the consolidated statement of comprehensive income. Any valuation gains and losses on the ineffective portion of the hedge are recognised directly in the consolidated statement of comprehensive income.

- Treatment of financial instruments which are not allocated to a specific liability and do not qualify for hedge accounting: fair value changes in these financial instruments are recognised directly in the consolidated statement of comprehensive income.

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

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

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

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

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

The method used to determine the effectiveness of hedging instruments consists of calculating the statistical correlation between the benchmark interest rates at each measurement date for the derivative and the hedged liability.

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

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

l) Current / non-current

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

The Group’s main activity is the rental business, the normal cycle of which is considered to correspond to the calendar year; consequently, assets and liabilities maturing in one year or less are classified as current and those maturing thereafter as non-current.

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

m) Income tax (Note 18)

General regime

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

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

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

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

In accordance with that established in IAS 12, the measurement of the Group's deferred tax liabilities reflects the tax consequences that would follow from the manner in which the carrying amount of its assets is expected to be recovered or settled. In this regard, for deferred tax liabilities that arise from investment properties that are measured using the fair value model of IAS 40, there is a rebuttable presumption that their carrying amount will be recovered through their sale. Consequently, the deferred tax liabilities arising from the Group's investment properties located in Spain and from investments in companies that form part of the tax group, were calculated by applying a tax rate of 25%, less any existing tax credits not recognised at 31 December 2015. The effective settlement rate was therefore set at 7.5%.

The Parent heads a group of companies filing consolidated tax returns under tax group no. 6/08.

SIIC regime – SFL subgroup

Since 1 January 2003, the SFL subgroup companies file under the French tax regime applicable to listed real estate investment companies (“the SIIC regime”). This regime enabled the recognition at market value of assets allocated to the rental business at 1 January 2003, subject to a tax rate of 16.5% (“exit tax”), payable within a period of four years, on the capital gains from the asset revaluations recorded for accounting purposes as of this date.

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

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

On 30 December 2006, a new amendment to the SIIC regime was passed ("SIIC 4") which stipulated, inter alia, the following:

- To be able to continue under this regime, the maximum holding an individual shareholder may own in an SIIC company is 60%. A two-year transition period was established for meeting this requirement, which meant a deadline of 30 December 2008.

- Dividends paid annually to shareholders that hold, directly or indirectly, more than 10% of the capital of an SIIC and which are exempt from tax or are subject to a tax that is less than two-thirds of the standard French income tax rate would be subject to a 20% levy, payable by the SIIC company. This rule applies to dividends distributed from 1 July 2007.

On 18 December 2008, a new amendment to the SIIC regime ("SIIC 5") was approved, postponing the deadline for limiting the maximum holding of a single shareholder in an SIIC company to 60% until 1 January 2010. The Parent holds an ownership interest of less than 60% in SFL.

At 31 December 2007, the Parent notified SFL that dividends distributed from 1 July 2007 would be taxed in Spain at a rate of over 11.11% as a result of the partial application of the deduction for double taxation of these dividends. As a result, the 20% withholding described above is not being applied.

n) Recognition of revenue and expenses (Note 20)

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

However, in accordance with the accounting principles established in the IFRS conceptual framework, the Group recognises all accrued revenue and necessary associated expenses. Revenue from goods sold is recognised when the goods have been delivered and ownership transferred.

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

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

Property leases

In accordance with IAS 17, leases are classified as finance leases whenever their terms imply that substantially all the risks and rewards incidental to ownership of the leased asset have been transferred. All other leases are classified as operating leases. In this regard, at 31 December 2015 and 2014, all of the Group's leases qualified as operating leases, except for the finance leases described in Note 9.

Rental income from operating leases is recognised on a straight-line basis over the lease term.

Specific lease terms and conditions

Lease agreements include certain specific conditions linked to incentives or rent-free periods offered by the Group to its customers. In accordance with SIC 15, the Group recognises the aggregate cost of incentives granted as a reduction in rental income over the term of the lease on a straight-line basis. The effects of the rent-free periods are recognised during the minimum term of the lease agreement.

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

o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of property developments (Note 4-c), which are assets that require preparation during a significant period of time for their intended use or sale, are capitalised until these assets are substantially in condition for their intended use or sale.

p) Consolidated statement of cash flows (indirect method)

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

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

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

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

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

q) Costs passed on to lessees

In accordance with IFRSs, the Group does not consider costs passed on to lessees of its investment property as revenue. In 2015 and 2014, the Group invoiced 45,357 thousand and 40,616 thousand euros, respectively, in connection with costs passed on to lessees, recognising them as a reduction in the related expense heading in the consolidated statement of comprehensive income.

Direct operating expenses associated with investment properties which generated rental income during the years ended 31 December 2015 and 2014, included under “Operating profit” in the accompanying consolidated statements of comprehensive income, amounted to 63,010 thousand and 61,374 thousand euros, respectively. Expenses incurred in connection with investment properties that did not generate rental income were not material.

r) Related party transactions

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

s) Non-current assets held for sale and discontinued operations (Note 24)

s.1) Non-current assets held for sale

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

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

The Colonial Group classifies non-current assets as assets held for sale when the Board of Directors or Executive Committee has officially approved the disposal and the sale is considered highly probable within a period of twelve months. The accompanying consolidated statement of financial position includes under this heading all the assets which at the date of authorising these consolidated financial statements for issue met all the requirements for classification as held for sale.

s.2) Discontinued operations

Discontinued operations consist of the sale, disposal in other ways or classification as "held for sale" of a component of the Group, which in addition:

- represents a separate major line of business or geographical area of operations,
- is part of an individual coordinated plan to dispose of a separate major line of business or geographical area of operations, or
- is a subsidiary acquired exclusively with a view to resale.

In keeping with the above, the Group considers that sales of investment properties (non-current assets) made as part of its ordinary business activities and included in the asset rotation plan should be classified as held for sale in the consolidated statement of financial position, to the extent they meet the conditions for such classification but do not require disclosure as discontinued operations, as they do not meet the requirements established above.

When a transaction qualifies as a discontinued operation, the Group presents the profit after tax of this discontinued operation under a single heading in the consolidated statement of comprehensive income, together with the possible loss resulting from its recognition at the lower of its carrying amount and fair value, less costs to sell, and the loss or gain if the asset is disposed of.

At 31 December 2013, the Parent carried its interest in Asentia as a non-current asset held for sale and the activity of its land and development business segment as a discontinued operation. On 25 February 2014, the interest in Asentia was no longer included in Colonial's scope of consolidation.

t) *Fair value hierarchy*

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

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

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

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

In accordance with IFRS 13, the Group estimated the bilateral credit risk in order to reflect both its own risk, as well as counterparty risk in the fair value of its derivatives (Note 4-k). Credit risk at 31 December 2015 was not considered to be material.

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

31 December 2015

	Thousands of euros		
	Level 1	Level 2	Level 3
Assets			
Investment property	-	-	6,743,313
Derivative financial instruments (*)	-	-	-
Non-current assets held for sale	-	-	12,727
Total assets	**-**	**-**	**6,756,040**
Liabilities			
Bank borrowings and other liabilities	-		573,516
Bonds and similar securities issued (**)	2,732,273	-	-
Derivative financial instruments (*)			
Cash flow hedges	-	3,058	-
Not classified as hedges	-	2,778	-
Total liabilities	**2,732,273**	**5,836**	**573,516**

(*) At 31 December 2015, the fair value of the derivative financial instruments did not differ significantly from the carrying amount recognised in the accompanying consolidated statement of financial position (Note 15).
(**) At 31 December 2015, the carrying amount of the bonds issued by SFL and the Parent was 1,456,500 and 1,250,000 thousand euros, respectively. (Note 14).

31 December 2014

	Thousands of euros		
	Level 1	Level 2	Level 3
Assets			
Investment property	-	-	5,663,309
Derivative financial instruments (*)	-	1,884	-
Non-current assets held for sale	-	-	16,539
Total assets	**-**	**1,884**	**5,679,848**
Liabilities			
Bank borrowings and other liabilities	-		1,541,814
Bonds and similar securities issued (**)	1,251,121	-	-
Derivative financial instruments (*)			
Cash flow hedges	-	7,787	-
Not classified as hedges	-	5,582	-
Total liabilities	**1,251,121**	**13,369**	**1,541,814**

(*) At 31 December 2014, the fair value of the derivative financial instruments did not differ significantly from the carrying amount recognised in the accompanying consolidated statement of financial position (Note 15).
(**) At 31 December 2014, the carrying amount of the bonds issued by SFL was 1,200,000 thousand euros (Note 14).

5. Earnings per share

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

Diluted earnings per share are calculated in a manner similar to basic earnings per share, except that the weighted average number of shares outstanding is adjusted to take into account the potential dilutive effect of the convertible bonds outstanding at year-end. At 31 December 2014, all the outstanding bonds at 31 December 2013, amounting to 15,184, were converted into shares of the Parent (Note 13).

	Thousands of euros	
	31 December 2015	31 December 2014
Consolidated profit for the year attributable to shareholders of the Parent:	**415,413**	**491,994**
- from continuing operations	415,413	(208,746)
- from discontinued operations	-	700,740
	No. of shares	No. of shares
Average number of ordinary shares (in thousands)	3,185,837	2,156,420
Number of potential ordinary shares resulting from the conversion of bonds (in thousands)	-	-
Average number of diluted ordinary shares (in thousands)	3,185,837	2,156,420
	Euros	Euros
Basic and diluted earnings per share:	**0.130**	**0.228**
- from continuing operations	0.130	(0.097)
- from discontinued operations	-	0.325

6. Segment reporting

Segmentation criteria

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

The business segments described below have been defined in line with the Colonial Group's organisational structure at 31 December 2015, which has been used by the Group's management to analyse the financial performance of the various operating segments.

Until the date on which effective control over the Asentia subgroup was lost (Note 2-f), the Group was organised along the following main business segments, which formed the basis on which the Group presented the information on its operating segments:

- The rental business, which includes office rentals. The Parent's management monitors its rental activities for each one of the markets in which the Group operates. The Barcelona, Madrid and Paris operating segments reflect the organisational structure of the Colonial Group.

- The land and development business, which includes the shopping centres managed by the Riofisa subgroup.

- Revenue and expenses which are not directly related and allocated to these lines of business are allocated to the "Corporate Unit".

Following the deconsolidation of Asentia, all of the Group's activities were carried out in Spain and France within the property rental segment.

Basis and methodology for business segment reporting

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

Segment revenue comprises revenue directly attributable to each segment, as well as gains from the sale of investment properties. Segment revenue excludes both interest and dividend income. The Group has included within segment revenue its share of revenue of proportionally consolidated joint ventures.

Segment expenses comprise operating expenses directly attributable to each segment and losses on the sale of investment properties. Allocated expenses do not include interest expense, income tax or general administrative expenses incurred in the provision of general services that are not directly allocated to any business segment and that cannot be so allocated following any rational criteria. Segment expenses include the share of expenses of proportionately consolidated joint ventures.

Segment assets and liabilities are those directly related to that business' activities and operations. They include the share of assets/liabilities of proportionately consolidated joint ventures. The Group has no set criteria for allocating borrowings or equity by business segment. Borrowings are attributed in full to the "Corporate Unit".

Segment information for these businesses is as follows:

2015 segment reporting

	Thousands of euros							
	Rentals					**Development & land**	**Corporate Unit**	**Total Group**
	Barcelona	Madrid	Paris	Other	Total rentals			
Income	27,102	35,331	170,099	-	232,532	-	1,796	**234,328**
Revenue (Note 20-a)	27,087	35,304	168,794	-	231,185	-	-	**231,185**
Other income (Note 20-b)	15	27	1,305	-	1,347	-	1,796	**3,143**
Net gain/(loss) on sales of assets (Notes 20-f)	-	-	-	-	-	-	-	**-**
Operating profit/(loss)	22,972	30,399	155,130	(245)	208,256	-	(38,703)	**169,553**
Change in fair value of investment property (Note 20-f)	92,233	118,776	513,654	(4,681)	719,982	-	-	**719,982**
Impairment charges and net gains/(losses) on assets (Note 20-e)	(2,880)	(390)	(11)	-	(3,281)	-	807	**(2,474)**
Financial loss (Note 20-g)	-	-	-	-	-	-	(131,119)	**(131,119)**
Profit before tax	-	-	-	-	-	-	755,942	**755,942**
Consolidated net profit from continuing operations	-	-	-	-	-	-	703,145	**703,145**
Profit/(loss) from discontinued operations	-	-	-	-	-	-	-	-
Consolidated net profit	-	-	-	-	-	-	703,145	**703,145**
Net loss attributable to non-controlling interests (Notes 20-i)	-	-	-	-	-	-	(287,732)	**(287,732)**
Net profit attributable to shareholders of the Parent (Note 5)	-	-	-	-	-	-	415,413	**415,413**

There were no significant inter-segment transactions in 2015.

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

	Thousands of euros							
	Rentals					Development & land	Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total rentals			
Assets								
Intangible assets, property, plant and equipment and investment property (Notes 8 and 9)	682,333	962,490	5,100,299	(4)	6,745,118	-	34,403	**6,779,521**
Financial assets	91,213	1,208	13,182	-	105,603	-	121,136	**226,739**
Other non-current assets	-	-	-	-	-	-	1,021	**1,021**
Trade receivables and other current assets	-	-	-	-	-	-	109,518	**109,518**
Non-current assets held for sale (Note 24)	-	6,942	-	5,785	12,727	-	-	**12,727**
Total	**773,546**	**970,640**	**5,113,481**	**5,781**	**6,863,448**	**-**	**266,078**	**7,129,526**

	Thousands of euros							
	Rentals					Development & land	Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total rentals			
Liabilities								
Bank borrowings and other financial liabilities (Note 14)	-	-	-	-	-	-	572,552	**572,552**
Bonds and similar securities issued (Note 14)	-	-	-	-	-	-	2,715,240	**2,715,240**
Trade liabilities (suppliers and payables)	-	-	-	-	-	-	85,642	**85,642**
Other disclosures								
Investments in intangible assets, property, plant and equipment and investment property	4,789	168,290	192,265	-	365,344	-	186	**365,530**

	Thousands of euros							
	Rentals					**Development & land**	**Corporate Unit**	**Total Group**
	Barcelona	Madrid	Paris	Other	Total rentals			
Other disclosures								
Depreciation and amortisation charge	(1)	-	(492)	-	(493)	-	(1,183)	**(1,676)**
Expenses that do not entail outflows of cash other than the depreciation and amortisation charge for the year								
Changes in provisions	6	(994)	(252)	-	(1,240)	-	(2,082)	**(3,322)**
Change in fair value of investment property (Note 20-f)	92,233	118,776	513,654	(4,681)	719,982	-	-	**719,982**
Impairment charges and net gains/(losses) on assets (Note 20-e)	(2,880)	(390)	(11)	-	(3,281)	-	807	**(2,474)**

2014 segment reporting

	Thousands of euros							
	Rentals					Development & land	Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total rentals			
Income	28,088	32,542	153,453	-	214,083	-	-	**214,083**
Revenue (Note 20-a)	27,525	32,444	151,508	-	211,477	-	-	**211,477**
Other income (Note 20-b)	563	98	1,945	-	2,606	-		**2,606**
Net gain/(loss) on sales of assets (Notes 20-f)	(27)	-	-	-	(27)	-	-	**(27)**
Operating profit/(loss)	23,400	28,070	121,521	(321)	172,670	-	(57,764)	**114,906**
Change in fair value of investment property (Note 20-f)	22,244	83,777	227,542	(1,610)	331,953	-	-	**331,953**
Impairment charges and net gains/(losses) on assets (Note 20-e)	(623)	(4,296)	-	-	(4,919)	-	(119,660)	**(124,579)**
Financial loss (Note 20-g)	-	-	-	-	-	-	(218,873)	**(218,873)**
Profit before tax	-	-	-	-	-	-	103,407	**103,407**
Consolidated net loss from continuing operations	-	-	-	-	-	-	(72,376)	**(72,376)**
Profit from discontinued operations	-	-	-	-	-	700,861	-	**700,861**
Consolidated net profit	-	-	-	-	-	-	628,485	**628,485**
Net loss attributable to non-controlling interests (Notes 20-i)	-	-	-	-	-	-	(136,491)	**(136,491)**
Net profit attributable to shareholders of the Parent (Note 5)	-	-	-	-	-	-	491,994	**491,994**

There were no significant inter-segment transactions in 2014.

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

	Thousands of euros							
	Rentals					Development & land	Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total rentals			
Assets								
Intangible assets, property, plant and equipment and investment property (Notes 8 and 9)	588,188	675,762	4,399,347	-	5,663,297	-	35,483	**5,698,780**
Financial assets	61,224	1,127	17,826	-	80,177	-	55,912	**136,089**
Other non-current assets	-	-	-	-	-	-	1,548	**1,548**
Trade receivables and other current assets	-	-	-	-	-	-	72,521	**72,521**
Non-current assets held for sale (Note 24)	-	6,994	-	9,545	16,539	-	-	**16,539**
Total	**649,412**	**683,883**	**4,417,173**	**9,545**	**5,760,013**	-	**165,464**	**5,925,477**

	Thousands of euros							
	Rentals					Development & land	Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total rentals			
Liabilities								
Bank borrowings and other financial liabilities (Note 14)	-	-	-	-	-	-	1,553,419	**1,553,419**
Bonds and similar securities issued (Note 14)	-	-	-	-	-	-	1,204,339	**1,204,339**
Trade liabilities (suppliers and payables)	-	-	-	-	-	-	104,302	**104,302**
Other disclosures								
Investments in intangible assets, property, plant and equipment and investment property	24,719	3,313	358,686	-	386,718	-	237	**386,955**

	Thousands of euros							
	Rentals					**Development & land**	**Corporate Unit**	**Total Group**
	Barcelona	Madrid	Paris	Other	Total rentals			
Other disclosures								
Depreciation and amortisation charge	-	-	(1,011)	-	(1,011)	-	(433)	**(1,444)**
Expenses that do not entail outflows of cash other than the depreciation and amortisation charge for the year								
Changes in provisions	7	(226)	290	-	71	-	(18,012)	**(17,941)**
Change in fair value of investment property (Note 20-f)	22,243	85,385	227,542	1	335,171	-	-	**335,171**
Impairment charges and net gains/(losses) on assets (Note 20-e)	(623)	(4,296)	-	-	(4,919)	-	(119,660)	**(124,579)**

7. Goodwill

The changes in “Goodwill” in the consolidated statement of financial position in 2015 and 2014 were as follows:

	Thousands of euros
Balance at 31 December 2013	**120,000**
Impairment	(120,000)
Balance at 31 December 2014	**-**

Goodwill included that arising from the business combination between the current Inmobiliaria Colonial, S.A. (formerly, Inmocaral Servicios, S.A.) and Inmobiliaria Colonial, S.A. (absorbed company).

To test the goodwill allocated to the rental business CGU for impairment, the Parent’s management relied on historical Group data for the Spanish and French businesses, making rental projections for the properties already leased, as well as factoring in management and administrative cost assumptions.

Since 2012, goodwill has been entirely allocated to the French rentals business. Consequently, the impairment testing of goodwill carried out at year-end 2013 and 2012 relied only on the cash flows of the Group's rentals business in France.

In 2014, the Parent's directors re-assessed the recoverability of goodwill, considering mainly the effect of the sale of the interest held in SIIC de Paris, (Note 2-f) and the positive trend in the value of SFL's property assets (Note 6). This eliminated the difference between the recoverable amount of SFL's assets considered in the impairment test and their fair value, determined based on the assessments carried out by independent third parties, and generated a gain of 227,542 thousand euros as a result of changes in value of SLF's investment property in 2014 (Note 20-f). As a result of this verification, the impairment on all this goodwill was recognised under “Impairment charges and net gains/(losses) on assets” in the consolidated statement of comprehensive income and amounted to 120,000 thousand euros (Note 20-e).

8. Property, plant and equipment

The movement in property, plant and equipment in 2015 and 2014 was as follows:

	Thousands of euros								
	Property for own use			Other property, plant and equipment		Total			
	Cost	Accumulated depreciation	Impairment	Cost	Accumulated depreciation	Cost	Accumulated depreciation	Impairment	**Total**
Balance at 31 December 2013	**43,095**	**(6,986)**	**(8,948)**	**10,774**	**(4,983)**	**53,869**	**(11,969)**	**(8,948)**	**32,952**
Additions or charges	15	(273)	-	73	(832)	88	(1,105)	-	(1,017)
Decreases	-	-	340	(82)	59	(82)	59	340	317
Transfers	-	-	-	789	(56)	789	(56)	-	733
Balance at 31 December 2014	**43,110**	**(7,259)**	**(8,608)**	**11,554**	**(5,812)**	**54,664**	**(13,071)**	**(8,608)**	**32,985**
Additions or charges	2	(273)	-	163	(883)	165	(1,156)	-	(991)
Decreases	-	-	808	(454)	53	(454)	53	808	407
Transfers	-	-	-	717	-	717	-	-	717
Balance at 31 December 2015	**43,112**	**(7,532)**	**(7,800)**	**11,980**	**(6,642)**	**55,092**	**(14,174)**	**(7,800)**	**33,118**

At 31 December 2015 and 2014, the Group used two floors of the building located at Avenida Diagonal, 530, in Barcelona, one floor of the building located at Paseo de la Castellana, 52, in Madrid, and one floor of the building located at 42 rue Washington in Paris for its own use, while the rest of these buildings are rented out. The value of buildings used for the Group's own purposes is recognised in "Property for own use".

At 31 December 2015, the need to recognise a reversal of the asset impairment charge recognised in previous years in the amount of 808 thousand euros was evidenced by the appraisals performed by independent experts (Note 20-e). In 2014, the Company recognised the reversal of the impairment loss on the value of the assets recognised in previous years in the amount of 340 thousand euros.

At 31 December 2015, as a result of the disposal by part of the Group of assets included under "Other tangible assets", the revenue generated, stated as the difference between its sale price and its carrying amount, is recognised in the consolidated statement of comprehensive income. This amounts to 14 thousand euros.

9. Investment property

The changes in this heading of the consolidated statement of financial position in 2015 and 2014 were as follows:

	Thousands of euros			
	Investment property	Investment property in progress	Prepayments	**Total**
Balance at 31 December 2013	**4,602,391**	**307,006**	**6,669**	**4,916,066**
Additions	261,767	120,981	3,095	**385,843**
Decreases	(5,067)	-	(3,184)	**(8,251)**
Transfers	149,837	(115,357)	-	**34,480**
Changes in fair value (Note 20-f)	336,034	(863)	-	**335,171**
Balance at 31 December 2014	**5,344,962**	**311,767**	**6,580**	**5,663,309**
Additions	187,285	148,627	-	**335,912**
Additions to the scope of consolidation (Note 2-f)	-	29,971	-	**29,971**
Decreases	(3,281)	-	(6,580)	**(9,861)**
Transfers	328,854	(329,987)	-	**(1,133)**
Changes in fair value (Note 20-f)	716,452	8,663	-	**725,115**
Balance at 31 December 2015	**6,574,272**	**169,041**	**-**	**6,743,313**

Changes in 2015

In May 2015, the Parent acquired 100% of the share capital of the Spanish company Danieltown Spain, S.L.U., the owner of a property located in Madrid on calle Estébanez Calderón (Note 2-f). This acquisition resulted in an addition to the scope of consolidation in the amount of 29,971 thousand euros.

In June 2015, SFL acquired a property located in Paris, on avenue Percier, for 67,547 thousand euros.

In 2015, the Parent also acquired three properties located in Madrid for a total of 134,871 thousand euros, including acquisition costs.

Lastly, the Group carried out development and renovation projects on SFL properties amounting to 125,256 thousand euros (Richelieu, Call-LdA, Champs Élysées 90 and Washington Plaza, etc.), and made investments in other properties owned by other Group companies for approximately 8,238 thousand euros.

Changes in 2014

In December 2014, SFL acquired a property in Paris (Condorcet) for 229,438 thousand euros. The Parent also acquired an asset located in Barcelona (Pza. Europa) for 10,587 thousand euros.

Additions in 2014 also include investments made in development and renovation projects, mainly at properties of the SFL subgroup, for the amount of 125,279 thousand euros, and at properties of the Parent amounting to 17,444 thousand euros.

A further property was transferred from “Non-current assets held for sale” to “Investment property – Investment property in progress” in the amount of 34,480 thousand euros. In addition, the costs of the refurbishment work and the partial renovation carried out on the properties of SFL were transferred from “Investment property in progress” to “Investment property”.

Changes in fair value of investment property

"Changes in fair value of investment property" in the consolidated statement of comprehensive income includes a net gain on the value of investment property in 2015 and 2014 of 725,115 thousand and 335,171 thousand euros, respectively (Note 20-f). These changes reflect the changes in the fair value of the Group's investment properties evidenced by the independent property appraisals dated 31 December 2015 and 2014 (Note 4-c).

Other disclosures

The total surface area (above and under-ground) of investment property and projects under development at 31 December 2015 and 2014 is as follows:

	Total surface area (m^2) of investment property					
	For rental		Projects under development		Total	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Barcelona (*)	285,935	283,995	31,520	33,227	317,455	317,222
Madrid	256,105	229,579	30,014	1,499	286,119	231,078
Rest of Spain	458	458	-	-	458	458
Paris (*)	414,190	372,050	51,272	87,115	465,462	459,165
	956,688	**886,082**	**112,806**	**121,841**	**1,069,494**	**1,007,923**

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

At 31 December 2015, SFL and Torre Marenostrum, S.L. pledged assets as collateral for mortgage loans, the carrying amount of which is 932,850 thousand euros, and as collateral for debts in the amount of 273,479 thousand euros. At 31 December 2014, the corresponding balances were 836,351 thousand and 273,941 thousand euros.

At 31 December 2014, the Parent also pledged investment property as collateral for the syndicated loan (Note 14), the carrying amount of which was 1,145,483 thousand euros. At 31 December 2015, after the early cancellation of said syndicated loan, these guarantees were cancelled.

Since February 1999, the Parent has also been awaiting a ruling on various suits brought in connection with a purchase agreement signed for the acquisition of the building located at Francisco Silvela, 42 in Madrid for 21,799 thousand euros, which are recognised under "Trade payables". Inmobiliaria Colonial, S.A. has deposited a bank guarantee in court for the amount on which payment is pending (Note 16). On 19 March 2014, the Parent and the sellers signed an agreement setting out the formalisation of the purchase of the asset by the Parent and the related payment of the outstanding amount, less the 432 thousand euros in legal costs borne by the Parent, putting an end to the legal proceedings. This agreement was approved by the Court on 4 November 2015. At 31 December 2015, the building was already entered in the property register on behalf of the Parent and the guarantee securing the amount payable has yet to be legally executed.

At 31 December 2015 and 2014, the Group had one property held under finance leases, the Prony – Wagram property owned by SFL. The following table shows the information relating to this lease:

Prony Wagram	Average term in years	Average number of years elapsed	Thousands of euros		
			Asset's net carrying amount	Payments outstanding	
				Non-current	Current
31 December 2015	7	6.5	27,271	-	27,271
31 December 2014	7	5.5	30,061	27,271	2,790

10. Non-current financial assets

The changes in this heading of the consolidated statement of financial position in 2015 and 2014 were as follows:

	Thousands of euros				
	31 December 2014	Acquisitions and charges	Disposals or decreases	Transfers to assets held for sale	31 December 2015
Deposits and guarantees given	10,070	888	(2,004)	-	8,954
Total	**10,070**	**888**	**(2,004)**	**-**	**8,954**

	Thousands of euros				
	31 December 2013	Acquisitions and charges	Disposals or decreases	Transfers to assets held for sale	31 December 2014
Investments accounted for using the equity method (Note 4-e)	302,341	1,980	(9,455)	(294,866)	-
Deposits and guarantees given	7,409	2,661	-	-	10,070
Total	**309,750**	**4,641**	**(9,455)**	**(294,866)**	**10,070**

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

As a result of restructuring the financial debt of Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. (hereinafter, "DUE"), the Parent granted a loan for a maximum of 85,000 thousand euros, the purpose of which, among others, is to finance the development of the project implemented by DUE and to cover the costs related to the work yet had to be carried out on the UE-1. In this regard, the amount yet to be drawn down by DUE at 31 December 2015 totalled 11,232 thousand euros, and for such purpose, in accordance with the obligations assumed, the Parent recognise the appropriate provision under "Other non-current provisions" in the accompanying consolidated statement of financial position.

In accordance to the provisions of the agreement between both companies, the loan granted by the Parent may be converted into a participating loan provided that the company DUE is the process of dissolution. In this regard, on 25 June 2015, in response to the request by DUE, 72,451 thousand euros were converted into a participating loan.

Lastly, the aforementioned loan accrues contingent interest based on compliance with certain conditions: At 31 December 2015 and 2014, no finance income was accrued in this connection.

Loan to Asentia Project, S.L. –

As a result of enforcing the guarantees delivered to the creditor financial institutions of Asentia by the creditors of the aforementioned company, the Parent also received as consideration a collection right for an initial nominal value of 275,000 thousand euros, the value of which was set at 0 euros (Note 13).

On 28 May 2015, Asentia increased its share capital, partially subscribed by the Parent by means of the non-monetary contribution of the abovementioned collection right, which was valued by an independent third party (BDO Auditores, S.L.) appointed by the Mercantile Registry at 384 thousand euros. After this increase, the interest of the Parent in Asentia rose to 0.069%. Likewise, on 10 December 2015, the residual shareholding held at 31 December 2014 was sold to Asentia for 4 thousand euros.

Investments accounted for using the equity method

The movement in "Investments accounted for using the equity method" in 2014 is as follows:

	Thousands of euros
	SIIC de Paris, S.A.
Balance at 31 December 2013	**302,341**
Acquisitions or share of profit	1,980
Disposals or dividends received	(9,455)
Changes in the scope of consolidation (Note 2-f)	(294,866)
Balance at 31 December 2014	**-**

In 2014, SLF entered into an agreement with Eurosic for the sale of all its interest in the share capital of SIIC de Paris at a price of 23.88 euros per share (discounting the amount of any future dividend that may be paid after the agreement), conditional on the effective acquisition by Eurosic of the interest owned by Realia in SIIC de Paris. On 23 July 2014, the shares were transferred and the sale price, net of transfer costs, amounted to 303,351 thousand euros, generating an accounting gain of 8,485 thousand euros (Note 20-g).

Deposits and guarantees given

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

11. Other non-current assets

This heading includes the account receivable held with companies of a former shareholder of the Parent relating to the tax effect of the difference between the tax and accounting bases of the assets contributed in the capital increase of 29 June 2006. The aforementioned account receivable is secured by means of a first demand guarantee.

In 2015 the Parent returned the guarantees corresponding to the amounts deemed unrecoverable, thus recognising in the consolidated statement of financial position only those amounts considered to be recoverable, which amounts to 7,751 thousand euros. This amount was fully impaired at 31 December 2015 and 2014.

12. Trade and other receivables

The breakdown of this current asset heading in the accompanying consolidated statement of financial position at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	31 December 2015	31 December 2014
Trade receivables from sales and services	16,793	14,634
Accrual of lease incentives	59,160	43,614
Other receivables	85,630	156,074
Impairment of trade receivables (Note 20-e)	(90,093)	(157,495)
Other current assets	476	1,179
Total trade and other receivables	**71,966**	**58,008**

Trade receivables from sales and services

This mainly includes the amounts receivable from customers, primarily from the Group's rentals business in France, that are billed monthly, quarterly or yearly. At 31 December 2015 and 2014, no material amounts were past due.

Accrual of lease incentives

This includes the amount of the incentives in the operating lease agreements (rent-free periods, etc.) that the Group offers its customers, which are recognised in the consolidated statement of comprehensive income during the minimum operating lease term (Note 4-n).

Other receivables and impairment losses on trade receivables

At 31 December 2014, the amounts owed by Nozar, S.A. and NZ Patrimonio, S.L.U., resulting from the cancellation of the purchase contracts entered into in July 2007 as a result of failing to comply with the conditions precedent, are recognised under “Other receivables”, and totalled 152,189 thousand euros, including accrued interest (Note 20-e).

At 31 December 2015, the Parent derecognised from the consolidated statement of financial position the amount receivable from NZ Patrimonio, S.L.U., together with the corresponding impairment loss of 66,717 thousand euros, as soon as the insolvency manager disposed of all of its assets, without the amounts obtained being sufficient to pay that owed to the Parent.

Nozar, S.A. is currently involved in bankruptcy proceedings; consequently, at 31 December 2015, the accompanying consolidated statement of financial position included an impairment loss for the entire amount of this company’s trade receivables.

13. Equity

Share capital

At 31 December 2013, the Company’s share capital was represented by 225,918,690 fully subscribed and paid shares with a par value of 1 euro each, all of which are represented by book entries.

The following changes in the Parent's share capital occurred in 2014:

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

- On 17 February 2014, the capital increase required to meet the last voluntary conversion of bonds convertible into shares of the Parent was registered in the Barcelona Mercantile Register, increasing the share capital by 0.5 thousand euros through the issue of 1,890 new shares with a par value of 0.25 euros.

- On 31 March 2014, the capital increase required to meet the ordinary redemption of all the outstanding bonds convertible into shares of the Parent was registered in the Barcelona Mercantile Register, increasing the share capital by 20 thousand euros through the issue of 79,101 new shares with a par value of 0.25 euros.

- On 6 May 2014, a capital increase for 734,499 thousand euros through the issuance of 2,937,995,853 new shares with a par value of 0.25 euros each was registered in the Barcelona Mercantile Register.

- On 8 May 2014, within the framework of the refinancing process, a capital increase for 486 thousand euros through the issuance of 1,944,444 new shares with a par value of 0.25 euros each was registered in the Barcelona Mercantile Register, each as a result of the exercise by the credit institution ING, of the warrants convertible into shares of the Parent, and which were delivered to guarantee the debt maintained by Abix Service, S.L.

- On 30 December 2014, a capital increase for 5,729 thousand euros through the issuance of 22,916,662 new shares with a par value of 0.25 euros each, was registered in the Barcelona Mercantile Register, each as a result of the exercise by the holding companies, of the warrants convertible into shares of the Parent, and which were delivered to guarantee the debt maintained by Asentia.

In 2015, there were no changes in the Parent's share capital and, therefore, at 31 December 2015 and 2014, the share capital was represented by 3,188,856,640 fully subscribed and paid shares with a par value of 0.25 euros each.

Based on the pertinent notifications regarding the number of company shares to the Spanish National Securities Market Commission (CNMV), the shareholders owning significant direct or indirect interests in the Parent at 31 December 2015 and 2014 are as follows:

31 December 2015

	% shareholding
Name or corporate name of the shareholder:	
Inmobiliaria Espacio, S.A.	14.567%
Qatar Investment Authority	13.138%
SICAV Amura Capital (Mora Banc Grup, S.A.)	7.050%
Aguila Ltd	6.886%
Joseph Charles Lewis	5.085%
Third Avenue Management LLC	3.065%
Fidelity International Limited	1.974%
Invesco Limited	1.110%
Deutsche Bank A.G.	0.917%

(*) Information dated 31 December 2015.

On 8 December 2015, Deutsche Bank A.G. reported that it had directly obtained a 0.917% interest in the share capital of the Parent, as well as the existence of financial instruments linked to shares of the Parent, which could give rise to, if exercised, an additional interest of 4.104% in Colonial's share capital.

On 1 January 2016, Orbis Allan Gray Limited indirectly acquired an interest of 1.211% of the share capital of the Parent. On 5 January 2016, Joseph Charles Lewis reduced his shareholding to 5.075%.

On 15 January 2016, Polygon European Equity Opportunity Master reported the existence of financial instruments linked to shares of the Parent, which could give rise to, if exercised, an additional interest of 1.035% in Colonial's share capital.

31 December 2014

	% shareholding
Name or corporate name of the shareholder:	
Inmobiliaria Espacio, S.A.	24.442%
Qatar Investment Authority	13.138%
SICAV Amura Capital (Mora Banc Grup, S.A.)	7.050%
Aguila Ltd	6.886%
T. Rowe Price Associates, INC	3.092%
Third Avenue Management LLC	3.065%
Fidelity International Limited	1.974%

(*) Information dated 31 December 2014.

The Parent has no knowledge of other significant equity interests.

On 30 June 2014, authorisation was given at the Parent’s General Shareholders’ Meeting for the Board of Directors to increase share capital, through monetary contributions, by up to half the existing amount, in one or several issues, within a maximum period of five years, at the time and for the amount deemed appropriate.

On 24 April 2015, the General Shareholders' Meeting authorised the Board of Directors to issue, on behalf of the Parent and in one or several issues, debentures, bonds and other fixed-income securities or debt instruments of a similar nature, both non-convertible and convertible into outstanding shares or other pre-existing securities of other entities, as well as promissory notes and preference shares; all of which with full powers of substitution and for a maximum term of five years. The total maximum amount of the issue or issues of the securities that may be performed under this authorisation may not exceed a combined amount of 2,000,000 thousand euros or its equivalent in any other currency.

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

Share premium

As a result of the capital increases described above, the following changes took place in the share premium in 2014:

- On 17 February 2014, the capital increase required to meet the last voluntary conversion of bonds convertible into shares of the Parent was registered in the Barcelona Mercantile Register, through the issue of 1,890 new shares with a share premium of 24.75 euros per share, thereby increasing the share premium by 47 thousand euros.

- On 31 March 2014, the capital increase required to meet the ordinary redemption of all the outstanding bonds convertible into shares of the Parent was registered in the Barcelona Mercantile Register, through the issue of 79,101 new shares with a share premium of 24.75 euros per share, thereby increasing the share premium by 1,958 thousand euros.

- On 6 May 2014, a capital increase of 2,937,995,853 new shares with a premium per share of 0.18 euros was registered in the Barcelona Mercantile Register, thereby increasing the share premium by 528,839 thousand euros.

- On 8 May 2014, a capital increase was registered in the Barcelona Mercantile Register relating to the exercise of the Abix warrants by ING, through the issue of 1,944,444 new shares with a premium per share of 11.75 euros, thereby increasing the share premium by 22,847 thousand euros.

- On 30 December 2014, a capital increase was registered in the Barcelona Mercantile Register relating to the exercise of the Asentia warrants, through the issue of 22,916,662 new shares with a premium per share of 11.75 euros, thereby increasing the share premium by 269,271 thousand euros. With regard to exercising the warrants of Asentia, the Parent received a collection right vis-à-vis Asentia for a nominal value of 275,000 thousand euros as a consideration for the shares issued (Notes 2-f and 10). The valuation carried out by an independent expert (BDO Auditores, S.L.), appointed by the Barcelona Mercantile Registry, placed the value of the collection right at 384 thousand euros and, therefore, the Parent recognised this collection right at 0 euros, reducing the amount of the share premium by 262,465 thousand euros. The net changes in the share premium therefore amounted to 6,806 thousand euros.

There were no changes to the share premium in 2015.

Legal reserve

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

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

Voluntary reserves

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

The Parent has set aside voluntary reserves of 1,160,107 thousand euros, of which 217,387 thousand are not freely available according to the shareholders' resolutions at the General Meeting held on 21 January 2014. This amount includes 47,948 thousand euros in restricted reserves for goodwill, which became available after the approval of the 2014 consolidated financial statements by the shareholders at the General Meeting.

Likewise, the capital increases in 2014 entailed costs of 50,028 thousand euros, which were recognised under “Reserves of the Parent” in the consolidated statement of changes in equity.

Valuation adjustments recognised in equity - financial instruments

This heading of the consolidated statement of financial position includes the net change in the fair value of financial derivatives designated as hedging instruments in cash flow hedges (Note 15).

The changes in this heading are as follows:

	Thousands of euros	
	31 December 2015	31 December 2014
Opening balance	(6,368)	(18,358)
Changes in the fair value of hedges in the period	196	1,248
Transfer to the statement of comprehensive income	3,668	5,425
Changes in the scope of consolidation (Note 2-f)	-	5,317
Closing balance	**(2,504)**	**(6,368)**

In 2015, together with the recycling of the reserves associated with cancelled hedging instruments associated with liabilities that are still valid, and as a result of the novation of the former loan of the Parholding companies (Note 14), 3,668 thousand euros have been transferred to the consolidated statement of comprehensive income.

In 2014, as a result of the write-off of the Parent's previous syndicated loan (Note 14), the amount recognised in the reserve relating to the hedging instruments associated with this loan was transferred to the consolidated statement of comprehensive income.

Treasury shares of the Parent

In the first half of 2014, the Company sold all its treasury shares, totalling 1,710,000 shares, generating a total income of 3,013 thousand euros. The carrying amount of these shares at 31 December 2013 was 38,280 thousand euros.

In 2015, the Company acquired 12,257,013 treasury shares for 7,396 thousand euros. In order to meet the obligations arising from the long-term Remuneration Plan described in Note 20, on 30 April 2015 the Company settled its remaining obligations by delivering 3,766,173 shares to the beneficiaries of the plan.

At 31 December 2015 the number of shares and the acquisition cost were as follows:

	31 December 2015
Liquidity contract(*) -	
No. of shares	1,487,013
Carrying amount (in thousands of euros)	945
Treasury share contract -	
No. of shares	7,003,827
Carrying amount (in thousands of euros)	4,068

(*) Liquidity contract pursuant to the provisions of Regulation Three of CNMV Circular 3/2007, of 19 December, on liquidity contracts for the purposes of acceptance as a market practice.

Treasury shares of SFL

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

	31 December 2015	31 December 2014
No. of shares	377,465	426,695
Carrying amount (in thousands of euros)	12,052	21,291
% shareholding	0.81%	0.92%

In 2015, SFL acquired 99,093 shares for a total of 4,106 thousand euros and sold 148,323 shares with a carrying amount of 6,000 thousand euros, recognising a loss of 926 thousand euros attributable to the Colonial Group.

Some of SFL's shares are held to cover two share option plans with different maturity dates and strike prices (Note 21).

In 2015, 8,232 thousand euros in profit accumulated through SFL's treasury share transactions were transferred to "Consolidated reserves" in the consolidated statement of financial position.

At 31 December 2015, the net value of the shares (EPRA NNNAV) published by SFL was 58.48 euros per share.

Non-controlling interests

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

	Thousands of euros			
	Torre Marenostrum, S.L.	SFL subgroup	Riofisa subgroup	**Total**
Balance at 31 December 2013	**17,771**	**1,268,810**	**(13,816)**	**1,272,765**
Profit for the year	1,222	135,148	121	**136,491**
Dividends and other	(442)	(48,250)	-	**(48,692)**
Changes in the scope of consolidation (Note 2-f)	-	3,976	13,695	**9,719**
Financial instruments	(547)	(1,580)	-	**(2,127)**
Balance at 31 December 2014	**18,004**	**1,358,104**	**-**	**1,376,108**
Profit for the year	4,513	283,219	-	**287,732**
Dividends and other	37	(56,444)	-	**(56,407)**
Financial instruments	161	4,454	-	**4,615**
Balance at 31 December 2015	**22,715**	**1,589,333**	**-**	**1,612,048**

The breakdown of the items included in "Dividends and other" at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	31 December 2015	31 December 2014
Dividend paid by the SFL subgroup to non-controlling interests	(52,992)	(45,363)
Dividend paid by Washington Plaza to non-controlling interests	(3,910)	(3,483)
Dividend paid by Torre Marenostrum to non-controlling interests	(403)	(442)
Others	898	596
Total	**(56,407)**	**(48,692)**

14. Bank borrowings, other financial liabilities and debt instruments and similar securities

The breakdown by maturity of “Bank borrowings and other financial liabilities” at 31 December 2015 and 2014 is as follows:

31 December 2015

	Thousands of euros							
	Current	Non-current						Total
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total non-current	
Bank borrowings:								
Lines of credit	22,027	-	-	-	-	-	-	22,027
Loans	5,333	5,261	5,268	145,563	6,036	218,924	381,052	386,385
Syndicated loans	-	-	-	67,250	-	-	67,250	67,250
Finance leases (Note 9)	27,271	-	-	-	-	-	-	27,271
Interest	1,071	-	-	-	-	-	-	1,071
Debt arrangement expenses	(1,877)	(1,869)	(1,861)	(1,205)	(496)	(563)	(5,994)	(7,871)
Total bank borrowings	**53,825**	**3,392**	**3,407**	**211,608**	**5,540**	**218,361**	**442,308**	**496,133**
Other financial liabilities:								
Current accounts	-	67,679	-	-	-	-	67,679	67,679
Derivative financial instruments (Note 15)	3,208	-	616	-	-	2,012	2,628	5,836
Other financial liabilities	2,904	-	-	-	-	-	-	2,904
Total other financial liabilities	**6,112**	**67,679**	**616**	-	-	**2,012**	**70,307**	**76,419**
Total bank borrowings and other financial liabilities	**59,937**	**71,071**	**4,023**	**211,608**	**5,540**	**220,373**	**512,615**	**572,552**
Bonds and similar securities issued:								
Bond issues	155,800	300,700	-	750,000	-	1,500,000	2,550,700	2,706,500
Interest	23,508	-	-	-	-	-	-	23,508
Arrangement expenses	(3,353)	(3,171)	(2,597)	(1,887)	(1,364)	(2,396)	(11,415)	(14,768)
Total bonds and similar securities issued	**175,955**	**297,529**	**(2,597)**	**748,113**	**(1,364)**	**1,497,604**	**2,539,285**	**2,715,240**
Total at 31 December 2015	**235,892**	**368,600**	**1,426**	**959,721**	**4,176**	**1,717,977**	**3,051,900**	**3,287,792**

31 December 2014

	Thousands of euros							
	Current	Non-current						Total
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total non-current	
Bank borrowings:								
Lines of credit	56,340	-	-	-	-	-	-	56,340
Loans	6,076	6,340	199,977	3,188	103,483	25,800	338,788	344,864
Syndicated loans	-	-	-	1,040,000	-	-	1,040,000	1,040,000
Finance leases (Note 9)	2,790	27,271	-	-	-	-	27,271	30,061
Interest	4,425	-	-	-	-	-	-	4,425
Debt arrangement expenses	(1,858)	(1,852)	(1,679)	(816)	(261)	(147)	(4,755)	(6,613)
Total bank borrowings	**67,773**	**31,759**	**198,298**	**1,042,372**	**103,222**	**25,653**	**1,401,304**	**1,469,077**
Other financial liabilities:								
Current accounts	-	70,169	-	-	-	-	70,169	70,169
Derivative financial instruments (Note 15)	5,315	-	4,013	1,657	-	2,808	8,478	13,793
Other financial liabilities	380	-	-	-	-	-	-	380
Total other financial liabilities	**5,695**	**70,169**	**4,013**	**1,657**	**-**	**2,808**	**78,647**	**84,342**
Total bank borrowings and other financial liabilities	**73,468**	**101,928**	**202,311**	**1,044,029**	**103,222**	**28,461**	**1,479,951**	**1,553,419**
Bonds and similar securities issued:								
SFL bond issues	-	300,000	400,000	-	-	500,000	1,200,000	1,200,000
Interest	10,630	-	-	-	-	-	-	10,630
Arrangement expenses	(1,855)	(1,514)	(1,202)	(439)	(439)	(842)	(4,436)	(6,291)
Total bonds and similar securities issued	**8,775**	**298,486**	**398,798**	**(439)**	**(439)**	**499,158**	**1,195,564**	**1,204,339**
Total at 31 December 2014	**82,243**	**400,414**	**601,109**	**1,043,590**	**102,783**	**527,619**	**2,675,515**	**2,757,758**

The bonds issued by SFL, which are traded on the Euronext Paris secondary market, had a market value of 1,479,228 thousand euros (nominal value of 1,456,500 thousand euros) at 31 December 2015. At the same date, the fair value of bonds issued by the Parent and traded on the Irish Stock Exchange was 1,253,045 thousand euros (nominal value of 1,250,000 thousand euros).

Issue of the Parent's straight bonds and cancellation of the syndicated loan

The issue of two series of straight bonds by the Parent was subscribed and fully paid up on 5 June 2015:

- A series of 7,500 bonds in the amount of 750,000 thousand euros, maturing on 5 June 2019 and with an issue price equivalent to 100% of the par value. The bonds will carry an annual 1.863% coupon, payable yearly in arrears.

- A series of 5,000 bonds in the amount of 500,000 thousand euros, maturing on 5 June 2023 and with an issue price equivalent to 100% of the nominal value. The bonds will carry an annual 2.728% coupon, payable yearly in arrears.

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

The interest accrued on the issue of these bonds, recognised in the consolidated statement of financial position at 31 December 2015, amounted to 15,843 thousand euros.

Following the disbursement of the amount of this bond issue, the syndicated loan of 1,040,000 thousand euros arranged by the Parent in 2014 was cancelled. Early cancellation of the loan entailed payment of a fee of 28,039 thousand euros, recognised under “Finance costs” in the condensed consolidated statement of comprehensive income (Note 20-g).

These straight bonds establish the obligation, at 30 June and 31 December of each year, to meet a financial ratio whereby the value of the non-guaranteed asset in the consolidated statement of financial position at each of these dates must at least be equal to the financial debt not guaranteed. This ratio was met at 31 December 2015.

New Parent Syndicated Loan

On 12 November 2015, the Company entered into a syndicated loan with a group of seven financial institutions, including Natixis, S.A. Sucursal en España, acting as the agent bank, for 350,000 thousand euros, initially maturing in June 2019, but which may be extended until November 2020. The main purpose of this syndicated loan is to finance possible acquisitions, as well as renovations and other investment requirements (CAPEX) on the property assets of the Company. At 31 December 2015, 67,250 thousand euros had been drawn down.

The main terms and conditions of the syndicated loan are:

- Maturity on 5 June 2019, extendible until 12 November 2020 provided certain conditions are met.
- A fixed interest rate of EURIBOR plus 160 basis points paid quarterly.
- Compliance with the following financial ratios on a quarterly basis:

Ratios
LTV ratio <= 55% Interest coverage ratio >=2x (from 30/6/2016) Secured mortgage debt / Value of property assets <=15% Secured other debt / Value of non-property assets <=15% Value of consolidated assets >= 4.5 €bn

Note: €bn refers to billions of euros.

At 31 December 2015, the Parent complied with all covenants.

SFL syndicated loan

The breakdown of SFL’s syndicated loan at 31 December 2015 and 2014 is as follows:

Thousands of euros	**Maturity**	31 December 2015		31 December 2014	
		Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
SFL syndicated loan -					
BNP Paribas loan facility	July 2020	400,000	-	400,000	-
BPCE loan facility	October 2019	150,000	-	150,000	45,000
Total SFL syndicated loan		**550,000**	-	**550,000**	**45,000**

The loan facility with BNP Paribas was novated in July 2015, extending its maturity to July 2020. Interest is accrued at a floating rate with a spread tied to EURIBOR.

Compliance with covenants

SFL syndicated loans must meet the following covenants every six months:

	Ratios
BNP-Paribas (Agent Bank BNP-Paribas)	LTV ratio <= 50% Interest coverage ratio >= 2 Secured debt/equity value <= 20% Appraisal value of unmortgaged properties >= €2bn Gross financial debt of subsidiaries / Gross consolidated financial debt < 25%
BPCE (Agent Bank Natixis)	LTV ratio <= 50% Interest coverage ratio >= 2 Secured debt/equity value <= 20% Appraisal value of unmortgaged properties >= €2bn Gross financial debt of subsidiaries / Gross consolidated financial debt < 25%

Note: €bn refers to billions of euros.

At 31 December 2015, SFL complied with the financial ratios stipulated in the respective financing agreements.

Mortgage-backed loans

At 31 December 2015 and 2014, the Group had the following mortgage loans, secured by its investment properties and non-current assets held for sale:

	Thousands of euros			
	31 December 2015		31 December 2014	
	Mortgage debt	Market value of collateral	Mortgage debt	Market value of collateral
Investment property - rentals (Note 9)	273,479	953,840	273,941	840,710
Non-current assets held for sale (Note 24)	177	6,942	986	6,994
	273,656	**960,782**	**274,927**	**847,704**

In July 2015, SFL subgroup novated several bilateral loans with mortgage guarantees in the amount of 207,480 thousand euros, extending the maturity by five years (from 2017 to 2022) and establishing a fixed interest rate of 1.571%.

Compliance with covenants

At 31 December 2015, two of the Group's loans, with a total of 246,209 thousand euros drawn down, were subject to compliance with certain financial ratios. At 31 December 2014, only one of the Group's loans was subject to certain ratios and the total amount drawn down amounted to 41,681 thousand euros.

At 31 December 2015 and 2014, the Company complied with the financial ratios required in the financing agreement.

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

Other loans

At 31 December 2015, SFL had two bilateral loans, not secured by a mortgage guarantee, that were subject to compliance with various ratios. The total limits and balances drawn down are detailed as follows:

		31 December 2015		31 December 2014	
Thousands of euros	**Maturity**	Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Other loans:					
BECM	April 2019	150,000	140,000	150,000	100,000
Banco Sabadell	June 2020	50,000	-	-	-
Total other loans		**200,000**	**140,000**	**150,000**	**100,000**

The Banco Sabadell loan was arranged in June 2015 for a period of five years and a floating interest rate with a spread tied to EURIBOR.

Compliance with covenants

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

	Ratios
BECM	LTV ratio <= 50% Interest coverage ratio >= 2 Secured debt/equity value <= 20% Appraisal value of unmortgaged properties >= €2bn Gross financial debt of subsidiaries / Gross consolidated financial debt < 25%
Banco Sabadell	LTV ratio <= 50% Interest coverage ratio >= 2 Secured debt/equity value <= 20% Appraisal value of unmortgaged properties >= €2bn Gross financial debt of subsidiaries / Gross consolidated financial debt < 25%

Note: €bn refers to billions of euros.

At 31 December 2015 and 2014, SFL complied with the financial ratios stipulated in the respective financing agreements.

Issue of SFL straight bonds

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

				(Thousands of Euros)		
Issue	Term	Maturity	Fixed-rate coupon payable annually	Amount of the issue	31 December 2015	31 December 2014
17/05/2011	5 years	25/05/2016	4.625%	500,000	155,800	300,000
28/11/2012	5 years	28/11/2017	3.50%	500,000	300,700	400,000
20/11/2014	7 years	20/11/2021	1.875%	500,000	500,000	500,000
16/11/2015	7 years	16/11/2022	2.250%	500,000	500,000	-
Total issues				**2,000,000**	**1,456,500**	**1,200,000**

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

In November 2015, SFL issued new bonds in the amount of 500,000 thousand euros. The seven-year bonds carry a fixed coupon of 2.25%, payable annually, with a final maturity in November 2022.

Of the amount obtained for the new issue, 243,500 thousand euros were allocated to the partial repurchase of the debentures maturing in 2016 and 2017 for 144,200 and 99,300 thousand euros, respectively. The cost associated with this partial repurchase amounted to 9,515 thousand euros (Note 20-g).

The interest accrued on the issue of these bonds, recognised in the consolidated statement of financial position at 31 December 2015, amounted to 7,665 thousand euros.

Lines of credit

The Group has lines of credit of up to 22,027 thousand euros, which at 31 December 2015 were fully drawn down. These credit facilities mature in the short term. At 31 December 2014, the balance of fully drawn-down lines of credit held by the Group totalled 56,340 thousand euros.

At 31 December 2015, the Group also had two current accounts in the amount of 59,047 thousand euros and 8,500 thousand euros extended to two Group companies, SCI Washington and SAS Parholding, respectively. These current accounts accrue interest at a rate of three-month Euribor plus 60 basis points, in the case of SCI Washington, and three-month Euribor plus 150 basis points, for the account extended to SAS Parholding. The total interest accrued for both current accounts is 132 thousand euros. The total nominal amount, plus interest, at 31 December 2014 was 70,169 thousand euros.

Guarantees given

At 31 December 2015, the Parent had granted to government bodies, customers and suppliers guarantees in the amount of 33,111 thousand euros, of which 21,799 thousand euros related to the bank guarantee provided in connection with the purchase of the building located at Francisco Silvela, 42 in Madrid (Note 9). This amount is recognised under “Trade payables” in the consolidated statement of financial position (Note 16). Other than this, the main guarantees were:

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

- 5,000 thousand euros granted to secure obligations acquired by the company DUE. In this regard, the Parent has a cash line of credit with BBVA to cover the obligations assumed with DUE (Note 17). The liabilities covered by these guarantees have been provided for in full under "Non-current provisions" in the consolidated statement of financial position.

Finance leases

The breakdown of assets held under finance leases is disclosed in Note 9.

Cash and cash equivalents

At 31 December 2015 and 2014, amounts of 217,776 thousand and 125,956 thousand euros, respectively, were recognised under "Cash and cash equivalents", of which 13,982 thousand and 14,565 thousand euros, respectively, were either restricted or pledged.

The Parent is obliged to make a payment of a maximum of 21,367 thousand euros in relation to the execution of the guarantee for the purchase of the Francisco Silvela building.

Debt arrangement expenses

At 31 December 2015, the debt arrangement expenses assumed by the Group and not yet accrued amounted to 22,639 thousand euros. These expenses are taken to the consolidated statement of comprehensive income during the term of the debt on a time proportion basis. In this regard, in 2015 the Group recognised in the consolidated statement of comprehensive income 9,256 thousand euros corresponding to the costs paid during the year.

Interest rate on borrowings

The interest rate paid by the Group in 2015 on borrowings allocated to continuing operations was 3.08%, or 3.23% including accrued fees. The average spread over Euribor paid by the Group in 2015 was 208 basis points (236 basis points including fees). The interest rate on the Group's debt at 31 December was 2.27%, with the spread over Euribor of 166 basis points.

At 31 December 2015 and 2014, the interest accrued on bank borrowings amounted to 1,071 thousand and 4,425 thousand euros, respectively.

Capital management: policies and objectives

The Group manages its capital to ensure that Group companies will be able to continue as going concerns, taking into account prevailing financial market conditions, with a view to maximising shareholder value.

The Parent's strategy, and that of its investees, is to focus on markets and products that add value to the Colonial Group.

The Group efficiently manages its financial risks with the aim of maintaining high levels of liquidity, minimising borrowing costs, reducing volatility due to changes in capital and ensuring compliance with its business plans.

Companies operating in the real estate sector need to make heavy upfront investments to ensure development of their projects and growth of their businesses through the purchase of rental properties and/or land. The Group's financial structure warrants diversification of its sources of financing by entity, product and maturity. Through the

process of obtaining the IG Rating and the restructuring of the financial debt, carried out in the first half of 2015, together with the syndicated loan arranged in November 2015, the Parent reduced the finance costs of its debt, extending and diversifying its maturity, and also obtaining the financial capacity to undertake its projects, take on new projects and ensure sufficient investment capacity to bear significant growth costs over the coming years.

The Parent's financing is granted entirely over the long term and structured in such a manner that it allows the performance of the underlying business plan.

The liability management transaction (bond issues and the partial repurchase of previous issues) carried out by the SFL subgroup forms part of the active management carried out by the Group in relation to its debt and has allowed the average maturity to be extended and the average future finance costs to be reduced. SLF also has various lines of credit yet to be drawn down.

The Group’s risk management policy is designed to limit and control the impact of interest rate fluctuations on profit and cash flows and to keep overall borrowing costs at reasonable levels. The Group arranges financial instruments to cover interest rate fluctuations, where necessary.

The Colonial Group draws up annual cash budgets and monthly forecasts to manage its liquidity risk and meet its financing needs.

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

Given the sector in which the Group operates, the investments it makes, the financing obtained to make these investments, the EBITDA generated and the occupancy rates of its buildings, liquidity risk is significantly mitigated and cash surpluses may even arise. These cash surpluses enable the Group to have lines of credit available but not yet drawn down (in the case of SFL) or highly liquid deposits with no risk (in the case of the Parent). The Group does not use high-risk financial products as a method for investing cash surpluses.

15. Derivative financial instruments

Risk management policy objectives

The Colonial Group’s risk management policies are structured as follows:

- Interest rate risk: at 31 December 2015, 91% of the Group's debt accrued interest at a fixed rate. The Group’s risk management policy is designed to limit and control the effect of interest rate fluctuations on profit and cash flow and to keep overall borrowing costs at reasonable levels. In order to attain these objectives, the Group enters into interest rate hedges to hedge against potential fluctuations in finance costs. The Group’s policy is to arrange instruments that comply with the provisions of IAS 39 to be considered as effective hedge accounting, and therefore recognise their variations in value on the market directly in Colonial's “Equity”.

- Counterparty risk: the Group mitigates this risk by using top-tier financial institutions to underwrite and arrange its financing.

- Liquidity risk: In June 2015, the Parent had carried out an issue of straight bonds for a nominal amount of 1,250,000 thousand euros split into two tranches: one of 750,000 thousand euros, (4-year bonds) and another of 500,000 thousand euros (8-year bonds), respectively. The funds obtained from said issue have been used to fully cancel the syndicated loan in the amount of 1,040,000 thousand euros taken out in April 2014. In November 2015 the Parent arranged a syndicated loan in the amount of 350,000 thousand euros. These transactions allowed the Company to strengthen its long-term financial structure, reduce the borrowing costs of its debt, diversify repayment debts and obtain additional liquidity to cover its investment plan. Accordingly, in November 2015 the SFL subgroup issued straight bonds for a nominal amount of 500,000 thousand euros which was

allocated to partially repurchasing the aforementioned bonds and to cash needs and future investments. The SFL subgroup also has syndicated loans not yet drawn down as described in Note 14.

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

Derivative financial instruments

The following table itemises the derivatives and states their fair values at 31 December 2015 and 2014:

Derivative financial instruments	Company	Counterparty	Interest rate	Maturity	Notional value (thousands of euros)	Fair value – Asset / (Liability)
Step-up swap	Colonial	BBVA	4.40%	2018	60,118	(2,778)
CAP	Colonial	CA-CIB	1.25%	2018	350,000	-
CAP	Colonial	ING	1.25%	2018	300,000	-
CAP	Colonial	Morgan Stanley	1.25%	2018	130,000	-
Vanilla swap	Marenostrum Tower	CaixaBank	2.80%	2024	25,174	(3,058)
Total at 31 December 2015					**865,292**	**(5,836)**

Derivative financial instruments	Company	Counterparty	Interest rate	Maturity	Notional value (thousands of euros)	Fair value – Asset / (Liability)
Vanilla swap	Parhaus	Natixis	0.8825%	2017	24,525	(565)
Vanilla swap	Parchamps	Natixis	0.8825%	2017	9,065	(209)
Vanilla swap	Pargal	Natixis	0.8825%	2017	28,150	(648)
Vanilla swap	Parhaus	Nord/LB	0.8825%	2017	24,525	(565)
Vanilla swap	Parchamps	Nord/LB	0.8825%	2017	9,065	(209)
Vanilla swap	Pargal	Nord/LB	0.8825%	2017	28,150	(648)
Vanilla swap	Parhaus	Dekabank	0.8825%	2017	24,525	(565)
Vanilla swap	Parchamps	Dekabank	0.8825%	2017	9,065	(209)
Vanilla swap	Pargal	Dekabank	0.8825%	2017	28,150	(648)
Step-up swap	Colonial	BBVA	3.50%	2018	91,339	(5,852)
CAP	Colonial	CA-CIB	1.25%	2018	350,000	-
CAP	Colonial	ING	1.25%	2018	300,000	-
CAP	Colonial	Morgan Stanley	1.25%	2018	130,000	-
Vanilla swap	Marenostrum Tower	CaixaBank	2.80%	2024	27,093	(3,675)
Total at 31 December 2014					**1,083,652**	**(13,793)**

In 2014, within the refinancing framework of its former syndicated debt, the Parent arranged 3 CAPs totalling 780,000 thousand euros with a strike price of 1.25% and maturing at 31 December 2018, with the aim of covering 75% of the nominal amount of the syndicated loan which was finally cancelled on 5 June 2015 (Note 14). The premiums paid amounted to 8,580 thousand euros and were recognised as hedging expenses in the consolidated statement of comprehensive income for 2014 (Note 20). At 31 December 2015 and 2014, the associated CAPs were valued at 0 euros on the consolidated statement of financial position and under no circumstances can they result in losses or negative cash flows.

As a result of cancelling the Parent's previous syndicated loan in 2014, the amount recognised in the reserve relating to the hedging instruments associated with this loan was transferred to the accompanying income statement in the amount of 5,425 thousand euros (Note 13).

At 31 December 2015, 93% of the notional value of the Group's derivatives portfolio was in compliance with that provided in accounting legislation to be recognised as hedges; consequently, the mark-to-market (MtM) differences between periods are recognised directly in equity.

At 31 December 2015, the accumulated impact on equity of derivative hedge accounting was a debit of 2,504 thousand euros, net of the tax effect and consolidation adjustments (at 31 December 2014, a debit of 6,368 thousand euros).

In 2015, SFL carried out the early cancellation of nine interest rate swaps with a total nominal value of 185,220 thousand euros. As a result of the novation of the hedged liability, SFL transferred 2,014 thousand euros from the reserve for adjustments to equity for the valuation of said instruments to the consolidated statement of comprehensive income.

In 2013 and 2012 SFL also cancelled eight interest rate swaps early. The straight-line accrual of the finance cost on the early cancellation of these swaps had an impact of 5,708 thousand euros on the consolidated statement of comprehensive income at 31 December 2015, under “Finance costs”.

The impact for 2015 and 2014 of accounting for derivatives qualifying for hedge accounting on the consolidated statement of comprehensive income was a net finance cost of 7,914 thousand and 9,500 thousand euros, respectively (Note 20-g), corresponding primarily to SFL.

The fair value of the derivatives was calculated by discounting estimated future cash flows based on forward interest and exchange rates and on assigned volatility at 31 December 2015, using the appropriate discount rates established by an independent expert.

At 31 December 2015, the net fair value of the derivatives gave rise to a financial liability of 5,836 thousand euros, including accrued interest payable of 178 thousand and a receivable of 206 thousand euros in credit risk (Note 14). The fair value of the derivatives at 31 December 2014 was 13,793 thousand euros.

At 31 December 2015, 98% of total debt in Spain was hedged or accrued interest at a fixed rate (90% in France).

The affected hedging ratio at year-end 2015 (floating rate hedges) was 80% in Spain, since virtually all of the Parent's debt accrues interest at fixed rates. In France, all hedges arranged were cancelled as a result of the novation at a fixed rate of the debt with which such hedges were associated.

16. Trade payables and other non-current liabilities

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

	Thousands of euros			
	31 December 2015		31 December 2014	
	Current	Non-current	Current	Non-current
Trade and other payables	20,291	-	26,058	-
Advances	19,424	-	14,325	-
Payables for the purchase of properties and land	33,316	-	52,779	-
Guarantees and deposits received	2,651	27,853	1,515	24,311
Payable to Social Security	1,724	-	1,770	-
Deferred income	5,496	-	4,411	-
Other payables and current liabilities	2,740	165	3,444	580
Total	**85,642**	**28,018**	**104,302**	**24,891**

At 31 December 2015 and 2014, “Trade and other payables” included primarily the amounts payable by the Group for business-related purchases and related costs.

“Advances” primarily reflects amounts paid upfront by lessees on a bimonthly or quarterly basis.

At 31 December 2015, “Payables for the purchase of properties and land” included borrowings for refurbishment or renovation work on various properties carried out by SFL (Edouard VII and Le Vaisseau), in the amount of 11,842 thousand euros, and the amount outstanding on the Parent's acquisition of the Francisco Silvela property (Notes 9 and 14) of 21,367 thousand euros.

“Guarantees and deposits received” mainly includes deposits paid by lessees.

“Deferred income” includes the amount received by SFL for rights of entry, which relate to the amounts invoiced by lessees to reserve a unique space.

Average payment period to suppliers and trade creditors

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

	2015
	Days
Average supplier payment period	45
Ratio of payments made	46
Ratio of payments pending	42
	Amount (thousands of euros)
Total payments made	44,389
Total payments pending	1,691

The figures shown in the foregoing table in relation to payments to suppliers relate to suppliers that because of their nature are trade creditors for the supply of goods and services and, therefore, they include the figures relating to “Payable to suppliers” and “Sundry accounts payable” in the accompanying consolidated statement of financial position. Furthermore, in accordance with that established in the aforementioned ICAC resolution of 29 January 2016, no comparative information is required, as these financial statements are classified as first-time statements for the sole purposes of applying the principle of consistency and meeting the requirement of comparability.

The average supplier payment period is understood to be an expression of the time taken or delay incurred in the payment of the trade payable. The average supplier payment period is calculated as the ratio in which the numerator is the sum of the ratio of transactions paid multiplied by the total payments made plus the ratio of transactions pending payment multiplied by the total amount of payments pending at year end, and the denominator is the sum of the total amount of payments made and pending at year end.

The ratio of transactions paid is calculated as the ratio in which the numerator is the sum of the amounts paid multiplied by the number of payment days (the difference between the number of calendar days that have elapsed

from the end of the statutory payment period until payment is made) and the denominator is the total amount of payments made during the year.

Similarly, the ratio of transactions pending payment is calculated as the ratio in which the numerator is the sum of the amounts pending payment multiplied by the number of payment days (the difference between the number of calendar days that have elapsed from the end of the statutory payment period until payment is made) and the denominator is the total amount of payments pending at year end.

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

As regards payments made after the legally established period, note that these are primarily payments relating to works contracted and property refurbishment, which are paid within the payment terms stipulated in the contracts signed with the various contractors. In this regard, at the date on which these financial statements were authorised for issue, the Parent notified all suppliers with contracts in force, and whose payment conditions included in the contract were not in line with the maximum payment period of 60 days, that the contract conditions would be changed in order to bring them into line with Law 11/2013.

17. Provisions

The changes in "Current provisions" and "Non-current provisions" for 2015 and 2014 in the consolidated statement of financial position are as follows:

	Thousands of euros		
	Non-current provisions		Current provisions
	Provisions for employee benefits	Provisions for contingencies and other provisions	Provisions for contingencies and other provisions
Balance at 31 December 2014	**1,233**	**12,378**	**6,179**
Additions	-	9	4,073
Decreases	(114)	-	(46)
Transfers	-	(987)	-
Balance at 31 December 2015	**1,119**	**11,400**	**10,206**

Non-current provisions-

At 31 December 2015 and 2014, this heading included the development costs of the UE-1 which shall be financed by the Parent through loans granted to DUE, up to a maximum amount of 20,000 thousand euros (Note 10). The Parent has a restricted cash line of credit with BBVA to cover these items that may be drawn down when DUE provides evidence that the development work has been carried out. At 31 December 2015, 8,768 thousand euros were drawn down (7,935 thousand euros at 31 December 2014).

Lastly, the Parent reclassified 768 thousand euros in 2015 (1,624 thousand in 2014), that at 31 December 2014 were recognised as a provision for contingencies under "Impairment of non-current financial investments" to adjust the value of the credit facility granted to its recoverable value, in view of the equity position of the investee.

"Provisions for employee benefits" covers the retirement benefits and seniority bonuses of employees of SFL (Note 4-j).

Current provisions

Additions to current provisions include 5,737 thousand euros, reflecting an estimate of the Parent's various future risks, which have increased in 2015 by 3,375 thousand euros.

The Group has recorded the appropriate provisions for contingencies arising from third-party claims.

18. Tax matters

The Parent is the head of a group of companies that has filed consolidated tax returns since 1 January 2008. This consolidated tax group includes only subsidiaries incorporated in Spain in which the Parent either directly or indirectly owns at least 75% (this threshold falls to 70% in the case of listed subsidiaries) and has the majority of the voting rights. Following the reduction of the interest held by the Parent in Asentia, both Asentia and all the subsidiaries included in the tax group left the group effective as of 1 January 2014; that is, all companies of the Asentia group which formed part of the tax group in 2013 went on to file individual tax returns as of 1 January 2014.

In addition to the Parent, the consolidated tax group for 2015 and 2014 included Abix, Colonial Invest, S.L.U. and Colonial Tramit, S.L.U.

The breakdown of tax receivables and payables in the accompanying consolidated statement of financial position is as follows:

	Thousands of euros			
	Tax assets			
	Current		Non-current	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Tax refunds receivable	48	857	-	-
Income tax refunds receivable	23,768	-	-	-
VAT refundable	13,736	13,656	-	-
Deferred tax assets	-	-	865	1. 422
Total tax receivables	**37,552**	**14,513**	**865**	**1,422**

At 31 December 2015, “Income tax refunds receivable” included a balance in favour of the Parent of 23,368 thousand euros arising from income tax prepayments made during 2015. The amount of these prepayments corresponds to the minimum payment of 12% of the accounting result on the date of the prepayment, through the application of the temporary measures in effect for 2015.

	Thousands of euros			
	Tax liabilities			
	Current		Non-current	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Income tax payable	3,098	6,463	-	-
Other taxes payable	774	2,927	-	-
Exit tax payable (SFL Group)	2,925	-	2,856	5,595
VAT payable	2,105	1,712	-	-
Tax deferrals payable	-	4,933	-	1,356
Deferred tax liabilities	-	-	244,124	196,799
Total taxes payable	**8,902**	**16,035**	**246,980**	**203,750**

Income tax

The breakdown of “Income tax expense” in the consolidated statement of comprehensive income for 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Corporate income tax expense	(9,346)	(9,550)
Variation due to deferred and prepaid taxes, tax credits and tax relief	(43.451) (*)	(166.233) (*)
Income tax expense	**(52,797)**	**(175,783)**

(*) Of which 3,860 thousand and 23,119 thousand euros relate to the adjustments arising from the reduction in the tax rate introduced by Corporate Income Tax Law 27/2014, of 27 November, which entered into force on 1 January 2015 and established a standard tax rate of 25% for taxpayers liable for this tax. The tax rate is temporarily set at 28% for 2015.

2015

	Thousands of euros	
	Amount	Tax effect – at the 28% national rate (*)
Profit/(loss) before tax	755,942	(211,664)
Effect of the adjustments to taxable profit for France (SIIC 4 effect and adjustments to the tax base)	(607,276)	170,037
Effect of the adjustments to taxable profit for Spanish companies and unrecognised tax credits generated in the year	43,214	(12,100)
Prior income tax expense (base)	**191,880**	**(53,727)**
Others	-	930
Income tax expense	-	**(52,797)**

(*) (Expense) / Income

2014

	Thousands of euros	
	Amount	Tax effect – at the 30% national rate (*)
Profit/(loss) before tax	103,407	(31,022)
Effect of the adjustments to taxable profit for France (SIIC 4 effect and adjustments to the tax base)	(174,553)	52,365
Effect of the adjustments to taxable profit for Spanish companies and unrecognised tax credits generated in the year	192,518	(57,755)
Prior income tax expense (base)	**121,372**	**(36,412)**
Others	-	3,871
Derecognition of tax credits	-	(143,242)
Income tax expense	**-**	**(175,783)**

(*) (Expense) / Income

The following table reconciles pre-tax accounting profit/(loss) and taxable profit/(loss) after temporary differences:

	Thousands of euros	
	2015	2014
Accounting profit before tax (aggregate of individual expenses)	862,262	322,123
Permanent differences	(1,562,765)	(356,767)
Temporary differences	(829,676)	27,088
Aggregate tax loss before use of unused tax losses	**(1,530,179)**	**(7,556)**
Offset of tax losses	-	-
Aggregate tax loss	**(1,530,179)**	**(7,556)**
Recognised taxable profit	27,439	15,906
Unrecognised tax loss	(1,557,618)	(23,462)

At 31 December 2015, the permanent differences recognised by the Group correspond primarily to the SFL subgroup –subject to the French SIIC regime (Note 4-m)– for a permanent negative difference in the amount of 553,392 thousand euros, and a dividend received from this company by the Parent, giving rise to a permanent negative difference of 53,884 thousand euros.

In 2015, following the sale of the ownership interest in Asentia's share capital, the adjustments associated with this shareholding were recovered, which gave rise to a negative adjustment of 1,585,652 thousand euros. Among these adjustments is the deferred revenue due to the application of the tax regime provided for in Chapter VIII, Title VII, of the Spanish Corporate Income Tax Law deriving from the contribution of the financial interest in Riofisa to the company Asentia.

At 31 December 2014, the permanent differences recognised by the Group correspond primarily to the SFL subgroup –subject to the French SIIC regime (Note 4-m)– for a permanent negative difference in the amount of 254,874 thousand euros, and a dividend received from this company by the Parent, giving rise to a permanent negative difference of 49,444 thousand euros. In addition, 49,977 thousand euros were recognised in 2014 for the capital increase costs recognised directly in the Group's equity (Note 13), which were included in the tax base as a negative permanent adjustment.

Deferred tax assets

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

	Thousands of euros			
	Recognised as assets			
Deferred tax assets	31 December 2014	Additions	Retirements	31 December 2015
Fair value of financial instruments	978	-	(258)	720
Impairment of assets	444	-	(299)	145
	1,422	**-**	**(557)**	**865**

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

However, a standard tax rate of 25% will be applicable for tax periods beginning on or after 1 January 2016, due to the temporary measures applicable in the 2015 tax period set forth in Transitional Provision Thirty-One of Law 27/2014, which establishes a standard tax rate of 28% for the 2015 tax period.

Prior years' tax loss carryforwards

The income tax law in force as of 1 January 2015 stipulates that prior years' tax loss carryforwards may be offset in future years without any time limit and, until the entry into force of the new income tax law, this offset is limited to the 18 years immediately subsequent to when the tax loss to be offset was generated.

The following table shows the aggregate tax loss carryforwards to be offset by Spanish Group companies:

	Thousands of euros	
Year	At companies that make up the consolidated tax group	At other Group companies
2000	12,979	-
2001	5,468	-
2003	140	-
2004	38,516	-
2005	36	-
2006	25,053	-
2007	321,571	-
2008	1,211,855	-
2009	871,505	-
2010	590,387	-
2011	270,631	-
2012	394,064	90
2013	96,603	2,148
2014	13,559	853
2015	1,557,208	410
Total	**5,409,575**	**3,501**

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

The following table reconciles the aggregate of the individual tax losses and the consolidated tax loss for 2015, the difference being the result of application of the foregoing adjustments to companies in the consolidated tax group:

	Thousands of euros	
	At companies that make up the consolidated tax group	At other Group companies
Aggregate of the individual tax loss carryforwards:	**5,409,575**	**3,501**
Adjustments for transactions among companies that make up the consolidated tax group	(4)	-
Adjustments for the offset of taxable profit and tax loss carryforwards among companies that make up the consolidated tax group	(9,642)	-
Total tax loss carryforwards of the tax group	**5,399,929**	**3,501**

Deferred tax asset for tax credit carryforwards

The nature and amount of unused tax credits at 31 December 2015 by the Group due to insufficient taxable profit in prior years, and the last years for offset are set out below:

	Thousands of euros		
Nature of the tax credit	Year of origin	Amount	Last year for use
Double taxation tax credit			
	2009	286	2016
	2010	274	2017
	2011	355	2018
	2012	202	2019
	2013	83	2020
	2014	162	2021
Tax credit for training			
	2008	1	2023
	2009	1	2024
	2010	1	2025
Tax credit for reinvestment			
	2002	458	2017
	2003	3,316	2018
	2004	1,056	2019
	2005	92	2020
	2006	1,314	2021
	2007	7,275	2022
	2008	1,185	2023
	2009	434	2024
	2010	713	2025
	2011	39	2026
	2012	123	2027
	2013	112	2028
	2014	24	2029
		17,506	

Reinvestment of extraordinary profit

Prevailing legislation provides for a 12% deduction on gains obtained on the sale of certain items of property, plant and equipment, intangible assets and investments of 5% or more in the share capital of companies outside the tax group, so long as the gains are reinvested in full in assets of the same characteristics. Qualifying reinvestments must take place within the three years following the sale or in the year preceding the transaction.

Also under prevailing legislation, for the deduction for reinvestment of extraordinary gains to be applicable, the asset acquired with the proceeds must be held for a five-year period (three years, in the case of financial investments), unless the assets failing to comply with the deadline are reinvested within the prevailing timeframe. The terms for holding the amounts reinvested by the Company are as follows:

	Thousands of euros			
	2016	2017	2018	2019
Reinvested by the Company	5,642	27,614	8,786	18,701
Associated profit	220	1,009	946	188

The directors of the Parent believe that the Parent or its tax group, as appropriate, will comply with the stipulated timeframes.

Deferred tax liabilities

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

	Thousands of euros			
Deferred tax liabilities	31 December 2014	Additions	Retirements	31 December 2015
Asset revaluations	190,272	47,544	-	237,816
Asset revaluations (Spain)	*13,201*	*16,727*	-	*29,928*
Asset revaluations (France)	*177,071*	*30,817*	-	*207,888*
Deferral for reinvestment	6,527	-	(219)	6,308
	196,799	**47,544**	**(219)**	**244,124**

Deferred tax liability for asset revaluations

This deferred tax liability corresponds fundamentally to the difference between the accounting cost of investment properties measured at fair value (under IFRSs) and their tax cost (acquisition cost less depreciation).

“Asset revaluations (Spain)” includes the deferred taxes associated with the Group's investment property that would be accrued if these assets were transferred at the fair value for which they are recognised, using the effective rate that would be applicable to each of the companies taking into account applicable legislation and any unrecognised tax credits. Accordingly, the deferred taxes associated with the investment property of Colonial Group companies that in turn form part of the tax group were recognised at an effective rate of 7.5% (tax rate of 25% with a limit on tax loss carryforwards of 70%). Consequently, in calculating its deferred tax liabilities, the Group is considering applying the tax credit of 43,862 thousand euros (the difference between the 25% tax rate and the effective settlement rate applied of 7.5%).

Other non-current tax liabilities

The non-current tax liabilities are detailed in the table below:

Description	Thousands of euros	
	31 December 2015	31 December 2014
Deferrals	-	1,356
Exit tax SFL	2,856	5,595
	2,856	**6,951**

Tax extensions

At 31 December 2014, the Company received several tax extensions that were cancelled at 31 December 2015, mainly via the offsetting of other tax refunds.

Other tax issues

In 2013, the Parent was notified of the start of a partial income tax audit for 2008, restricted to certain corporate transactions performed in said year. In 2014, uncontested assessments on the partial tax audits were handed down in reference to income tax for 2008, without any adjustment to the tax base being made or penalty being imposed.

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

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

Adherence to the Code of Best Tax Practices

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

19. Contingent assets and liabilities

Guarantee commitments to third parties

The SFL subgroup has the following shareholders agreements with Prédica:

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

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

Contingent assets

The Parent has brought the following corporate liability lawsuits against certain former directors:

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

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

- A corporate action for liability against certain former directors in connection with the purchase of treasury shares between March and December 2007, both months inclusive. In February a ruling was handed down by the Supreme Court dismissing the claims filed by the Parent, which was ordered to pay costs. However, the court upheld the grounds relating to the validity of the resolution for filing a corporate action for liability. The Parent's directors do not expect this ruling to have a significant impact on the consolidated financial statements, given that at 31 December 2015 the appropriate provision had been recognised to meet any possible costs (Note 17).

20. Income and expenses

a) Revenue

Revenue comprises basically rental income from the Group's rental properties which are concentrated in the cities of Barcelona, Madrid and Paris. Revenue amounted to 231,185 thousand and 211,477 thousand euros, respectively, at 31 December 2015 and 2014. The breakdown by geographical segments is as follows:

Rental business	Thousands of euros	
	2015	2014
Spain	62,391	59,969
France	168,794	151,508
	231,185	**211,477**

Revenue in 2015 and 2014 includes the effect of deferring grace periods and rent reset clauses throughout the term elapsing between the start of the lease and the first option for renewing the lease agreements (Note 12). Revenue also includes the accrued amounts received in connection to rights of entry (Note 16). At 31 December 2015 and 2014, these accruals increased revenue during the year by 17,662 thousand and 10,230 thousand euros, respectively.

At 31 December 2015 and 2014, the total minimum future lease payments receivable corresponding to the Group's non-cancellable operating leases, based on the leases currently in force at each date, without taking into account the impact of common expenses, future increases in the CPI or future contractual lease payment revisions, was as follows:

Minimum operating lease payments	Thousands of euros	
	Nominal amount	
	31 December 2015	31 December 2014
Within one year	258,491	214,989
Spain	*64,570*	*58,389*
France	*193,921*	*156,600*
Between one and five years	651,641	527,593
Spain	*95,078*	*85,603*
France	*556,563*	*441,990*
After five years	309,393	187,265
Spain	*12,515*	*26,551*
France	*296,878*	*160,714*
Total	**1,219,525**	**929,847**
Spain	***172,163***	***170,543***
International	***1,047,362***	***759,304***

b) Other operating income

This heading relates mainly to property services rendered, and amounted to 3,143 thousand and 2,606 thousand euros at 31 December 2015 and 2014, respectively.

c) Staff costs

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

	Thousands of euros	
	2015	2014
Wages and salaries	14,018	14,058
Social security costs	6,462	5,019
Other employee benefit expenses	2,315	2,094
Extraordinary remuneration	-	4,247
Termination benefits	1,060	528
Internal reallocation	(559)	(514)
Total staff costs	**23,296**	**25,432**
Spain	***9,068***	***11,941***
International	***14,228***	***13,491***

“Other employee benefit expenses” includes 2,057 thousand euros corresponding to the cost accrued in 2015 under the Parent's long-term bonus scheme and SFL’s share option plan detailed in Note 21.

“Extraordinary remuneration” includes mainly the extraordinary bonus and contingent remuneration associated with the restructuring of the Parent's syndicated financial debt paid once the process of restructuring the financial debt and the capitalisation of the Parent was successfully completed in 2014 (Note 23).

Group headcount at 31 December 2015 and 2014, as well as the average headcount in 2015 and 2014, employed in continuing operations, broken down by job category and gender, was as follows:

	Number of employees				Average headcount, 2015		Average headcount, 2014	
	2015		2014					
	Men	Women	Men	Women	Men	Women	Men	Women
General and area managers	11	5	12	5	12	5	12	6
Technical graduates and middle managers	27	27	31	25	29	26	31	23
Clerical staff	14	53	13	57	13	55	13	58
Others	1	1	1	1	1	1	1	1
	53	**86**	**57**	**88**	**55**	**87**	**57**	**88**

d) Other operating expenses

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

	Thousands of euros	
	2015	2014
External services and other expenses	15,522	13,870
Taxes other than income tax	20,959	40,463
Total	**36,481**	**54,333**

e) Net change in impairment of trade receivables

The movement in "Impairment losses on trade receivables" in the consolidated statement of financial position for the year was as follows:

	Thousands of euros	
	2015	2014
Opening balance	157,495	156,604
Net change	(67,402)	891
Closing balance	**90,093**	**157,495**

At 31 December 2014, of this total, 152,189 thousand euros relate to the impairment of receivables from Nozar, S.A. and N.Z. Patrimonio, S.L.U. (Note 12).

At 31 December 2015, the Parent derecognised from the consolidated statement of financial position the amount receivable from NZ Patrimonio, together with the corresponding impairment value of 66,717 thousand euros, as soon as the insolvency manager disposed of all of its assets without the amounts obtained being sufficient to pay that owed to the Company.

At 31 December 2015, of this total amount, 85,473 thousand euros relate to the impairment of receivables from Nozar, S.A.

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

	Thousands of euros	
	2015	2014
Impairment of goodwill (Note 7)	-	(120,000)
Impairment of properties for own use (Note 8)	808	340
Derecognitions of replaced assets (Notes 8 and 9)	(3,282)	(4,919)
Impairment charges and net gains/(losses) on assets	**(2,474)**	**(124,579)**

f) Net gain/(loss) on sales of assets and change in fair value of investment property

The following table breaks down the Group's gains/(losses) from asset sales (Notes 9 and 24):

	Thousands of euros					
	Sale price		Costs to sell		Net gain/(loss) on sales of assets	
	2015	2014	2015	2014	2015	2014
Spain	-	93	-	120	-	(27)
France	-	-	-	-	-	-
Total	-	**93**	**-**	**120**	**-**	**(27)**

The breakdown of changes in the fair value of investment properties in 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Changes in value on statement of financial position		
Investment property (Note 9)	725,115	335,171
Non-current assets held for sale – Investment property (Note 24)	(5,133)	(3,218)
Changes in the fair value of investment properties recognised in the statement of comprehensive income	**719,982**	**331,953**
Spain	***206,328***	***104,411***
International	***513,654***	***227,542***

g) Finance income and costs

The breakdown of finance income and costs in 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Finance income:		
Revenue from equity instruments (Note 10)	18	8,614
Other interest and similar income	1,288	817
Income from derivative financial instruments (Note 15)	3,111	2,498
Capitalised borrowing costs (Note 4-c)	6,049	7,473
Total finance income	**10,466**	**19,402**
Share of profit/(loss) of companies accounted for using the equity method (Note 10)	**-**	**(2,176)**
Finance costs:		
Interest and similar expense	(123,312)	(197,984)
Finance costs associated with the repurchase of bonds (Note 14)	(9,515)	(22,384)
Expenses on derivative financial instruments (Note 15)	(11,025)	(11,998)
Total finance costs	**(143,852)**	**(232,366)**
Impairment of financial assets	**2,267**	**(3,733)**
Total financial loss	**(131,119)**	**(218,873)**

At 31 December 2015, “Interest and similar expense” included 28,039 thousand euros as the charge for early cancellation of the Parent's syndicated loan on 5 June 2015 (Note 14).

At 31 December 2014, “Interest and similar expense” included 41,030 thousand euros in interest accrued through the additional margin applied to the drawdowns on the Parent's previous syndicated loan, which was cancelled in 2014. In addition, the financial debt restructuring carried out in 2014 entailed the recognition of 42,202 thousand euros in costs associated with this restructuring.

At 31 December 2014, “Revenue from equity instruments” included 8,485 thousand euros relating to the positive margin from the sale of the interest that SFL held in SIIC de Paris and that was transferred in 2014 (Note 10).

Lastly, “Finance costs associated with the repurchase of bonds” included, for both 2014 and 2015, the costs borne by SFL to repurchase the bonds amounting to 243,500 thousand and 300,000 thousand euros that it had issued (Note 14).

h) Related party transactions

The main related party transactions undertaken in 2015 and 2014 were as follows:

	Thousands of euros			
	2015		2014	
	Interest income (cost)	Building leases and other income	Interest income (cost)	Building leases and other income
Gas Natural, SDG, S.A.	-	5,916	-	5,971
CaixaBank, S.A. (*)	-	-	(92)	-
Banco Popular Español, S.A. (*)	-	-	(4)	-
The Royal Bank of Scotland Group, PLC (*)	-	-	(78)	-
Crédit Agricole – CIB (**)	-	-	(10,547)	80
Coral Partners (Lux), S.A.R.L. (**)	-	-	(10,374)	-
Total	**-**	**5,916**	**(21,095)**	**6,051**

(*) Includes transactions with CaixaBank, S.A., Banco Popular Español, S.A. and Royal Bank of Scotland Group, PLC up until January 2014, when their shares were disposed of, as per notifications to the CNMV.
(**) Includes transactions with Crédit Agricole – CIB and Coral Partners (Lux), S.A.R.L. up until April 2014, when their shares were disposed of, as per notifications to the CNMV.

i) Results by consolidated company

The contribution of the consolidated companies to profit/(loss) for the year was as follows:

Company	Thousands of euros					
	Consolidated profit/(loss)		Profit/(loss) attributable to non-controlling interests		Profit/(loss) attributable to shareholders of the Parent	
	2015	2014	2015	2014	2015	2014
Inmobiliaria Colonial, S.A.	142,645	392,553	-	-	142,645	392,553
SFL subgroup	545,124	240,229	(283,219)	(135,148)	261,905	105,081
Torre Marenostrum, S.L.	10,188	2,877	(4,513)	(1,222)	5,675	1,655
Danieltown Spain, S.L.U.	5,190	-	-	-	5,190	-
Colonial Invest, S.L.U.	(1)	(1)	-	-	(1)	(1)
Colonial Tramit, S.L.U.	(1)	(1)	-	-	(1)	(1)
Asentia subgroup (2-f)	-	(7,172)	-	(121)	-	(7,293)
Total	**703,145**	**628,485**	**(287,732)**	**(136,491)**	**415,413**	**491,994**

21. Share option plans

Long-term bonus scheme linked to delivery of several management indicators

On 21 January 2014, shareholders at the Parent's General Shareholders' Meeting set up a long-term bonus scheme for the Chairman and Chief Executive Officer of the Parent and for members of the Group's Management Committee, applicable from 2014 to 2018.

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

Shares received under this plan may not be sold or transferred by beneficiaries within the first three years after the date of receipt except as necessary to pay any taxes chargeable as a result of receiving them.

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

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

In 2015 and 2014, the Parent recognised 1,205 thousand and 1,191 thousand euros, respectively, under "Staff costs - Other employee benefit expenses" in the consolidated statement of comprehensive income to cover the incentive plan (Note 20-c).

On 24 April 2015, the Board of Directors determined that the number of shares to be delivered to beneficiaries of the Plan in accordance with the level of fulfilment of indicators for 2014 would be 3,766,173 shares (Note 13). The shares were delivered to the beneficiaries on 30 April 2015. Of these shares, 1,813,521 shares were delivered to members of the Board of Directors and 1,424,908 shares to members of senior management, with a market value upon delivery of 1,088 thousand and 855 thousand euros, respectively.

Share option plans on SFL shares

SFL had two bonus share plans at 31 December 2015, the breakdown of which is as follows:

	Plan 1		Plan 3
Meeting date	09/05/2011		22/04/2015
Board of Directors date	05/03/2013	04/03/2014	17/06/2015
Exercise date, starting on	31/12/2015	31/12/2016	31/12/2017
Initial target number	35,144	33,981	27,328
Initial expected %	70.83%	70.83%	70.83%
Initial expected number	24,892	24,069	19,356
Amount per share (euros)	31.65	31.48	36.08
Options cancelled	(10,866)	(16,012)	(1,602)
Expected % at year-end	150.00%	100.00%	100.00%
Estimated number at year-end	36,418	17,969	25,726

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

At 31 December 2015, the expected percentage was revised from 150% for the March 2013 plan to 100% for the March 2014 and June 2015 plans.

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

At 31 December 2015, 852 thousand euros were recognised in the consolidated statement of comprehensive income relating to these bonus share plans (Note 20-c).

During the first half of 2015, 44,375 free shares were allocated to their beneficiaries in accordance with the former Plan No. 1 approved by SFL's Board of Directors on 16 February 2012, thus fully settling this plan.

22. Year-end balances with related parties and associates

At 31 December 2015 and 2014, the Group did not have any balances outstanding with related parties or associates.

23. Director and senior management compensation and other benefits

Compensation of Board members

The breakdown of the remuneration accrued in 2015 by the members of the Parent's Board of Directors is as follows:

	Thousands of euros		
	Inmobiliaria Colonial, S.A.	Other Group companies	Total
Compensation accrued by executive directors (*):	**1,215**	**150**	**1,365**
Attendance fees:	**457**	**117**	**574**
Director attendance fees	428	117	545
Additional attendance fees for the Chairman	29	-	29
Fixed compensation:	**1,100**	**-**	**1,100**
Directors' remuneration	600	-	600
Additional remuneration for the Executive Committee	200	-	200
Additional remuneration for the Audit and Control Committee	150	-	150
Additional remuneration for the Nomination and Remuneration Committee	150	-	150
Total	**2,772**	**267**	**3,039**
Remuneration earned by executive directors (*)	1,460	211	1,671

(*) Does not include the amount corresponding to expenses accrued in relation to the long-term incentive plan described in Note 21.

Director compensation accrued at 31 December 2014 amounted to 5,235 thousand euros, corresponding to remuneration received by executive directors, attendance fees and fixed remuneration amounting to 3,711 thousand (which includes the 2,520 thousand euros received for extraordinary and contingent remuneration for restructuring), 644 thousand and 880 thousand euros, respectively.

At 31 December 2015 and 2014, the Parent had a civil liability insurance policy covering all of its directors, executives and staff, for a total of 322 thousand and 420 thousand euros, respectively.

The Group has not granted any loans and has not taken out any pension plans or life insurance for former or serving members of the Board of Directors of the Parent.

At 31 December 2015, two members of the Board of Directors had signed golden parachute clauses in the event of certain cases of termination or change of control, all of which were approved at the General Shareholders' Meeting.

The Parent’s Board of Directors was made up of ten men and one woman at 31 December 2015, and nine men and one woman at 31 December 2014.

Following the changes in the Parent's shareholder structure, the detail of the Board of Directors at 31 December 2015 was as follows:

Director	Position	Type of director
Juan José Brugera Clavero	Chairman	Executive
Villar Mir, S.A.U. Group represented by Juan-Miguel Villar Mir	Deputy Chairman	Proprietary
Pedro Viñolas Serra	Chief Executive Officer	Executive
Carlos Fernández-Lerga Garralda	Lead Director	Independent
Juan Villar-Mir de Fuentes	Director	Proprietary
Sheikh Ali Jassim M. J. Al-Thani	Director	Proprietary
Juan Carlos García Cañizares	Director	Proprietary
Francesc Mora Sagués	Director	Proprietary
Ana Sainz de Vicuña	Director	Independent
Javier Iglesias de Ussel Ordís	Director	Independent
Luis Maluquer Trepat	Director	Other director

In 2015, Silvia Villar-Mir de Fuentes resigned from her position as director.

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

Compensation of senior management

The Parent's senior management team is formed by senior executives and other persons responsible for the management of the Company, reporting to the CEO. The Company's senior management team was made up of two men and two women at 31 December 2015 and 2014.

Compensation earned by senior management in 2015 and 2014 amounted to 886 thousand euros (not including the amount corresponding to the expenses accrued in relation to the long-term incentive plan described in Note 21) and 2,151 thousand euros, respectively, relating to wages and salaries, and in 2014, it included the extraordinary and contingent compensation for the restructuring performed amounting to 1,220 thousand euros.

At 31 December 2015 and 2014, one member of senior management had signed a golden parachute clause, in the event of termination under certain circumstances or a change of control.

Extraordinary and contingent compensation pursuant to 'Debt restructuring agreement'

On 27 June 2013, at the proposal of the Nomination and Remuneration Committee, the Board of Directors resolved to pay a compensation bonus of up to 4,000 thousand euros to members of the Executive Committee of Colonial. Receipt of such bonus was subject to Colonial carrying out the restructuring of its syndicated debt, which fell due on 31 December 2014.

In 2014, after its financial debt was considered to have been successfully restructured following a report by the Nomination and Remuneration Committee, the Board set the exact amounts and procedures for distribution and proceeded with the payment.

24. Non-current assets held for sale and discontinued operations

The movements under this heading in 2015 and 2014 were as follows:

	Thousands of euros			
	Investment property	**Assets of the Asentia subgroup**	**Total assets held for sale**	**Liabilities of the Asentia subgroup**
Balance at 31 December 2013	**54,237**	**788,511**	**842,748**	**1,537,858**
Changes in the scope of consolidation (Note 2-f)	-	(788,511)	(788,511)	(1,537,858)
Transfers (Note 9)	(34,480)	-	(34,480)	-
Impairment (Note 20-f)	(3,218)	-	(3,218)	-
Balance at 31 December 2014	**16,539**	**-**	**16,539**	**-**
Additions	1,321	-	1,321	-
Impairment (Note 20-f)	(5,133)	-	(5,133)	-
Balance at 31 December 2015	**12,727**	**-**	**12,727**	**-**

Investment property (Note 9)

Changes in 2015

There were no significant changes in 2015.

Changes in 2014

After refinancing the Parent's debt in 2014, the Parent's sales plan was reviewed and a property located in Madrid was reclassified to "Investment property" in the consolidated statement of financial position, given that it is not expected to be sold in the short term. The amount of the transferred property was 34,480 thousand euros.

Assets and liabilities relating to assets held for sale in the group of companies headed by Asentia

As indicated in Note 4-s, the Group considered its investment in the Asentia subgroup to be a non-current asset held for sale, and the activity corresponding to the development and land segment to be a discontinued operation. Accordingly, the Group classified all assets and liabilities associated with the Asentia subgroup under "Non-current assets held for sale" and "Liabilities related to assets held for sale" in the consolidated statement of financial position. Following the exclusion from the scope of consolidation of the Asentia subgroup, the Group derecognised all assets and liabilities associated with this subgroup. The impact of this derecognition on the consolidated statement of comprehensive income is detailed in Note 2-f.

The breakdown of the amounts under "Non-current assets held for sale" and "Liabilities relating to assets held for sale" in the consolidated statement of financial position corresponding to the subgroup headed by Asentia is detailed in the consolidated financial statements for 2014.

25. Auditors' fees

Fees incurred for auditing services in 2015 and 2014 provided to the various companies composing the Colonial Group by the principal auditor and other auditors are set forth below:

Description	Thousands of euros			
	2015		2014	
	Principle auditor	Other auditors	Principle auditor	Other auditors
Audit services	532	282	546	307
Other attest services	224	15	509	-
Total audit and related services	**756**	**297**	**1,055**	**307**
Tax advisory services	-	-	-	-
Other services	160	26	98	15
Total professional services	**160**	**26**	**98**	**15**

The principal auditor of the Colonial Group is Deloitte, S.L.

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

26. Events after the reporting date

From 31 December 2015 to the date on which these consolidated financial statements were authorised for issue, no significant events took place and there were no other matters worthy of mention.

27. Explanation added for translation to English

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

APPENDIX
Companies included in the scope of consolidation

At 31 December 2015 and 2014, fully consolidated subsidiaries and related information were as follows:

	% shareholding					
	Direct		Indirect		Shareholder	Line of business
	31/12/2015	31/12/2014	31/12/2015	31/12/2014		
Torre Marenostrum, S.L. Avda. Diagonal 532 08006 Barcelona (Spain)	55%	55%	-	-		Real estate
Colonial Invest, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Colonial Tramit, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Danieltown Spain, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	-	-	-		Real estate
Société Foncière Lyonnaise, S.A. (SFL) 42, rue Washington 75008 Paris (France)	53.14%	53.14%	-	-		Real estate
Condorcet Holding SNC 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
Condorcet PROPCO SNC 42, rue Washington 75008 Paris (France)	-	-	100%	100%	Condorcet Holding SNC	Real estate
SCI Washington 42, rue Washington 75008 Paris (France)	-	-	66%	66%	SFL	Real estate
SCI 103 Grenelle 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SCI Paul Cézanne 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
Segpim, S.A. 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Sales of real estate and rendering of services
Locaparis, SAS 42, rue Washington 75008 Paris (France)	-	-	100%	100%	Segpim	Sales of real estate and rendering of services
Maud, SAS 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SB2, SAS 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SB3, SAS 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SCI SB3 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate

	% shareholding					
	Direct		Indirect		Shareholder	Line of business
	31/12/2015	31/12/2014	31/12/2015	31/12/2014		
SAS Parholding 42, rue Washington 75008 Paris (France)	-	-	50%	50%	SFL	Real estate
SCI Parchamps 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SAS Parholding	Real estate
SCI Pargal 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SAS Parholding	Real estate
SCI Parhaus 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SAS Parholding	Real estate
Asentia Project, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	-	3.79%	-	-		Real estate

At 31 December 2015 and 2014, the Colonial Group companies were audited by Deloitte, S.L., with the exception of the SFL Group, which was audited jointly by Deloitte and PriceWaterhouseCoopers.

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

Inmobiliaria Colonial, S.A. and Subsidiaries

Consolidated Management Report for the year ended 31 December 2015

1. Company situation

Macroeconomic environment

In the last few months of 2015, international financial markets were faced with a highly volatile climate, which ended up making the already weak tone of the second half of the year look even worse. According to analysts, world growth will pick up in 2016 (3.6% compared to 3.1% in 2015), with advanced economies expecting to see moderate growth and the growth of emerging economies gaining traction. This scenario may be affected by global and local factors, such as the increase in interest rates by the Federal Reserve, the drop in oil prices, and the deterioration of certain emerging economies (such as Brazil).

Recovery in the **eurozone** continued at a moderate but steady pace. The economy's rate of expansion continued, underpinned by the solid performance of domestic demand. Although the ECB indicated an increase in external risks, the outlook for the European economy is positive and is continuing as expected. This has been indicated in the forecasts of the ECB itself, which barely changed its growth and inflation scenario in December. Economic growth is therefore expected to increase from 1.5% in 2015 to 1.9% in 2017. The weak inflation in 2015 is mostly due to the drop in energy prices, a factor that will no longer have an impact in the medium term. In the coming months, analysts expect that the economy will still benefit from the low oil prices, the flexible monetary policy, a favourable exchange rate for exports and less tax consolidation. However, these are circumstantial factors and, therefore, structural reforms still need to be carried out in order to ensure long-term sustained growth.

There was a significant increase in economic activity in **Spain**, which obtained a high growth rate in Q4 above the projections made a few months ago. In accordance with this upward trend, analysts have increased their forecast for GDP growth in Q4 by one tenth of a point to 0.8% quarter-on-quarter, with annual growth for 2015 standing at 3.2% (compared to the previous 3.1%). Despite the political uncertainty as a result of the general elections, in 2016 the economy is expected to grow by 2.7%, in particular as a result of the improvement in and consolidation of borrowing conditions, the fact that the real estate sector is once again a player and the positive effects of the structural reforms, especially in the labour market, where employment creation could exceed 400,000 jobs.

GDP growth in **France** is expected to accelerate. The GDP growth of 1.1% in 2015 is expected to increase to 1.4% in 2016, thanks to the growth of internal demand and the positive performance of non-EU expectations.

Source: Monthly “la Caixa” report

State of the rental market

Barcelona

The indicators for the Barcelona office market show that the market is going through a period of expansion. The recovery of the economy and greater business activity and confidence are underpinning the growth in the take-up of offices in Barcelona, thus confirming the upward trend that began last year. In 2015, 398,000sq m were leased in the Barcelona office market, up 41% on the figure reached in 2014. Specifically, 83,000sq m in office space was leased in the last quarter of 2015.

The shortage of office supply will be the most important factor over the coming two years. Accordingly, the average vacancy rate in Barcelona dropped from 14% to the current 11% over the last two years. The shortage of office space for large companies in the city centre is shifting part of the demand to new business districts. The developments expected to be delivered over the next two years will not be sufficient to change the future behaviour of availability which will continue to drop. The vacancy rate for the office market has continued its downward trend and has reached 11.1%. In the CBD area, the vacancy rate dropped to 7.3%. According to analysts who have studied availability in terms of areas and office quality, less than half of the offices available are for high-quality office space (class A and B+). In the Diagonal/Paseo de Gracia area and the city centre, the availability of Grade A space is almost non-existent.

Maximum prime rents have increased at an annual rate of 12%, reaching €20/sq m/month in Q4 of 2015. The alarming lack of quality supply and the strength of the take-up are causing office rental prices to increase both in the city centre and new business districts in new lease agreements.

Madrid

The take-up of offices and high-tech properties in the Madrid office market in 2015 was around 500,000sq m, more than 30% above the figure for 2014 and the highest figure over the 8-year-long economic crisis. Almost 200,000sq m were leased in the CBD area, resulting in 37% of the total take-up. Transactions involving more than 5,000sq m played an important role this quarter. The largest take-up of the year was signed by the advertising company WPP, which will occupy 36,000sq m on calle Ríos Rosas. The next two largest transactions were carried out by consulting companies in the CBD area: Ernst & Young signed 19,800sq m in Torre Titania and KPMG 19,700sq m in Torre Cristal.

The average vacancy rate in Madrid has continued to drop since the beginning of 2014, reaching 10.6% in the fourth quarter of 2015. This trend will continue in the medium term, and will be even more pronounced in the case of quality properties.

In the CBD area, the vacancy rate dropped to 7%, with a clear shortage of Grade A quality product. The projections for generating new supply over the next three years continue to be very low in all areas, around 100,000sq m, and therefore there is great potential in the field of building refurbishment and repositioning. The lack of quality office space in the centre of Madrid is evident and was confirmed throughout 2015. At the end of the year only 38% of the space available was grade A or B+.

The scarcity of product continues to drive rent prices up mainly for prime rentals in the best areas. Rental prices in the CBD area therefore gradually increase to €27.25/sq m/month from the second quarter of 2014 to year-end 2015, which represents a year-on-year increase of 12%.

However, as expected, rent prices have even exceeded these levels for some of the best Grade A buildings in the CBD area. Maximum rent prices in secondary and peripheral areas, however, have risen more gradually to €15.8 and €13.5/sq m/month, respectively, while the satellite area has not changed and is holding steady at €10/sq m/month.

Paris

The take-up of offices in Paris during the fourth quarter of 2015 reached 708,800sq m, which represents an accumulated balance for this year of more than 2,200,000sq m, up 1% with regard to the same period last year.

In the centre of Paris (Paris Centre West), almost 600,000sq m were leased, which is above the average take-up of the last ten years.

There was a strong increase in the segment of transactions for less than 5,000sq m, exceeding 1,200 transactions and reaching the levels of 2007. The demand for such space was led by the IT sector.

The shortage of quality office space adapted to the growing technical and technological needs caused the vacancy rate in the CBD area to drop to 4.7% in the last quarter of the year, unlike the peripheral area, where vacancy rates exceed 10%. The rental market in Paris recorded a vacancy rate of around 6.9% (down 0.7% on the same period of the previous year).

Prime rents in the Paris CBD area maintained ranges that were similar to previous quarters. The average price in the last quarter stood at €724/m/year.

However, rent prices for high-quality properties were even greater, for example €780/sq m/month signed for the #Cloud property of the Colonial Group.

The projections made by the main brokers, which indicated that 2015 would be a year of necessary recovery for the French economy, awaiting consolidation in 2016, were confirmed.

According to leading consultants, incentives for the Paris CBD area are decreasing, which has resulted in an increase in lower rents.

Over the next few quarters, the cycle of growth in lower rents is expected to be completed through increases in face value rents.

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

Organisational structure and functioning

The Colonial Group is a leading real estate company in the quality offices market in the eurozone. It is one of the leading office operators on the Spanish and European real estate market. The Group has a property portfolio worth more than 6,900 million euros, with a clear commitment centred on the operation and development of buildings for rent and a prominent presence in the rental business of quality offices in the prime areas of the Paris, Madrid and Barcelona markets.

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

In particular, its strategy comprises:

- A business model focused on the development, refurbishments and operation of high-quality offices in prime locations, mainly central business districts (CBD).

- Maximum commitment to the creation of high-quality offices, with a particular emphasis on efficiency and sustainability.

- A pan-European strategy that is diversified among the office markets of Barcelona, Madrid and Paris.

- An investment strategy that combines “Core” acquisitions with “Prime Factory” acquisitions, and projects with value-added components.

- A clear industrial real estate approach to capture value creation that sets us apart on the market.

- A solid capital structure with a clear commitment to maintaining the highest credit rating standards – investment grade.

- Attractive returns for shareholders based on recurring return combined with the creation of real estate value based on value added initiatives.

2. Business performance and results

Introduction

Revenue totalled 231 million euros at 31 December 2015, and was generated by the Group’s recurring business (property rentals).

Profit from operations amounted to 175 million euros.

According to the independent year-end appraisals by CB Richard Ellis, Jones Lang Lasalle and BNP Paribas Real Estate, the Group’s investment property was revalued at 720 million euros in the year. This revaluation, reported both in France and in Spain, reflects a 15.7% increase in value in like-for-like terms on rental assets in operation with respect to December 2014 (15.9% in Spain and 15.7% in France).

The Group capitalised 6 million euros of borrowing costs related to developments in progress.

The net finance cost amounted to 137 million euros, including 6 million euros relating to the finance costs of developments in progress that were capitalised.

After subtracting profit attributable to non-controlling interests (-288 million euros), the profit after tax attributable to the Group amounted to 415 million euros.

Valuation of assets

The value of the Colonial Group’s assets at the end of 2015 was appraised by Jones Lang LaSalle, CB Richard Ellis and BNP Paribas Real Estate at 6,913 million euros. The appraisal values are updated twice a year, in line with best market practices. This value represents an increase of +16% in like-for-like terms with respect to December 2014 (+8% in 6 months).

Asset values in Spain increased by 16% in like-for-like terms during the year, mainly due to a yield compression given the high level of interest in prime assets in Madrid and Barcelona. The Madrid portfolio was up by 17% in like-for-like terms, while the Barcelona portfolio gained 16% in like-for-like terms.

The France portfolio increased by 16% in like-for-like terms compared to previous year. The increase in value is the result of successfully carrying out prime projects, and the result of the positive effects on rents and yields in the entire portfolio, in a context of an investment market with considerable interest in prime office space in Paris.

New acquisitions and project portfolio

In 2015 the Colonial Group acquired office buildings for a volume of 234 million euros and invested more than 128 million euros in “Prime Factory” repositioning strategies for its current portfolio.

All investments were made in prime locations and with a selective strategy, fully complying with the Group's investment targets for 2015, both in terms of investment volume and required return.

New acquisitions

In 2015, the Group acquired four properties in the centre of Madrid (Estébanez Calderón 3-5, Príncipe de Vergara 112, Génova 17 and Santa Engracia 120) for a total of 166 million euros and one property located at 9, Av. Percier in the centre of Paris for 68 million euros.

Estébanez Calderón 3-5 and Príncipe de Vergara 112 are “Prime Factory” acquisitions that involve completely new projects, whereas Génova 17, Santa Engracia and 9 Av. Percier are “Core” assets that began generating income from the moment they were acquired.

The majority of the acquisitions were carried out as off-market transactions.

Project portfolio – Prime factory

In 2015 the Colonial Group successfully delivered two large projects in Paris (the #Cloud building and 90 Champs Elysées), and several repositioning projects involving buildings on José Abascal in Madrid, the Tilos building and the Travessera de Gracia/Amigó complex in Barcelona.

All assets delivered reported high pre-lease ratios, with top-tier tenants and significant increases in market rents, thereby offering very attractive returns. These transactions demonstrate the high capacity to generate value through value-added / Prime Factory strategies.

Rental business

The highlights of rental business are as follows:

Rental revenue amounted to 231 million euros, up 9% year-on-year.

In like-for-like terms, i.e. in due consideration of investment, disinvestment and changes to the projects and refurbishment portfolio and other extraordinary earnings, the Group's rental income increased by 6%.

In Paris, rental income rose by 6% in like-for-like terms. In Spain, rental income rose in like-for-like terms by 5%, mainly due to the Madrid portfolio, which rose by 7%. For the first time since the beginning of the crisis, in 2015 rental income in Barcelona recorded year-on-year growth of 2% in like-for-like terms.

The like-for-like increase in rental income was mostly accounted for by new contracts signed up for the Alfonso XII, Martínez Villergas, Miguel Ángel en Madrid, y Edouard VII, In&Out, 131 Wagram, Call•LDA, Cézanne Saint Honoré and Washington Plaza properties.

The EBITDA on property reached 209 million euros, up 7% in like-for-like terms, which an income spread of 90%.

Most of the Group's earnings, 81%, are concentrated in office buildings. The Group also maintained its high exposure to CBD markets (75%). In consolidated terms, 73% of rental income (169 million euros) comes from the Paris

subsidiary, and 27% was generated by properties in Spain. In attributable terms, approximately 57% of rentals were accounted for by French assets, and the remainder by Spanish assets.

At the end of 2015, the Colonial Group had a GLA (gross leasable area) of 1,088,166sq m (711,313sq m above ground), mostly comprising office space. 89% of this portfolio was operational at 31 December 2015, and 11% relates to an attractive refurbishment and projects portfolio.

In 2015, the Group signed a total of 163,703sq m in new contracts. Of these, 46% (74,991sq m) relate to contracts signed in Barcelona and Madrid and 88,712sq m were signed in Paris.

Of the total commercial units, 75% (123,498sq m) was accounted for by new contracts. It should be noted that the take-up in the Paris office portfolio during the year tripled the volume of new contracts signed in Paris in 2014 (24,816 sq m). The rest of the surface area (40,205sq m) corresponds to contract renewals, in which the new rents associated with these contracts decreased by 10% with regard to previous rents, mainly due to the fact that the rents of several contracts still corresponded to the cycle of high rental prices.

In Spain, contracts were signed for almost 75,000sq m in 2015, of which almost 40,000sq m are in **Barcelona**. In particular, more than 13,000sq m were signed in the Sant Cugat building. There was also significant activity in the assets of Diagonal 682, Diagonal 609-615 (DAU) and Diagonal 409, buildings that are located in the CBD area and that reached occupancy ratios of almost 100%.

In **Madrid**, the signing of almost 7,800sq m in the Ortega y Gasset building, the refurbishment of almost 6,000sq m with Gamesa Corporación Tecnológica in the Ramírez Arellano building, and the 6,000sq m signed for the Recoletos building, among others, are noteworthy of mention.

In **Paris**, it should be noted that three companies signed office space in the #Cloud building before delivering the project (10,800sq m with Exane, 9,700sq m with BlaBlaCar and 3,600sq m with a leading company worldwide in e-economy). With these contracts, 90% of the building was pre-leased. The contracts also included a lease of the entire In&Out building to the Organisation for Economic Cooperation and Development (OECD). This was the largest rental transaction carried out in the first six months of 2015 in the entire Paris market.

The high volume of new take-up during the year gave rise to a significant increase in the occupancy rate. The EPRA(1) financial occupancy of the Colonial Group's office portfolio at the end of 2015 was 94% (+857 basis points vs. 2014), and the total EPRA financial occupancy, including all uses, was also 94% (+698 basis points vs. 2014).

The Madrid and Barcelona portfolios (including all uses) attained an EPRA financial occupancy of 96% and 90%, respectively.

In **Barcelona**, the EPRA financial occupancy of the office portfolio increased by 1169 basis points compared to the previous year (+208 basis points in the last quarter), reaching a ratio of 89%. This increase was mainly due to new business at the Sant Cugat, Avinguda Diagonal 609-615 (DAU), Travessera de Gràcia/Amigó, Avinguda Diagonal 682 and Berlín Numància properties, among others.

In **Madrid**, the financial occupancy of the office portfolio was 96%, +600 basis points above the previous year (+340 basis points in the last quarter). This increase was mainly due to new business at the Alfonso XII, José Abascal 56, Paseo de la Castellana 52 and López de Hoyos 35 properties, among others. It should be noted that the level of occupancy in the Génova 17 building reached a ratio of 100% at year-end 2015 (66% occupancy upon acquisition in July 2015).

In **Paris**, the financial occupancy of the office portfolio increased by 844 basis points compared to the previous year, reaching a ratio of 94%, and total occupancy of the portfolio stood at 95%.

(1) ***EPRA occupancy:*** *Financial occupancy as per calculation recommended by EPRA (occupied spaces multiplied by market rent / spaces operated at market rent).*

At 2015 year-end, the Colonial Group had two large projects with an above ground surface area of more than 21,000sq m, which will become operational in 2017:

- Estébanez Calderón, 3-5, a property acquired in May 2015 located in the centre of Madrid. The current building will be demolished in order to build a new unique "Leed Gold" building, with an above ground surface area of approximately 10,500sq m, which will include the latest technology and innovation in materials and will have the most prestigious environmental and sustainability certificates. Colonial has already begun the demolition work on this building. The project, led by Estudio Lamela, is expected to be completed in the second half of 2017.

- Príncipe de Vergara, 112, a property that was acquired last July located in the centre of Madrid. The current building will be demolished in order to build a unique office building, which will offer a total above ground surface area of approximately 11,400sq m, distributed over several floors so as to allow the space to be efficiently used and the "Leed Gold" energy certificate to be obtained.

In addition to the portfolio of projects described above, the Colonial Group is currently carrying out substantial refurbishment projects with an above ground surface area of 50,256sq m, for the purpose of optimising the positioning of these assets on the market. Noteworthy refurbishments include the Louvre des Antiquaires, Le Vaisseau and Percier properties.

3. Liquidity and capital resources

See "Capital management: Policies and Objectives" under Note 14 to the consolidated financial statements for the year ended 31 December 2015.

The average payment period of the Group's Spanish companies to its suppliers was around 45 days in 2015. As regards payments made after the legally established period, note that these are primarily payments relating to works contracted and property refurbishment, which are paid within the payment terms stipulated in the contracts signed with the various contractors. The Group has established two payment days per month to comply with the requirements set forth in Law 11/2014, of 26 July. Accordingly, invoices received are entered on the 5th and the 20th of each month and the related payments are made on the 5th and the 20th of the following month.

4. Risk management policies and objectives

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

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

Strategic risks:

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

- Risks associated with the current climate of the sector: The Colonial Group pays special attention to the economic, political, legal and social risks related to the countries in which it operates (Spain and France). The real

estate sector has become more dynamic as a result of the recovery and growth of the Spanish economy in 2015, and has reached very significant levels of investment. This situation, as well as the robust real estate market in Paris and the Spanish economy's growth forecast for 2016, will enable the Group to have a more optimistic outlook over the coming years in terms of increased return from its investments and sustainable growth.

- Risks associated with a competitive sector: The real estate sector is a highly competitive industry. The strong reactivation of investment levels was led by international investment funds and by listed companies investing in the property market (SICIMIs). The Colonial Group has positioned itself as a benchmark in the European real estate sector, due to the high quality and value of its assets and its strategy of focusing mainly on office rental activities in central business district (CBD) areas, which was strengthened with the selective investment made in 2015 through the acquisition of new properties located in CBD areas.

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

Corporate risks:

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

- Reputational risks and risks concerning social commitment: The purpose of the corporate social responsibility policy approved by the Board of Directors is to establish the principles and bases of the obligations that the Group has voluntarily assumed with its stakeholders. Management of these expectations forms part of the Group's objectives in terms of sustainability and creating value for these stakeholders.

- Medium- and long-term business plans: The lack of a business plan would increase uncertainty in terms of a company's viability and future. Colonial has a medium- and long-term business plan that is constantly being revised by its governing bodies and is continuously adjusted to take into account the economic, financial and social situation of the real estate market, which ensures the Group's viability and aims to anticipate its financial needs and avoid any restrictions in its operating and investment capacity, while pursuing its sustainability and growth targets.

- Financial risks: The Group efficiently manages its financial risks with the aim of maintaining adequate liquidity and debt levels, minimising borrowing costs and ensuring compliance with its business plans:

- Risk of exposure to interest rate fluctuations: The purpose of risk management is to reduce interest rate volatility to limit and control the impact of interest rate fluctuations on profit and cash flows and to keep overall borrowing costs at reasonable levels. The Colonial Group arranges financial instruments to cover interest rate fluctuations. The Group maintains a high percentage of its gross financial debt tied to fixed rates.

- Risks relating to financing and debt: The Group’s financial structure warrants diversification of its sources of financing by entity, product and maturity. After obtaining a credit rating, issuing bonds, restructuring its financial debt and entering into a new syndicated loan, the borrowing costs of the Company's debt were reduced and its maturity dates were extended and diversified. The Colonial Group's net financial debt, measured using the loan-to-value ratio, has remained stable, which provides the Group with sufficient funds to carry out its current projects, take on new projects and undertake significant growth costs over the coming years.

- Liquidity risk: As mentioned in the preceding paragraph, the Group has the necessary sources of financing to undertake its current projects in addition to those laid down in its business plan. Following the process of

restructuring the Company's financial debt, its liquidity rose and its ability to attract capital and obtain new financing increased.

Operational risks:

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

- Rental property management risks: Sustainable management of daily operations increasingly forms a key part of an owner's obligations, and has a direct effect on occupancy levels. The Colonial Group allocates a significant portion of its investments to acquiring, constructing, renovating and maintaining the high quality of its property assets, well known for their energy efficiency. This property management strategy is a key part of the Group's organisation and business plan.

- Risk of damage and impairment of property assets: The Colonial Group's properties are exposed to general risks of damage as a result of fires, flooding or other events, regardless of whether or not they are attributable to natural causes. Colonial has arranged hedges to cover the reconstruction costs of the properties it owns, as well as any damage caused by third parties.

Compliance risks:

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

- Risks arising from failure to comply with contractual obligations: In the course of its business activities, the Colonial Group is exposed to risks inherent in failing to comply with any of its contractual obligations with its customers, banks, suppliers, employees etc. The process of identifying and assessing risks of contractual breach that may give rise to legal proceedings against the Group allows the appropriate corrective measures to be taken in order to mitigate these risks or, where applicable, any possible impact. The Company has also taken out insurance to cover any legal costs or possible damage against directors and executives.

    - Tax risks: The Colonial Group must adhere to the general tax legislation of the countries in which it operates, as well as any specific regulations for the real estate sector. Accordingly, Colonial has a tax policy, a tax strategy and a tax risk management system, approved by its governing bodies and within the framework of the ICRMS, establishing adequate measures to control and monitor the management of risks in this connection.

Reporting risks:

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

5. Events after the reporting date

No significant events have taken place since the end of 2015.

6. Future outlook

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

Barcelona and Madrid

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

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

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

With regard to supply, there is a clear shortage of prime rentals in central areas.

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

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

Paris

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

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

Strategy for the future

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

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

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

7. Research and development activities

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

8. Treasury shares

At 31 December 2015, the Company had 8,490,840 treasury shares with a nominal value of 2,123 thousand euros, which represents 0.27% of the Parent's share capital.

9. Other relevant information

There is no other relevant information.

10. Annual Corporate Governance Report

Pursuant to Article 538 of the Spanish Limited Liability Companies Law, it is hereby noted that the Annual Corporate Governance Report for 2015 is included in this Management Report in a separate section.