Madrid, a 20 de octubre de 2017

Uro Property Holdings SOCIMI, S.A. (la "**Sociedad**" o “**URO**”) en virtud de lo previsto en la Circular 15/2016 del Mercado Alternativo Bursátil (MAB) sobre información a suministrar por empresas en expansión y SOCIMI incorporadas a negociación en el MAB, a continuación hace públicos los estados financieros intermedios a 30 de junio de 2017, con su correspondiente informe de gestión, así como el informe de revisión limitada de dichos estados financieros intermedios emitido por los auditores de la Sociedad:

La documentación anterior también se encuentra a disposición del mercado en la página web de la Sociedad (www.uropropertyholdings.com).

D. Carlos Martínez de Campos y Carulla
Presidente del Consejo de Administración

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

# LIMITED REVIEW REPORT ON INTERIM FINANCIAL STATEMENTS

To the shareholders of Uro Property Holdings SOCIMI, S.A. at the request of Management:

**Report on the interim financial statements**

Introduction

We have carried out a limited review of the accompanying interim financial statements of Uro Property Holdings SOCIMI, S.A., consisting of the balance sheet at 30 June 2017, the income statement, the statement of changes in equity, the cash flow statement and the related notes for the interim six-month period then ended. The company's directors are responsible for the preparation and fair presentation of these interim financial statements in accordance with the financial reporting framework applicable to the entity (as identified in Note 2 to the accompanying statements) and, in particular, with the accounting principles and criteria included therein. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of the review

We have carried out our limited review in accordance with International Standard on Review Engagements 2410 "Review of interim financial information performed by the Independent Auditor of the Entity". A limited review of interim financial statements consists of making enquiries, mainly of the people responsible for financial and accounting matters and applying analytical and other review procedures. The scope of a limited review is substantially less than that of an audit and consequently does not enable us to obtain assurance that we have become aware of all major issues which could have been identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

As a result of our limited review, which in no event may be understood to be an audit, nothing has come to our attention causing us to believe that the accompanying interim financial statements do not express, in all material respects, the equity and financial position of Uro Property Holdings SOCIMI, S.A. at 30 June 2017, and the results of its operations and cash flows for the six-month period then ended, in accordance with the applicable financial reporting framework and in particular, the accounting principles and criteria included therein.

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**Report on Other Legal and Regulatory Requirements**

The accompanying interim Directors' Report for the six-month period ended 30 June 2017 contains the information that the directors consider relevant of the Uro Property Holdings SOCIMI, S.A.´s position, the development of its business and other matters and does not form an integral part of the interim financial statements. We have verified that the accounting information contained in the directors' report is in agreement with that of the interim financial statements for the six-month period ended 30 June 2017. Our work is limited to checking the interim Directors' Report within the scope already mentioned in this paragraph and does not include a review of information other than that obtained from the Company's accounting records.

**Other matters**

This report has been prepared at the request of the Management of Uro Property Holdings Socimi, S.A. in relation to the requirement to submit interim financial information to the Alternative Stock Exchange Market.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by Rafael Pérez Guerra

19 October 2017

**URO PROPERTY HOLDINGS SOCIMI, S.A.**

**Interim Financial Statements and Interim Director´s Report for the six-month period ended 30 June 2017**

**URO PROPERTY HOLDINGS SOCIMI, S.A.**

**Balance sheet at 30 June 2017 and 31 December 2016**
**(Expressed in Euro)**

| A S S E T S | NOTES | 30.07.2017 | 31.12.2016 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | **1,556,878,842** | **1,599,540,706** |
| **Investment properties** | **5** | **1,533,088,537** | **1,575,851,938** |
| **Non-current financial investments** | **7** | **23,790,305** | **23,688,768** |
| Other financial assets | | 23,790,305 | 23,688,768 |
| **CURRENT ASSETS** | | **117,064,472** | **67,329,553** |
| **Trade and other receivables** | **7** | **1,918,286** | **2,554,868** |
| Trade receivables | | 1,908,865 | 2,390,885 |
| Sundry receivables | | 2,922 | 60,627 |
| Other receivables from public entities | **7** | 6,499 | 103,356 |
| **Current investments in group companies and associates** | **7** | **2,425,304** | **-** |
| Loans to companies | **7** | 2,425,304 | - |
| **Current financial investments** | | **14,832** | **-** |
| Other financial assets | | 14,832 | - |
| **Cash and cash equivalents** | **10** | **112,706,050** | **64,774,685** |
| Cash | | 112,706,050 | 64,774,685 |
| **TOTAL ASSETS** | | **1,673,943,314** | **1,666,870,259** |

**Notes 1 through 18 form an integral part of these financial statements.**

**URO PROPERTY HOLDINGS SOCIMI, S.A.**

**Balance sheet at 30 June 2017 and 31 December 2016**
**(Expressed in Euro)**

| EQUITY AND LIABILITIES | NOTE | 30.06.2017 | 31.12.2016 |
|---|---|---|---|
| **EQUITY** | | **186,708,760** | **178,815,097** |
| **CAPITAL AND RESERVES** | | **186,708,760** | **178,815,097** |
| **Capital** | **9** | **8,997,504** | **8,997,504** |
| Authorized capital | | 8,997,504 | 8,997,504 |
| **Share premium** | **9** | **417,179,285** | **417,179,285** |
| **Reserves** | **9** | **245,121,540** | **244,978,475** |
| Other reserves | | 245,121,540 | 244,978,475 |
| **Prior year results** | | **(508,367,733)** | **(508,367,733)** |
| (Prior year losses) | 9 | (508,367,733) | (508,367,733) |
| **Other shareholder contributions** | **19** | **5,720,000** | **5,720,000** |
| **Profit/for the year** | | **18,058,164** | **15,807,566** |
| **(Interim dividend)** | | **-** | **(5,500,000)** |
| **NON-CURRENT LIABILITIES** | | **1,393,542,676** | **1,421,367,732** |
| **Non-current borrowings** | **10** | **1,202,911,952** | **1,218,817,660** |
| Other financial liabilities | | 1,202,911,952 | 1,218,817,660 |
| **Non-current payables to Group companies and associates** | **15** | **182,576,562** | **196,283,811** |
| **Accruals and deferred income (non-current)** | **10** | **8,054,162** | **6,266,261** |
| **CURRENT LIABILITIES** | | **93,691,878** | **66,687,430** |
| **Current payables** | | **60,450,958** | **54,755,599** |
| Other financial liabilities | | 60,450,958 | 54,755,599 |
| **Current payables to Group companies and associates** | **15** | **22,579,200** | **-** |
| **Trade and other payables** | **10** | **1,738,920** | **3,016,648** |
| Sundry payables | | 298,350 | 1,341,289 |
| Other payables to public entities | **11** | 1,440,570 | 1,675,359 |
| **Accruals and deferred income** | **13** | **8,922,800** | **8,915,183** |
| **TOTAL EQUITY AND LIABILITIES** | | **1,673,943,314** | **1,666,870,259** |

**Notes 1 through 18 form an integral part of these financial statements.**

**URO PROPERTY HOLDINGS SOCIMI, S.A.**

**Income statement for the six-month periods ended 30 June 2017 and 2016**
**(Expressed in Euro)**

| CONTINUING OPERATIONS | NOTE | 30.06.2017 | 30.06.2016 |
|---|---|---|---|
| **Net Revenues** | **5, 12.1** | **53,734,041** | **54,577,537** |
| Services rendered | | 53,734,041 | 54,577,537 |
| **Personnel expenses** | | **(272,503)** | **(292,357)** |
| Wages, salaries and similar remuneration | | (257,013) | (278,289) |
| Employee benefit expenses | **12.2** | (15,490) | (14,068) |
| **Other operating expenses** | **12.3** | **(3,262,097)** | **(3,113,781)** |
| External services | | (3,216,199) | (3,088,081) |
| Taxes | | (45,898) | (25,700) |
| **Fixed asset depreciation** | **5** | **(9,330,879)** | **(9,142,294)** |
| **Impairment and profit/(loss) on disposals of assets and investment properties** | **5** | **9,157,290** | **-** |
| Profit/(Loss) on disposals and other items | | 9,157,290 | - |
| **Other results** | | **609,234** | **(379)** |
| **OPERATING PROFIT/(LOSS)** | | **50,635,086** | **42,028,726** |
| **Financial income** | **12.4** | **-** | **491** |
| From third parties | | - | 491 |
| **Financial expenses** | **12.5** | **(32,576,922)** | **(34,500,739)** |
| On payables to Group companies and associates | | (8,871,951) | (10,080,000) |
| On payables to third parties | | (23,704,971) | (24,420,739) |
| **FINANCIAL INCOME/(EXPENSE)** | | **(32,576,922)** | **(34,500,248)** |
| **PROFIT/(LOSS) BEFORE INCOME TAX** | | **18,058,164** | **7,528,478** |
| **Corporate income tax** | **11** | **-** | **-** |
| **PROFIT/(LOSS) FOR YEAR FROM CONTINUING OPERATIONS** | | **18,058,164** | **7,528,478** |

**Notes 1 through 18 form an integral part of these financial statements.**

**URO PROPERTY HOLDINGS SOCIMI, S.A.**

**Statement of changes in equity for six-month periods ended 30 June 2017 and 2016**
**(Expressed in Euro)**

**A) Statement of recognized income and expenses relating to the financial years ended 30 June 2017 and 2016**

| | | Year ended 30 June | |
|---|---|---|---|
| | Notes | 2017 | 2016 |
| **Profit/(loss) recognized in the income statement** | | 18,058,164 | 7,528,478 |
| **Income and expenses directly attributed to equity** | | | |
| I. Cash flow hedges | | - | - |
| **Total income and expenses directly attributed to equity** | | - | - |
| **Amounts transferred to the income statement** | | | |
| VII. Cash flow hedges | | - | - |
| **Total transfers to the income statement** | | - | - |
| **TOTAL RECOGNIZED INCOME AND EXPENSES** | | 18,058,164 | 7,528,478 |

**Notes 1 through 18 form an integral part of these financial statements.**

**URO PROPERTY HOLDINGS SOCIMI, S.A.**

**Statement of changes in equity for the financial years ended 30 June 2017 and 2016**
**(Expressed in Euro)**

**B) Statement of total changes in equity for the six-month periods ended 30 June 2017 and 2016**

| | Authorized capital (Note 11.1) | Share premium (Note 11.1) | Reserves (Note 11.1) | Prior years' results (Note 11.1) | Other shareholder contributions (Note 11.1.e) | Profit/(loss) for the year | Interim dividend (Note 11.1) | Total Equity |
|---|---|---|---|---|---|---|---|---|
| BEGINNING BALANCE 2016 | 8,282,178 | 402,188,271 | 231,434,124 | (508,367,733) | 5,720,000 | 67,721,754 | (18,000,000) | 188,978,594 |
| Total recognized income and expenses | - | - | - | - | - | 7,528,478 | - | 7,528,478 |
| Operations with shareholders or owners (Dividend distribution) | - | - | - | - | - | (54,177,403) | 18,000,000 | (36,177,403) |
| Other changes in equity | - | - | 13,544,351 | - | - | (13,544,351) | - | - |
| ENDING BALANCE FOR THE SIX-MONTH PERIOD ENDED ON 30 JUNE 2016 | 8,282,178 | 402,188,271 | 244,978,475 | (508,367,733) | 5,720,000 | 7,528,478 | - | 160,329,669 |
| | | | | | | | | |
| BEGINNING BALANCE 2017 | 8,997,504 | 417,179,285 | 244,978,475 | (508,367,733) | 5,720,000 | 15,807,566 | (5,500,000) | 178,815,097 |
| Total recognized income and expenses | - | - | - | - | - | 18,058,164 | - | 18,058,164 |
| Operations with shareholders or owners (Dividend distribution) | - | - | - | - | - | (15,664,501) | 5,500,000 | (10,164,501) |
| Other changes in equity | - | - | 143,065 | - | - | (143,065) | - | - |
| ENDING BALANCE FOR THE SIX-MONTH PERIOD ENDED ON 30 JUNE 2017 | 8,997,504 | 417,179,285 | 245,121,540 | (508,367,733) | 5,720,000 | 18,058,164 | - | 186,708,760 |

**Notes 1 through 18 form an integral part of these financial statements.**

**URO PROPERTY HOLDINGS SOCIMI, S.A.**

**Cash flow statement for the six-month periods ended 30 June 3017 and 2016.**
**(Expressed in Euro)**

| | Notes | 2017 | Year ended 31 December 2016 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **1. Profit before taxes** | | **18,058,164** | **7,528,478** |
| **2. Adjustments to results** | | **32,141,277** | **43,642,542** |
| a) Asset depreciation/amortization | 5.1 | 9,330,879 | 9,142,294 |
| b) Profit/(loss) on write-offs and disposals of assets | | (9,157,290) | - |
| f) Financial income | 12.5 | - | (491) |
| g) Financial expense | 12.6 | 32,576,922 | 34,500,739 |
| h) Other incomes and expenses | | (609,234) | - |
| **3. Changes in working capital** | | **(836,168)** | **227,835** |
| b) Trade and other receivables | | (2,424,575) | 177,488 |
| c) Other current assets and liabilities | | (7,215) | (498,549) |
| d) Trade and other payables | | (71,229) | (915,775) |
| e) Other non-current assets and liabilities | | 1,666,851 | 1,464,671 |
| **4. Other cash flows from operating activities** | | **(21,680,243)** | **(22,367,808)** |
| a) Interest payments | | (21,680,243) | (22,367,808) |
| c) Collection of interest | | - | - |
| d) Corporate income tax refunded/paid | | - | - |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | **27,683,030** | **29,031,538** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| **6. Amounts paid on investments** | | **-** | **-** |
| a) Group companies and associates | | - | - |
| **7. Amounts collected from divestments** | | **42,589,811** | **-** |
| a) Investment properties | | 42,589,811 | - |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | **1,530,000** | **-** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| **10. Payments received and made on financial liability instruments** | | **(22,341,476)** | **(21,299,249)** |
| a) Loan related to Bond Issue | | - | - |
| 4. Other debts | | - | - |
| b) Return and repayment of | | (22,341,476) | (21,299,249) |
| 2. Bank borrowings | | - | - |
| 4. Other payables | | (22,341,476) | (21,299,249) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | **(22,341,476)** | **(21,299,249)** |
| **NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS** | | **47,931,365** | **7,732,289** |
| **Cash and cash equivalents at start of the year** | | 64,774,685 | 85,491,409 |
| **Cash and cash equivalents at end of the year** | | 112,706,050 | 93,223,698 |
| **Net change** | | 47,931,365 | 7,732,289 |

**Notes 1 through 18 form an integral part of these financial statements.**

## 1. COMPANY ACTIVITIES

Uro Property Holdings SOCIMI, S.A. (hereinafter "the Company") was incorporated on 2 October 2007 and is registered as a public limited liability company with the Madrid Mercantile Registry in volume 24783, sheet 216, section 1, page M-446073.

On 23 November 2007 the Company purchased from Banco Santander, S.A. (hereinafter "Banco Santander") 1,152 bank branch offices located in Spain for € 2,040,000,000 (plus costs totalling €44,430,134 directly attributable to the transaction), and subsequently leased them back to the bank for an average initial term of 25 years, with three potential seven-year extensions each (Note 5.2). After the sale of 10, 4, 2, 381, 7 and 19 offices to individual investors in 2011, 2012, 2013, 2015, 2016 and the first six-month period ended 30 June 2017, respectively, and the office exchange that took place in 2016 under which 26 offices were exchanged for 10 offices, the investment properties held by the Company consist of 712 offices, of which 693 are leased by Banco Santander.

In 2014, Sant Midco Holdings (domiciled in Holland) sold all of its shares and the new shareholders at 31 December 2014 were Ziloti Holding S.a.r.l. (since renamed Ziloti Holding S.A.), domiciled in Luxembourg (85%) and Banco Santander, S.A. domiciled in Spain (15%).

The Company's registered office is located at Calle Serrano 21, 28001 Madrid, Spain.

On 27 October 2014, the Company changed its name from Samos Servicios y Gestiones, S.L. Sociedad Unipersonal to its current name. On 23 December 2014, the Company was converted into a public company with limited liability.

Pursuant to a decision by the Sole Shareholder, the Company was included in the regime regulated by Law 11/2009 (26 October), which governs Listed Real Estate Market Investment Companies ("SOCIMI") as from 24 September 2013 (effective from 1 January 2013).

The Company´s statutes state its corporate purpose as:

- The acquisition and development of urban real estate properties for lease. The development activity includes the rehabilitation of buildings under the terms established by Law 37/1992 (28 December) on Value Added Tax.
- The possession of shares in the share capital of SOCIMIs or in other entities not resident in Spain that have the same corporate purpose and which are subject to a regime similar to that established for SOCIMI as regards the mandatory, legal or statutory policy of distributing profits and that comply with the investment requirements established for SOCIMI.
- The possession of shares in Real Estate Collective Investment institutions regulated by Law 35/2003 (4 November) on Collective Investment Institutions.

In March 2015 the Company was listed on the Alternative Stock Market and therefore fulfilled all of the requirements established by Articles 4 and 5 of Law 11/2009 (26 October), that regulates Listed Real Estate Market Investment Companies ("SOCIMI").

## 2. BASIS OF PRESENTATION

### 2.1 Fair presentation

The financial statements have been prepared on the basis of the Company's accounting records and are presented in accordance with prevailing commercial legislation and the provisions of the Chart of Accounts approved by Royal Decree 1514/2007 (16 November), which has been amended by Royal Decree 1159/2010 (17 September) and by Royal Decree 602/2016, so as to fairly present the Company's equity, financial situation and results and furthermore accurately reflect the cash flowing through the cash flow statement.

The interim financial statements have been prepared by the Company´s Directors in order to comply with the reporting requirement concerning the presentation of interim financial information at 30 June 2017 to the Alternative Stock Market.

### 2.2 Critical aspects of the valuation and estimation of unknown factors

When preparing the Company´s financial statements, the Directors have made estimates that are based on past experience and other factors that are considered to be reasonable in accordance with current circumstances, such estimates forming the basis on which the carrying value of assets and liabilities may be established where such values are not easily calculated using other sources. The Company reviews its estimates on a continuous basis. However, given the uncertainty inherent in these estimates, there is a high risk that significant adjustments could be made in the future regarding the value of the associated assets and liabilities as a result of significant changes being made in the assumptions, events and circumstances on which they are based.

Key issues relating to the estimation of uncertainty as at year-end associated with a notable risk of significant changes in the value of assets or liabilities, are as follows:

*Fair value of investments properties*

The best evidence of the fair value of investment properties in an active market are the prices for similar assets. In the absence of such information, the Company determines fair value through a range of fair values. When implementing this judgement, the Company uses a series of sources, including:

i. Current prices in an active market for properties of a different nature, condition or location, adjusted to reflect the differences with the assets owned by the Company.

ii. Recent property prices in other less active markets, adjusted to reflect changes in financial situations since the transaction date.

iii. Discounted cash flows based on estimates deriving from current and projected lease agreement terms and, if possible, on estimates of market prices for similar properties in the same location, using appropriate discount rates that reflect the time factor uncertainty.

In this respect, every year the Company engages the services of an independent appraiser to value its assets on an individual basis. The result of this valuation at 31 December 2016 was an overall value of the branch office portfolio totalling €1,933,600,000. There had been a reversal of the net impairment totalling €1,115,045 (consisting of new impairments totalling €3,200,857 and a reversal of impairments relating to previous years totalling €4,315,902, all calculated with reference to individual asset valuations) It was recorded at year-end.

In 2016, the Company also recognized a reversal of the impairment totalling €2,070,658 from the provision for impairment due to the sale of 7 offices. It was recorded at year-end.

The Company updates the provision for impairment in the event that the lessee exercises its break option in respect of any of the branch offices. In such cases, the Company takes into consideration the market value of the property excluding the lease (vacant possession value). The addendum signed on 1 August 2014 provides the lessee with break clauses allowing it to terminate the lease agreement early with respect to a limited number of properties in the so-called “Green” portfolio. These early terminations may take place starting on 23 November 2015 provided that 12 months advance notice is given, and a penalty equivalent to six monthly rent instalments is paid. The break clauses cannot exceed 1.2% of all rent accruing on the properties in the Green portfolio. The “Green” portfolio represents 62% of the Company’s portfolio assets. All new impairment recognized at 31 December 2016 and 2015 related to assets being released in accordance with these early terminations (see Note 16). During the 2017, the lessee has not communicated new early terminations.

The Directors consider that there are no indications of impairment or any other major events, which may have a significant impact on the value of the branch offices at 30 June 2017. Therefore, the Company has not engaged a new independent valuation at 30 June 2017.

On an annual basis the appraiser values each of the branch offices on an individual basis using the “all risks yield” method. This method consists of calculating perpetual income, dividing the actual income by the yield. This annual return is called the initial yield and is represented by the initial annual return that the investor receives with respect to the price paid for the property. Potential buyers identify all perceived risks such as a lack of liquidity or the risk of non-payment by a lessee in the initial yield and the price for the property.

Taking into account the length of the lease agreement, Banco Santander risk and the rental profile, the valuer applied a 50 basis point reduction to the yield in each location, on the understanding that the characteristics of both the lease and the lessor represent a high quality credit risk. The appraiser also increased or decreased the expected yield based on the various general and specific property locations, their populations and the quality of the local environment.

*Useful lives of investment properties*

The Company’s management determines estimated useful lives and related depreciation charges for its investment properties. The useful lives of investment properties are estimated in accordance with the period over which the assets concerned will generate income. At each closing the Company reviews the useful lives of investment properties and if the estimates differ from those made previously the effect of the change is recorded on a prospective basis as from the year in which the change is made.

## 2.3 Going concern

At 30 June 2017, the Company registered positive equity totalling €184,354,624 (31 December 2015: €178,815,097).

Additionally at 30 June 2017, the Company registered positive working capital totalling €23,955,794 (positive working capital totalled €642,123 at 31 December 2016).

The Company also complied with all of the requirements established by Articles 4 and 5 of Law 11/2009 (26 October) which governs Listed Real Estate Market Investment Companies (“SOCIMI”), which resulted in its listing on the alternative stock market.

Accordingly, the Directors have prepared the interim financial statements on 30 June 2017 on a going concern basis.

## 2.4 Grouping of items

For the purpose of facilitating the understanding of the balance sheet, the income statement, the statement of changes in equity and the cash flow statement, these financial statements are presented in a group format and all necessary analysis is set out in the notes to the financial statements.

## 2.5 Comparability

In accordance with Spanish Commercial Law, for comparative purposes only, interim financial year at 30 June 2017 and previous year figures are prepared with each balance sheet item, profit and loss account, statement of changes in equity and the cash flow statement. The report also includes quantitative information from the previous year, except when an accounting standard specifically establishes that it is not necessary.

# 3. ACCOUNTING AND MEASUREMENT STANDARDS

The main accounting and measurement standards used by the Company when preparing these financial statements are as follows:

## 3.1 Investment properties

The branch offices that are leased to Banco Santander are classified as investment properties.

Investment properties are initially valued at acquisition cost. The direct costs attributable to the acquisition of assets are included as an increase in the value of the leased asset and are recognized as an expense over the useful life of the asset concerned.

After initial recognition, investment properties are held at cost, less accumulated depreciation and, if appropriate, the accumulated amount of recognized impairment losses.

Expenses relating to repairs and maintenance that do not extend the useful lives of assets are taken directly to the profit and loss account for the year. The costs of expansion or improvement that give rise to an increase in production capacity or an extension of the useful lives of the assets are added as an increase in the value of the asset concerned.

Investment properties are depreciated on a straight-line basis over the estimated useful lives of the assets concerned at the following rates:

| | Years |
|---|---|
| Rental property | 25 – 80 |

At the end of the year, the Company reviews the residual values, useful lives and depreciation methods applied to investment properties and, if necessary, adjustments are applied on a prospective basis.

## 3.2 Impairment of non-financial assets

At year-end at a minimum, the Company's Directors determine whether or not there is any indication of investment properties having become impaired.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount, understood as the asset's fair value in the market less selling costs or its value in use. Value-in-use is the present value of expected future cash flows using risk-free market interest rates adjusted for the specific risks associated with the asset.

Impairment adjustments, as well as their reversal, are recognised in the income statement. Impairment adjustments are reversed when the circumstances that led to them being recognized cease to exist.

The reversal of impairment is limited by the carrying value of the asset that would have been recorded if the relevant impairment had not been previously recognized.

### 3.3 Rent

Leases are classified as finance leases when the financial terms determine that substantially all risks and benefits inherent to the ownership of the asset covered by the contract are transferred to the lessee. Otherwise the contracts are classified as operating leases.

Company as the lessor

On 23 November 2007, the Company concluded a lease agreement with Banco Santander covering the 1,152 offices it owns. This lease is classified as an operating lease and the leased assets are recognized under the heading "investment properties" in accordance with their nature.

The revenues deriving from operating leases are recognised in the income statement when accrued on a straight-line basis over the term of the lease.

Company as the lessee

The lease payments for the Company's offices located at Serrano 21 are classified as an operating lease since the lessor retains the risks and benefits deriving from ownership. Operating lease payments (net of any incentive received by the lessor) are charged against the income statement for the year in which they accrue on a straight- line basis over the lease period.

### 3.4 Exchanges

When property, plant and equipment, intangible assets or property investments are acquired through exchanges of a commercial nature, they are valued at the fair value of the asset delivered plus any monetary compensation paid in exchange, unless there is clearer evidence regarding the asset received and any applicable limits. For these purposes, the Company considers that an exchange is of a commercial nature when the configuration of the cash flows relating to the asset received differs from the configuration of the cash flows relating to the asset delivered, or the present value of the cash flow after taxes relating to the activities affected by this exchange is modified. Furthermore, any of the above differences must be significant with respect to the fair value of the exchanged assets.

If the exchange is not of a commercial nature, or the fair value of the assets involved in the transaction cannot be determined, the asset received is valued at the carrying value of the asset that has been delivered plus any monetary compensation provided, up to the limit of the fair value of the received asset, if it is inferior, and where such fair value is known.

### 3.5 Financial assets

*a) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or ascertainable payments that are not quoted on an active market. They are included in current assets except for assets maturing in more than 12 months from the balance sheet date, which are classified as non-current assets. Loans and receivables are included under "Trade and other receivables" in the balance sheet.

Financial assets are initially carried at fair value, including directly attributable transaction costs, and are subsequently measured at amortised cost. Accrued interest is recognized at the effective interest rate, which is the discount rate that brings the instrument’s carrying amount into line with all estimated cash flows to maturity. Trade receivables falling due in less than one year are carried at their face value at both initial recognition and subsequent measurement, provided that the effect of not discounting flows is not significant.

At the year-end, at a minimum, the necessary value adjustments are made to account for impairment where there is objective evidence that all receivables will not be collected.

The amount of any impairment loss is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate prevailing at the date of initial recognition. Measurement adjustments, and reversals, where applicable, will be recognized in the income statement.

*b) Security deposits*

The Company has received a security deposit for the lease equal to two months' rent. In accordance with current legislation, any security deposits are deposited with the relevant government institution and therefore the Company must deposit 90% of the security deposit obtained from the lessee at certain official institutions. The security deposit received from the lessee is classified as a non-current liability in the accompanying balance sheet and the amounts deposited at the official institutions are recognized under non-current assets in the balance sheet. The difference between the fair value and the amount of the security deposit for the operating lease is not significant for the purposes of preparing these financial statements and therefore, the security deposit is not restated.

**3.6 Financial liabilities**

*a) Borrowings and payables*

This category includes borrowings originating from the acquisition of assets during the Company's course of business and non-trade payables. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement for at least 12 months after the balance sheet date.

These payables are initially recognised in the balance sheet at fair value which, in the absence of any other evidence, will be the transaction price which equals the fair value of the consideration received plus the directly attributable transaction costs.

After initial recognition, these financial liabilities are stated at their amortised cost using the effective interest rate method. Accrued interest is recorded in the income statement through the application of the effective interest rate method. The effective interest rate is the discount rate that brings the instrument's carrying amount into line with the expected future flow of payments to the maturity date.

Notwithstanding the above, borrowings for commercial operations maturing within one year, and which do not have a contractual interest rate, which are expected to be paid in the short-term, are measured at their nominal value provided that the effect of not restating flows is not significant.

Where existing liabilities are renegotiated, no substantial modification to financial liabilities is deemed to occur when the new lender is the same party that granted the initial loan and the present value of cash flows pending payments, net of commissions, does not differ by more than 10% with respect to the present value of the cash flows of the original liability, calculated using the same method.

b) *Cancellation*

The Company eliminates a financial liability when the obligation has been extinguished.

When there is an exchange of debt instruments, provided that they have substantially different terms, the original financial liability is eliminated and the new financial liability is recognized. Similarly, any substantial modification to the existing terms of a financial liability is recognized.

The difference between the book value of the financial liability, or a portion thereof, which has been eliminated and consideration paid, including the attributable transaction costs and where any assigned asset that is different from the assumed asset or liability is recorded, is recognized in the income statement in the year in which this occurs.

When there is an exchange of debt instruments that do not have substantially different terms, the original financial liability is not eliminated from the balance sheet and the amount of any commissions paid will be recorded as an adjustment to the book value. The new amortized cost of the financial liability is calculated by applying the effective interest rate, which makes the book value of the financial liability at the modification date equal to the cash flows payable in accordance with the new terms.

### 3.7 Cash and cash equivalents

This heading includes petty cash, bank accounts, deposits and assets acquired under repurchase agreements that meet all of the following requirements:

- They are convertible into cash.
- At the time of acquisition the maturity date did not exceed three months.
- They are not subject to any significant risk of any change in value.
- They form part of the Company's normal cash management policy.

For the purposes of the cash flow statement, occasional overdrafts that form part of the Company's cash management are included as a reduction of cash and cash equivalents.

### 3.8 Equity

Share capital consists of ordinary shares.

The cost of issuing new shares or options is charged directly against equity, as a reduction in reserves.

### 3.9 Provisions and contingent liabilities

Provisions are recognized in the balance sheet when the Company has a present obligation (either from a legal or contractual provision or an implicit or tacit obligation) deriving from past events, and it is likely that a quantifiable outflow of resources will take place to settle the obligation.

Provisions are stated at the present value of the best possible estimate of the amount necessary to cancel or transfer the obligation to a third party and recognizing those adjustments that arise from the restatement of those provisions as a financial expense as they accrue. When involving provisions that fall due in one year or less, and the financial effect is not significant, no discount is necessary. The provisions are reviewed at each balance sheet closing date and are adjusted with the objective to reflect the best current estimate of the liability concerned at any given moment.

Contingent liabilities are considered to be those possible obligations arising as a result of past events, the materialization of which is subject to the condition that future events take place that are not entirely under the Company's control, and those present obligations arising as a result of past events that are not likely to give rise to an outflow of resources at settlement or which cannot be evaluated with sufficiently reliable. These liabilities are not recorded in the accounts but are detailed in the notes to the accounts, except when the outflow of resources is considered to be remote.

### 3.10 Current and deferred taxes

Corporate income tax expense and income consists of the expense or revenue deriving from current taxes and a portion of deferred tax expense or revenue. Current tax is the amount that the Company pays as a result of the tax returns it files each year for corporate income tax purposes. Deductions and other tax benefits applicable to tax payable, excluding withholdings and interim payments, and tax loss carry forwards applied in the current year, result in a reduction in current tax.

Deferred tax expense and income relates to the recognition and cancellation of deferred tax assets and liabilities. These include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carry-forwards. These amounts are recorded by applying the timing difference or credit relating to the tax rate at which they are expected to be recovered or settled.

Deferred tax liabilities for all taxable timing differences are recognised, except those deriving from initial recognition of goodwill or other assets and liabilities in a transaction that does not affect taxable or book results and is not a business combination.

Deferred tax assets are recognised to the extent that it is considered probable that the Company will have taxable profits in the future against which the deferred tax assets can be utilised.

Deferred tax assets and liabilities deriving from transactions involving direct charges or credits to equity are also recorded under equity.

The Company is included in the SOCIMI regime by virtue of the notification given by the Sole Shareholder on 23 September 2013, effective 1 January 2013, to the Spanish tax authorities of its decision to apply that regime.

By virtue of Law 11/2009 (26 October), which regulates Listed Real Estate Market Investment Companies, those entities that choose to apply the special tax regime established by that Law are subject to 0% corporate income tax. In the event that tax-loss carry-forwards are generated, Article 25 of the Corporate Income Tax Act, approved by Legislative Royal Decree 4/2004 (5 March) will not be applicable. Accordingly, the deduction and credit system established by Chapters II, III and IV of that Law will not be applicable. All matters not covered by Law 11/2009 will be subject to the provisions of the Corporate Income Tax Act on a supplementary basis.

The company will be subject to a 19% special tax on the full amount of the dividends or shares in profits distributed to shareholders whose stake in the company's share capital is equal to or exceeds 5%, when those dividends are subject to a tax rate of less than 10% at the individual shareholder level. This tax will be considered to be Corporate Income Tax.

### 3.11 Income and expense

Income and expense are recorded in the income statement on an accruals basis, i.e. in the period in which the income or expense deriving from the goods or services in question is earned or incurred rather than the period in which the cash is actually received or disbursed.

*Income from sales and services rendered*

The Company leases branch offices to Banco Santander under a lease agreement (Note 5) for which it invoices rent quarterly in advance (Note 13).

Income is recognized when it is likely that the Company will receive the financial benefits and yields deriving from the transaction and the amount of the income and costs incurred, may be reliably measured. Income is stated at the fair value of the compensation received, or to be received, less discounts, reductions in price and other similar benefits that the Company may grant. The indirect taxes levied on transactions and which may be charged to third parties do not form part of income.

*Straight-line distribution of rent*

As the lease contract provides for a 15% one-off reduction in the quarterly reference rent in the period 2026 to 2028 and a further 12.5% one-off reduction in the period 2031 to 2033 for the Blue and Yellow portfolios, the Company recognises the effect of the straight-line distribution of rent over the contract term under accruals and deferred income (non-current).

*Interest received from financial assets*

Interest from financial assets accrued after the time of acquisition will be recognised as income in the income statement. Interest is recognised using the effective interest method.

For these purposes, the initial measurement of financial assets is recognized independently based on their maturity and the amount of explicit interest accrued and not accrued at that time. Explicit interest is understood to be that which is obtained by applying the contractual interest rate borne by the financial instrument.

### 3.12 Related-party transactions

In general, transactions between Group companies are initially recognised at fair value. If applicable, where the agreed price differs from the fair value, the difference is recognised based on the financial reality of the transaction. Subsequent measurement takes place in accordance with applicable standards.

Prices for transactions carried out with related parties are adequately analysed and documented and therefore the Company's Directors consider that there are no risks that could give rise to significant tax liabilities.

### 3.13 Environmental issues

The costs incurred through the acquisition of systems, equipment and installations whose purpose is the elimination, limitation or control of possible impacts on the normal development of the Company's activities on the environment, which are considered to be an investment in assets.

All other expenses relating to the environment, other than those related to the acquisition of assets, are expensed in the year they accrue.

The Directors consider that given the nature of the activity carried out by the Company the potential impact of environmental contingencies that could arise is low.

## 4. INFORMATION REGARDING THE NATURE AND LEVEL OF RISK DERIVING FROM FINANCIAL INSTRUMENTS

Activities involving financial instruments expose the Company to credit, market and liquidity risk.

### 4.1 Credit risk

Credit risk arises from the potential losses that may arise from the failure to comply with contractual obligations by the Company's counterparties, i.e. the possibility that financial assets may not be recovered at their carrying value or within the established term.

The directors have performed the appropriate analysis and consider that the credit risk is not significant after measuring the financial instruments.

The maximum exposure to credit risk at 30 June 2017 and 31 December 2016 is as follows:

| | **30 June 2017** | **31 December 2016** |
|---|---|---|
| Non-current financial investments | 23,790,305 | 23,688,768 |
| Other receivables from public entities | 6,499 | 103,356 |
| Trade receivables | 4,334,169 | 2,390,885 |
| Sundry receivables | 14,832 | 60,627 |
| | **28,148,728** | **26,243,636** |

*Operating activities*

The possible risk of property lease defaults is insured through a policy that covers the loss of income over two years up to a limit of €10,000,000 plus €2,300,000 for one additional year in respect of 45 principal properties in the portfolio.

Rent is paid on a quarterly basis by Banco Santander within a contractually established 10 day period.

At 30 June 2017, there was no delay and no payment pending by Banco Santander. The lessee's credit rating reduces the possible risk of non-payment.

*Investment activities*

Non-current financial investments: this category is made up of lease deposits received under the lease to Banco Santander and paid into official landlord deposit schemes run by regional government bodies in Spain amounting to €12,612,841. This sum will be returned once the lease contract is terminated. Additionally, this category includes the account receivable with Banco Santander for branch 100876, and with respect to which the condition precedent signed in clause 2 of the sale-purchase agreement has not been met and under which the Company is entitled to claim repayment of the purchase consideration amounting to €11,177,464.

### 4.2 Market Risk

Market risk arises from the possible losses that may derive from changes in fair value or in future cash flows from a financial instrument due to changes in market prices. Market risk includes interest rate risk and inflation risk.

*Interest rate risk*

The Company's exposure to interest rate risk is mainly due to any non-current loans at variable interest rates. On 5 June 2015, the Company signed a loan from the company Silverback Finance Limited at a fixed interest rate (Note 10.3). Therefore, there is not an interest rate risk.

On the other hand, the Company maintains a loan from shareholders at a fixed interest rate and therefore there is no risk of any change in interest rate associated with this loan (Note 10.4).

*Exchange risk*

The Company has no exchange rate risk and only operates in euro.

*Inflation risk*

A new addendum to the lease agreement signed in 2007 was concluded on 1 August 2014. As part of this addendum it was agreed that the price index on which the annual rent increase is calculated would be in accordance with the HICP (Harmonised Index of Consumer Prices for the European Union), such change to be applied retroactively from May 2014.

### 4.3 Liquidity risk

Liquidity risk arises from the possibility that the Company may not have liquid assets, or access to them, of a sufficient amount or at adequate cost, to cover its payment obligations at all times. The Company's objective is to maintain all necessary liquid resources to be able to meet its payment obligations.

The following table shows the cash budget between 30 June 2017 and 30 June 2018 (Million Euro).

| | |
|---|---|
| **Cash at 30 June 2017** | **112.7** |
| Net collection of operating revenues | 104.7 |
| Loan interest payment to Silverback | (42.3) |
| Repayments relating to the capital of the loan from Silverback | (44.9) |
| Repayments relating to the capital of the shareholders loan | (22.6) |
| Cash dividend payments | (22.7) |
| Other payments (management fees, legal fees, personnel…) | (1.3) |
| **Cash at the end of the period** | **83.6** |

## 5. INVESTMENT PROPERTIES

Investment properties relate to the Company's initial acquisition from Banco Santander, S.A. of 1,152 bank branches throughout Spain on 23 November 2007 for €2,040,000,000, plus the costs directly attributable to the transaction, totalling €44,430,134. Of the total property portfolio initially acquired, 423 assets have been sold. In addition, an exchange of 26 branches was completed through which the Company received 10 branches in return. There are a total of 712 branches at 30 June 2017. During the first six-month period in 2017 the Company has sold 19 branches.

The loan collateral includes all of the income from 651 branch offices that have been pledged and mortgaged, the income from 28 branch offices that have not been pledged but have been mortgaged as collateral and, finally, the income from 33 branch offices that have not been pledged or mortgaged.

There are currently no fully depreciated assets.

### 5.1 Movements during the year

The main movements in the accounts included under this heading during 2017 and 2016 are as follows (euro):

Year ended 30 June 2017

| | Beginning balance | Additions or allocations | Disposals and reversals | Ending balance |
|---|---|---|---|---|
| Cost | | | | |
| Land | 918,846,054 | - | (18,285,599) | 900,560,455 |
| Buildings | 850,106,207 | - | (19,739,153) | 830,367,054 |
| | 1,768,952,261 | - | (38,024,752) | 1,730,927,509 |
| Accumulated depreciation | | | | |
| Buildings | (169,415,746) | (9,330,879) | 3,294,296 | (175,452,329) |
| Impairment | | | | |
| Building | (23,684,577) | - | 1,297,935 | (22,386,642) |
| **Net carrying value** | **1,575,851,938** | **(9,330,879)** | **(33,432,521)** | **1,533,088,537** |

Year ended 30 June 2016

| | Beginning balance | Additions or allocations | Disposals and reversals | Ending balance |
|---|---|---|---|---|
| Cost | | | | |
| Land | 920,307,106 | - | - | 920,307,106 |
| Buildings | 852,693,377 | - | - | 852,693,377 |
| | 1,773,000,483 | - | - | 1,773,000,483 |
| Accumulated depreciation | | | | |
| Buildings | (151,480,639) | (9,142,294) | - | (160,622,933) |
| Impairment | | | | |
| Building | (26,870,282) | - | - | (26,870,282) |
| **Net carrying value** | **1,594,649,562** | **(9,142,294)** | **-** | **1,585,507,268** |

During the first six-month period in 2017, the Company sold 19 branch offices comprising a portfolio of 15 and a further 4 on an individual basis. In so doing, the Company derecognized a cost of €38,024,752, accumulated depreciation totalling €3,294,296 and accumulated impairment amounting to €1,297,935. The net profit on the various sales amounted to €9,157,290.

At the time the properties were acquired, the Company assigned the acquisition value among land, buildings and installations. However, given the low importance of the recoverable value of installations, they were assigned a value of zero.

On 23 November 2016, the Company received notification from Banco Santander of their intention to exercise their break clause in relation to 7 branches, such lease termination being effective 23 November 2017. The Company recorded an impairment on 31 December 2016 associated with this early termination due to the difference between the vacant value of these branch offices and their carrying value. The impairment recorded during the period ended 31 December 2016 totals €3,200,857. During the 2017, the lessee has not communicated new early terminations (Note 2.2).

On 22 December 2016, the Company exchanged 26 branch offices with Banco Santander who in turn delivered 10 branch offices owned by the bank to the Company. This exchange was undertaken in accordance with the substitution provisions of the lease agreement that is currently in force (Note 5.2).

The substitution took place through the execution of purchase agreements and in one of these agreements the Company signs as the seller of the outgoing 26 offices and in another as the buyer of the incoming 10 offices. The selling price of the outgoing offices totalled €23,120,000 consisting of a debt claim and the purchase price of the incoming offices totalled €23,120,000, offset against the aforementioned debt claim. Although the selling price did not take into consideration the agreement with the lessee, given that the carrying amount is higher at the transaction date due to the lease agreement being taken into consideration, the accounting exchange was performed at the carrying amount of €39,078,039 at the transaction date.

Although from a mercantile point of view the transactions took the form of purchases, for accounting purposes the treatment is that of a non-commercial exchange given that there is no difference between the cash flows from the properties received and the cash flows of the properties delivered. Consequently the assets received have been stated at the carrying amount of the delivered assets.

### 5.2 Operating lease

On 23 November 2007 the Company signed a lease with Banco Santander for 1,152 branch offices throughout Spain. At 30 June 2017, after the sale of 10, 4, 2, 381, 7 and 19 offices to individual investors in 2011, 2012, 2013, 2015, 2016 and the first six-month period ended 30 June 2017, respectively, and the office exchange that took place in 2016 under which 26 offices were exchanged for 10 offices, the lease agreement remains applicable to 683 branches.

The operating leases cover urban properties for non-residential use.

The initial mandatory term for the parties is 24, 25 and 26 years, depending on each property and after that the lease may be renewed up to three times for terms of seven years each. In 2010 the Company signed an addendum to the lease agreement with the lessee under which the former increased the break options rights in favour of the lessee and modified the lessee's substitution rights to replace the lease of a certain number of branch offices, under a series of conditions relating to the rent and the fair value of the properties.

On 1 August 2014, the Company signed three further addenda modifying the terms of the lease agreement concluded on 23 November 2007 with Banco Santander, mainly covering the classification of the property portfolio into three types (“Blue”, “Green” and “Yellow”) as the lease expiration date had been modified for all of them (between 2036 and 2047, based on the office and type concerned), together with the extension options for the leases (mainly 1 or 2 seven-year extensions at the request of the lessee). The rent review formula was also modified in accordance with the HICP (consumer price index for the European Union) and the 2.15% annual supplement to the CPI that was applied during the first 10 years was eliminated.

New addenda were concluded on 3 June 2015, where the principal amendment was one that provided a rent floor such that where there is a decline in the HICP resulting in the quarterly rent payable falling below that paid for the quarter August-October 2013, then the lessee will pay the difference. In such cases, this difference paid by the lessee is paid on account of future lease payments. Interest accrues to the lessee on these on account payments and in the event that no offset takes place within five years the outstanding amount may be capitalised at the request of the lessee.

The lease agreement includes a one-off 15% reduction in the quarterly rent of reference between 2026 and 2028 and a further one-off 12.5% reduction between 2031 and 2033 for the “Blue” and “Yellow” portfolios. The rent will be reviewed based on market rents (limited to +-10%) for each extension option. This is applicable to all three portfolios. The Company has recognized the straight-line effect of the rent over the term of the agreement in the heading “Non-current accruals and deferred income” (Note 13).

The lessee pays the rent to the lessor within the first 10 days of each quarter.

Administration, conservation and maintenance expenses, as well as service charges are paid by the lessee, as stipulated in the lease agreement.

The Company contracted an inflation hedge derivative under which it will pay the bank the contractual rent during the first 10 years or it will receive the initial rent increased by 5% per year. This derivative was cancelled on 5 June 2015.

The minimum future payments to be received for the irrevocable operating lease agreements at 30 June 2017 and 2016 are as follows:

| **Euro** | **30.06.2017** | **31.12.2016** |
|---|---:|---:|
| Up to one year | 104,654,795 | 107,050,749 |
| Between 1 and 5 years | 416,971,722 | 422,837,776 |
| More than 5 years | 1,859,780,276 | 1,977,543,082 |
| | **2,381,406,793** | **2,507,431,607** |

Taxes

Taxes that are levied on the use of the properties are paid by the lessee. Those levied on the ownership of the property must also be paid by the lessee on behalf of the lessor.

Insurance

The lessee is responsible for insuring the properties and covering certain sums established in the lease agreement.

Purchase option

At the end of each lease term, Banco Santander has an option to acquire the branch offices at the market value prevailing at that time.

The purchase option is independent and supplementary to the lease and has been entered into the Property Registry.

The term is the understood to be the initial term of the lease plus the accumulated term of the renewals established in the contract.

The purchase option has been established free-of-charge. In the event that the option is exercised, the property will be acquired at the prevailing market value at the time the option is exercised.

## 6. LEASES AND OTHER SIMILAR TRANSACTIONS

The Company has leased its office located at Serrano 21, Madrid, up until 14 November 2017, which has been renewed tacitly for two years. Subsequently, this lease will automatically renew for two years unless either party (lessor or lessee) terminates the agreement.

The amount of the rent, including expenses, totals €5,534 per month, plus VAT. This amount is currently adjusted on an annual basis in accordance with the inflation rate.

The minimum future payments to be paid for the irrevocable lease agreement at 31 December 2016 and 2015 are as follows:

| Euro | 31.12.2016 | 31.12.2016 |
|---|---|---|
| Up to one year | 66,408 | 60,500 |
| Between 1 and 5 years | 91,311 | - |
| | **157,719** | **60,500** |

## 7. FINANCIAL ASSETS

### 7.1 Analysis by Category

The composition of financial assets at 30 June 2017 and 31 December 2016, excluding "Cash and cash equivalents", is as follows:

| | 30 June 2017 | | 31 December 2016 | |
|---|---|---|---|---|
| | Loans, derivatives and other financial assets | Total | Loans, derivatives and other financial assets | Total |
| **Non-current financial assets** | | | | |
| Loans and receivables | 23,790,305 | 23,688,768 | 23,688,768 | 23,688,768 |
| | **23,790,305** | **23,688,768** | **23,688,768** | **23,688,768** |
| **Current financial assets** | | | | |
| Loans and receivables | 1,926,619 | 1,926,619 | 2,451,512 | 2,451,512 |
| Loans to Group companies | 2,425,304 | 2,425,304 | - | - |
| | **4,351,923** | **4,351,923** | **2,451,512** | **2,451,512** |
| | **28,142,228** | **28,142,228** | **26,140,280** | **26,140,280** |

These amounts are broken down in the balance sheet as follows:

| | 30 June 2017 | | 31 December 2016 | |
|---|---|---|---|---|
| | **Loans, derivatives and other financial assets** | **Total** | **Loans, derivatives and other financial assets** | **Total** |
| **Non-current financial assets** | | | | |
| Non-current financial investments | | | | |
| Guarantees provided | 12,612,841 | 12,612,841 | 12,511,304 | 12,511,304 |
| Other receivables | 11,177,464 | 11,177,464 | 11,177,464 | 11,177,464 |
| | **23,790,305** | **23,790,305** | **23,688,768** | **23,688,768** |

| | 30 June 2017 | | 31 December 2015 | |
|---|---|---|---|---|
| | **Loans, derivatives and other financial assets** | **Total** | **Loans, derivatives and other financial assets** | **Total** |
| **Current financial assets** | | | | |
| Sundry debtors | 1,908,865 | 1,908,865 | 2,390,885 | 2,390,885 |
| Loans to Group companies | 2,425,304 | 2,425,304 | - | - |
| Trade and other receivables | 2,922 | 2,922 | 60,627 | 60,627 |
| Other receivables | 14,832 | 14,832 | - | - |
| | **4,351,923** | **4,351,923** | **2,451,512** | **2,451,512** |
| | **28,142,228** | **28,142,228** | **26,140,280** | **26,140,280** |

Guarantees

As stated in Note 3.5, these guarantees are associated with the lease agreements (Note 5) and therefore their maturity is associated with the lease agreements. Movements in 2017 relate to the office exchange that took place in 2016.

30 June 2017

| | Initial amount | Acquisitions | Disposals | Final amount |
|---|---|---|---|---|
| Non-current deposits and guarantees | 12,511,304 | 295,934 | (194,397) | 12,612,841 |

30 June 2016

| | Initial amount | Acquisitions | Disposals | Final amount |
|---|---|---|---|---|
| Non-current deposits and guarantees | 12,754,045 | - | (194,135) | 12,559,910 |

Other non-current receivables

In 2012, the Company reclassified the acquisition cost related to branch office 100876, which totals € 11,177,464 (€ 6,330,051 under buildings and € 4,847,413 under land) as a current receivable, given the fact that Clause 2 of the "Condition Precedent" in the purchase agreement had taken effect by virtue of the conditions established for the transfer of the branch not having been met, as stipulated by the addendum to the agreement signed on 20 November 2012. Under this clause, Banco Santander will be required, upon request by the Company, to refund the amount paid for the branch office in full, and therefore depreciation recognized to date in the amount of € 1,290,448 and the associated impairment of € 631,316 have both been reversed.

On 30 June 2017, the Company recorded the acquisition cost associated with the above branch office to non-current items, given that it does not consider that the collection right will be exercised in less than one year.

Trade and other receivables

The Company recognises €164,500 (€963,460 at 31 December 2016) relating to the provision of funds provided to one of its advisors for the liquidation of local taxes incurred in relation to the 2015 sale of the “Yellow” portfolio. The Company has also recognised a provision for invoices not yet received for the services rendered by the advisor for the total amounts involved. Once the Company receives the corresponding invoices, it will offset the balances.

At 30 June 2017, the Company also recognized the provision of funds to the same advisor for the liquidation of local taxes incurred in the office exchange that took place in 2016 under which 26 offices were exchanged for 10 offices, totalling €1,450,938.

### 7.2 Analysis by maturity

The amounts of financial asset instruments with a maturity date that is certain or may be determined, classified by year of maturity, are as follows at 30 June 2017:

| | June 2018 | June 2019 | June 2020 | June 2021 | June 2022 | Subsequent years | Total |
|---|---|---|---|---|---|---|---|
| Sundry debtors | 1,926,619 | - | - | - | - | 11,177,464 | **13,104,083** |
| Guarantees and deposits | - | - | - | - | - | 12,612,841 | **12,612,841** |
| Loans to Group companies | 2,425,304 | | | | | - | **2,425,304** |
| | **4,351,923** | **-** | **-** | **-** | **-** | **23,790,305** | **28,142,228** |

The amounts of financial asset instruments with a maturity date that is certain or may be determined, classified by year of maturity, are as follows at 31 December 2016:

| | June 2016 | June 2017 | June 2018 | June 2019 | June 2020 | Subsequent years | Total |
|---|---|---|---|---|---|---|---|
| Sundry debtors | 2,451,512 | - | - | - | - | 11,177,464 | **13,628,976** |
| Guarantees and deposits | - | - | - | - | - | 12,511,304 | **12,511,304** |
| | **2,451,512** | **-** | **-** | **-** | **-** | **23,688,768** | **26,140,280** |

## 8. CASH AND CASH EQUIVALENTS

The breakdown of this category at 30 June 2017 and 31 December 2016 is as follows:

| | 30 June 2017 | 31 December 2016 |
|---|---|---|
| On-demand current accounts | 112,706,050 | 64,774,685 |
| | **112,706,050** | **64,774,685** |

The availability of a part of those balances totalling €58,326,267 (€59,200,483 at 31 December 2016) is restricted due to obligations associated with the financing (Note 10).

## 9. EQUITY

### 9.1 Equity - Capital and reserves

The composition of capital and reserves is set out below:

a) Share capital

On 30 July 2016, the General Shareholders´ Meeting approved a further capital increase of €715,326 through the issue of 357,663 shares with a par value of €2 each, at a premium of €41.91 per share, amounting to €14,991,014. This increase was fully subscribed through the offset of accounts payable deriving from the distribution of dividends against profits for 2015 profits (Note 9.1.c).

Additionally, trading of the shares issued as a result of the Company´s share capital increase was approved, such trading taking place on the Alternative Stock Market.

At 30 June 2017, share capital totals €8,997,504 (€8,997,504 at 31 December 2016), represented by 4,498,752 fully subscribed and paid up shares with a par value of €2 each. All the shares carry the same voting and financial rights.

At 30 June 2017, shareholders with a stake of 10% or more are as follows:

| Company | Number of shares | Share Value | Authorized share Capital | Stake |
|---|---|---|---|---|
| Ziloti Holding | 3,805,782 | 2 | 7,611,564 | 84.60% |
| Banco Santander | 672,298 | 2 | 1,344,596 | 14.94% |
| **TOTAL** | **4,478,080** | | **8,956,160** | **99.54%** |

As stipulated by Article 5 of Law 11/2009 (26 October), which regulates Listed Real Estate Market Investment Companies, companies that are regulated by the aforementioned legislation must have a minimum of €5 million in share capital. At 30 June 2017, share capital totals €8,997,504, which complies with the requirement for applying this special tax regime.

b) Share premium

The share premium at 30 June 2017 totals €417,179,285 (€417,179,285 at 31 December 2016), which was generated during 2010, 2012, 2014, 2015 and 2016.

At 30 July 2016, the Company carried out a capital increase to offset payables deriving from the payment for 2015 dividend, which included a share premium totalling €14,991,014 (Note 9.1.a).

c) Dividends

Shareholders at a General Meeting held on 30 June 2017 approved the distribution of 2016 profits:

| | 2016 |
|---|---|
| **Available for distribution** | |
| Profit and loss | 67,721,754 |
| | |
| **Distribution** | |
| To Legal Reserve | 617,632 |
| To Voluntary Reserve | 12,926,719 |
| To Dividends | 54,177,403 |

With respect to the dividend approved on 30 June 2016 by the General Shareholder´s Meeting amounting to €54,177,370 for 2015, the Company´s two shareholders agreed to receive 43.6% of their dividend amount in the form of promissory notes on demand, i.e., an amount of €15,706,340. On 30 July 2016, the Company carried out a capital increase through the offset of such payables.

On 5 December 2016, the Company approved an interim dividend for 2016 totalling €5,500,000.

d) Reserves and profit and loss account brought forward

The breakdown of movements in items making up reserves and prior years losses brought forward is as follows:

Year ended 31 December 2017

| | 31.12.2016 | Distribution of results | 30.06.2017 |
|---|---|---|---|
| Legal Reserve | 1,656,436 | 143,065 | 1,799,501 |
| Voluntary reserves | 243,322,039 | - | 243,322,039 |
| Prior-year losses | (508,367,733) | - | (508,367,733) |
| | **(263,389,258)** | **143,065** | **(263,246,193)** |

e) Other shareholder contributions

The amount recognized under “Other shareholder contributions” in the statement of changes in equity relates to the fair value of incentives granted to Company management by some shareholders of Ziloti Holding S.A. granted in contracts signed on 22 September 2015, the date on which it was confirmed that all of the conditions for such incentives to vest had been met. The calculation was made at the fair value at that time.

**9.2 Equity – Application and Distribution of profits**

a) *Restrictions on dividend distribution*

The Company is under an obligation to transfer 10% of the profit for each year to a legal reserve, until such reserve is equivalent to at least 20% of share capital. Until this reserve exceeds 20% of share capital it cannot be distributed to shareholders.

Once all amounts established by Law or the bylaws have been covered, dividends may only be distributed out of profits for the year or out of freely available reserves if equity is not, or will not, fall below share capital as a result of the distribution. For these purposes, profits taken directly to equity may not be directly or indirectly distributed. If there are prior-year losses that cause the Company's equity to be lower than the share capital figure, profits must first be used to offset those losses.

b) *Mandatory distribution of dividends*

Thanks to the application of the SOCIMI regime and, as stated in Article 29 of its By-laws, the Company is obliged to distribute dividends to its shareholders, once all applicable commercial obligations have been met. In accordance with Article 6 of Law 11/2009 (26 October), which regulates Listed Real Estate Market Investment Companies (SOCIMI), the Company must in general terms distribute 80% of the profit obtained every year.

## 10. FINANCIAL LIABILITIES

### 10.1 Analysis by Category

Financial liabilities at 30 June 2017 and 31 December 2016 are analysed below:

30 June 2017

| | Derivatives and other | Total |
|---|---|---|
| **Non-current financial liabilities** | | |
| Borrowings and payables | 1,202,911,952 | 1,202,915,952 |
| Group Loans | 182,576,562 | 182,576,562 |
| | **1,385,488,514** | **1,385,488,514** |
| **Current financial liabilities** | | |
| Borrowings and payables | 60,749,308 | 60,749,308 |
| Group Loans | 22,579,200 | 22,579,200 |
| | **83,328,508** | **83,328,508** |
| | **1,468,817,022** | **1,468,817,022** |

31 December 2016

| | Derivatives and other | Total |
|---|---|---|
| **Non-current financial liabilities** | | |
| Borrowings and payables | 1,218,817,600 | 1,218,817,600 |
| Group loans | 196,283,811 | 196,283,811 |
| | **1,415,101,471** | **1,415,101,471** |
| **Current financial liabilities** | | |
| Borrowings and payables | 56,096,888 | 56,096,888 |
| | **56,096,888** | **56,096,888** |
| | **1,471,198,359** | **1,471,198,359** |

These amounts are broken down in the balance sheet as follows:

| | 30.06.2017 | 31.12.2016 |
|---|---|---|
| **Non-current financial liabilities** | | |
| Borrowings from third parties (Note 10.3) | 1,188,776,131 | 1,204,662,326 |
| Guarantee deposits received (Note 10.4) | 14,135,821 | 14,155,334 |
| Non-current payables to group companies and associates (Note 10.4) | 182,576,562 | 196,283,811 |
| | 1,385,488,514 | 1,415,101,471 |
| **Current financial liabilities** | | |
| Borrowings from third parties (Note 10.3) | 50,286,373 | 54,755,599 |
| Current payables to group companies and associates (Note 10.4) | 22,579,200 | - |
| Dividends payable | 10,164,501 | - |
| Trade and other payables | 298,350 | 1,341,289 |
| Others | 84 | - |
| | 83,328,508 | 56,096,888 |
| | **1,468,817,022** | **1,471,198,359** |

## 10.2 Analysis by maturity date

The maturity dates for financial liabilities at 30 June 2017 are as follows:

| | | | | | | Financial liabilities | |
|---|---|---|---|---|---|---|---|
| | June 2018 | June 2019 | June 2020 | June 2021 | June 2022 | Subsequent years | Total |
| Payables to third parties | 50,286,373 | 47,234,021 | 49,774,924 | 52,588,985 | 56,313,997 | 982,864,204 | **1,239,062,504** |
| Guarantees received | - | - | - | - | - | 14,135,821 | **14,135,821** |
| Payables to E.G. | 22,579,200 | - | - | - | - | 182,576,562 | **205,155,762** |
| Dividends payable | 10,164,501 | - | - | - | - | - | **10,164,501** |
| Trade and other payables | 298,350 | - | - | - | - | - | **298,350** |
| Others | 84 | - | - | - | - | - | **84** |
| | **83,328,508** | **47,234,021** | **49,774,924** | **52,588,985** | **56,313,997** | **1,179,576,587** | **1,468,817,022** |

The maturity dates for financial liabilities at 31 December 2016 are as follows:

| | | | | | | | Financial liabilities |
|---|---|---|---|---|---|---|---|
| | June 2017 | June 2018 | June 2019 | June 2020 | June 2021 | Subsequent years | Total |
| Payables to third parties | 54,755,599 | 45,965,117 | 48,351,747 | 50,999,500 | 54,822,922 | 1,004,523,040 | **1,259,417,925** |
| Guarantees received | - | - | - | - | - | 14,155,334 | **14,155,334** |
| Payables to E.G. | - | - | - | - | - | 196,283,811 | **196,283,811** |
| Trade and other payables | 1,341,289 | - | - | - | - | - | **1,341,289** |
| | **56,096,888** | **45,965,117** | **48,351, 747** | **50,999,500** | **54,822,922** | **1,214,962,185** | **1,471,198,359** |

## 10.3 Payables to third parties

On 5 June 2015, the company Silverback Finance Limited signed a loan agreement with the Company for the amount of €1,344,800,000, which Silverback Finance Limited lent all the funds raised in a bond issue.

In accordance with the terms of the agreement, the loan terms are as follows:

a) Loan Tranche A1 totalling €867,900,000, with a fixed interest rate of 3.1261% and falling due on 20 February 2037. Repayments commenced at the time the loan was granted.
b) Loan Tranche A2 totalling €476,900,000, with a fixed interest rate of 3.7529% and falling due on 20 May 2039. The agreement included a grace period on repayments until 20 May 2025.

Interest is payable every quarter on 20 February, 20 May, 20 August and 20 November.

The loan collateral includes all of the income from 651 branch offices that have been pledged and mortgaged, the income from 28 branch offices that have not been pledged but have been mortgaged as collateral and, finally, the income from 33 branch offices that have not been pledged or mortgaged.

The nominal amount of the loan totals €1,274,667,073 at 30 June 2017 (€1,297,008,549 at 31 December 2016) and the carrying amount at the amortized cost of this loan at 30 June 2017 is €1,239,062,505 (€1,259,417,925 at 31 December 2016), including accrued outstanding interest totalling €5,344,780 (€5,512,391 at 31 December 2016).

## 10.4 Other non-current financial liabilities

*Guarantees received*

The Company received from its lessee two months´ rent for each branch office leased by way of a guarantee deposit covering compliance of the obligations established in the lease contract. At 30 June 2017, deposits delivered under leases amounted to €14,135,821 (€14,155,334 at 31 December 2016).

*Non-current payables to Group companies and associates*

At 31 July 2014, the Company contracted a debt with its shareholders Ziloti Holding and Banco Santander totalling € 127,500,000 and € 22,500,000, respectively, due to a lack of liquidity available to meet the payment of the share premium totalling €150,000,000.

This debt generates 12% interest that will be capitalized annually on 31 July and repaid to shareholders at the maturity date, i.e. 2039.

On 30 September 2016 an addendum was signed that modifies the terms of the loan. In accordance with the new terms there is now an annual limit on the nominal accrual of interest in the amount of €60,000,000, and thus the accrued interest is the lower of €60,000,000 and the result of applying the 12% annual rate on the outstanding balance. The modification also allows the payment of all or part of the interest in cash on a voluntary basis every 31 July in lieu of its capitalization and the partial or full payment of the principal on the tenth anniversary of the signing of the loan in July 2014, albeit subject to the approval of the bond trustee. Based on the estimate of the new projected cash flows, the Company considers that as of the date of the addendum the effective fixed interest rate on this loan will be approximately 9.27%.

The amount owed totals €205,155,762 at 30 June 2017 (€196,283,811 at 31 December 2016) and interest totalling €8,871,951 (€10,080,000 at 31 December 2016). The Company has recorded in the short term the estimated principal and interest payments to be made on 31 July 2017.

## 11. TAX SITUATION

A breakdown of the tax assets and liabilities included in this category at 30 June 2017 and 31 December 2016 is as follows:

| | **30 June 2017** | **31 December 2016** |
|---|---|---|
| Other receivables from public entities | | |
| VAT to be offset | 6,499 | 102,836 |
| Other | - | 520 |
| | **6,499** | **103,356** |
| | | |
| Other payables to public administrations | | |
| VAT payable | - | 74,111 |
| IGIC payable | 80,209 | 77,501 |
| IPSI payable | 872 | 1,691 |
| Personal income tax withholdings payable | 13,847 | 176,674 |
| Social Security | 3,117 | 2,856 |
| Other items payable | 1,342,525 | 1,342,525 |
| | **1,440,570** | **1,675,359** |

The amount under “Other items” recorded at 30 June 2017 and 31 December 2016 relates to the capital gains and stamp duty pending payment as a result of the substitution of offices that took place on 22 December 2016.

In accordance with current legislation, tax returns cannot be deemed definitive until verified by tax authorities or until becoming statute-barred, currently established at four years.

### 11.1 Calculation of corporate income tax

Corporate income tax is calculated based on the economic or accounting results, obtained on the application of generally accepted accounting principles, which do not necessarily agree with the tax results, understood as the tax base.

In 2012 Royal Decree Law 12/2012 (30 March), approved the limitation of the deduction of financial expenses. This measure governs the non-deductibility of financial expenses deriving from debts with group companies when the funds have been used to:

- ✓ Acquire shares in any company from other group companies.
- ✓ Make contributions to the share capital or equity of other group companies.
- ✓ Net financial expenses exceeding one million euro are not deductible when they exceed 30% of operating profits.

The permanent differences established in the table below are those generated in this respect.

*Reporting requirements for SOCIMI companies in accordance with Law 11/2009*

The Company formed part of the special tax scheme on 23 September 2013, with retroactive effect as of 1 January 2013, and, in accordance with Law 11/2009 (Note 3.11), it will be taxed at the rate of 0% for corporate income tax purposes, except where minimum holding periods for assets are not met.

By virtue of Law 11/2009 (26 October), regulating Listed Real Estate Market Investment Companies on the property market, entities which choose to apply the special tax regime envisaged in this Law pay tax at a 0% rate for Corporate Income Tax. For tax losses, Article 25 of the restated version of the Corporate Income Tax Law approved by Royal Legislative Royal Decree 4/2004 (5 March) is not applicable. The tax rebates and deductions established in Chapters II, III and IV of this legislation may not be applicable. For anything not envisaged in Law 11/2009, the restated version of the Corporate Income Tax Law will be applicable on a secondary basis.

The Company will be subject to a special 19% tax on the full amount of the dividends or shares of profits distributed to the shareholders with interest in the share capital of the entity which is equal to or higher than 5%, when such dividends are tax exempt or taxed at a rate below 10% in the tax domicile of the shareholder. This will be classified as corporate income tax payable.

The reconciliation of book profit before taxes and the 2016 corporate income tax base is set out below:

2016:

| | Increases | Decreases | Total |
|---|---|---|---|
| **Income/expense for the year before taxes** | | | **15,912,471** |
| Permanent differences | **40,081,136** | **(1,254,564)** | **38,826,572** |
| Temporary differences | **-** | **-** | **-** |
| **Taxable profit** | | | **54,739,043** |

As a result of its decision to apply the SOCIMI regime effective 1 January 2013, the Company cancelled all of its deferred tax assets and liabilities that will not be used in accordance with its business plan, although since the business plans used by the Company are based on complex future estimates deriving largely from the lease agreement and the development of the options chosen by the Company, they will be revised and updated on an annual basis.

Tax-loss carry-forwards, after filing the corporate income tax on the sale of the Yellow portfolio that the Company may offset in the future total €393,134,807.

During July 2015, the AEAT reported the initiation of inspection proceedings of corporate income tax for 2010 to 2013 and VAT, withholdings and payments on account of earned income and investment income and withholdings and payments on account of non-residents for the period July 2011 to December 2013. Other years until 30 June 2017 are open to inspection. In the opinion of the Company's Directors, and its tax advisors, no significant tax contingencies are expected to arise from the different interpretations which may be made of the tax legislation applicable to the Company´s operations.

## 12. INCOME AND EXPENSES

### 12.1 Revenues

The distribution of revenues from the group's ordinary operations is as follows:

| Euro | 30.06.2017 | 31.12.2016 |
|---|---|---|
| Property lease income (Note 5) | 51,288,503 | 52,315,043 |
| Re-invoicing of service charges | 2,445,538 | 2,262,494 |
| | **53,734,041** | **54,577,537** |

Revenues include the effect of the straight-line distribution of rent, which reduces revenue for 2017 by €1,787,901 (€1,529,185 in 2015).

All revenues for 2017 and 2016 were obtained in Spain.

### 12.2 Employee benefit expenses

These items break down as follows:

| Euro | 30.06.2017 | 31.12.2016 |
|---|---|---|
| Social Security | 15,490 | 14,068 |
| | **15,490** | **14,068** |

### 12.3 External services

These items break down as follows:

| | 30.06.2017 | 31.12.2016 |
|---|---|---|
| Leases and royalties | 44,891 | 44,652 |
| Independent professional services | 618,556 | 668,676 |
| Banking services | 3,730 | 3,411 |
| Supplies | 2,248 | 2,703 |
| Other services | 2,546,775 | 2,368,639 |
| Other taxes | 45,897 | 25,700 |
| | **3,262,097** | **3,113,781** |

### 12.4. Financial income

These items break down as follows:

| Euro | 30.06.2017 | 31.12.2016 |
|---|---|---|
| Other financial income | - | 491 |
| | **-** | **491** |

### 12.5 Financial expense

These items break down as follows:

| Euro | 30.07.2017 | 31.12.2016 |
|---|---|---|
| Interest payable to group companies (Note 10.4 y 15) | 8,871,951 | 10,080,000 |
| Interest payable to third parties | 23,704,971 | 24,364,397 |
| Interest on Silverback loan (Note 10.3) | 23,704,971 | 24,364,397 |
| Other financial expense | - | 56,342 |
| | **32,576,922** | **34,500,739** |

## 13. PREPAYMENTS AND ACCRUED INCOME

*Non-current accruals and deferred income*

Due to the fact that the lease agreement includes a one-off 15% reduction in the quarterly rent of reference between 2026 and 2028 and a one-off 12.5% reduction between 2031 and 2033 for the “Blue” and “Yellow” portfolios, the Company has recognised the effect of straight-line distribution of the rent under the heading “Accruals and deferred income”. The cumulative effect of which at 30 June 2017 reduces rent income by €8,054,162 (€6,266,261 at 31 December 2016).

*Current accruals and deferred income*

The Company records current prepayments totalling €8,992,800 at 30 June 2017 (€8,915,183 at 31 December 2016) that relate to the deferred portion of the Banco Santander lease agreement for the quarter between 1 May 2017 and 31 July 2017. The accruals have been carried out by calculating the number of days incurred in each year.

## 14. COMPENSATION AND BALANCES WITH EMPLOYEES AND DIRECTORS

### 14.1 Personnel structure and senior management compensation

There are three employees at 30 June 2017, two women and one man (at 31 December 2016: two women and one man), whose breakdown by category corresponds to one employee considered as Senior Management, one employee considered as an Intermediate Command and one employee as Administrative.

In 2017, the average number of employees is three (In 2016, the average number of employees was three employees).

The Company has no employees with a disability exceeding 33%.

The Company concluded a Senior Management agreement on 13 November 2014, defined as follows:

- Exercises duties and functions relating to the Company's general objectives. Plans, directs and controls the Company's activities directly or indirectly.

- Carries out duties autonomously and will full responsibility, only limited by the criteria and direct instructions received from the Company's legal owners or other higher governing and administrative bodies that represent those owners.

During the six-month period ended at 30 June 2017, remuneration accrued to the employees considered to be Senior Management amounted to €125,000 (in six-month period ended at 30 June 2016: €125,000).

### 14.2 Shareholdings and positions held, and activities carried out, by members of the Board of Directors in other similar companies.

In order to avoid conflicts of interest with the Company, during the year Directors complied with the obligations established in Article 228 of the Spanish Companies Act 2010. Accordingly, both they and persons associated with them have abstained from entering into the conflicts of interest defined by Article 229 of that law, except in the cases where the appropriate authorization has been obtained.

During the six-month period ended at 30 June 2017, the amount accrued by the members of the Board of Directors totalled €210,000 (in six-month period ended at 30 June 2016: €210,000).

At 30 June 2017 and 2016, the Company does not record any pension or life insurance obligations relating to previous or current members of the Board of Directors, and has not assumed any obligations with them regarding any guarantees.

## 15. TRANSACTIONS WITH RELATED PARTIES

The related parties with which the Company has carried out transactions, as well as the nature of that association, in 2017 and 2016 is as follows:

| | Nature of the association |
|---|---|
| Ziloti Holding S.A | Direct parent company |
| Banco Santander, S.A | Direct parent company |
| Administrators | Board Members |

All transactions with related parties form part of the Company's normal course of business and take place at market prices.

The balance maintained with related parties at 31 December 2016 and 2015 are as follows:

| 30.06.2017 | Direct parent company | Other group companies | Related companies |
|---|---|---|---|
| Loans to Group companies | 2,425,304 | - | - |
| Non-current loans | (184,930,698) | - | - |
| Current loans | (22,579,200) | - | - |

| 31.12.2016 | Direct parent company | Other group companies | Related companies |
|---|---|---|---|
| Non-current loans | (196,283,811) | - | - |

Transactions with related parties at 30 June 2017 and 31 December 2016 are as follows:

| **2016** | **Direct parent company** | **Other Group companies and associates** |
|---|---|---|
| Financial expenses | 8,871,951 | - |

| **2015** | **Direct parent company** | **Other Group companies and associates** |
|---|---|---|
| Financial expenses | 10,080,000 | - |

## 16. OTHER INFORMATION

### 16.1 Auditors' fees

The audit fees accrued for the six-month period in 2017 by PricewaterhouseCoopers Auditores, S.L. for audit and other verification services totalled €16,500 and €0, respectively (€18,630 and €0 in the six-month period ended at 30 June 2016, respectively). The fees accruing for services rendered by other companies within the same network as PricewaterhouseCoopers Auditores, S.L. total €0 (€0 in 2016).

### 16.2 Information regarding the environment

The systems, equipment and expenses incurred by the Company to protect and improve the environment are not significant at 30 June 2017 and 2016.

Under the procedures currently implemented, the Company considers that environmental risks are adequately controlled. The Company has not received any environmental grants during the years ended 30 June 2017 and 2016.

### 16.3 Contingencies

Regarding the break clauses in the operating lease agreement in relation to assets in the "Green" portfolio, as specified in note 2.2 of these interim financial statements, the Company will record at "vacant value" the branches which the lessee confirms will be subject to early resolution. Historically, there has been a substantial difference between the fair value of the branches with the lease agreement in place and the value of the same branches when empty, the latter being lower. Management believes that it is not possible to quantify the future effect of the exercise by Banco Santander of the break clauses due to the multiples variables that could affect the calculation, such as the long-term evolution of the fair value of such assets, the number of branch offices which may be affected, etc.

## 17. REPORTING REQUIREMENTS FOR SOCIMI LAW 11/2009

In compliance with the provisions of Article 11 of Law 11/2009 that regulates listed real estate market investment companies, the following information is set out below:

- At 30 June 2017, there are no reserves deriving from years prior to the application of the tax scheme established by the Law, and there is no need to differentiate the part of income taxed at the general tax rate given that all assets are included under the SOCIMI scheme.

- Due to the application of the SOCIMI regime and, as stated in Article 29 of its By-laws, the company will be obliged to distribute dividends to its shareholders, once the applicable commercial obligations are met, consisting of the profit obtained during the year in accordance with Article 6 of Law 11/2009 (26 October), which regulates Listed Real Estate Market

Investment Companies (SOCIMI). During 2016, the Company generated book profits that could be distributed in dividends in the amount of €15,664,501 (Note 9.c) as a result of the resolution adopted by shareholders at the general meeting held on 27 June 2017.

- The Company has invested at least 80% of its asset value in urban real estate for lease, in accordance with the investment requirements established by Article 3 of the SOCIMI Act. The date the leased real estate was acquired and the details of the transaction is set out in Note 5.

- Of the branch offices that the company acquired in November 2007, at 30 June 2017 it owns 712 offices with an acquisition price of €1,730,927,509 and their carrying amount is € 1,533,088,537. All of these assets fall within the 80% referred to in Article 3.1 of Law 11/2009.

- At 30 June 2017, Share capital amounts to €8,997,504 and therefore complies with the minimum requirement of € 5,000,000.

- The Company started trading on the Alternative Stock Market in March 2015.

- Likewise, the dissemination of URO shares also complies with the incorporation requirements established by Alternative Stock Market Law 14/2016.

## 18. EVENTS AFTER THE REPORTING PERIOD

On 21 July 2017, the Board of Directors decided to make a voluntary interest payment in relation to the Shareholder Loan from the shareholders Ziloti Holding and Banco Santander, such payment being effective as of 31 July 2017. Subsequently the Board of Directors has decided to initiate a process for the possible modification of the terms of Shareholder Loan. As at the date of preparation of these financial statements this process remains ongoing.

## Directors' Report

### Company´s evolution

In November 2007 the Company acquired 1,152 properties from Banco Santander pertaining to its branch office network.

Simultaneously, the Company and Banco Santander concluded a lease agreement containing a purchase option at a market price for the lessee (Banco Santander) in relation to each of the acquired properties. The initial term of the agreement is mandatory for both parties and lasts for 24, 25 or 26 years, depending on the asset concerned. After that period the lessee may extend the lease for a maximum of 3 extensions for a seven-year period each. Maintaining this lease agreement is the Company's primary activity.

As its main source of financing, the Company obtained two syndicated loans totalling €1,600,000 and €273,100,000 on 15 November 2007 from a consortium of financial institutions led by BNP. The Company also obtained a participating loan totalling €210,800,000 from its single shareholder, Sant Midco Holdings, B.V.

Simultaneously, the Company contracted a series of derivative financial products in order to eliminate any fluctuation in interest (Euribor) and inflation rates. Thanks to these financial derivatives, the Company eliminated the risk of possible changes in its main income account (rent payments) and expenses (financial expenses).

In 2012, the Company predicted the possibility that it might not be able to comply with some of its obligations at the maturity date of the senior and mezzanine loans in November 2014. That, together with (a) the state of the real estate market and the lack of liquidity in the banking system at that time (ii) the restriction of the tax deductibility of financial expenses from corporate income tax introduced by Royal Decree - Law 12/2012 (30 March) and (iii) the risk that as a result of the impairment of the real estate assets recorded in prior years due to the economic recession and, in particular, the recession in the real estate market, the Company may not be able to comply with certain obligations relating to its debt (established in the financing agreements), led the Company to take the action necessary to design and implement a refinancing strategy and the reorganization of its capital and financial structure together with advisors and financial creditors.

In December 2012 Uro's then sole shareholder, Sant Midco, capitalized the participating loan that it had granted the Company in 2007 (mentioned previously) and in September 2013 it decided that effective 1 January 2013, the Company would apply the special regime for Listed Real Estate Investment Companies (SOCIMI), regulated by the SOCIMI Act.

Within the framework of the aforementioned negotiations, Uro´s the sole shareholder, Sant Midco, and financial creditors deemed it advisable to implement a new, more conservative capital and financial structure for the Company that required the creditors to become shareholders (direct and indirect) of Uro. In this respect and within the framework of the negotiations, on 4 November 2013 the company Ziloti Holding S.àr.l., currently Ziloti Holding, S.A. ("Ziloti") was incorporated, and one of the then indirect shareholders of Uro acquired all of its share capital on that date through the company Atisha Holding S.àr.l. ("Atisha"). The entry of financial creditors into the share capital of Ziloti (and indirectly in Uro) took place later.

On 15 May 2014, Uro reached a framework for a restructuring, the implementation of which took place between the end of July and beginning of August 2014.

The restructuring accelerated the senior debt, led to the sale of Uro's equity for a nominal value of €1 and the reduction of the financial burden by approximately €446 million, which was capitalized and restored Uro's financial balance.

Within the context of the restructuring, on 31 July 2014 Banco Santander acquired a direct stake of 15% in Uro's share capital in exchange for a part of its stake in Ziloti. As a result, the total shareholding (direct and indirect) held by Banco Santander in Uro rose to 24%.

On 31 July 2014, and as a result of the implementation of the transactions described above, among others, the terms of the financial debt were novated (senior loan granted in 2007 in the amount of € 1,600 million), and therefore Uro's financial debt was established at € 1,424 million. The decrease experienced by the senior loan (from €1,600 million in 2007 to €1,424 million in July 2014), is the result of the repayments of principal carried out in those years.

Within the framework of the implementation of Uro's financial restructuring strategy, on 1 August 2014 the Company´s lease agreement with Banco Santander was novated.

On 27 October 2014, Uro's shareholders, held a Universal Extraordinary Meeting and adopted the resolutions necessary to change the name of the company to its current name Uro Property Holdings SOCIMI, S.A.

On 27 December 2014, the Company's shareholders held a Universal Extraordinary Meeting and adopted the resolutions necessary to transform it into a public limited liability company.

In March 2015 the Company was listed on the Alternative Stock Market as it complied with all of the requirements established by Articles 4 and 5 of Law 11/2009 (26 October) that regulates Listed Real Estate Market Investment Companies (“SOCIMI”).

On 23 April 2015, the Company formalised the sale of 381 of its offices in the Yellow portfolio to investors represented by AXA Real Estate. The assets sold represent approximately 15% of the value of Uro's portfolio. The sale totalled €308 million, which was a 10% premium over the appraisal of these assets carried out by CBRE.

On 5 June 2015, the Company concluded a loan agreement with Silverback Finance Limited under which the latter lends Uro all of the funds obtained through a bond issue.

The loan is for a total of €1,344.80 million for a term of 24 years, divided into two tranches amounting to €867.9 million and €476.9 million, which accrue fixed interest at 3.1261% and 3.7529%, respectively.

Uro used the amount from the loan primarily to repay its preceding syndicated loan and its interest rate and inflation derivatives, as well as to pay the costs associated with the transaction. The repayment of the syndicated loan also included the cancellation of all of the collateral existing for that financing and new collateral agreements were concluded with respect to the new financing, including the mortgage on most of the properties, the pledging of rights to lease income and encumbrances of bank accounts.

During 2016, 7 of the 40 offices that Banco Santander released in November 2015 were sold and during the first 2017 six-month period, Company has sold a further 4 offices.

Furthermore, in May 2017, Uro closed with M&G Real Estate the sale of 15 offices and the granting of a purchase option on another bank office, for a total amount of 56.2 million euros.

After this sale, Uro continues to own assets worth around 60 million euros outside of the financing.

In December 2016, Banco Santander exercised for the first time the substitution right granted by the lease agreement. This transaction involved the acquisition by Uro of 10 large offices and the transfer to Banco Santander of 26 smaller offices.

After the sale of the offices and the substitution transaction, Uro's portfolio consists of 712 assets with a constructed area of more than 333,882 m².

Additionally, on 23 November 2016, Banco Santander exercised its break option rights by confirming its intention to terminate the rental contract for 7 branch offices on 23 November 2017.

**Research and development activities**

The Company has not carried out any research and development activities.

**Acquisition of treasury shares**

The Company has not acquired any treasury shares during the year.

**Employees**

The Company has employees in order to perform daily internal management duties.

**PREPARATION OF THE INTERIM FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE DE 2017**

In compliance with current mercantile legislation, the Directors of Uro Property Holdings SOCIMI, S.A. prepare the interim financial statements and Directors´report for the six-month period ended 30 June 2017 that are set out in the accompanying pages 1 through 39.

Madrid, 6 October 2017

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|---|---|
| Mr. Carlos Martínez de Campos y Carulla<br>Director | Mr. Simon Blaxland<br>Director |
| Mr. James Preston<br>Director | Mr. Justo Gómez López<br>Director |
| Mr. Jonathan Kendall<br>Director | |