# Merlin Properties SOCIMI, S.A. and Subsidiaries

Condensed Consolidated Interim Financial Statements
for the six-month period ended 30 June 2017
prepared in accordance with International Financial
Reporting Standards (IFRSs) as adopted by the
European Union

## MERLIN PROPERTIES, SOCIMI, S.A.
## AND SUBSIDIARIES

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2017**
(Thousands of euros)

| ASSETS | Note | 30/06/2017 | 31/12/2016 | EQUITY AND LIABILITIES | Note | 30/06/2017 | 31/12/2016 |
|---|---|---|---|---|---|---|---|
| **NON-CURRENT ASSETS:** | | | | **EQUITY:** | Note 10 | | |
| **Goodwill** | Note 5 | - | 9,839 | **Share capital** | | 469,771 | 469,771 |
| **Concession projects** | Note 6 | 244,452 | 245,744 | **Share premium** | | 3,970,842 | 4,017,485 |
| **Other intangible assets** | Note 6 | 1,436 | 2,386 | **Reserves** | | 340,709 | (143,537) |
| **Property, plant and equipment** | Note 6 | 3,893 | 3,569 | **Other owner contributions** | | 540 | 540 |
| **Investment property** | Note 7 | 9,650,154 | 9,027,184 | **Valuation Adjustments** | | (37,812) | (47,582) |
| **Investments accounted for using the equity method** | Note 8 | 324,561 | 319,697 | **Treasury shares** | | (35,498) | (105) |
| **Non-current financial investments-** | Note 9 | 321,116 | 329,427 | **Interim dividend** | | - | (59,759) |
| Derivatives | | 199,865 | 207,182 | **Profit for the period attributable to the Parent** | | 421,398 | 582,645 |
| Other financial assets | | 121,251 | 122,245 | **Equity attributable to the Parent** | | 5,129,950 | 4,819,458 |
| **Deferred tax assets** | | 142,867 | 141,044 | **Non-controlling interests** | | 21,912 | 21,311 |
| **Total non-current assets** | | 10,688,479 | 10,078,890 | **Total equity** | | 5,151,862 | 4,840,769 |
| | | | | **NON-CURRENT LIABILITIES:** | | | |
| | | | | **Debt instruments and other marketable securities** | Note 11 | 2,923,104 | 2,327,345 |
| | | | | **Non-current bank borrowings** | Note 11 | 2,133,403 | 2,847,237 |
| | | | | **Other financial liabilities** | Note 12 | 88,211 | 104,149 |
| | | | | **Deferred tax liabilities** | Note 12 | 576,839 | 556,771 |
| | | | | **Provisions** | Note 12 | 52,901 | 34,092 |
| | | | | **Total non-current liabilities** | | 5,774,458 | 5,869,594 |
| | | | | **CURRENT LIABILITIES:** | | | |
| | | | | **Provisions** | Note 12 | 867 | 867 |
| **CURRENT ASSETS:** | | | | **Debt instruments and other marketable securities** | Note 11 | 16,188 | 25,629 |
| **Inventories** | | 3,448 | 2,938 | **Current bank borrowings** | Note 11 | 150,889 | 36,227 |
| **Trade and other receivables** | Note 9 | 51,994 | 505,894 | **Other current financial liabilities** | Note 12 | 19,320 | 3,997 |
| **Other current financial assets** | Note 9 | 79,571 | 83,364 | **Trade and other payables** | Note 13 | 69,925 | 113,637 |
| **Other current assets** | | 3,584 | 413 | **Current income tax liabilities** | Note 13 | 24,019 | 27,231 |
| **Cash and cash equivalents** | | 395,456 | 247,081 | **Other current liabilities** | | 15,004 | 629 |
| **Total current assets** | | 534,053 | 839,690 | **Total current liabilities** | | 296,212 | 208,217 |
| **Total assets** | | 11,222,532 | 10,918,580 | **TOTAL EQUITY AND LIABILITIES** | | 11,222,532 | 10,918,580 |

The accompanying explanatory Notes 1 to 18 and Appendix I are an integral part of the condensed consolidated statement of financial position at 30 June 2017.

# MERLIN PROPERTIES, SOCIMI, S.A.
# AND SUBSIDIARIES

## CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017

(Thousands of euros)

| | Note | 30/06/2017 | 30/06/2016 |
|---|---|---|---|
| **CONTINUING OPERATIONS:** | | | |
| **Revenue** | Notes 4 & 14 | 233,357 | 154,687 |
| **Other operating income** | | 1,497 | 300 |
| **Staff costs** | Note 14-c | (38,587) | (7,042) |
| **Other operating expenses** | Note 14-b | (27,383) | (19,770) |
| **Gains or losses on disposals of non-current assets** | | 241 | 64 |
| **Depreciation and amortisation charge** | | (3,612) | (2,043) |
| **Excess provisions** | | 96 | 54 |
| **Impairment of goodwill:** | | (9,839) | (114,278) |
| *Absorption of the revaluation of investment property* | Notes 5 & 7 | (9,839) | (114,278) |
| **Change in fair value of investment property** | Note 7 | 332,316 | 275,384 |
| **Negative difference on business combinations** | | (1,775) | (4,343) |
| **PROFIT FROM OPERATIONS** | | 486,311 | 283,013 |
| **Change in the fair value of financial instruments-** | | (701) | (26,293) |
| *Change in fair value of financial instruments - Embedded derivative* | Note 9 | (7,317) | (17,038) |
| *Change in fair value of financial instruments - Other* | | 6,616 | (9,255) |
| **Finance income** | | 280 | 639 |
| **Finance costs** | | (60,069) | (38,415) |
| **Impairment and gains or losses on disposals of financial instruments** | | 101 | (355) |
| **Share of results of companies accounted for using the equity method** | Note 8 | 8,337 | 2,810 |
| **PROFIT BEFORE TAX** | | 434,259 | 221,399 |
| **Income tax** | | (12,260) | (10,212) |
| **PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS** | | 421,999 | 211,187 |
| **Attributable to shareholders of the Parent** | | 421,398 | 211,143 |
| **Attributable to non-controlling interests** | | 601 | 44 |
| **EARNINGS PER SHARE (in euros):** | | 0.90 | 0.65 |
| **BASIC EARNINGS PER SHARE (in euros):** | | 0.90 | 0.65 |
| **DILUTED EARNINGS PER SHARE (in euros):** | | - | - |

The accompanying explanatory Notes 1 to 18 and Appendix I are an integral part of the condensed consolidated income statement for the six-month period ended 30 June 2017.

# MERLIN PROPERTIES, SOCIMI, S.A.
# AND SUBSIDIARIES

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

(Thousands of euros)

| | Note | 30/06/2017 | 30/06/2016 |
|---|---|---|---|
| **PROFIT PER INCOME STATEMENT (I)** | | 421,999 | 211,187 |
| **OTHER COMPREHENSIVE INCOME:** | | | |
| **Income and expense recognised directly in equity-** | | | |
| **Cash flow hedges** | | (8,344) | (67,516) |
| **Translation differences** | | - | 280 |
| **OTHER COMPREHENSIVE INCOME RECOGNISED DIRECTLY IN EQUITY (II)** | | (8,344) | (67,236) |
| **Transfers to profit or loss** | | 18,114 | 11,226 |
| **For hedge instruments** | | 18,114 | 11,226 |
| **TOTAL TRANSFERS TO PROFIT OR LOSS (III)** | | 18,114 | 11,226 |
| **TOTAL COMPREHENSIVE INCOME (I+II+III)** | | 431,769 | 155,177 |
| **Attributable to shareholders of the Parent** | | 431,168 | 155,133 |
| **Attributable to non-controlling interests** | | 601 | 44 |

The accompanying explanatory Notes 1 to 18 and Appendix I are an integral part of the condensed consolidated statement of comprehensive income for the six-month period ended 30 June 2017.

## MERLIN PROPERTIES, SOCIMI, S.A.
## AND SUBSIDIARIES

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

(Thousands of euros)

| | Share capital | Share premium | Reserves | Contributions from shareholders | Profit for the period | Interim dividend | Valuation adjustments - | Translation - differences | Treasury shares | Equity attributed to the Parent - | Non-controlling interests | Total equity - |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balances at 31 December 2015** | **323,030** | **2,616,003** | **(32,364)** | **540** | **49,078** | **(25,035)** | **(6,106)** | **193** | **-** | **2,925,339** | **1,092** | **2,926,431** |
| Consolidated comprehensive income | - | - | - | - | 211,143 | - | (56,290) | 280 | - | 155,133 | 44 | **155,177** |
| Distribution of 2015 profit | - | - | 24,043 | - | (49,078) | 25,035 | - | - | - | - | - | **-** |
| Transactions with shareholders or owners- | | | | | | | | | | | | |
| Distribution of dividends | - | (33,145) | (1,838) | - | - | - | - | - | - | (34,983) | - | **(34,983)** |
| Other changes | - | - | (926) | - | - | - | - | - | - | (926) | - | **(926)** |
| **Balances at 30 June 2016** | **323,030** | **2,582,858** | **(11,085)** | **540** | **211,143** | **-** | **(62,396)** | **473** | **-** | **3,044,563** | **1,136** | **3,045,699** |
| **Balances at 31 December 2016** | **469,771** | **4,017,485** | **(143,537)** | **540** | **582,645** | **(59,759)** | **(47,582)** | **-** | **(105)** | **4,819,458** | **21,311** | **4,840,769** |
| Consolidated comprehensive income | - | - | - | - | 421,398 | - | 9,770 | - | - | 431,168 | 601 | **431,769** |
| Distribution of 2016 profit | - | - | 522,886 | - | (582,645) | 59,759 | - | - | - | - | - | **-** |
| Transactions with shareholders or owners- | | | | | | | | | | | | |
| Distribution of dividends | - | (46,643) | (47,310) | - | - | - | - | - | - | (93,953) | - | **(93,953)** |
| Acquisition of treasury shares | - | - | - | - | - | - | - | - | (35,393) | (35,393) | - | **(35,393)** |
| Recognition of share-based payments | - | - | 8,000 | - | - | - | - | - | - | 8,000 | - | **8,000** |
| Other changes | - | - | 670 | - | - | - | - | - | - | 670 | - | **670** |
| **Balances at 30 June 2017** | **469,771** | **3,970,842** | **340,709** | **540** | **421,398** | **-** | **(37,812)** | **-** | **(35,498)** | **5,129,950** | **21,912** | **5,151,862** |

The accompanying explanatory Notes 1 to 18 and Appendix I are an integral part of the condensed consolidated statement of changes in equity at 30 June 2017

## MERLIN PROPERTIES, SOCIMI, S.A.
## AND SUBSIDIARIES

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2017**

(Thousands of euros)

| | Note | 30/06/2017 | 30/06/2016 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | **534,032** | **90,876** |
| **Profit before tax** | | **434,259** | **221,399** |
| **Adjustments to profit-** | | **(232,553)** | **(93,224)** |
| Depreciation and amortisation charge | | 3,612 | 2,043 |
| Change in fair value of investment property | **Note 7** | (332,316) | (275,384) |
| Change in provisions | | 32,725 | (54) |
| Gains/Losses on derecognition and disposal of non-current assets | | (241) | (64) |
| Finance income | | (280) | (639) |
| Finance costs | | 60,069 | 38,415 |
| Change in fair value of financial instruments | | 701 | 26,293 |
| Impairment and gains or losses on disposals of financial instruments | | (101) | 355 |
| Share of results of investments accounted for using the equity method | | (8,337) | (2,810) |
| Impairment of goodwill | **Note 5** | 9,839 | 114,278 |
| Other gains | | 1,775 | 4,343 |
| **Changes in working capital-** | | **407,446** | **(904)** |
| Accounts receivable | | 448,213 | 4,420 |
| Other current assets | | 3,793 | (369) |
| Accounts payable | | (42,383) | (7,220) |
| Other assets and liabilities | | (2,177) | 2,265 |
| **Other cash flows from operating activities-** | | **(75,120)** | **(36,395)** |
| Interest paid | | (74,769) | (37,155) |
| Interest received | | 280 | 760 |
| Income tax paid | | (631) | - |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | **(272,884)** | **(462,272)** |
| **Payments due to investments-** | | **(281,212)** | **(475,001)** |
| Net cash flow from business acquisitions | | (12,553) | (101,432) |
| Investment property | **Note 7** | (267,720) | (55,372) |
| Property, plant and equipment | | (739) | (1,357) |
| Contributions to associates | | (200) | (316,840) |
| **Proceeds from disposals-** | | **8,328** | **12,729** |
| Financial assets | | - | 1,264 |
| Investment property | | 8,178 | 11,465 |
| Property, plant and equipment | | 150 | - |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | **(112,773)** | **(46,342)** |
| **Proceeds and payments relating to equity instruments-** | | **(129,346)** | **(34,984)** |
| Refund of premium | **Note 10** | (46,643) | (33,145) |
| Dividends paid | **Note 10** | (47,310) | (1,839) |
| Purchase of equity instruments | **Note 10** | (35,393) | - |
| **Proceeds and payments relating to financial liabilities-** | | **16,573** | **(11,358)** |
| Proceeds from issue of bank borrowings | | - | 1,700,000 |
| Repayment of bank borrowings | **Note 11.1** | (576,862) | (2,542,801) |
| Issue of debt instruments | **Note 11.2** | 600,000 | 850,000 |
| Other payments due to financing activities | | (6,565) | (18,557) |
| **NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS** | | **148,375** | **(417,738)** |
| Cash and cash equivalents at beginning of period | | 247,081 | 560,740 |
| Cash and cash equivalents at end of period | | 395,456 | 143,002 |

The accompanying explanatory Notes 1 to 18 and Appendix I are an integral part of the condensed consolidated statement of cash flows for the six-month period ended 30 June 2017.

## Merlin Properties SOCIMI S.A. and Subsidiaries

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

### 1. Group description and activities

Merlin Properties SOCIMI, S.A. (hereinafter, the "Parent") was incorporated in Spain on 25 March 2014 under the Spanish Corporate Enterprises Act. On 22 May 2014, the Parent requested to be included in the tax regime for listed real estate investment trusts (REITs), effective from 1 January 2014.

On 27 February 2017, the Parent changed its registered office from Paseo de la Castellana 42 to Paseo de la Castellana 257, Madrid.

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

- The acquisition and development of urban real estate for subsequent leasing, including the refurbishment of buildings as per Law 37/1992, of 28 December, on Value Added Tax (*Ley 37/1992, de 28 de diciembre, del Impuesto sobre el Valor Añadido*);
- The holding of equity interests in real estate investment trusts ("REITs") or in other non-resident entities in Spain with the same corporate purpose and that operate under a similar regime as that established for REITs with respect to the mandatory profit distribution policy enforced by law or by the bylaws.
- The holding of equity interests in other resident or non-resident entities in Spain whose corporate purpose is to acquire urban real estate for subsequent leasing, and which operate under the same regime as that established for REITs with respect to the mandatory profit distribution policy enforced by law or by the bylaws, and which fulfil the investment requirements stipulated for these companies; and
- The holding of shares or equity interests in collective real estate investment undertakings regulated by Law 35/2003, of 4 November, on collective investment undertakings (*Ley 35/2003, de 4 de noviembre, de Instituciones de Inversión Colectiva*), or any law that may replace it in the future.

In addition to the economic activity deriving from the main corporate purpose, the Parent may also carry on any other complementary activities; these being any that generate income representing less than 20%, taken as a whole, of its income in each tax period, or any that can be classified as complementary as per prevailing legislation.

The activities included in the Parent's corporate purpose may be indirectly carried on, either wholly or in part, through the ownership of shares or equity interests in companies with a similar or identical corporate purpose.

The direct and, where applicable, indirect performance of any activities which are reserved under special legislation are excluded. If the law prescribes the need for a professional qualification, prior administrative authorisation, entry in a public registry, or any other requirement for the purpose of exercising any of the activities within the corporate purpose, no such activity can be exercised until all the applicable professional or administrative requirements have been met.

Merlin Properties SOCIMI, S.A. and Subsidiaries (hereinafter, the "Group") mainly engage in the acquisition and management (through leasing to third parties) of offices, industrial buildings and commercial premises. They may also invest to a lesser extent in other assets for lease.

On 30 June 2014, the Parent was floated on the Spanish stock market through the issuance of EUR 125,000 thousand shares, with a share premium of EUR 1,125,000 thousand. Merlin Properties SOCIMI, S.A.'s shares/securities have been listed on the electronic trading system of the Spanish stock exchanges since 30 June 2014.

The Parent and its subsidiaries are governed by Law 11/2009 (*Ley 11/2009*), of 26 October, as amended by Law 16/2012, of 27 December, regulating REITs (*Ley 16/2012, de 27 de diciembre, por la que se regulan las Sociedades*

*Anónimas Cotizadas de Inversión en el Mercado Inmobiliario (SOCIMI)*). Article 3 of said Law sets out the investment requirements for these types of companies, namely:

1. At least 80% of an REIT's assets must be invested in urban real estate for leasing purposes and/or in land to be developed for leasing purposes provided such development starts within three years of acquisition, along with investments in the capital or equity of other entities referred to in Article 2.1 of the aforementioned Law.

   The value of the assets will be determined according to the average of the individual balance sheets for each quarter of the year, whereby the REIT may opt to calculate such value by taking into account the market value of the assets included in such balance sheets instead of their carrying amount, in which case that value would apply to all balance sheets for the year. For these purposes, the money and collection rights arising from the disposal of these properties or shareholdings, if applicable, during the same year or previous years will not be calculated, provided that, in this last case, the reinvestment period referred to in Article 6 of this Law has not elapsed.

2. Similarly, at least 80% of the income for the tax period for each year, excluding that arising from the disposal of shareholdings and properties used in the compliance of its main corporate purpose, once the holding period referred to below has elapsed, should come from the lease of properties and from dividends or shares in profit from these investments.

   This percentage is calculated based on consolidated profit if the company is a Parent of a group, as defined in Article 42 of the Commercial Code, irrespective of the place of residence and the obligation to prepare consolidated financial statements. This group will be formed only by REITs and the other entities referred to in Article 2.1 of this Law.

3. The REIT's real estate assets must be leased for at least three years. The time that the properties have been offered for lease, up to a maximum of one year, will be included for the purposes of this calculation.

   This period will be calculated:

   a) In the case of properties that are included in the REIT's assets before it avails itself of the regime, from the date of commencement of the first tax period in which the special tax regime set forth in this Law is applied, provided that the property is leased or offered for lease at that date. Otherwise, the provisions of the following paragraph shall apply.

   b) In the case of properties developed or acquired subsequently by the REIT, from the date on which they were leased or offered for lease for the first time.

   c) In the case of shares or investments in entities referred to in Article 2.1 of this Law, they must be held as assets of the REIT for at least three years from acquisition or, where applicable, from the commencement of the first tax period in which the special tax regime set forth in this Law is applied.

As established in transitional provision one of Law 11/2009, of 26 October, amended by Law 16/2012, of 27 December, governing REITs, these companies may opt to apply the special tax regime pursuant to Article 8 of this Law, even when the requirements stipulated therein are not fulfilled, under the condition that such requirements are met within two years of the date application of the REIT tax regime is sought.

Failure to fulfil said condition will render the REIT subject to the general corporate income tax rules, starting in the tax period in which the non-fulfilment is detected, unless it is remedied within the following tax period. In addition, the REIT will be required to deposit, along with the payment for this tax period, the difference between the payment due as a result of applying the general tax regime and the payment made under the special tax regime in the previous tax periods, without prejudice to any late-payment interest, charges and penalties that may be incurred, where applicable.

REITs are taxed at a rate of 0% for income tax. However, where dividends distributed to an equity holder owning at least 5% of the REIT's share capital are exempt from taxation or taxed below 10%, such REIT will be subject to a special charge of 19% of the dividends distributed to said equity holder, in respect of corporate income tax. If deemed applicable, this special charge shall be paid by the REIT within two months after the dividend distribution date.

## 2. Basis of presentation of the condensed consolidated interim financial statements and basis of consolidation

### *2.1 Regulatory framework*

The regulatory financial reporting framework applicable to the Group consists of the following:

- The Spanish Commercial Code and all other Spanish corporate law;

- International Financial Reporting Standards (IFRSs) as adopted by the European Union pursuant to Regulation (EC) No 1606/2002 of the European Parliament and Law 62/2003, of 30 December, on tax, administrative and social security measures (*Ley 62/2003, de 30 de diciembre, de medidas fiscales, administrativas y de orden social*), as well as applicable rules and circulars of the Spanish National Securities Market Commission (CNMV);

- Law 11/2009, of 26 October, amended by Law 16/2012, of 27 December, regulating REITs and other corporate law; and

- Other applicable Spanish accounting legislation.

The consolidated financial statements for 2016 were prepared in accordance with the regulatory financial reporting framework described in the preceding paragraph and, accordingly, they present fairly the Group's consolidated equity and financial position at 31 December 2016 and the consolidated results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.

The consolidated and individual financial statements of Merlin Properties, SOCIMI, S.A. for 2016 prepared by its Directors were approved by the shareholders at the General Meeting held on 26 April 2017.

The individual financial statements of the other companies composing the Group for 2016 prepared by their corresponding Directors were approved by the sole equity holder or shareholder on 29 and 30 June 2017.

These condensed consolidated interim financial statements are presented in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, and were approved by the directors of the Parent on 21 September 2017, in accordance with the provisions of Article 12 of Royal Decree 1362/2007 (*Real Decreto 1362/2007*).

In accordance with IAS 34, interim financial information is prepared solely to update the content of the most recent consolidated financial statements prepared by the Group, focusing on new activities, events and circumstances arising during the period, and does not duplicate the information previously reported in the consolidated financial statements. Therefore, the condensed consolidated interim financial statements at 30 June 2017 do not include all the disclosures that would be required in complete consolidated financial statements prepared in conformity with International Financial Reporting Standards as adopted by the European Union and, accordingly, the accompanying interim financial statements should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2016.

The consolidated results and the determination of consolidated equity are sensitive to the accounting principles and policies, measurement bases and estimates used by the Parent's directors in the preparation of the condensed consolidated financial statements. In this connection, the main accounting policies and measurement bases used are the same as those used to prepare the 2016 consolidated financial statements, except for the standards and interpretations which came into force in the first half of 2017.

### *2.2 Basis of presentation of the condensed consolidated interim financial statements*

The condensed consolidated interim financial statements were obtained from the accounting records of the Parent and the consolidated companies, and have been prepared in accordance with the regulatory financial reporting framework described in Note 2.1 above and, accordingly, they present fairly the Group's consolidated equity and financial position at 30 June 2017 and the consolidated results of its operations, the changes in consolidated equity and the consolidated cash flows in the six-month period ended 30 June 2017.

Given that the accounting policies and measurement bases applied in preparing the Group's condensed consolidated interim financial statements for the six-month period ended 30 June 2017 may differ from those applied by some of the Group companies, the necessary adjustments and reclassifications were made on consolidation to unify these policies and bases and to make them compliant with IFRSs as adopted by the European Union.

In order to uniformly present the various items composing the condensed consolidated interim financial statements, the policies and measurement bases used by the Parent were applied to all the consolidated companies.

These condensed consolidated interim financial statements at 30 June 2017 were reviewed by the auditors. The figures relating to 30 June 2016 and 31 December 2016 are presented for comparison purposes only.

### *2.2.1 Adoption of International Financial Reporting Standards effective from 1 January 2017*

In the first half of 2017, the following standards, amendments and interpretations came into force, which, where applicable, were used by the Group in preparing the condensed consolidated interim financial statements:

| **Standards, amendments and interpretations** | **Description** | Obligatory application in the years beginning on or after |
|---|---|---|
| Amendments to the IAS 7 disclosure initiative (published in January 2016). | It introduces additional disclosure requirements in relation to reconciling changes in liabilities arising from financing activities and cash flows from financing activities. | 1 January 2017 |
| Amendments to IAS 12 Recognition of deferred tax assets for unrealised losses (published in January 2016) | Clarification of the principles established with respect to the recognition of deferred tax assets for unrealised losses. | 1 January 2017 |
| Improvements to IFRS Standards 2014-2016 cycle (clarification in relation to IFRS 12) | Clarifies the scope of IFRS 12 and its interaction with IFRS 5 enters into force in this period. | 1 January 2017 |

These standards and amendments did not have a material impact.

All accounting policies and measurement bases with a significant effect on the condensed consolidated interim financial statements were applied.

### *2.2.2 Standards not yet in force in 2017*

The following standards were not yet in force in the first half of 2017, either because their effective date is subsequent to the date of the consolidated interim financial statements or because they had not yet been adopted by the European Union.

| **Standards, amendments and interpretations** | **Description** | **Obligatory application in the years beginning on or after**: |
|---|---|---|
| IFRS 15 Revenue from Contracts with Customers (issued in May 2014) | New revenue recognition standard. Replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. The new IFRS 15 model is far more restrictive and principles-based, and also has a very different contractual approach. Application of the new requirements could therefore give rise to changes in the revenue profile. | 1 January 2018 |
| IFRS 9 Financial Instruments (published in July 2014) | This new standard will replace the current IAS 39.<br>The conceptual change is important in all sections. It changes the model for classifying and measuring financial assets the main focus of which will be the business model. The hedge accounting model is designed to better align with the economic management of the risk and require less rules. Lastly, the impairment model shifts from the current incurred losses model to an expected losses model. | 1 January 2018 |
| IFRS 17 Insurance Contracts (published in May 2017) | It replaces IFRS 4. It establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts with the objective of ensuring that an entity provides relevant information that faithfully represents those contracts, allowing users of the financial | 1 January 2018 |

| **Standards, amendments and interpretations** | **Description** | **Obligatory application in the years beginning on or after**: |
|---|---|---|
| | information to assess the effect that insurance contracts have on the financial statements. | |
| IFRS 16 Leases (issued in January 2016) | New leases standard which replaces IAS 17. It introduces a single lessee accounting model which will include in the balance sheet all leases (with a few, limited exceptions) with an impact similar to current finance leases. | 1 January 2019 |
| Clarifications to IFRS 15 (published in April 2016) | The clarifications focus on identifying performance obligations, principal versus agent considerations, licensing at a point in time or over time, as well as certain clarifications regarding transition rules. | 1 January 2018 (1) |
| Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions | They are limited amendments that clarify specific matters such as the effect of vesting conditions on cash-settled share-based payments, the classification of share-based payments with net settlement features and certain matters related to changes to the type of share-based payment. | 1 January 2018 (1) |
| Amendments to IFRS 4 Insurance Contracts (published in September 2016) | The amendments permit entities to apply IFRS 9 ("overlay approach") or a temporary exemption within the scope of IFRS 4. | 1 January 2018 (1) |
| Amendments to IAS 40 Reclassification of Investment Property (published in December 2016) | The amendment clarifies that a property may be reclassified to or from investment property only when there is evidence of a change in use. | 1 January 2018 (1) |
| Improvements to IFRS Standards 2014-2016 cycle (published in December 2016) | Minor changes to a series of standards (various effective dates, one of which is 1 January 2017). | 1 January 2018 (1) |
| IFRIC 22 Foreign Currency Transactions and Advance Consideration (published in December 2016) | This interpretation establishes "the date of transaction" for the purpose of determining the exchange rate in transactions with advance consideration in a foreign currency. | 1 January 2018 (1) |
| IFRIC 23 Uncertainty over Income Tax Treatments (published in June 2017) | This interpretation clarifies how to apply the accounting policies and measurement bases under IAS 12 when there is uncertainty whether a certain tax treatment used by an entity is accepted by the taxation authorities. | 01 January 2019 (1) |
| Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate/Joint Venture | This clarification is very relevant in relation to the gain or loss resulting from these transactions because there is currently a discrepancy between these standards. When the assets constitute a business, the resulting gain or loss will be recognised in full, if the assets do not constitute a business, the resulting gain or loss will be recognised partially. | Its adoption in the EU and application according to the IASB is deferred indefinitely. |

(1) Pending adoption by the European Union.

The Group is currently assessing the impact of the future application of this standard on the condensed consolidated financial statements once it enters into force. Until the analysis is complete, it is impossible to reasonably estimate its effects. In the case of IFRS 16 (Leases), this standard will replace the current IAS 17 and will apply beginning on 1 January 2019. The main change consists of a single lessee accounting model which will include in the balance sheet all leases (with a few, limited exceptions) as if they were financed purchases, i.e., with an impact similar to that of current finance leases. On the other hand, lessors will continue to have a dual model, similar to that currently in force with IAS 17. In relation to IFRS 15, the Group considers that the impact of its application will not be significant to the extent that this standard excludes from its scope leases which continue to be regulated by another accounting standard (IAS 17/IFRS 16).

### 2.3 Functional currency

These condensed consolidated interim financial statements are presented in euros, since the euro is the functional currency in the area in which the Group operates.

### 2.4 Comparative information

In accordance with the International Financial Reporting Standards as adopted by the European Union, the information relating to the six-month period ended 30 June 2016 contained in these condensed consolidated interim financial statements is presented for the purpose of its comparison with the information for the six-month period ended 30 June 2017 for the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, consolidated statement of cash flows and, for the period ended 31 December 2016, the condensed consolidated statement of financial position.

### 2.5 Responsibility for the information and use of estimates

The information in these condensed consolidated interim financial statements is the responsibility of the Parent's directors.

In the Group's condensed consolidated interim financial statements for the six-month period ended 30 June 2017, estimates were occasionally made by the senior executives of the Group and of the consolidated companies, and later ratified by the directors, in order to quantify certain assets, liabilities, income, expenses and commitments reported herein. These estimates relate basically to the following:

1. The market value of the net assets acquired in business combinations.
2. The market value of the Group's property assets. The Group obtained valuations from independent experts at 30 June 2017.
3. Impairment of goodwill.
4. The fair value of certain financial instruments.
5. The assessment of provisions and contingencies.
6. Management of financial risk and, in particular, of liquidity risk.
7. The recovery of deferred tax assets and the tax rate applicable to temporary differences.
8. Definition of the transactions carried out by the Group as a business combination in accordance with IFRS 3 or as an acquisition of assets.
9. Compliance with the requirements that regulate Real Estate Investment Trusts.

*Changes in estimates:*

Although these estimates were made on the basis of the best information available at 30 June 2017, future events may require these estimates to be modified prospectively (upwards or downwards), in accordance with IAS 8. The effects of any change would be recognised in the corresponding consolidated income statement.

### 2.6 Contingent assets and liabilities

In the first 6 months of 2017, there were no significant changes in the Group's main contingent assets and liabilities.

### 2.7 Correction of accounting errors

When preparing the condensed consolidated interim financial statements for the six-month period ended 30 June 2017, no errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for 2016.

### *2.8 Seasonality of the Group's transactions*

In view of the business activities in which the Group companies engage, their transactions are not significantly cyclical or seasonal in nature. Therefore, no specific disclosures are included in this respect in these explanatory notes to the condensed consolidated interim financial statements for the six-month period ended 30 June 2017.

### *2.9 Condensed consolidated statement of cash flows*

The following terms are used in the condensed consolidated statement of cash flows, prepared using the indirect method, with the meanings specified:

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

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

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

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

### *2.10 Materiality*

In accordance with IAS 34, in deciding the information to be disclosed on the explanatory notes in the condensed consolidated interim financial statements or other matters in the notes to the financial statements, the Group took into account their materiality in relation to the condensed consolidated interim financial statements for the six-month period ended 30 June 2017.

## 3. Changes in the scope of consolidation

The changes in the scope of consolidation in the first 6 months of 2017 were as follows:

The Parent acquired 100% of the ownership interest in Promosete Investimentos Imobiliarios, S.A. the share capital of which amounted to EUR 200,000, and is fully paid and represented by 200,000 shares of EUR 1 par value each for EUR 11,704 thousand. The main line of business of the acquired company is the lease of offices. Its main asset is the Central Office Building in Lisbon which is 100% leased and has a surface area of 10,310 square meters. Its appraised value at the time of purchase according to an independent appraiser was EUR 30,991 thousand. The purpose of this business combination is to increase the Group's presence in the real estate market in Lisbon. The impact of the main aggregates on the financial statements are of limited relevance with respect to the Group.

In Appendix I to the consolidated financial statements for 2016 relevant information on the consolidated Group companies and the companies accounted for using the equity method at that date is provided. The only change in 2017 is that described in the preceding paragraph.

*Corporate restructuring of subsidiaries*

On 27 June 2017, the Board of Directors of the Parent approved the start of the merger between Explotaciones Urbanas Españolas, S.L.U. and Centros Comerciales Metropolitanos, S.A.U., both wholly owned by the Parent. The aforementioned process does not affect the Group's financial statements.

## 4. Segment reporting

### *a) Basis of segmentation*

Group management has segmented its activities into the business segments detailed below according to the type of assets acquired and managed:

- Office buildings.

- High Street retail.

- Shopping centres.
- Logistics assets.
- Other.

Any revenue or expense that cannot be attributed to a specific line of business or relate to the entire Group are attributed to the Parent as a “Corporate unit/Other”, as are the reconciling items arising from the reconciliation of the result of integrating the financial statements of the various lines of business (prepared using a management approach) and the Group’s consolidated financial statements.

The profits of each segment, and each asset within each segment, are used to measure performance as the Group considers this information to be the most relevant when evaluating the segments’ results compared to other groups operating in the same businesses.

The Group carried out its business activities exclusively in Spain and Portugal in the six-month period ended 30 June 2017.

***b) Basis and methodology for segment reporting***

The segment information below is based on monthly reports prepared by Group management, which are generated using the same computer application that prepares all the Group's accounting information. The accounting policies applied to prepare the segment information are the same as those used by the Group, as described in Note 2.

Segment revenue relates to ordinary revenue directly attributable to the segment plus the proportion of the general revenue of the Group that may be reasonably allocable to it. Segment revenue does not include interest income or dividend income or gains on redemption or extinguishment of debt.

Segment expenses are calculated as the directly attributable expenses incurred in the operating activities, plus the corresponding proportion of the expenses that are reasonably allocable to the segment.

The segment profit or loss is shown before any adjustment for non-controlling interests.

The assets and liabilities of the segments are those that are directly related to their operations plus those that can be directly attributed to them on the basis of the aforementioned allocation system, and include the proportional part of joint ventures. Liabilities do not include income tax payments.

Segment information about these businesses at 30 June 2017 and its comparison with the preceding period (30 June 2016 for income and expense and 31 December 2016 for assets and liabilities) is presented below:

*a) Segment reporting*

| At 30 June 2017 | Thousands of euros | | | | | | |
|---|---|---|---|---|---|---|---|
| | Office building | High Street Retail | Shopping centres | Logistics | Other | Corporate unit | Group total |
| Ordinary revenue from non-Group customers: | | | | | | | |
| Rental income | 103,371 | 53,329 | 45,456 | 19,829 | 11,035 | 337 | 233,357 |
| Revenue | **103,371** | **53,329** | **45,456** | **19,829** | **11,035** | **337** | **233,357** |
| Other operating income | 53 | 31 | 1,079 | 135 | - | 199 | 1,497 |
| Staff costs | - | - | (401) | (234) | - | (37,952) | (38,587) |
| Operating expenses | (8,702) | (1,027) | (6,622) | (2,431) | (955) | (7,646) | (27,383) |
| Gains or losses on disposals of non-current assets | 18 | 158 | 65 | - | - | - | 241 |
| Depreciation and amortisation charge | - | (2) | (5) | (2,492) | - | (1,113) | (3,612) |
| Excessive provisions | - | - | - | - | - | 96 | 96 |
| Absorption of the revaluation of investment property | - | - | - | (7,018) | (2,821) | - | (9,839) |
| Change in fair value of investment property | 176,087 | 12,364 | 92,624 | 40,287 | 10,954 | - | 332,316 |
| Negative difference on business combinations | (1,775) | - | - | - | - | - | (1,775) |
| **Profit from operations** | **269,052** | **64,853** | **132,196** | **48,076** | **18,213** | **(46,079)** | **486,311** |
| Net finance income/(expense) | (1,540) | (10,938) | (1,984) | (1,314) | - | (44,013) | (59,789) |
| Gains or losses on disposals of financial instruments | - | - | (8) | - | - | 109 | 101 |
| Change in the value of derivative financial instruments | (24) | (7,798) | - | 226 | - | 6,895 | (701) |
| Share of results of companies accounted for using the equity method | - | - | 791 | - | - | 7,546 | 8,337 |
| **Profit/(Loss) before tax** | **267,488** | **46,117** | **130,995** | **46,988** | **18,213** | **(75,542)** | **434,259** |
| Income tax | (1,821) | (1,019) | (7,012) | 799 | (1,699) | (1,508) | (12,260) |
| **Profit/(Loss) for the period** | **265,667** | **45,098** | **123,983** | **47,787** | **16,514** | **(77,050)** | **421,999** |

| At 30 June 2016 | Thousands of euros | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Office building | High Street Retail | Shopping centres | Logistics | Hotels | Other | Corporate Unit | Group total |
| Ordinary revenue from non-Group customers: | | | | | | | | |
| Rental income | 56,223 | 48,930 | 19,501 | 9,464 | 11,943 | 6,886 | 1,740 | 154,687 |
| **Revenue** | **56,223** | **48,930** | **19,501** | **9,464** | **11,943** | **6,886** | **1,740** | **154,687** |
| Other income | 28 | - | - | - | - | - | 272 | 300 |
| Staff costs | - | - | - | - | - | - | (7,042) | (7,042) |
| Operating expenses | (6,725) | (338) | (798) | (680) | (887) | (1,449) | (8,893) | (19,770) |
| Gains or losses on disposals of non-current assets | - | - | - | - | - | 64 | - | 64 |
| Depreciation and amortisation charge | - | (14) | - | - | - | (1,864) | (165) | (2,043) |
| Excessive provisions | 54 | - | - | - | - | - | - | 54 |
| Impairment of goodwill: | | | | | | | | |
| Absorption of the revaluation of investment property | (55,741) | - | (38,380) | (5,140) | (11,796) | (3,221) | - | (114,278) |
| Change in fair value of investment property | 70,926 | 118,573 | 49,078 | 21,936 | 12,340 | 2,531 | - | 275,384 |
| Negative difference on business combinations | - | - | - | - | - | - | (4,343) | (4,343) |
| **Profit from operations** | **64,765** | **167,151** | **29,401** | **25,580** | **11,600** | **2,947** | **(18,431)** | **283,013** |
| Net finance income/(expense) | (1,562) | (11,258) | (1,920) | (704) | - | 95 | (22,427) | (37,776) |
| Change in the value of derivative financial instruments | 98 | (17,970) | (464) | (575) | - | - | (7,382) | (26,293) |
| Impairment and gains or losses on disposals of financial instruments | - | - | - | - | - | (355) | - | (355) |
| Share of results of companies accounted for using the equity method | - | - | - | - | - | - | 2,810 | 2,810 |
| **Profit/(Loss) before tax** | **63,301** | **137,923** | **27,017** | **24,301** | **11,600** | **2,687** | **(45,430)** | **221,399** |
| **Income tax** | **(533)** | **(5,509)** | **-** | **-** | **-** | **-** | **(4,170)** | **(10,212)** |
| **Profit/(Loss) for the period** | **62,768** | **132,414** | **27,017** | **24,301** | **11,600** | **2,687** | **(49,600)** | **211,187** |

| At 30 June 2017 | Thousands of euros Office buildings | High Street Retail | Shopping centres | Logistics | Other | Corporate unit | Group total |
|---|---|---|---|---|---|---|---|
| Investment property | 5,035,830 | 2,008,313 | 1,603,451 | 578,264 | 424,296 | - | 9,650,154 |
| Non-current financial investments- | 19,384 | 214,610 | 11,136 | 4,931 | 70,274 | 781 | 321,116 |
| *Derivatives* | - | *199,865* | - | - | - | - | *199,865* |
| *Other financial assets* | *19,384* | *14,745* | *11,136* | *4,931* | *70,274* | 781 | *121,251* |
| Deferred tax assets | - | 7,063 | 824 | 10,291 | - | 124,689 | 142,867 |
| Other non-current assets | 151 | 8 | 110,361 | 158,023 | 240,790 | 65,009 | 574,342 |
| **Non-current assets** | **5,055,365** | **2,229,994** | **1,725,772** | **751,509** | **735,360** | **190,479** | **10,688,479** |
| Trade receivables | 13,254 | 2,635 | 6,154 | 6,655 | 6,766 | 16,530 | 51,994 |
| Other current financial assets | 5 | 526 | 3 | 1,440 | 1 | 77,596 | 79,571 |
| Other current assets | 36,636 | 32,093 | 24,431 | 11,699 | 812 | 296,817 | 402,488 |
| **Current assets** | **49,895** | **35,254** | **30,588** | **19,794** | **7,579** | **390,943** | **534,053** |
| **Total assets** | **5,105,261** | **2,265,248** | **1,756,360** | **781,624** | **732,614** | **581,425** | **11,222,532** |
| Long-term bank borrowings and debt instrument issues | 108,647 | 920,470 | 130,393 | 99,261 | - | 3,797,736 | 5,056,507 |
| Other non-current liabilities | 229,281 | 118,376 | 50,889 | 29,524 | 325 | 289,556 | 717,951 |
| **Non-current liabilities** | **337,928** | **1,038,846** | **181,282** | **128,785** | **325** | **4,087,292** | **5,774,458** |
| **Current liabilities** | **50,650** | **14,367** | **15,306** | **11,959** | **143,681** | **60,249** | **296,212** |
| **Total liabilities** | **388,578** | **1,053,213** | **196,588** | **140,744** | **144,006** | **4,147,541** | **6,070,670** |

| | Thousands of euros | | | | | | |
|---|---|---|---|---|---|---|---|
| At 31 December 2016 | Office buildings | High Street Retail | Shopping centres | Logistics | Other | Corporate unit | Group Total |
| Investment property | 4,645,053 | 1,997,428 | 1,525,247 | 455,142 | 404,310 | 4 | 9,027,184 |
| Non-current financial assets- | 17,855 | 222,100 | 10,616 | 4,869 | 3,585 | 16,407 | 275,432 |
| *Derivatives* | - | *207,182* | - | - | - | - | *207,182* |
| *Other financial assets* | *17,855* | *14,918* | *10,616* | *4,869* | *3,585* | 16,407 | *68,250* |
| Deferred tax assets | 55 | 7,337 | 932 | 9,494 | 1,479 | 121,747 | 141,044 |
| Other non-current assets | 231 | 11 | 110,056 | 160,156 | 4,321 | 360,455 | 635,230 |
| **Non-current assets** | **4,663,194** | **2,226,876** | **1,646,851** | **629,661** | **413,695** | **498,613** | **10,078,890** |
| Trade receivables | 14,842 | 6,228 | 4,429 | 4,721 | 318,067 | 157,607 | 505,894 |
| Other current financial assets | 17 | 459 | - | 1,421 | - | 4,547 | 6,444 |
| Other current assets | 17,607 | 34,511 | 13,616 | 7,501 | 753 | 253,364 | 327,352 |
| **Current assets** | **32,466** | **41,198** | **18,045** | **13,643** | **318,820** | **415,518** | **839,690** |
| **Total assets** | **4,695,660** | **2,268,074** | **1,664,896** | **643,304** | **732,515** | **914,131** | **10,918,580** |
| Long-term bank borrowings and debt instrument issues | 233,988 | 925,246 | 130,301 | 100,380 | - | 3,784,667 | 5,174,582 |
| Other non-current liabilities | 234,132 | 135,295 | 50,175 | 29,018 | 454 | 245,938 | 695,012 |
| **Non-current liabilities** | **468,120** | **1,060,541** | **180,476** | **129,398** | **454** | **4,030,605** | **5,869,594** |
| **Current liabilities** | **40,442** | **16,530** | **15,269** | **12,261** | **25,233** | **98,482** | **208,217** |
| **Total liabilities** | **508,562** | **1,077,071** | **195,745** | **141,659** | **25,687** | **4,129,087** | **6,077,811** |

*b) Geographical segment reporting*

For the purposes of geographical segment reporting, segment revenue is grouped according to the geographical location of the assets. Segment assets are also grouped according to their geographical location.

The following table contains a summary of the ordinary revenue and non-current investment property by geographical area at 30 June 2017:

| | Thousands of euros | | | |
|---|---|---|---|---|
| | Ordinary revenue | % | Investment property/Concession projects | % |
| Madrid | 112,509 | 48,2% | 5,469,641 | 55.3% |
| Catalonia | 41,402 | 17,7% | 1,648,917 | 16.7% |
| Galicia | 10,859 | 4,7% | 415,919 | 4.2% |
| Basque Country | 10,385 | 4,5% | 377,929 | 3.8% |
| Andalusia | 10,269 | 4,4% | 360,197 | 3.6% |
| Autonomous Community of Valencia | 11,560 | 5,0% | 393,531 | 4.0% |
| Castilla y León | 5,688 | 2,4% | 280,851 | 2.8% |
| Rest of Spain | 25,899 | 11,1% | 759,980 | 7.7% |
| Portugal | 4,786 | 2,0% | 191,641 | 1.9% |
| **Total** | **233,357** | | **9,894,606** | |

At 31 December 2016

| | Thousands of euros | | | |
|---|---|---|---|---|
| | Ordinary revenue | % | Investment property/intangibles | % |
| Madrid | 170,997 | 49% | 5,260,469 | 57% |
| Catalonia | 55,576 | 16% | 1,442,324 | 16% |
| Galicia | 22,559 | 6% | 413,939 | 4% |
| Basque Country | 14,800 | 4% | 371,740 | 4% |
| Andalusia | 19,234 | 5% | 399,924 | 4% |
| Valencia Autonomous Community | 15,077 | 4% | 382,538 | 4% |
| Castilla y León | 6,293 | 2% | 108,430 | 1% |
| Rest of Spain | 39,024 | 11% | 747,417 | 8% |
| Portugal | 7,229 | 2% | 146,147 | 2% |
| France | 857 | 0% | - | 2% |
| **Total** | **351,646** | **100%** | **9,272,928** | **100%** |

*c) Main customers*

The table below lists the lessees from which have generated the most rental income at 30 June 2017, and the primary characteristics of each:

| Position | Name | Type | % of total rental income | % accumulated | Maturing in |
|---|---|---|---|---|---|
| 1 | BBVA - Branches | High street retail | 19.0 | 19.0 | 2040 |
| 2 | Endesa | Offices | 4.5 | 23.5 | 2023 |
| 3 | Técnicas Reunidas | Offices | 2.4 | 25.9 | 2018 |
| 4 | Renault | Offices | 1.9 | 27.8 | 2017 |
| 5 | PricewaterhouseCoopers, S.L. | Offices | 1.6 | 29.4 | 2021 |
| 6 | Caprabo | High street retail | 1.5 | 30.9 | 2023 |
| 7 | Madrid City Hall | Offices | 1.4 | 32.4 | 2019 |
| 8 | Hotusa + WTC | Hotel | 1.4 | 33.8 | 2019 |
| 9 | Indra Sistemas, S.A. | Offices | 1.4 | 35.2 | 2022 |
| 10 | L'Oreal España, S.A. | Offices | 1.0 | 36.1 | 2022 |

## 5. Goodwill on consolidation

The goodwill recognised at 30 June 2017 arose from the business combination with Testa Inmuebles en Renta, SOCIMI, S.A. and subsidiaries. The changes in this heading in the first 6 months of 2017 were as follows:

| | Thousands of euros | | |
|---|---|---|---|
| | Balance at 31/12/2016 | Transfer by absorption of value | Balance at 30/06/2017 |
| Goodwill | 9,839 | (9,839) | - |

The changes in this heading in the first 6 months of 2017 relate to revaluations of Testa's real estate assets. Accordingly, the valuations of the assets acquired in the Testa business combination carried out by independent appraisers at 30 June 2017 increased with respect to 31 December 2016 by EUR 85,488 thousand (see Note 7). In the Group's opinion, this revaluation represents the materialisation of the expectations existing at the date of the business combination and, therefore, it has reduced goodwill by EUR 9,839 thousand corresponding to the absorption of goodwill due to the revaluation of real estate assets in 2017.

## 6. Concession projects, other intangible assets and property, plant and equipment

The change in the first 6 months of 2017 in "Concession projects", "Other intangible assets" and "Property, plant and equipment" is due mainly to the depreciation and amortisation for the period amounting to EUR 3,612 thousand recognised under "Depreciation and amortisation charge" in the accompanying consolidated income statement.

## 7. Investment property

The changes under this heading in the six-month period ended 30 June 2017 were as follows:

| | Thousands of euros |
|---|---|
| **Balances at 1 January 2016** | **5,397,091** |
| Additions due to business combinations | 3,570,380 |
| Additions during the period | 171,817 |
| Disposals | (565,253) |
| Change in value of the investment property | 453,149 |
| **Balances at 31 December 2016** | **9,027,184** |
| Additions due to business combinations (see Note 3) | 30,991 |
| Additions during the period | 267,600 |
| Derecognitions during the period | (7,937) |
| Change in value of the investment property | 332,316 |
| **Balances at 30 June 2017** | **9,650,154** |

Investment property is recognised at fair value. Income recognised in the condensed consolidated income statement on measuring investment property at fair value amounted to EUR 332,316 thousand.

Investment property mainly includes real estate assets in the office, high street retail, shopping centre and logistics segments.

The main acquisition of assets in the first 6 months of 2017 corresponds to the Torre Glóries building located in Barcelona, the acquisition price of which amounted to EUR 142 million and the total built-up area of which is 51,485 square metres. The Parent will invest an additional EUR 15 million to convert it into a multi-tenant building, in order for the building to be used fundamentally as offices. Likewise, in 2017 the Group acquired 4 logistics buildings in Cabanillas (Guadalajara) for EUR 62 million.

The other additions in the period relate to the improvement and adaptation work carried out on certain buildings owned by the Group, as well as the development of sites such as Torre Chamartín and certain logistics buildings.

At 30 June 2017, the Group had pledged real estate assets totalling EUR 2,714,960 thousand to secure various loans and derivative financial instruments, the balances of which amounted to EUR 1,261,156 thousand and EUR 37,257 thousand at 30 June 2017, respectively (see Note 11).

"Investment property" includes finance lease transactions as detailed below:

| | Thousands of euros | | | |
|---|---|---|---|---|
| Type of asset | Number of properties | Fair value | Price of the purchase option | Final maturity |
| Offices | 3 | 420,960 | 104,645 | 14/02/2018 |
| | **3** | **420,960** | **104,645** | |

All properties included in "Investment property" were insured at 30 June 2017.

At 30 June 2017, the Group did not have any outright purchase agreements for investment property. In the first 6 months of 2017 no finance costs were capitalised in the cost of constructing the properties.

At 30 June 2017, the gross surface areas and occupancy rates of the assets by line of business were as follows:

| | Square metres | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gross leasable area | | | | | | | | | | |
| | Autonomous Community of Madrid | Catalonia | Castilla y León | Galicia | Basque Country | Andalusia | Autonomous Community of Valencia | Rest of Spain | Portugal | Total | Occupancy rate (%) |
| Offices | 973,130 | 214,533 | - | - | - | 15,078 | - | 4,488 | 47,657 | 1,254,886 | 89.3% |
| High Street Retail | 94,695 | 112,985 | 24,673 | 26,910 | 31,789 | 31,839 | 40,928 | 96,413 | - | 460,232 | 100% |
| Shopping centres | 64,021 | 93,155 | - | 100,207 | 24,323 | 21,504 | 71,432 | 75,206 | 5,495 | 455,343 | 82% |
| Logistics | 127,740 | 202,543 | - | - | 72,717 | 109,772 | 26,613 | 381,842 | - | 921,227 | 99% |
| Other | 56,692 | 55,479 | - | 5,898 | 46 | - | - | - | - | 118,115 | 76.1% |
| **Total surface area** | **1,316,278** | **678,695** | **24,673** | **133,015** | **128,875** | **178,193** | **138,973** | **557,949** | **53,152** | **3,209,803** | |
| **% weight** | **41%** | **21.1%** | **0.8%** | **4.1%** | **4%** | **5.6%** | **4.3%** | **17.4%** | **1.7%** | | |

*Fair value measurement and sensitivity*

All investment property leased or earmarked for lease through operating leases (rental property business segment) is classified as investment property.

In accordance with IAS 40, the Group periodically calculates the fair value of its investment property. This fair value is determined using as reference values the valuations undertaken by third-party independent experts every six months, so that every six months the fair value reflects the market conditions of the property investments at that date.

The market value of the Group's investment property at 30 June 2017, calculated on the basis of appraisals carried out by Savills Consultores Inmobiliarios, S.A. and CBRE Valuation Advisory, S.A., independent appraisers not related to the Group, amounted to EUR 9,632,010 thousand. This valuation does not include the value of the embedded derivative of the rent in the lease agreement with BBVA amounting to EUR 199,865 thousand and does not include any pre-payments made by the Group to third parties for the purchase of assets in the amount of EUR 18,144 thousand. The valuation was carried out in accordance with the Appraisal and Valuation Standards issued by the Royal Institute of Chartered Surveyors (RICS) of the United Kingdom and the International Valuation Standards (IVS) issued by the International Valuation Standards Committee (IVSC).

The method used to calculate the market value of investment property, except the BBVA and Caprabo portfolios, involves drawing up ten-year projections of income and expenses for each asset, adjusted at the reporting date using a market discount rate. The residual amount at the end of year 10 is calculated by applying an exit yield or cap rate to the net income projections for year 11. The market values obtained are analysed by calculating and assessing the capitalisation of the returns implicit in these values. The projections are designed to reflect the best estimate of future income and expenses from the investment properties. Both the exit yield and discount rate are determined taking into account the national market and institutional market conditions.

The method used by CBRE and Savills to value the BBVA and Caprabo portfolios, respectively, analyses each property individually, without making any adjustments for inclusion in a large portfolio of properties. For each property, a capitalisation rate has been assumed for the estimated market rent and subsequently adjusted on the basis of the following parameters:

- Term of the lease agreement and creditworthiness of the lessee.
- Location of the premises within the municipality (downtown, metropolitan area or suburbs).
- Immediate vicinity of the property.
- Level of upkeep of the property (outside and inside).
- Above and below-ground distribution of the floor area.
- Façade on one street or more than one (corner, three-sided).

- Lease situation with respect to current market rent.

In any event, the situation of the rental property market could lead to material differences between the fair value of the Group's investment property and their effective realisable values.

*Breakdown of fair value of investment property*

At 30 June 2017, the detail of assets measured at fair value by their level in the fair value hierarchy is as follows:

| | Thousands of euros | | | |
|---|---|---|---|---|
| | At 30 June 2017 | | | |
| | Total | Level 1 | Level 2 | Level 3 |
| Recurring fair value measurement | | | | |
| *Investment property* | | | | |
| Offices | | | | |
| - Land | 2,063,328 | | | 2,063,328 |
| - Buildings | 2,972,502 | | | 2,972,502 |
| High Street Retail | | | | |
| - Land | 584,159 | | | 584,159 |
| - Buildings | 1,424,154 | | | 1,424,154 |
| Shopping centres | | | | |
| - Land | 421,859 | | | 421,859 |
| - Buildings | 1,181,592 | | | 1,181,592 |
| Logistics | | | | |
| - Land | 175,480 | | | 175,480 |
| - Buildings | 402,785 | | | 402,785 |
| Other | | | | |
| - Land | 252,938 | | | 252,938 |
| - Buildings | 171,358 | | | 171,358 |
| Total assets measured at fair value on an ongoing basis | 9,650,154 | | | 9,650,154 |

No assets were reclassified from one level to another during the period.

The main assumptions used to calculate the fair value of investment property were as follows:

| | Net initial yield | Discount rate |
|---|---|---|
| Offices | 8.84% - (-1.33)% | 9.50% - 5.00% |
| High Street Retail | 7.25% - 2.50% | 7.00% - 6.50% (*) |
| Shopping centres | 5.47% - 1.41% | 11.00% - 6.25% |
| Logistics | 8.42% - 2.76% | 9.69% - 7.66% |
| Other | 15.28% - 2.94% | 15.00% - 5.00% |

(*) This does not apply to BBVA and Caprabo because they are measured by directly capitalising the rent.

The effect of a one-quarter of one point change in the rate of return, calculated as rent as a percentage of the market value of the assets, in the consolidated assets and in the consolidated income statement, would be as follows:

| | Thousands of euros | |
|---|---|---|
| | Assets | Consolidated net profit/(loss) |
| Increase in the rate of return of one-quarter of one percent | (463,756) | (463,756) |
| Decrease in the rate of return of one-quarter of one percent | 508,222 | 508,222 |

The effect of a 10% change in the rent considered on the investment property in consolidated assets and in the consolidated income statement would be as follows:

| | Thousands of euros | |
|---|---|---|
| | Assets | Consolidated net profit/(loss) |
| 10% increase in market rent | 644,508 | 644,508 |
| 10% decrease in market rent | (644,508) | (644,508) |

Accordingly, the impact on the consolidated income statement of the revaluations of the Group's real estate assets in the first 6 months of 2017, taking into consideration all headings affected in the consolidated income statement, is as follows:

| | Thousands of euros | |
|---|---|---|
| | 30/06/2017 | 30/06/2016 |
| Change in fair value of investment property | 332,316 | 275,384 |
| Change in the fair value of the embedded derivative | (7,317) | (17,038) |
| Absorption of the revaluation of the investment property of Testa Inmuebles en Renta (Note 5) | (9,839) | (114,278) |
| **Effect on the income statement** | **315,160** | **144,068** |

## 8. Investments accounted for using the equity method

In the first half of 2017, there were no significant changes in the investments accounted for using the equity method. At 30 June 2017, the profit attributable to the Group amounted to EUR 8,337 thousand recognised under "Share of results of companies accounted for using the equity method" in the accompanying condensed consolidated income statement.

Appendix I to the consolidated financial statements of the Group for 2016 contains a list of the main investments in associates which includes the name, the country of incorporation, business and percentage of ownership interest in the share capital. There were no significant changes to the main aggregates of the Group's associates.

## 9. Current and non-current financial assets

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

*Classification of financial assets by category:*

| | Thousands of euros | |
|---|---|---|
| | 30/06/2017 | 31/12/2016 |
| **Non-current:** | | |
| At fair value- | | |
| Derivative embedded in BBVA lease agreement | 199,865 | 207,182 |
| At amortised cost- | | |
| Equity Instruments | 873 | 206 |
| Loans to third parties | 54,588 | 55,608 |
| Deposits and guarantees | 65,790 | 66,431 |
| | **321,116** | **329,427** |
| **Current:** | | |
| At amortised cost- | | |
| Investments in associates | 72,513 | 72,860 |
| Other financial assets | 7,058 | 10,504 |
| Trade and other receivables | 51,994 | 505,894 |
| | **131,565** | **589,258** |

The carrying amount of financial assets recognised at amortised cost does not differ significantly from their fair value.

*Derivatives*

"Derivatives" includes the value of the embedded derivative corresponding to the inflation multiplier included in the lease agreement with BBVA to revise rents annually (see Note 13 to the financial statements for 2016). The changes in the value of this derivative in the six-month period ended 30 June 2017 amounted to EUR -7,317 thousand and were recognised under "Changes in fair value of financial instruments" in the accompanying condensed consolidated income statement. The measurement approach used is described in Note 5.9 to the consolidated financial statements for 2016 and is applicable to Level 2 of the fair value measurement hierarchy established in IFRS 7, as observable inputs but not quoted prices are reflected.

Sensitivity to fluctuations of percentage points in the inflation curves is analysed below:

2017

| | Thousands of euros | |
|---|---|---|
| Scenario | Asset | Consolidated profit/(loss) before tax |
| +50 bps | 61,998 | 61,998 |
| -50 bps | (45,716) | (45,716) |

*Trade and other receivables*

In the first half of 2017, the Group received EUR 424 million corresponding to the selling price of the assets of the hotels sold in 2016. The remaining amount, amounting to approximately EUR 50 million, is included under "Loans to third parties" as they mature in the second half of 2018.

*Classification of financial assets by maturity:*

The classification of the main financial assets by maturity is as follows:

At 30 June 2017

| | Thousands of euros | | | | |
|---|---|---|---|---|---|
| | Less than 1 year | 1 to 5 Years | More than 5 years | Undetermined | Total |
| Derivative embedded in BBVA lease agreement | - | - | 199,865 | - | 199,865 |
| Equity instruments | - | 873 | - | - | 873 |
| Loans to third parties | - | 54,588 | - | - | 54,588 |
| Deposits and guarantees | - | - | - | 65,790 | 65,790 |
| Investments in associates | 72,513 | - | - | - | 72,513 |
| Other financial assets | 7,058 | - | - | - | 7,058 |
| Trade and other receivables | 51,994 | - | - | - | 51,994 |
| **Total financial assets** | **131,565** | **55,461** | **199,865** | **65,790** | **452,681** |

At 31 December 2016

| | Thousands of euros | | | | |
|---|---|---|---|---|---|
| | Less than 1 year | 1 to 5 Years | More than 5 years | Undetermined | Total |
| Derivative embedded in BBVA lease agreement | - | - | 207,182 | - | 207,182 |
| Equity instruments | - | 206 | - | - | 206 |
| Loans to third parties | - | 55,608 | - | - | 55,608 |
| Deposits and guarantees | - | - | - | 66,431 | 66,431 |
| Investments in associates | 72,860 | - | - | - | 72,860 |
| Other financial assets | 10,504 | - | - | - | 10,504 |
| Trade and other receivables | 505,894 | - | - | - | 505,894 |
| **Total financial assets** | **589.258** | **55,814** | **207,182** | **66,431** | **918.685** |

## 10. Equity

### *10.1 Share capital*

There were no changes in the share capital of the Parent in the first half of 2017.

At 30 June 2017, the share capital of Merlin Properties SOCIMI, S.A., amounted to EUR 469,771 thousand, represented by 469,770,750 fully subscribed and paid shares of EUR 1 par value each, all of which are of the same class and confer on the holders thereof the same rights.

All the Parent's shares are admitted to official listing on the Madrid, Barcelona, Bilbao and Valencia stock exchanges. The market price of the Parent's shares at 30 June 2017 and the average market price for the fourth quarter amounted to EUR 11.06 and EUR 10.94 per share, respectively.

At 30 June 2017, the significant shareholders of Merlin Properties SOCIMI, S.A. with direct or indirect ownership interests exceeding 3% of share capital, are as follows:

| | Shares | | | % of capital |
|---|---|---|---|---|
| | Direct | Indirect | Total | |
| Banco Santander, S.A. | 78,437,100 | 26,172,125 | 104,609,225 | 22.27% |
| Banco Bilbao Vizcaya, S.A. | 23,491,385 | 6,781,194 | 30,272,579 | 6.44% |
| BlackRock, INC | - | 14,766,425 | 14,766,425 | 3.14% |

### *10.2 Share premium*

The consolidated text of the Spanish Corporate Enterprises Act expressly permits the use of the share premium to increase capital and establishes no specific restrictions as to its use.

This reserve is unrestricted so long as its allocation does not lower the Parent's equity to below the amount of share capital. In this connection, in 2017 the shareholders at the General Meeting approved the distribution of dividends totalling EUR 46,643 thousand with a charge to the share premium.

### *10.3 Reserves*

The detail of reserves at 30 June 2017 and 31 December 2016 is as follows:

| | Thousands of euros | |
|---|---|---|
| | 30/06/2017 | 31/12/2016 |
| Legal reserve | 14,883 | 2,986 |
| Reserves of consolidated companies | 302,199 | (158,493) |
| Other reserves | 23,627 | 11,970 |
| **Total other reserves** | **340,709** | **(143,537)** |

*Legal reserve*

The legal reserve will be established in accordance with Article 274 of the consolidated text of the Spanish Corporate Enterprises Act (*Texto Refundido de la Ley de Sociedades de Capital*) which stipulates, in all cases, that 10% of net 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.

This reserve cannot be distributed, and if it is used to offset losses, in the event no other reserves are available for this purpose, it must be restored with future profits.

At 30 June 2017, the Group had not yet reached the legally required minimum established in the consolidated text of the Spanish Corporate Enterprises Act.

The legal reserve of companies which have chosen to avail themselves of the special tax regime established in Law 11/2009 governing REITs, must not exceed 20% of share capital. The bylaws of these companies may not establish any restricted reserve other than the aforementioned reserve.

*Reserves of consolidated companies*

The detail of the reserves of consolidated companies is as follows:

| | Thousands of euros | |
|---|---|---|
| | 30/06/2017 | 31/12/2016 |
| Merlin Properties SOCIMI, S.A. | (182,015) | (337,858) |
| Tree Inversiones Inmobiliarias, SOCIMI, S.A. | 314,709 | 136,058 |
| Merlin Retail, S.L.U. | 79,902 | 52,449 |
| Merlin Oficinas, S.L.U. | 48,353 | 14,969 |
| Merlin Logística, S.L.U. | 41,903 | 9,871 |
| Merlin Logística II, S.L.U. | 4,725 | 2,590 |
| Obraser, S.A. | (1,332) | (7,004) |
| MPCVI- Compra e Venda Imobiliária, S.A. | 3,876 | 1,548 |
| MPEP- Properties Escritórios Portugal, S.A. | (9) | (2) |
| Varitelia Distribuciones, S.L. | 12,076 | (4,757) |
| Metroparque, S.A. | 10,098 | (3,282) |
| Metropolitana Castellana, S.L. | 31,401 | 29,718 |
| La Vital Centro Comercial y de Ocio, S.L. | 29,915 | 28,599 |
| Global Carihuela Patrimonio Comercial, S.A. | 451 | 332 |
| Sadorma 2003, S.L. | (4,433) | (189) |
| Metrovacesa France, S.A | (57) | (2,640) |
| Metrovacesa Mediterranee S.A.S. | (7,089) | 369 |
| Centros Comerciales Metropolitanos, S.A. | (32,887) | (32,740) |
| Exp. Urbanas Españolas, S.L.U. | (30,134) | (30,134) |
| Acoghe, S.L. | (4) | (16,912) |
| Global Murex Iberia, S.L. | (10) | (10) |
| Project Maple I BV | - | 385 |
| Inmobiliaria Metrogolf, S.A. | (7) | 11 |
| Testa Hoteles, S.A. | (5) | (4) |
| Gescentesta. S.L.U. | 223 | 1 |
| Gesfintesta, S.L. | (224) | 139 |
| Merlin Parques Logísticos, S.L.U. | 8,523 | - |
| Merlin Parques Logísticos de la Zona Franca, S.A. | (11,278) | - |
| Sevisur Logística, S.A. | (390) | - |
| VFX Logística, S.A. | 939 | - |
| Belkyn West Company, S.L. | (9) | - |
| Merlin Properties Adequa, S.L. | (15,631) | - |
| Merlin Properties Monumental, S.A. | 564 | - |
| Merlin Properties Torre A, S.A. | 55 | - |
| | **302,199** | **(158,493)** |

*Dividends*

On 26 April 2017, the shareholders at the General Meeting approved the distribution of a dividend amounting to EUR 47,310 thousand with a charge to 2016 profit, as well as the distribution of an additional dividend with a charge to the share premium amounting to EUR 46,643 thousand.

***10.4 Treasury shares***

On 30 June 2017, the Parent had treasury shares amounting to EUR 35,498 thousand, representing 0.7% of its share capital.

The changes in the first 6 months of 2017 were as follows:

| | Number of shares | Thousands of euros |
|---|---|---|
| **Balance at 1 January 2006** | **-** | **-** |
| Additions | 133,299 | 1,369 |
| Retirements | (123,069) | (1,264) |
| **Balance at 31 December 2016** | **10,230** | **105** |
| Additions | 3,300,000 | 35,393 |
| **Balance at 30 June 2017** | **3,310,230** | **35,498** |

On 6 April 2016, the Shareholders of the Parent authorised the Board of Directors to acquire treasury shares up to a maximum of 10% of the Company's share capital. The Shareholders at the General Meeting held on 26 April 2017 revoked the aforementioned authorisation and authorised the acquisition of treasury shares by the company itself or by a Group company pursuant to Article 146 *et seq*. of the Spanish Corporate Enterprises Act, complying with the requirements and restrictions established in the legislation in force during the five-year period. The authorisation includes the acquisition of shares which, where applicable, must be handed over directly to employees or directors of the Parent or of Group companies as a result of the purchase option they hold or for the settlement and payment of share-based incentive plans of which they are beneficiaries.

The additions in 2017 correspond to the acquisition of 3,300,000 treasury shares representing 0.70% of its share capital within the framework of the divestment process carried out by the former shareholder Banco Popular Español, S.A. The shares were purchased at a price of EUR 10.725 per share. The total investment amounted to EUR 35,393 thousand.

### *10.5 Earnings per share*

The detail of the calculation of earnings per share is:

*Basic*

Basic earnings per share are calculated by dividing the net profit attributable to common equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period, excluding treasury shares.

The detail of the calculation of basic earnings per share is as follows:

| | 30/06/2017 | 30/06/2016 |
|---|---|---|
| Profit for the year attributable to equity holders of the Parent (thousands of euros) | 421,398 | 211,143 |
| Weighted average number of shares outstanding (in thousands) | 469,049 | 323,030 |
| **Basic earnings per share (euros)** | **0.90** | **0.65** |

The average number of ordinary shares outstanding is calculated as follows:

| | Number of shares | |
|---|---|---|
| | 30/06/2017 | 30/06/2016 |
| Ordinary shares at beginning of period | 469,770,750 | 323,030,000 |
| Average effect of outstanding treasury shares | (721,280) | - |
| **Weighted average number of ordinary shares outstanding at 30 June (thousands of shares)** | **469,049,470** | **323,030,000** |

*Diluted*

Diluted earnings per share are calculated by adjusting the profit attributable to equity holders of the Parent by the weighted average ordinary shares outstanding after adjusting for the dilutive effects of potential ordinary shares, i.e., as if all potentially dilutive ordinary shares had been converted.

The Parent does not have different classes of potentially dilutive ordinary shares.

***10.6 Valuation adjustments***

This heading of the consolidated statement of financial position includes changes in the value of financial derivatives designated as cash flow hedges.

## 11. Current and non-current financial liabilities

The detail of the bank borrowings and debt instruments issued is as follows (in thousands of euros):

| | Thousands of euros | |
|---|---|---|
| | 30/06/2017 | 31/12/2016 |
| **Non-current:** | | |
| *Measured at amortised cost* | | |
| Syndicated loans | 872.614 | 1,253,885 |
| Syndicated loan arrangement costs | (7,035) | (12,422) |
| Total syndicated loan | **865,579** | **1,241,463** |
| Senior syndicated mortgage loan (Tree) | 894,422 | 899,924 |
| Syndicated loan arrangement costs | (17,568) | (18,871) |
| Total senior syndicated mortgage loan (Tree) | **876,854** | **881,053** |
| Revolving credit facility | - | 180,000 |
| Mortgage loans | 356,328 | 357,054 |
| Leases, credit facilities and loans | - | 124,911 |
| Loan arrangement costs | (6,268) | (6,915) |
| Total other loans | **350,060** | **655,054** |
| Debt instruments and bonds | 2,950,000 | 2,350,000 |
| Debt instrument issuance costs | (26,896) | (22,655) |
| Total debt instruments and bonds | **2,923,104** | **2,327,345** |
| Total amortised cost | **5,015,597** | **5,104,915** |
| *Measured at fair value* | | |
| Derivative financial instruments | 40,910 | 69,667 |
| Total at fair value | **40,910** | **69,667** |
| **Total non-current** | **5,056,507** | **5,174,582** |
| **Current:** | | |
| *Measured at amortised cost* | | |
| Syndicated loans | 4,716 | 6,529 |
| Senior syndicated mortgage loan (Tree) | 10,205 | 11,476 |
| Debt instruments and bonds | 16,188 | 25,629 |
| Mortgage loans | 2,864 | 2,912 |
| Leases, credit facilities and loans | 128,953 | 10,849 |
| Revolving credit facility | 96 | 225 |
| Total amortised cost | **163,022** | **57,620** |
| *Measured at fair value* | | |
| Derivative financial instruments | 4,055 | 4,235 |
| Total at fair value | **4,055** | **4,235** |
| **Total current** | **167,077** | **61,855** |

There is no material difference between the carrying amount and the fair value of financial liabilities at amortised cost.

On 20 April 2016, the Parent obtained a credit rating of "BBB" from Standard & Poor's Rating Credit Market Services Europe Limited. In addition, on 17 October 2016, the Company obtained an investment grade credit rating of "Baa2" from Moody's.

### *11.1 Loans and credit facilities*

The detail of bank borrowings at 30 June 2017 and 31 December 2016 is as follows:

| | Thousands of euros | | | | |
|---|---|---|---|---|---|
| | Bank borrowings | | | | |
| | Limit | Debt arrangement costs | 30/06/2017 | | Short-term interest |
| | | | Non-current | Current | |
| Syndicated loans | 1,790,000 | (7,035) | 872,614 | 3,662 | 1,054 |
| Senior syndicated mortgage loan (Tree) | 939,756 | (17,568) | 894,422 | 9,000 | 1,205 |
| Other loans | 360,845 | (6,268) | 356,328 | 1,406 | 1,458 |
| Leases (Note 7) | 149,125 | - | - | 128,953 | - |
| Revolving credit facilities | 420,000 | - | - | - | 96 |
| **Total** | **3,659,726** | **(30,871)** | **2,123,364** | **143,021** | **3,813** |

| | Thousands of euros | | | | |
|---|---|---|---|---|---|
| | Bank borrowings | | | | |
| | Limit | Debt arrangement costs | 31/12/2016 | | Short-term interest |
| | | | Non-current | Current | |
| Syndicated loans | 1,790,000 | (12,422) | 1,253,885 | 5,045 | 1,484 |
| Senior syndicated mortgage loan (Tree) | 939,756 | (18,871) | 899,924 | 10,225 | 1,251 |
| Other loans | 360,845 | (6,652) | 357,054 | 1,351 | 1,561 |
| Leases | 149,125 | (263) | 124,911 | 10,849 | - |
| Revolving credit facilities | 420,000 | - | 180,000 | - | 225 |
| **Total** | **3,659,726** | **(38,208)** | **2,815,774** | **27,470** | **4,521** |

Certain financing includes commitments to maintain certain coverage ratios, which are standard in these types of real estate companies, such as the loan-to-value ratio, the ratio of the subsidiary's income used to service the debt (interest coverage ratio, ICR), and a minimum credit rating of BBVA from ratings agencies. The Parent's Directors have confirmed that these ratios were met at 30 June 2017 and do not expect that they will not be fulfilled in the coming years.

The main changes in the first half of 2017 are as follows:

*Partial repayment of the syndicated loan from the Parent*

In the first half of 2017, the Parent voluntarily repaid EUR 320 million and EUR 60 million, respectively, corresponding to tranche A and tranche B1 of the syndicated loan. At 30 June 2017, EUR 530 million and EUR 310 million corresponding to tranche A and tranche B1 were outstanding, respectively, both maturing in 2021.

*Repayment of the revolving credit facility*

In the first 6 months of 2017, the Parent repaid EUR 120 million and EUR 60 million drawn down from the revolving credit facilities that it obtained from banks within the syndicated financing with a limit up to EUR 320 million and EUR 100 million and maturing in June 2019 and April 2021, respectively.

***11.2 Debt instrument issues***

The main changes in the first half of 2017 are as follows:

On 12 May 2017, the Parent expanded the debt instrument issue programme (Euro Medium-Term Notes — EMTN) up to EUR 4,000 million, and on 26 May 2017 it completed an issue of ordinary unsubordinated bonds in the Euromarket for a total of EUR 600 million. The bonds were issued at 99.417% of their nominal value. They mature in 8 years and have an annual coupon of 1.750%, payable annually at year-end. The terms and conditions of the bonds issued are governed and interpreted in accordance with English law and are listed on the Luxembourg Stock Exchange. At 30 June 2017, the bond price stood at around MS +113.8 b.p., equivalent to a return of approximately 1.786%. This financing was used to repay debt early, and for general use.

Bond issues have the same guarantees and obligations to comply with ratios as the syndicated loan and the revolving credit facilities.

### *11.3 Derivatives*

The detail of derivative financial instruments at 30 June 2017 is as follows:

| | Thousands of euros | |
|---|---|---|
| | 30/06/2017 | 31/12/2016 |
| **Non-current** | | |
| Interest rate derivatives | 42,426 | 74,201 |
| Inflation derivatives | (1,516) | (4,534) |
| **Total non-current** | **40,910** | **69,667** |
| **Current** | | |
| Interest rate derivatives | 4,055 | 4,235 |
| **Total current** | **4,055** | **4,235** |

The Company determines the fair value of interest rate and inflation derivatives by discounting cash flows on the basis of the implicit euro interest rate calculated on the basis of market conditions at the measurement date.

These financial instruments were classified as Level 2 as per the calculation hierarchy established in IFRS 7.

The detail of the derivative financial instruments in the consolidated statement of financial position at 30 June 2017 is as follows:

At 30 June 2017

| | Thousands of euros | |
|---|---|---|
| | Financial asset | Financial liability |
| **Non-current** | | |
| Interest rate derivatives | - | 46,481 |
| Inflation derivatives | - | (1,516) |
| Derivative embedded in BBVA lease agreement | 199,865 | - |
| **Total derivatives recognised** | **199,865** | **44,965** |

At 31 December 2016

| | Thousands of euros | |
|---|---|---|
| | Financial asset | Financial liability |
| **Non-current** | | |
| Interest rate derivatives | - | 78,436 |
| Inflation derivatives | - | (4,534) |
| Derivative embedded in BBVA lease agreement | 207,182 | - |
| **Total derivatives recognised** | **207,182** | **73,902** |

The derivatives held by the Group at 30 June 2017 and the fair values thereof at that date are as follows (in thousands of euros):

| | | Thousands of euros | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Notional amount each year | | | | |
| | Interest rate arranged | Fair value 30/06/2017 | 2017 | 2018 | 2019 | 2020 | Subsequent years |
| Interest rate derivatives | 3.97% - 0.25% | (45,078) | 1,175,990 | 1,079,659 | 1,063,137 | 941,084 | 865,750 |
| Merlin syndicated interest rate derivatives | 0.0981% | (2,934) | 530,000 | 530,000 | 530,000 | 530,000 | 530,000 |
| Metrov. syndicated interest rate derivatives | -0.12% | 1,531 | 310,000 | 310,000 | 310,000 | 310,000 | 310,000 |
| Inflation derivative | 3.14% | 1,516 | - | - | - | - | - |
| | | **(44,965)** | **2,015,990** | **1,919,659** | **1,903,137** | **1,781,084** | **1,705,750** |

The Group has opted for hedge accounting, suitably designating the hedging relationships in which these financial instruments are hedging instruments of the financing used by the Group. In this manner, the Group has neutralised flow variations stemming from interest payments and fixed the rate to be paid for said financing. For certain derivatives, these hedging relationships have been highly effective, prospectively and retrospectively, on a cumulative basis, since their date of designation.

The impact of a 50 basis point fluctuation in the estimated credit risk rate on liabilities and profit before tax would be as follows:

| | Thousands of euros | | |
|---|---|---|---|
| Scenario | Liability | Equity | Consolidated profit/(loss) before tax |
| 5% rise in credit risk rate | (50,107) | 31,717 | 18,390 |
| 5% reduction in credit risk rate | 51,902 | (24,528) | (27,374) |

***11.4 Maturity of the debt***

The detail, by maturity, of the debt at 30 June 2017 is as follows:

| | Thousands of euros | | | | |
|---|---|---|---|---|---|
| | Syndicated loan | Senior syndicated mortgage loan (Tree) | Mortgage loans | Leases | Total |
| 2017 | 2,522 | 4,511 | 677 | 5,398 | 13,107 |
| 2018 | 5,101 | 8,955 | 1,460 | 123,555 | 139,071 |
| 2019 | 26,748 | 11,072 | 4,229 | - | 42,079 |
| 2020 | 1,905 | 10,935 | 72,981 | - | 85,821 |
| 2021 | 840,000 | 10,799 | 69,487 | - | 920,286 |
| More than 5 years | - | 857,150 | 208,900 | - | 1,066,050 |
| | **876,276** | **903,422** | **357,734** | **128,953** | **2,266,385** |

## 12. Other current and non-current liabilities

The detail of these headings at 30 June 2017 is as follows:

| | Thousands of euros | | | |
|---|---|---|---|---|
| | 30/06/2017 | | 31/12/2016 | |
| | Non-current | Current | Non-current | Current |
| Provisions | 52,901 | 867 | 34,092 | 867 |
| Guarantees and deposits received | 84,940 | 165 | 85,123 | 75 |
| Deferred tax liabilities | 576,839 | - | 556,771 | - |
| Other payables | 3,271 | 18,425 | 19,026 | 3,119 |
| Payable to associates | - | 427 | - | 803 |
| Other current liabilities | - | 303 | - | 629 |
| **Total** | **717,951** | **20,187** | **695,012** | **5,493** |

"Guarantees and deposits received" primarily includes the amounts deposited by lessees to secure leases and that will be returned at the end of the lease term.

The Parent and the majority of its subsidiaries are subject to the REIT tax regime. Under this regime, gains from the sale of assets are taxed at 0%, provided that certain requirements are met (basically, the assets must have been owned by the REIT for at least three years). Any gains from the sale of assets acquired prior to qualifying for the REIT tax regime will be distributed on a straight-line basis (unless proven to be distributed otherwise) over the period during which the REIT owned them. Gains generated in years prior to qualifying for the REIT tax regime will be taxed at the general rate, however the tax rate for all other years will be 0%. In this connection, the Parent's Directors estimated the tax rate applicable to the tax gain on the assets acquired prior to qualifying for the REIT tax regime (calculated based on the assets' fair value obtained from appraisals at the date of the business combination and at 30 June 2017), and recognised the corresponding deferred tax liability.

The Parent's directors do not envisage disposing of any of the investment property acquired after the Parent and its subsidiaries qualified for the REIT tax regime within three years and, therefore, have not recognised the deferred tax liability corresponding to the changes in fair value since the assets were acquired as the applicable tax rate is 0%.

## 13. Trade and other payables

The detail of this heading is as follows:

| | Thousands of euros | |
|---|---|---|
| | 30/06/2017 | 31/12/2016 |
| **Current** | | |
| Payable to suppliers | 44,838 | 60,959 |
| Sundry accounts payable | 10,015 | 25,434 |
| Remuneration payable | 5,306 | 11,944 |
| Current tax liabilities | 24,019 | 27,231 |
| Other accounts payable to public authorities | 7,416 | 12,625 |
| Customer advances | 2,350 | 2,675 |
| **Total** | **93,944** | **140,868** |

The carrying amount of the trade payables is similar to their fair value.

## 14. Revenue and expense

### *a) Revenue*

The detail of ordinary revenue is provided in Note 4 alongside the segment information.

### *b) Other operating expenses*

The detail of this heading in the consolidated income statements is as follows:

| | Thousands of euros | |
|---|---|---|
| | 30/06/2017 | 30/06/2016 |
| Non-recoverable expenses of leased properties | 18,510 | 8,692 |
| Overheads | 5,058 | 3,229 |
| *Independent professional services* | *3,990* | *2,616* |
| *Office rental* | *437* | *260* |
| *Insurance* | *95* | *70* |
| *Banking services* | *23* | *2* |
| *Taxes other than income tax* | *14* | *29* |
| *Other* | *499* | *252* |
| Costs associated with asset acquisitions | 2,443 | 5,291 |
| Other professional services | 496 | 1,945 |
| Losses on, impairment of and change in allowances for trade receivables | 876 | 613 |
| **Total** | **27,383** | **19,770** |

### *c) Staff costs and average headcount*

The breakdown of staff costs is as follows:

| | Thousands of euros | |
|---|---|---|
| | 30/06/2017 | 30/06/2016 |
| Wages, salaries and similar payments | 10,838 | 6,396 |
| Termination benefits | 70 | 75 |
| Social security costs | 929 | 571 |
| Medium-term incentive plan | 26,750 | - |
| **Total** | **38,587** | **7,042** |

The average number of employees at the various companies comprising the Group in the six-month period ended 30 June 2017 was 148 (132 in 2016).

## 15. Related-party transactions

In addition to subsidiaries, associates and joint ventures, the Group's "related parties" are considered to be the Company's shareholders, "key management personnel" (members of the Board of Directors and executives, along with their close relatives), and the entities over which key management personnel may exercise significant influence or control.

The detail of transactions that are significant in amount or material carried out between the Parent or Group companies and related parties are as follows:

| Related party | Nature of the relationship | Thousands of euros | | | |
|---|---|---|---|---|---|
| | | Income | Expense | Asset | Liability |
| Banco Santander, S.A. (a) | Borrowings | 81 | 3,823 | - | 364,759 |
| Banco Santander, S.A. (a) | Notional derivatives | - | - | - | 489,110 |
| Banco Santander, S.A. (a) | Cash on hand | - | - | 316,491 | - |
| Banco Santander, S.A. (b) | Lease | 507 | 251 | - | 238 |
| Banco Santander, S.A. (d) | Services | 123 | 634 | - | - |
| Banco Bilbao Vizcaya Argentaria, S.A.(a) | Borrowings | - | 22 | - | - |
| Banco Bilbao Vizcaya Argentaria, S.A.(a) | Cash on hand | - | - | 2,597 | - |
| Banco Bilbao Vizcaya Argentaria, S.A. (b) | Lease | 46,363 | | - | 14,721 |
| Magic Real Estate, S.L. (e) | Sublease | 14 | - | - | - |
| Testa Residencial, SOCIMI, S.A. (c) | Real estate services | 3,850 | - | - | - |
| Testa Residencial, SOCIMI, S.A. (c) | Lease | 52 | - | - | - |
| **Total** | | **50,909** | **4,730** | **319,088** | **868,828** |

(a) The Group has loans from its shareholder Banco Santander, S.A. amounting to EUR 364,759 thousand. In the first half of 2017, the finance costs incurred in transactions with shareholder banks amounted to EUR 3,845 thousand, of which EUR 3,823 thousand related to financing transactions carried out with Banco Santander, S.A., including EUR 75 thousand corresponding to finance costs for current accounts. In addition, the finance income obtained in the first half of 2017 amounted to EUR 81 thousand.

The notional amount of the derivatives arranged with Banco Santander, S.A. that are currently in force amounted to EUR 489,110 thousand.

Furthermore, at 30 June 2017, the balance of the Group's deposits at Banco Santander, S.A. and Banco Bilbao Vizcaya, S.A. amounted to EUR 316,491 thousand and EUR 2,597 thousand.

The Group has been granted guarantees by its shareholder Banco Santander, S.A. amounting to EUR 4,469 thousand and by Banco Bilbao Vizcaya, S.A. amounting to EUR 5,496 thousand.

The Group has made contributions to employee pension funds managed by its shareholder Banco Santander, S.A. amounting to EUR 24 thousand.

(b) As indicated in Note 6 to the financial statements for 2016, the Group has leased 869 offices to Banco Bilbao Vizcaya Argentaria, S.A. (864 branches and five individual buildings). The terms of the lease agreements range from 2 to 24 years and, in the first half of 2017, they generated income amounting to EUR 46,235 thousand. The guarantees provided to secure the aforementioned agreements total EUR 14,675 thousand. Additionally, the Group has leased another property to Banco Bilbao Vizcaya Argentaria, S.A. for a two-year period that has generated income of EUR 124 thousand and, in relation to which, at 30 June 2017, a guarantee has been provided amounting to EUR 46 thousand.

Furthermore, the Group has leased seven properties to Banco Santander, S.A. The terms of the lease agreements range from 1 to 20 years and, in the first half of 2017, they generated income amounting to EUR 507 thousand. The guarantees provided to secure the aforementioned agreements total EUR 238 thousand.

(c) The Group provides real estate management services to its associate Testa Residencial, SOCIMI for which it receives consideration of EUR 3,850 thousand, including rent for a property, in connection with which it has received EUR 52 thousand for lease payments and charging of expenses.

(d) Merlin Properties, Socimi, S.A. has signed a service agreement in relation to which it provides technological support services to Metrovacesa Suelo y Promoción, S.A., a company which belongs to its shareholder Banco Santander, S.A., for which it has received EUR 123 thousand. In addition, the Group receives support services for managing real estate projects from Metrovacesa Suelo y Promoción, S.A., entailing an expense of EUR 634 thousand at 30 June 2017.

(e) Merlin Properties, Socimi, S.A. sublets 125 square meters of office space to Magic Real Estate S.L. The parties entered into this sublease in December 2015.

## 16. Equity interests and positions held by Directors and their related parties in other companies

The Directors of the Parent and their related parties have not been in a position involving a conflict of interest that required reporting under Article 229 of the consolidated text of the Spanish Corporate Enterprises Act.

***Remuneration and other benefits of the Board of Directors***

At 30 June 2017 and 2016 salaries, per diem attendance fees and remuneration of other kinds earned by members of the Parent's governing bodies totalled EUR 1,530 thousand and EUR 537 thousand, respectively, as detailed below:

| | Thousands of euros | |
|---|---|---|
| | 30/06/2017 | 30/06/2016 |
| Fixed and variable remuneration | 1,525 | 531 |
| Statutory compensation | - | - |
| Termination benefits | - | - |
| Per diem attendance Fees | - | 6 |
| Life and health insurance | 5 | - |
| **Total** | **1,530** | **537** |

In the first half of 2017, EUR 1,825 thousand of variable remuneration was paid to executive directors for the bonus for prior years. At 30 June 2017, the variable remuneration to be paid at long-term stood at EUR 3,780 thousand and is recognised under "Long-term provisions" in the accompanying balance sheet.

In addition, as indicated in Note 23 to the consolidated financial statements for 2016, as members of the executive team, Executive Directors may benefit from a share-based remuneration plan if they meet certain conditions related to shareholder returns ("2016 Share Plan"). In this connection, at 31 December 2016, the conditions established in the plan in order for Executive Directors to receive 750,000 shares within 5 years were met, provided that they remain employees of the Parent over the coming 3 years.

Additionally, as members of the executive team, Executive Directors, are entitled to benefit from the new remuneration plan granted to the executive team in 2017 which is described below.

The breakdown, by board member, of the amounts disclosed above is as follows:

| Director | Type | Thousands of euros | |
|---|---|---|---|
| | | 30/06/2017 | 30/06/2016 |
| *Remuneration of board members* | | | |
| Javier García Carranza Benjumea | Chairman - Proprietary Director | - | - |
| Ismael Clemente Orrego | CEO | 500 | 150 |
| Miguel Ollero Barrera | Executive Director | 500 | 150 |
| Maria Luisa Jordá Castro | Independent Director | 60 | 34 |
| Ana García Fau | Independent Director | 57.5 | 34 |
| Alfredo Fernández Agras | Independent Director | 50 | 36 |
| Fernando Ortiz Vaamonde | Independent Director | 55 | 33 |
| Ana de Pro | Independent Director | 32.22 | 30 |
| John Gómez Hall | Independent Director | 50 | 30 |
| George Donald Johnston | Independent Director | 57.5 | 34 |
| Juan Maria Aguirre Gonzalo | Independent Director | 57.5 | - |
| Pilar Cavero Mestre | Independent Director | 55 | - |
| Agustín Vidal-Aragón de Olives | Proprietary Director | - | - |
| Javier García Carranza Benjumea | Proprietary Director | - | - |
| Francisca Ortega Hernández-Agero | Proprietary Director | - | - |
| José Ferris Monera | Proprietary Director | 50 | - |
| **Total** | | **1,525** | **531** |

The Company has granted no advances, loans or guarantees to any members of the Board of Directors.

The Directors of the Parent are covered by the "Corporate Third-Party Liability Insurance Policies for Directors and Officers" arranged by the Parent to cover possible damages claimed from them and which become apparent as a result of management errors made by its Directors or officers, as well as those of its subsidiaries while performing their duties. The total annual amount of the premium was EUR 123 thousand.

***Remuneration and other benefits of Senior Executives***

The remuneration of the Parent's Senior Executives, excluding those who are simultaneously members of the Board of Directors (whose remuneration is disclosed above), in the six-month period ended 30 June 2017 is summarised as follows:

| Thousands of euros | | | |
|---|---|---|---|
| Number of employees | Fixed and variable remuneration | Other remuneration | Total |
| 4 | 866 | 15 | 881 |

At 30 June 2016

| Thousands of euros | | | |
|---|---|---|---|
| Number of employees | Fixed and variable remuneration | Other remuneration | Total |
| 4 | 503 | 13 | 516 |

In the first half of 2017, EUR 1,700 thousand of variable remuneration was paid to executive directors for the bonus for prior years. At 30 June 2017, the variable remuneration to be paid at long-term stood at EUR 3,419 thousand and is recognised under "Long-term provisions" in the accompanying balance sheet.

In addition, as indicated in Note 23 to the consolidated financial statements for 2016, the Parent has agreed to grant an additional variable remuneration incentive to the management team related to the company's shares ("2016 Share Plan"). In this connection, at 31 December 2016, the conditions established in the plan in order for Senior Executives to receive 623,334 shares within 5 years were met, provided that they remain employees of the Parent over the coming 3 years.

At 30 June 2017, the Group had recognised EUR 8,000 thousand with a charge to equity corresponding to the portion of the 2016 Share Plan vested in the period.

Lastly, at the General Meeting held on 26 April 2017, the shareholders approved a new remuneration plan for the executive team. The measurement period for this plan is 1 January 2017 to 31 December 2019 (“2017-2019 Incentive Plan"). In accordance with that established in the aforementioned plan, members of the executive team may be entitled to receive (i) a certain monetary amount based on the increase in the share price and (ii) shares of the Parent, provided that they meet certain objectives.

Vesting of the incentive will be conditional upon, independently, the total rate of return obtained by the shareholder during the three year period due to:

- the increase in the value of the price of the Parent's share plus the dividends distributed during the measurement period and;
- the increase in the EPRA NAV per share of the Parent plus the dividends distributed by the Company during the measurement period;

In order for the right to the share-based incentive EPRA NAV-based incentive to be vested, the total rate of return for the shareholder (RTA) must be at least 24%.

| RTA NAV/RTA share price | Percentage assigned to Beneficiaries (“PR") | Percentage assigned to Shareholders |
|---|---|---|
| < 24% | 0% | 100% |
| ≥ 24% and < 36% | 6% | 94% |
| ≥ 36% | 9% | 91% |

The date for calculating the amount of the incentive tied to the NAV per share and the amount of the incentive tied to the market price of the shares will be 31 December 2019. The maximum amount to be received for the incentive tied to the market price in the period from 2017 to 2019 will amount to EUR 37.5 million. If the amount of the incentive were to exceed the aforementioned limit, it would be used to supplement the incentive referenced to the NAV per share, if this falls below the maximum limit established in this connection. Also, the maximum amount of the incentive tied to EPRA NAV per share will be EUR 75 million and a maximum of 6,000,000 shares have been allocated for the payment thereof. If the value of the maximum number of shares allocated to the plan were below the aforementioned incentive tied to the EPRA NAV, the difference would be paid in cash.

In this regard, at 30 June 2017, the Group recognised the expense incurred with a charge to "Long-term provisions", amounting to EUR 18,750 thousand, corresponding to the vested portion of the 2017-2019 Incentive Plan.

Lastly, as regards “golden parachute” clauses for Executive Directors and other members of Senior Management of the Parent or its Group in the event of dismissal or takeover, the contracts provide for compensation. These clauses entailed a total commitment of EUR 19,455 thousand at 30 June 2017.

## 17. Events after the reporting period

Subsequent to 30 June 2017 the following significant events have occurred:

On 18 September 2017, the Parent issued bonds amounting to EUR 300 million in accordance with the bond issue programme (Euro Medium Term Note- EMTN) through the issue of 3,500 bonds with a nominal value of EUR 100 thousand each. The bonds were issued at 98.931% of the nominal value thereof, maturing in twelve years and with an annual coupon rate of 2.375% payable annually in arrears.

## 18. Explanation added for translation to English

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