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

HISPANIA ACTIVOS INMOBILIARIOS SOCIMI, S.A. AND SUBSIDIARIES

Condensed Consolidated Interim Financial Statements and notes for the six-month period ended 30 June 2017 prepared in accordance with International Financial Reporting Standards

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HISPANIA ACTIVOS INMOBILIARIOS SOCIMI, S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED FINANCIAL STATEMENTS AS OF 30 JUNE 2017 AND AS OF 31 DECEMBER 2016

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

(Thousands of euros)	Note	30 June 2017 (*)	31 December 2016		Note	30 June 2017 (*)	31 December 2016
ASSETS				**LIABILITIES AND EQUITY**			
				Capital	10	109,170	109,170
				Share premium	10	966,257	966,257
				Partner contributions	10	540	540
				Treasury shares	10	(2,377)	(2,177)
				Reserves		-	-
				Parent Company reserves		101,778	47,761
Intangible assets		197	246	Reserves in consolidated companies		259,428	40,139
Tangible fixed assets	6	65,340	113,210	Revaluation reserves		7,193	5,558
Property investment	7	2,260,647	1,888,418	Profit for the period		161,359	308,572
Equity instruments		350	350	Interim dividend		-	(17,000)
Non-current assets	8	44,910	42,429	**Adjustments for changes in value**	10	(7,444)	(14,585)
Deferred and non-current tax assets	12	11,731	11,731	**External partners**	10	139,493	116,337
NON-CURRENT ASSETS		**2,383,175**	**2,056,384**	**TOTAL EQUITY**		**1,735,397**	**1,560,572**
				Long-term provisions	14	56.711	719
				Debts to credit institutions	11	581,213	595,066
				Hedging derivatives	11	15,807	23,254
				Other non-current liabilities	11	36,060	34,064
				Deferred tax liabilities	12	81,165	73,959
				Long-term accruals		7,650	7,957
				NON-CURRENT LIABILITIES		**778,606**	**735,019**
				Debts to credit institutions	11	22,744	23,240
				Hedging derivatives	11	8,281	8,433
Inventory		1,863	1,815	Other current liabilities	11	19,240	16,267
Commercial debts and others accounts receivable		30,598	38,819	Commercial creditors and others accounts receivable	11	18,523	20,889
Credits with Public Administrations	12	18,796	11,998	Staff (remuneration pending payment)	11	185	376
Other current assets		5,390	5,549	Debts with Public Administrations	12	1,341	16,066
Short-term accruals		7,439	1,103	Customer advances	11	8,532	435
Cash and cash equivalents	9	146,454	266,612	Short-term accruals		866	983
CURRENT ASSETS		**210,540**	**325,896**	**CURRENT LIABILITIES**		**79,712**	**86,689**
TOTAL ASSETS		**2,593,715**	**2,382,280**	**TOTAL LIABILITIES AND EQUITY**		**2,593,715**	**2,382,280**

(*) Unaudited

The abovementioned accompanying Notes 1 to 17 are an integral part of the interim financial statement for the six-month period ended 30 2017.

HISPANIA ACTIVOS INMOBILIARIOS SOCIMI, S.A. AND SUBSIDIARIES

INTERIM STATEMENT OF CONSOLIDATED RESULTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017 AND FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

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

(Thousands of euros)	**Note**	**June 2017 (*)**	**June 2016 (*)**
Lease income	13.1	70,729	53,332
Provision of services	13.2	6,971	6,856
Other operating income		499	693
Procurements		(1,747)	(1,671)
Staff expenses	13.3	(2,752)	(2,665)
Other operating expenses	13.4	(23,735)	(18,839)
Depreciations		(639)	(576)
Excess provision		24	91
Operating result		**49,350**	**37,221**
Other results	13.8	(55,880)	(478)
Impairment and net profit from asset sales	7	818	211
Variation in the value of property investment	7	204,828	112,421
Operation results		**199,116**	**149,375**
Financial income		3,156	160
Financial expenses	13.6	(11,087)	(10,225)
Impairment and profit from disposal of financial instruments		(47)	-
Change in fair value in financial instruments		243	-
Exchange differences		1	2
Financial results		**(7,734)**	**(10,063)**
Profit before taxes		**191,382**	**139,312**
Income tax	12	(6,661)	(2,708)
Net consolidated profit from continuing activities		**184,721**	**136,604**
Net profit attributable to the Parent Company		**161,359**	**120,093**
Net profit attributable to external partners		**23,362**	**16,511**
Basic earnings per share (Euros)	4	1.48	1.34
Diluted earnings per share (Euros)	4	1.48	1.34

(*) Unaudited

The abovementioned Notes 1 to 17 are an integral part of the interim consolidated result for the six-month period ended 30 June 2017.

HISPANIA ACTIVOS INMOBILIARIOS SOCIMI, S.A. AND SUBSIDIARIES

INTERIM COMPREHENSIVE STATEMENT OF CONSOLIDATED RESULTS FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2017 AND FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

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

(Thousands of euros)	**Note**	**June 2017 (*)**	**June 2016 (*)**
Profit for the period		**184,721**	**136,604**
Other comprehensive income			
Other comprehensive income that will be reclassified to income in subsequent years (net of taxes)			
Net gain/(loss) on cash flow hedges		8,293	(22,844)
Total comprehensive income that will be reclassified to income in subsequent financial years, net of taxes		**8,293**	**(22,844)**
Other comprehensive income that will be reclassified to income in subsequent financial years (net of taxes)			
Revaluations of land and buildings (Note 6)		1,635	1,914
Other total comprehensive income that will be reclassified to income in subsequent financial years, net of taxes		**1,635**	**1,914**
Other comprehensive income for the year, net of taxes		**9,928**	**(20,930)**
Net comprehensive result for the year		**194,649**	**115,674**
Comprehensive profit of the financial year attributable to the Parent Company		170,135	102,125
Comprehensive profit attributable to external partners		24,514	13,549

(*) Unaudited

The abovementioned Notes 1 to 17 are an integral part of the interim consolidated comprehensive result for the six-month period ended 30 June 2017

HISPANIA ACTIVOS INMOBILIARIOS SOCIMI, S.A. AND SUBSIDIARIES

CHANGES IN INTERIM CONSOLIDATED EQUITY STATEMENT CORRESPONDING TO THE SIX MONTH PERIOD ENDED 30 JUNE 2017 AND FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

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

(Thousands of euros)	Note	Capital	Share premium	Partner contributions	Parent Company reserves	Reserves in consolidated companies	Reserves	Results attributable to Parent Company shareholder	Treasury shares	Cash flow hedging	Interim dividend	Asset Revaluation	External partners	Total equity
Balance as of 31 December 2015		**82,590**	**777,666**	**540**	**(3,970)**	**21,102**	**46**	**66,681**	**(1,088)**	**(3,701)**	-	**-**	**78,582**	**1,018,448**
Total comprehensive result		-	-	-	-	-	-	120,093	-	(19,882)	-	1,914	13,549	115,674
Profit distribution		-	-	-	(13,659)	80,340	-	(66,681)	-	-	-	-	-	-
Capital increase	10	25,775	204,911	-	-	-	-	-	-	-	-		-	230,686
Transaction costs		-	(4,076)	-	-	-	-	-	-	-	-		-	(4,076)
Own securities portfolio	10	-	-	-	-	-	(21)	-	(76)	-	-	-	-	(97)
Distribution of dividends	10	-	(10,400)	-	-	-	-	-	-	-	-	-	-	(10,400)
Distribution of minority dividends		-	-	-	-	-	-	-	-	-	-	-	(1,313)	(11,713)
Other variations in equity		-	(6,158)	-	54,032	(48,233)	-	-	-	-	-	-	-	(359)
Balance as of 30 June 2016 (*)		**108,365**	**961,943**	**540**	**36,403**	**53,209**	**25**	**120,093**	**(1,164)**	**(23,583)**	**-**	**1,914**	**90,818**	**1,348,563**
Total comprehensive result		-	-	-	-	-	-	188,479	-	8,998	-	3,644	35,464	236,585
Other transactions		-	-	-	-	-	-	-	-	-	-	-	-	-
Capital increase		805	8,937	-	1,037	-	-	-	-	-	-	-	(10,056)	723
Transaction costs		-	(4,629)	-	-	-	-	-	-	-	-	-	-	(4,629)
Own securities portfolio		-	-	-	-	-	(19)	-	(1,013)	-	-	-	-	(1,032)
Distribution of dividends		-	-	-	-	-	-	-	-	-	(17,000)	-	-	(17,000)
Minority contributions		-	-	-	-	-	-	-	-	-	-	-	7,431	7,431
Distribution of minority dividends		-	-	-	-	-	-	-	-	-	-	-	(7,320)	(7,320)
Other variations in equity		-	6	-	10,321	(13,070)	(6)	-	-	-	-	-	-	(2,749)
Balance as of 31 December 2016		**109,170**	**966,257**	**540**	**47,761**	**40,139**	**-**	**308,572**	**(2,177)**	**(14,585)**	**(17,000)**	**5,558**	**116,337**	**1,560,572**
Total comprehensive result		-	-	-	-	-	-	161,359	-	7,141	-	1,635	24,514	194,649
Profit distribution		-	-	-	53,953	220,462	-	(308,572)	-	-	17,000	-	-	(17,157)
Distributions to minority		-	-	-	-	-	-	-	-	-	-	-	(1,358)	(1,358)
Own securities portfolio		-	-	-	64	-	-	-	(200)	-	-	-	-	(136)
Other variations in equity		-	-	-	-	(1,173)	-	-	-	-	-	-	-	(1,173)
Balance as of 30 June 2017 (*)		**109,170**	**966,257**	**540**	**101,778**	**259,428**	**-**	**161,359**	**(2,377)**	**(7,444)**	**-**	**7,193**	**139,493**	**1,735,397**

(*) Unaudited

The abovementioned Notes 1 to 17 are an integral part of the interim consolidated changes in equity for the six-month period ended 30 2017.

HISPANIA ACTIVOS INMOBILIARIOS SOCIMI, S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED CASH FLOW STATEMENT CORRESPONDING TO THE SIX MONTH PERIOD ENDED 30 JUNE 2017 AND FOR THE SIX MONTH PERIOD ENDED 30 JUNE 2016

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

(Thousands of euros)	Note	June 2017 (*)	June 2016 (*)
CASH FLOWS FROM CONTINUOUS OPERATIONS			
1. CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the period before tax		191,382	139,312
Adjustments to results			
Amortisation (+)		639	576
Valuation correction for impairment (+)		-	763
Variation in provisions (+/-)		55,976	(91)
Impairment and gains or losses on property investment (+/-)		(818)	(211)
Impairment and gains or losses on financial instruments (+/-)		47	-
Financial income (-)		(3,156)	(160)
Financial expenses (+)	13.6	11,087	10,225
Variation in fair value of property investment (+/-)	7	(204,828)	(112,421)
Other income and expenses (+/-)		(364)	-
Adjusted result		**49,965**	**37,993**
Collection of interest (+)		153	160
Payment of interests (-)		(9,535)	(7,740)
Increase / Decrease in current assets and liabilities			
(Increase) / Decrease in inventories		(48)	14
(Increase) / Decrease in accounts receivable		8,175	(18,452)
(Increase) / Decrease in other current assets		(12,970)	(3,300)
Increase / (Decrease) in accounts receivable		(5,862)	3,854
Increase / Decrease in other assets and liabilities		(4,311)	(4,625)
Other non-current assets and liabilities (+/-)		(2,471)	(3,288)
Total net cash flows from operating activities		**23,096**	**4,616**
2. CASH FLOWS FROM INVESTMENT ACTIVITIES			
Investment in (-)			
Intangible assets			(6)
Tangible fixed assets	6	(2,045)	(7,154)
Property investment		(109,379)	(42,970)
Financial assets		-	(60,640)
Business Unit		(2,300)	(20,961)
Divestment in (+)			
Property, plant and equipment		31	
Property investment		8,307	1,157
Other financial assets		4	-
Business Unit		-	1,178
Total net cash flows from investment activities		**(105,382)**	**(129,396)**
3. CASH FLOWS FROM INVESTMENT ACTIVITIES			
Collections and payments for equity instruments			
Issuance of equity instruments (+)	10		226,610
Acquisition of own equity instruments (-)	10	(136)	(97)
Collections and payments for financial liability instruments			70,030
Debts issuance with credit institutions (+)			70,030
Debt repayment and amortisation with credit institutions (-)		(16,979)	(9,538)
Repayment and amortization of other debts (-)		(2,242)	(3,178)
Dividend payment and remuneration from other instruments			
Other (-)		(516)	-
Dividends paid to external partners		(17,999)	(1,313)
Total net cash flows from investment activities		**(37,872)**	**282,514**
4. NET INCREASE/DECREASE IN CASH OR CASH EQUIVALENTS			
Continuing activities cash flow for the period		**(120,158)**	**157,734**
Cash or cash equivalents at the beginning of the period of continuing activities	9	266,612	220,690
Cash or cash equivalents at the end of the period	9	146,454	378,424

(*)Unaudited

The abovementioned Notes 1 to 17 are an integral part of the interim consolidated cash flows for the six-month period ended 30 June 2017.

HISPANIA ACTIVOS INMOBILIARIOS SOCIMI, S.A. AND SUBSIDIARIES

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

1. Introduction and general corporate information

Hispania Activos Inmobiliarios SOCIMI, S.A. and Subsidiaries (hereinafter Hispania Group) constitute a consolidated group of companies whose main activities are:

- The acquisition and promotion of urban real estate for lease.

- The holding of shares in the capital of listed investment companies in the real estate market (SOCIMI) or in other entities not based in Spain that have the same object as those and that are subject to a regime similar to that established for said SOCIMI regarding the compulsory, legal or statutory policy of distribution of benefits.

- The holding of shares in the capital of other entities, whether these are based in Spain or not and whose main corporate purpose is the acquisition of urban real estate for lease and that are subject to the same regime established for the SOCIMI regarding the compulsory, legal or statutory policy of distribution of benefits and that meet the investment requirements required for these companies; and

- The holding of shares or units of Real Estate Collective Investment Institutions regulated in Law 35/2003 of 4 November of Collective Investment Institutions.

The Group may also conduct real estate business of all kinds as well as the simultaneous acquisition, holding, management, operation, renovation, disposal and encumbrance of all manner of real estate assets and the acquisition, holding, investment, transfer or disposal of shareholdings and debt instruments (whether it is preferential, ordinary or subordinated debt, secured by a mortgage loan or not) in all manner of companies, particularly companies with the same or similar corporate purpose and at all times within the limits set out by the SOCIMI regime.

The Group's Parent Company is Hispania Activos Inmobiliarios SOCIMI, S.A. (hereinafter "the Parent Company"), which is a public limited liability company based at Calle Serrano, número 30, 2º izquierda, Madrid, Spain and which was incorporated on
23 January 2014 with the company name of Azora Hispania, S.A. and since 5 May 2016 has had its current company name of Hispania Activos Inmobiliarios SOCIMI, S.A.

On 1 April 2014, the then Group company, Hispania Real, S.A. (later renamed Hispania Real SOCIMI, S.A.U., hereinafter "Hispania Real") was incorporated; it then merged with the Parent Company in June 2016 At the time of the merger by absorption of the Parent Company with its subsidiary, Hispania Real, the absorbing company acquired, by way of universal succession, all of the capital assets making up the assets and liabilities of the absorbed company. The registered office of the aforementioned company was at Calle Serrano, número 30, 2º izquierda, Madrid, Spain. On 7 May 2014 an application was made for this company to be admitted to the SOCIMI Tax Regime, with effect from 1 January 2014.

On 8 July 2014 the Parent Company acquired 90% of the equity of Oncisa, S.L., renamed on 13 November 2014 as Hispania Fides, S.L. (hereinafter "Hispania Fides"). On 23 December 2016, the deed of merger between said company and the Parent Company was registered in the Commercial Register of Madrid.

On 2 June 2015 the then subsidiary Hispania Real acquired 100% of the equity of Hespérides Bay, S.L.U. (Hereinafter Hesperides Bay). On 24 September 2015 an application was made for this company to be admitted to the SOCIMI Tax Regime, with effect from 01 January 2015. The registered office of the aforementioned company is located at Calle Serrano, número 30, 2º izquierda, Madrid, Spain.

On 26 June 2015 the companies Hospitia, S.L.U. and Dunas Bay Resorts, S.L.U. (now known as Hispania Hotel Management, S.L.U, hereinafter "HHM") were incorporated; Hispania Activos Inmobiliarios SOCIMI, S.A. is now the sole shareholder of these companies. Both companies have their registered office at Calle Serrano 30, 2º izquierda, Madrid.

On 16 July 2015, the subsidiary Hospitia, S.L.U. acquired 100% of the shares of Leading Hospitality, S.L., a company under voluntary liquidation proceedings, which commenced 9 February 2015, a situation that has been finally resolved after having been confirmed the Ruling of approval of the Agreement of Creditors dated 12 December 2016 by the Commercial Court in April 2017 and having been notified of compliance with said agreement of creditors according to the diligence of the Commercial Registry dated 12 July 2017.

On 14 April 2015 the then sole shareholder of Bay Hotels & Leisure, S.A. (hereinafter "BAY") and Barceló Corporación Empresarial, S.A., along with other subsidiaries of that company (Barceló companies), signed an investment contract with the then Group company, Hispania Real, as investor (hereinafter Investment Contract) by virtue of which the Barceló companies were required to provide particular hotel businesses and real estate to BAY via different business transactions so that, once certain conditions had been fulfilled, Hispania Real would be the main shareholder in BAY (hereinafter "Investment contract")

On 15 October 2015 the then subsidiary Hispania Real acquired 80.5% of the share capital of BAY from the Barceló companies. On 9 December 2015 a resolution was adopted to increase BAY's share capital by 32,850,000 euros by creating 32,849,500 new shares each with a par value of 1 euro, fully subscribed and paid-up through monetary contributions. The share issue price for the new shares was €2,956 per share, representing a par value of €1 and a share premium of 1,956 euros. This transaction resulted in the then Group company, Hispania Real, and Barceló companies establishing their interests in BAY at 76% and 24%, with Barceló Hotels Mediterráneo, S.L. (hereinafter "BHM") as the minority shareholder. On 10 December 2015 BAY also acquired all of the shares in Bay Hotels Canarias, S.L.U. (hereinafter "BHC", formerly

Barceló Hotels Canarias, S.L.) from the Barceló companies, together with all of the shares in Poblados de Vacaciones, S.A.U. (hereinafter “PDV”). On 18 September 2015 BAY communicated its incorporation to the SOCIMI Tax Regime, with effect from 1 January 2015. Additionally, on 21 March 2016, the PDV and BHC companies requested their incorporation into the SOCIMI Tax Regime with effect from 1 January] 2016.

On 18 July 2016, BAY acquired 100% of the shares of Later Deroser, S.L. (hereinafter “Later”). On 21 July 2016 BAY acquired 100% of the shares of Inversiones Inmobiliarias Oasis, SLU (hereinafter “Oasis”). On 22 September 2016 the companies Later and Oasis entered the SOCIMI Tax Regime, with effect from 1 January 2016. The registered office of both companies is located at Calle Serrano, número 30, 2º izquierda, Madrid, Spain.

On 19 November 2015 the Parent Company acquired all of the shares in Eco Resort San Blas, S.L. (hereinafter “Eco Resort”), owner of Hotel Sandos San Blas Nature Resort & Golf (hereinafter “Hotel San Blas”). Additionally, on 9 September 2016, the Eco Resort company requested their incorporation into the SOCIMI Tax Regime with effect from 1 January] 2016.

On 2 February 2016 the then subsidiary Hispania Real acquired 100% of the equity of Club de Tenis Maspalomas, S.L.U. (Hereinafter "CTM"), owner a land in Fuerteventura. On 31 March 2017, the company communicated its incorporation into the SOCIMI Tax Regime with effect from 1 January 2017.

On 9 June 2016 the Parent Company acquired 100% of the shares in Real Estate San Miguel, S.A. in Ibiza (hereinafter “Real Estate San Miguel”), which in turn owns all of the shares representing the share capital of Europroyectos Pitiusos, S.L. (hereinafter “Europroyectos Pitiusos”).

On 20 October 2016, the Parent Company acquired all the shares of Mangareva Development, S.L.U. (hereinafter “Mangareva”). The subsidiary company owns a plot of land in the city of Madrid on which there is a real estate project consisting of the construction of two office buildings that will be used as leases to third parties once they have been built. The completion of the buildings is scheduled for 30 March 30 2019.

On 6 June 2016, the Parent Company entered through a private document a purchase and sale agreement for the shares of Sahara Propco, S.L.U. (hereinafter Sahara Propco). This sale was subject to suspensive conditions, which resulted in the fulfilment thereof on 30 December 2016, at which time the effective transfer of ownership of the shares of Sahara Propco was effected. On 31 March 2017, the subsidiary communicated its incorporation into the SOCIMI Tax Regime with effect from 1 January 2017.

On 7 April 2017, the Parent Company acquired all the shares in the company Milenial Business 21, S.L.U (hereinafter "Millenial") and 10% of the shares in Topaz Eurogroup, S.L.(hereinafter "Topaz"). The subsidiary company Milenial holds the remaining 90% of Topaz's shares. Topaz owns land in the municipality of Corralejo (Fuerteventura).

On J28 June 2017, the subsidiary BAY acquired all of the shares of the entity Armadores de Puerto Rico, S.A.U. This company owns a plot of land in Lanzarote on which the construction of a hotel is planned.

These companies and the Parent Company form the scope of consolidation as of 30 June 2017.

The detail of the companies that are part of the scope of consolidation as of 30 June 2017 and the main characteristics thereof are as follows:

Company	Parent company	Address	Activity	Direct	Indirect	Consolidation Method	Functional Currency
Eco Resort San Blas, S.L.U	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and promotion of urban real estate for lease.	100%	-	Global	euro
Hespérides Bay, S.L.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and promotion of urban real estate for lease.	100%	-	Global	euro
Hospitia, S.L.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and promotion of urban real estate for lease.	100%	-	Global	euro
Hispania Hotel Management, S.L.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Operation for lease, industry or management and the administration of establishments dedicated to hospitality.	100%	-	Global	euro
Bay Hotels & Leisure SOCIMI, S.A.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and promotion of urban real estate for lease.	76%	-	Global	euro
Leading Hospitality, S.L.U.	Hospitia, S.L.U.	Calle Serrano, 30 2º izquierda, Madrid	Provision of accommodation services, lodging, restaurant services and all others related to hospitality.	-	100%	Global	euro
Poblado de Vacaciones, S.A.U.	Bay Hotels & Leisure SOCIMI, S.A.	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and promotion of urban real estate for lease.	-	76%	Global	euro
Bay Hotels Canarias, S.L.U.	Bay Hotels & Leisure SOCIMI, S.A.	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and promotion of urban real estate for lease.	-	76%	Global	euro
Club de Tenis Maspalomas, S.L.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Operation and administration of establishments dedicated to hospitality and related sports activities	100%	-	Global	euro
Real Estate San Miguel, S.A.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Provision of accommodation services, lodging, restaurant services and all others related to hospitality.	100%	-	Global	euro
Europroyectos Pitiusos, S.L.U.	Real Estate San Miguel, S.A.U.	Calle Serrano, 30 2º izquierda, Madrid	Provision of accommodation, lodging, catering and all hospitality products	-	100%	Global	euro
Later Deroser, S.L.U.	Bay Hotels & Leisure SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Purchase, management and non-financial leasing of all types of real estate	-	76%	Global	euro

Company	**Parent company**	**Address**	**Activity**	**Direct**	**Indirect**	**Consolidation Method**	**Functional Currency**
Inversiones inmobiliarias OASIS Resort, S.L.U.	Bay Hotels & Leisure SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Promotion, acquisition and operation of any hotel business	-	76%	Global	euro
Sáhara Propco, S.L.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Own account purchase and sale of real estate property	100%	-	Global	euro
Mangareva Development, S.L.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Promotion of constructions and acquisition of real estate	100%	-	Global	euro
Milenial Business 21, S.L.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Own account acquisition, holding and management of securities and real estate securities.	100%	-	Global	euro
Topaz Eurogroup, S.L.	Milenial Business 21, S.L.U.	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and promotion of urban real estate for lease.	10%	90%	Global	euro
Armadores de Puerto Rico, S.A.U	Bay Hotels & Leisure SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and promotion of urban real estate for lease.	-	76%	Global	euro

The detail of the companies that were part of the scope of consolidation as of 30 June 2016 and the main characteristics thereof are as follows:

Company	Parent company	Address	Activity	Direct	Indirect	Consolidation Method	Functional Currency
Hispania Fides, S.L.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and promotion of urban real estate for lease.	90%	-	Global	euro
Eco Resort San Blas, S.L.U	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and promotion of urban real estate for lease.	100%	-	Global	euro
Hespérides Bay, S.L.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and promotion of urban real estate for lease.	100%	-	Global	euro
Hospitia, S.L.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and promotion of urban real estate for lease.	100%	-	Global	euro
Hispania Hotel Management, S.L.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Operation for lease, industry or management and the administration of establishments dedicated to hospitality.	100%	-	Global	euro
Bay Hotels & Leisure, S.A.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and promotion of urban real estate for lease.	76%	-	Global	euro
Leading Hospitality, S.L.U.	Hospitia, S.L.U.	Calle Serrano, 30 2º izquierda, Madrid	Provision of accommodation services, lodging, restaurant services and all others related to hospitality.	-	100%	Global	euro
Poblado de Vacaciones, S.A.U.	Bay Hotels & Leisure SOCIMI, S.A.	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and promotion of urban real estate for lease.	-	76%	Global	euro
Bay Hotels Canarias, S.L.U.	Bay Hotels & Leisure SOCIMI, S.A.	Calle Serrano, 30 2º izquierda, Madrid	Acquisition and promotion of urban real estate for lease.	-	76%	Global	euro
Club de Tenis Maspalomas, S.L.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Operation and administration of establishments dedicated to hospitality and related sports activities	100%	-	Global	euro
Real Estate San Miguel, S.A.U.	Hispania Activos Inmobiliarios SOCIMI, S.A	Calle Serrano, 30 2º izquierda, Madrid	Provision of accommodation services, lodging, restaurant services and all others related to hospitality.	100%	-	Global	euro
Europroyectos Pitiusos, S.L.U.	Real Estate San Miguel, S.A.U.	Calle Serrano, 30 2º izquierda, Madrid	Construction and promotion activities	-	100%	Global	euro

The shares representing the share capital of Hispania Activos Inmobiliarios SOCIMI, S.A. have been listed on the electronic trading platform on the Madrid, Barcelona, Bilbao and Valencia stock exchanges since 14 March 2014.

On 21 February 2014 the Parent Company entered into a management agreement with Azora Gestión, S.G.I.I.C., S.A. (hereinafter “the Management Company”) in order to delegate daily management of the Group to the Management Company for an initial period of six years, thus the Parent Company did not have any dedicated staff at the date of these Interim Condensed Consolidated Financial Statements. However, as a result of the incorporation to the Group in 2017 as well as in 2016 of certain hotels under management, the Group has staff related to the operation of such hotels until its repositioning is completed and transferred to the operator.

The remuneration of the Management Company for the services to be provided under the Management Contract is divided into:

- A fixed part corresponding to the Base Fees, which will be paid to the Management Company at the end of each quarter and will be equivalent to (*):

a) A quarter (1/4) of 1.25% per annum of the first 1,200,000 euros of EPRA NAV of the corresponding quarter;

b) A quarter (1/4) of 1% per annum for the amount exceeding 1,200,000 euros of EPRA NAV of the corresponding quarter;

  (*) During financial year 2016, and until 50% of the net proceeds received from the capital increase for that year were not committed, the EPRA NAV of said net proceeds generated a Quarterly Base Fee of a quarter (1/4) of 0.625% per annum of said net proceeds.

- A variable part corresponding to Incentive Fees, which does not depend on accounting references or latent capital gains of the Group, but depends on the proceeds effectively distributed to the shareholders as cash flows from the Parent Company (or directly received by the shareholders in case of sale of the shares of the Parent Company in a situation of change of control) calculated as follows:

    - The Management Company will only be entitled to receive the Incentive Fees once the shareholders have obtained a cumulative annual return of 10% on the gross proceeds contributed to the Parent Company.

      Once this return is achieved, any additional return will be distributed between the Management Company and the shareholders on a 50% basis.

      Once the Management Company has received the equivalent of 20% of the total return, any additional profitability will be distributed as follows: 80% to the shareholders and 20% to the Management Company.

The Management Agreement regulates Parent Company operations and objectives and establishes an initial investment period for the Group that ends on the day that all the funds obtained by shareholders have been invested or three years from that date.

In addition, the Management Agreement establishes that before the third anniversary of the admission to trading or at the end of the investment period, the Management Company will prepare and submit to the Board of Directors of the Parent Company a report setting out the proposal to maximise shareholder value (the “Added-value Proposal”). Such proposal will entail divestment of the Group's asset portfolio and reimbursement to shareholders within six years of the date of admittance for trading or, conversely, the extension and active management of all or part of the Group's asset portfolio beyond said date.

In this sense, on 27 February 2017, and in accordance with the Management Agreement, the Parent Company's Board of Directors received from the Management Company the Added-value Proposal for the same, which confirms the plan initially provided for in the Management Agreement, consisting of the sale of all the assets that make up the Parent Company's portfolio and the subsequent distribution among its shareholders of both the net proceeds from said sales and any other remaining own funds of the Parent Company; all before 14 March 2020 (date coinciding with the sixth anniversary of the listing of the Parent Company’s shares). Thus, the Board of Directors of the Parent Company, in accordance with the requirements of said management agreement, notified the shareholders on 28 February 2017.

Within the plan established for the implementation of said Added-value Proposal, the Management Company plans to use different mechanisms in order to optimise the sale value of the Group's assets, as well as minimise costs and potential fiscal impacts resulting from the implementation of the said Added-value Proposal, including direct sales of assets (either individually or grouped in portfolios), the sale of shares of holding companies, corporate operations or, where applicable - and strictly subject to securities market regulations - the active search for acquisition offers on the full amount of the shares of the Parent Company. In this context, the Management Company, as part of its ordinary activity, continuously analyses alternatives for the transmission of its asset portfolio. Should such alternatives become agreements with third parties, the materialisation of such agreements would require the approval of the Group's Management Bodies as well as the Shareholders' Meeting of the Parent Company, in accordance with the provisions of the Capital Companies Act.

Likewise, for the return of value to shareholders, distributions of dividends, return of capital or reserves, purchases of shares in the open market and/or share repurchase programmes will be contemplated, where appropriate and among other possible alternatives.

Furthermore, in the context of this proposal, and insofar as the Parent Company still has investment capacity and the Management Company considers that there are still attractive investment opportunities in the hotel sector, the Management Company has proposed the extension of the investment period until 31 December 2017. This extension was approved in the last General Meeting of 6 April 2017.

In addition, in certain cases of early termination of the Management Agreement, the Management Company will be entitled to a compensatory payment.

In view of the Group's business activity, it does not have any environmental expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position and results. Therefore, no specific disclosures relating to environmental issues are included in these condensed explanatory notes to the Interim Condensed Consolidated Financial Statements.

The consolidated annual accounts of the Group for the year ended 31 December 2016 were approved by the General Shareholders' Meeting of the Parent Company on 6 April 2017.

On 11 May 2016 an application was made by the Parent Company to the SOCIMI Tax Regime, with effect from 1 January 2016.

2. Bases for the presentation of the Interim Consolidated Financial Statements

a) Bases for the presentation

These Interim Condensed Consolidated Financial Statements of Hispania Activos Inmobiliarios, S.A. and Subsidiaries for the six-month period ended 30 June 2017 were obtained from the accounting records kept by the Parent Company and by Hispania Group companies and drawn up by the Parent Company's Directors at its Board Meeting held on 27 July 2017.

The Group's consolidated financial statements for the twelve-month period ended 31 December 2016 were prepared by the Parent Company's Directors in accordance with the provisions of the International Financial Reporting Standards (IFRS) adopted by the European Union, issued by the Regulatory Commission of the European Union (hereinafter "EU-IFRS"), applying the consolidation principles and valuation rules described in Note 2 f) and Note 4 respectively of the notes to the consolidated financial statements, in such a way as to show a true and fair view of the consolidated assets and the consolidated financial position of the Group at 31 December 2016, the consolidated results of its operations, changes to consolidated equity and changes in consolidated cash flows over the twelve-month period ended on said date.

These Interim Condensed Consolidated Financial Statements show a true and fair view of the consolidated assets and the consolidated financial position of Hispania Activos Inmobiliarios SOCIMI, S.A. (Parent Company) and of its Subsidiaries at 30 June 2017 and of the consolidated results of its operations, changes to consolidated equity and changes in consolidated cash flows over the same period.

These Interim Condensed Consolidated Financial Statements for the six-month period ended 30 June 2017 were drawn up in accordance with the provisions of the International Financial Reporting Standards (IFRS) adopted by the European Union, issued by the Regulatory Commission of the European Union (hereinafter, "EU-IFRS") – mandatory for financial years after 1 January 2016 – and in particular with International Accounting Standard (IAS) 34 on Interim Financial Reporting, taking account of all mandatory accounting principles and rules and valuation criteria, as well as the Spanish Code of Commerce, the Spanish Limited Liability Companies Law ("Ley de Sociedades de Capital") and the Spanish Securities Market Law ("Ley del Mercado de Valores") (CNMV).

Pursuant to the provisions of IAS 34, Interim Financial Reporting is prepared for the sole purpose of updating the contents of the last consolidated financial statements drawn up by the Group, focusing mainly on new activities, events and circumstances arising during the six-month period and not duplicating the information published previously in the consolidated financial statements for the twelve-month period year ended 31 December 2016. As a result, for a sound understanding of the information in these Interim Condensed Consolidated Financial Statements, they should be read in conjunction with the Group's annual consolidated accounts for the financial year ended 31 December 2016.

The accounting policies and methods used in the preparation of these Interim Condensed Consolidated Financial Statements are the same as those applied in the annual consolidated accounts for the financial year ended 31 December 2016, since the European Union has not yet approved any of the amendments issued by the IASB that are applicable for the first time in this year.

Nevertheless, since the accounting principles and valuation criteria applied in drawing up the Group's Interim Condensed Consolidated Financial Statements at 30 June 2017 may differ from those used by certain Group entities, the required adjustments and reclassifications were made on consolidation to unify such principles and criteria and to make them compliant with the EU-IFRS. In order to present the various items comprising the Interim Condensed Consolidated Financial Statements uniformly, the principles and valuation bases used by the Parent Company were applied to all companies within the scope of consolidation.

b) Adoption of International Financial Reporting Standards

Standards and interpretations issued by the IASB not applicable in this period

The Group intends to adopt the standards, interpretations and amendments issued by the IASB, which are not mandatory in the European Union at the date of preparation of these Interim Financial Statements, when they enter into force, if applicable. Based on the analyses to date, the Group considers that their initial application will not have a significant impact on the Consolidated Financial Statements.

In relation to IFRS 16, which amends the lease standard, to the extent that the lessor's accounting does not undergo material changes, the Parent Company does not estimate significant impacts on its consolidated annual accounts.

c) Functional currency

These Interim Condensed Consolidated Financial Statements are presented in euros, the Group's functional currency, because the euro is the currency of the main economic area in which the Group operates.

d) Responsibility for the information and use of accounting estimates and judgements made

The information in these Interim Condensed Consolidated Financial Statements is the responsibility of the Parent Company's Directors. The Parent Company has made estimates supported by objective information in order to measure certain assets, liabilities, income, expenses and obligations reported therein. Estimates and measurement bases refer to:

- The market value of property, plant and equipment and real estate investments (Note 6 and 7).

- Calculation of provisions and possible contingent liabilities associated with variable payments or incentives of contracts signed by the Company (Note 14).

- Compliance with the requirements of the SOCIMI Tax Regime.

- Definition of transactions performed by the Group as a business combination in accordance with IFRS 3 or as an asset acquisition.

- The fair value of financial instruments.

Although these estimates were made on the basis of the best information available at the date of drawing up these Interim Condensed Consolidated Financial Statements, events that take place in the future may make it necessary to change these estimates (upwards or downwards), in accordance with IAS 8, on a prospective basis, recognising the effects of the change in the consolidated income statement.

e) Comparison of information

Comparison of the Interim Condensed Consolidated Financial Statements refers to the periods ended 30 June 2017 and 2016, with the exception of the interim consolidated statement of financial position and the interim consolidated statement of changes to equity, which compare the period ended 30 June 2017 with the period ended 31 December 2016.

The main changes to the scope of consolidation are set out in Note 1.

These circumstances must be taken into account for a proper interpretation of these Condensed Consolidated Financial Statements.

f) Seasonal nature of transactions

The Group's main business purpose is the acquisition and development of urban rental property. Accordingly, it is estimated that no significant seasonality exists in the transactions of the Group given that, based on the application of international standards for the recognition of rental income, the potential seasonality of the underlying assets does not affect the comparability of information for half-yearly periods, with the exception of that derived from the investment process in which it is engaged.

3. Distribution of the Parent Company's profit

Given the purpose of these Interim Condensed Consolidated Financial Statements, the Parent's Board of Directors did not propose any distribution of profit at 30 June 2016, as this is an interim period.

4. Earnings per share

Earnings per share:

Earnings per share are calculated by dividing the net profit for the period attributed to the Parent Company’s ordinary shareholders by the number of ordinary shares in circulation at the close of the period, excluding treasury shares:

The detail of the calculation of earnings (losses) per share is:

	30 June 2017 (*)	30 June 2016 (*)
Profits for the period attributable to the holders of equity instruments of the Parent Company (thousands of euros)	161,359	120,093
Number of outstanding shares (thousands of shares)	108,960	108,269
Earnings per share (euros)	**1.48**	**1.11**

(*) Unaudited

Basic:

Earnings per basic share are calculated by dividing the net profit for the period attributed to the Parent Company’s ordinary shareholders by the average weighted number of ordinary shares in circulation at the close of the period, excluding treasury shares:

	30 June 2017 (*)	30 June 2016 (*)
Profits for the period attributable to the holders of equity instruments of the Parent Company (thousands of euros)	161,359	120,093
Weighted average number of outstanding shares (thousands of shares)	108,976	89,671
Earnings per share (euros)	**1.48**	**1.34**

(*) Unaudited

Diluted:

Diluted earnings per share are calculated by dividing the profit for the year attributable to the holders of equity instruments in the Parent Company and the weighted average number of ordinary shares outstanding, taking into account the dilutive effects inherent to potential ordinary shares, i.e. as if all the ordinary potentially dilutive shares were converted.

The Parent Company does not have different ordinary shares potentially subject to dilution.

5. Financial information by segments

Segmentation Criteria

Segment reporting is structured by the Group's various lines of business.

The lines of business described below were established on the basis of the Group's organisational structure in force at 30 June 2017 and were used to analyse the financial performance of the various operating segments.

The Group engages mainly in the following major lines of business, which provide the basis on which the Group presents information on its operating segments:

- Investment activity in office properties.
- Investment activity in residential properties.
- Investment activity in hotel properties.
- Management activity in hotel properties.

All the Group's activities are carried out in Spain.

Basis and methodology for business segment reporting

The segment information below is based on monthly reports prepared by the Group's managers and is generated using the same computer application as that used to obtain all the Group's accounting information.

The segment's ordinary income relates to the ordinary income directly attributable to the segment as well as earnings from sales of investment property.

The expenses of each segment are calculated on the basis of the expenses arising from the segment's directly attributable operating activities and any losses on sales of investment properties, if any. These allocated expenses do not include interest, the income tax on profits expense or general administration expenses relating to general services that are not directly allocated to each business segment and, therefore, cannot be distributed on a reasonable basis.

Segment assets and liabilities are those directly related to the segment's operating activities.

The table below shows the income and expenses of the Group's operating segments for the six-month period ended 30 June 2017 and the six-month period ended 30 June 2016.

Thousands of euros	**Offices**	**Residential**	**Hotels**	**Hotels under management**	**Other**	**Group total**
Income and expenses						
Income from leasing and provision of services	10,569	2,912	57,201	7,018	-	**77,700**
Other operating income	15	138	295	51	-	**499**
Operating expenses	(2,151)	(1,360)	(4,637)	(6,861)	(13,201)	**(28,210)**
Other results	-	-	120	-	(56,000)	**(55,880)**
Impairment and net profit from asset sales and amortisation	-	198	-	-	(19)	**179**
Variation in the value of property investment	52,207	16,822	135,799	-	-	**204,828**
Financial income				3,156	-	**3,156**
Financial expenses	(2,505)	(1,131)	(7,264)	-	(187)	**(11,087)**
Exchange differences	-	-	-	-	1	**1**
Change in fair value in financial instruments	-	-	-	-	196	**196**
Income tax	-(2,600)	-	(4,061)	-	-	**(6,661)**
Total as of 30 June 2017	**55,535**	**17,579**	**177,453**	**3,364**	**(69,210)**	**184,721**

Thousands of euros	**Offices**	**Residential**	**Hotels**	**Hotels under management**	**Other**	**Group total**
Income and expenses						
Income from leasing and provision of services	9,135	3,046	41,151	6,856	-	**60,188**
Other operating income	175	231	281	6	-	**693**
Operating expenses	(2,074)	(1,305)	(2,371)	(6,895)	(10,439)	**(23,084)**
Other results	-	-	35	-	(513)	**(478)**
Net profit from asset sales and amortisation	-	211	-	(568)	(8)	**(365)**
Variation in the value of property investment	28,153	19,667	64,601	-	-	**112,421**
Financial income	-	-	-	-	160	**160**
Financial expenses	(1,681)	(1,191)	(6,056)	(372)	(925)	**(10,225)**
Exchange differences	-	-	-	-	2	**2**
Income tax	(1,652)	-	(848)	(200)	(8)	**(2,708)**
Total as of 30 June 2016	**32,056**	**20,659**	**96,793**	**(1,173)**	**(11,731)**	**136,604**

The following table presents the information on the assets and liabilities of the Group's operating segments as of 30 June 2017 and 31 December 2016 respectively:

Thousands of euros	**Offices**	**Residential**	**Hotels**	**Hotels under managem ent**	**Other**	**Group total**
Active						
Intangible assets	-	-	197	-	-	**197**
Property, plant and equipment (Note 6)	-	-	-	65,340	-	**65,340**
Investment property (Note 7)	581,376	246,120	1,433,151	-	-	**2,260,647**
Non-current assets	-	-	350	-	-	**350**
Other non-current assets	3,986	523	37,678	90	2,633	**44,910**
Deferred tax assets	3,614	-	6,356	1,761	-	**11,731**
Inventory	813	-	931	119	-	**1,863**
Trade receivables and other current assets	6,038	640	33,684	3,002	165,313	**208,677**
Total as of 30 June 2017	**595,827**	**247,283**	**1,512,347**	**70,312**	**167,946**	**2,593,715**

Thousands of euros	**Offices**	**Residential**	**Hotels**	**Hotels under managem ent**	**Other**	**Group total**
Active						
Intangible assets	-	-	101	145	-	**246**
Property, plant and equipment (Note 6)	-	-	-	113,210	-	**113,210**
Investment property (Note 7)	518,697	229,550	1,140,171	-	-	**1,888,418**
Non-current assets	3,985	525	33,812	1,474	2,633	**42,429**
Other non-current assets	-	-	350	-	-	**350**
Deferred tax assets	3,614	-	6,319	1,798	-	**11,731**
Inventory	743	-	937	135	-	**1,815**
Trade receivables and other current assets	4,170	106	40,584	2,131	277,090	**324,081**
Total as of 31 December 2016	**531,209**	**230,181**	**1,222,274**	**118,893**	**279,723**	**2,382,280**

Thousands of euros	Offices	Residential	Hotels	Hotels under management	Other	Group total
Liabilities						
Long-term provisions	-	-	-	711	56,000	56,711
Non-current financial liabilities	16,837	1,647	16,756	820	-	36,060
Short and long-term accruals	-	-	8,463	-	53	8,516
Short and long-term debts with credit entities	180,825	72,492	350,640	-	-	603,957
Hedging derivatives	3,969	1,257	18,862	-	-	24,088
Deferred tax liabilities	12,764	-	59,550	8,851	-	81,165
Current financial liabilities	3,073	1,652	14,331	334	(150)	19,240
Operating liabilities	7,790	241	5,586	2,231	12,733	28,581
Total as of 30 June 2017	**225,258**	**77,289**	**474,188**	**12,947**	**68,636**	**858,318**

Thousands of euros	Offices	Residential	Hotels	Hotels under management	Other	Group total
Liabilities						
Long-term provisions	-	-	-	719	-	**719**
Non-current financial liabilities	16,510	2,029	14,124	1,401	-	**34,064**
Short and long-term accruals	-	-	8,849	-	91	**8,940**
Short and long-term debts with credit entities	181,281	78,454	355,309	3,262	-	**618,306**
Hedging derivatives	5,934	1,670	24,083	-	-	**31,687**
Deferred tax liabilities	10,164	-	51,430	12,365	-	**73,959**
Current financial liabilities	5,721	-	9,037	1,509	-	**16,267**
Operating liabilities	-	-	4,823	5,780	27,163	**37,766**
Total as of 31 December 2016	**219,610**	**82,152**	**467,655**	**25,037**	**27,254**	**821,708**

6. Property, plant and equipment

Movements under this heading were as follows:

	Thousands of euros		
	Hotels under management		Closing balance
	Cost	Accumulated depreciation and amortisation	
Balance at 31 December 2015	**64,200**	**-**	**64,200**
Acquisitions and recognition of assets	6,240	-	6,240
Acquisitions from business combinations	37,787	-	37,787
Amortisation provision	-	(1,320)	(1,320)
Revaluation of assets	6,303	-	6,303
Transfers	(1,320)	1,320	-
Balance at 31 December 2016	**113,210**	**-**	**113,210**
Acquisitions and recognitions of assets	2,045	-	2,045
Amortisation provision	-	(625)	(625)
Revaluation of assets	2,180	-	2,180
Transfers	(625)	625	-
Transfers to Real Estate Investments	(51,470)	-	(51,470)
Balance at 30 June 2017	**65,340**	**-**	**65,340**

The main movements over the six-month period ended 30 June 2017:

The main changes during the year relate to the transfers of the hotels Guadalmina, Cartago and San Miguel that have now been classified as real estate investments as they are no longer operated directly by the Group and currently leased to third parties.

At the end of each reporting period, the Group determines the fair value of its property, plant and equipment pursuant to IAS 16. This fair value calculated based on appraisals carried out by an independent expert (CB Richard Ellis Valuation) totalled €65,340 k at the close of the six-month period ended 30 June 2017 (€61,740 k at the close of the financial year ended 30 December 2016 for the same hotels under management) and, therefore, gave rise to a revaluation of property, plant and equipment of €2,805 k (€2,418 at the close of the financial year ended 31 December 2016), which was recorded in the interim consolidated equity statement at 30 June 2017 under the heading “Revaluation reserves”. The valuation was conducted in accordance with the valuation and appraisal standards published by the Royal Institute of Chartered Surveyors (RICS) in Great Britain and with International Valuation Standards (IVS).

Other information

At 30 June 2017 none of the assets of the Group included in this heading are held as collateral for mortgage loans or borrowings. At 31 December 2016, the Group had buildings with a carrying value of €1,840 k as collateral for borrowings and mortgage loans amounting to €2,636 k.

7. Real estate investment

Movements under this heading were as follows:

	Thousands of euros			
	Offices	**Residential**	**Hotels**	**Closing balance**
Balance at 31 December 2015	**404,714**	**175,150**	**780,749**	**1,360,613**
Acquisitions from business combinations	-	-	129,858	129,858
Acquisition and recognitions of assets	56,848	24,329	32,868	114,045
Revaluation of assets	-	(2,310)	-	(2,310)
Transfers	57,135	32,381	196,696	286,212
Balance at 31 December 2016	**518,697**	**229,550**	**1,140,171**	**1,888,418**
Transfers	-	-	51,470	51,470
Acquisition and recognitions of assets	10,730	8,384	104,439	123,553
Disposals of assets	(258)	(7,364)	-	(7,622)
Revaluation of assets	52,207	16,822	135,799	204,828
Balance at 30 June 2017 (*)	**581,376**	**247,392**	**1,431,879**	**2,260,647**

The main movements over the six-month period ended 30 June 2017:

The main acquisitions and recognitions of assets, during the first six months of 2017, including associated non-recoverable taxes and expenses, were as follows:

- On 21 June 2017 the Group acquired the hotel Fergus Tobago located in Palmanova (Mallorca) for €20,546 k.

- On 16 June 2017 the Group acquired the Hotel Selomar located in Benidorm for €16,085 k.

- On 8 February 2017 the Group acquired the hotel NH Málaga located in the historic quarter of Málaga, for €23,586 k. The operation includes the extension of this hotel that will increase this amount by €18 million.

- In addition, during the year three plots of land have been acquired for development of various hotel projects amounting to a joint total of €14,535 k and a plot of land to build apartments totalling €1,272 k.

During the first semester of 2017 investments were recognised in relation to the assets owned by the Group for reasons of improvement and market repositioning, which amounted to €48,607 k. The main investments were those made in the Hotels Barcelo Paradise Portinatx, Dunas Don Gregory and Barcelo Teguise amounting to €7,568 k, €4,582 k and €3,564 k respectively. In the office and residential segments, the main investments have been made in the Aurelio Menendez building and Isla del Cielo residential complex amounting to €2,221 k and €3,099 k respectively.

Likewise, during this period, the Group sold 16 dwellings in the residential complex located in Sanchinarro (Madrid) and 5 dwellings in Isla del Cielo for a total price of €8,843 k. The associated sale costs amounted to €285 k, the Group thus obtaining a final profit for their sale of €822 k.

At the close of each reporting period, the Group determines the fair value of its investment property pursuant to IAS 40. This fair value calculated based on appraisals carried out by an independent expert (CB Richard Ellis Valuation) totalled €2,273,787 k at the close of the six-month period ended 30 June 2017 (€1,894,780 k at the close of the financial year ended 31 December 2016) and, therefore, gave rise to a revaluation of investment property of €204,828 k (€286,212 k at the close of the financial year ended 31 December 2016), which was recorded in the interim consolidated income statement for the period to 30 June 2017 under the heading "Change in value of investment property". The valuation was conducted in accordance with the valuation and appraisal standards published by the Royal Institute of Chartered Surveyors (RICS) in Great Britain and with International Valuation Standards (IVS).

Other Information

All the Group's investment property is located in Spain.

The Group has certain assets considered as investment property mortgaged at 30 June 2017 as collateral for loans totalling a nominal amount of €614,556 k (€626,443 k at 31 December 2016). The accounting value of this investment property totalled €1,767,760 k at 30 June 2017 (€1,601,010 k at 31 December 2016).

The Group has insurance policies to cover the rebuilding value of its investment property.

At 30 June 2017, the Group has investment property commitments totalling €54.5 million (€22.6 million at 31 December 2016).

At 30 June 2017 and 31 December 2016, no finance costs were capitalised.

At 30 June 2017 and in accordance with IAS 40, the Group updated the fair value of its investment property. The valuation used the same methodology as the one used at 31 December 2016, as described in Note 4.3 of the Group's consolidated annual accounts on that date. Details of the net yields considered for the first six months of 2017 and for the first six months of 2016, are as follows:

Yields (%)	**30 June 2017**
Offices valued at Discounted Cash Flow (Exit Yield)	4.00%-7.25%
Offices valued at Capitalisation (Initial Yields)	5.00%-5.10%
Offices valued at Capitalisation (Equivalent Yield)	5.00%-5.70%
Hotels valued at Discounted Cash Flow (Exit Yield-Fixed Income)	5.50% - 7.50%
Hotels valued at Discounted Cash Flow (Exit Yield- Variable Income)	6.50% -8.75%
Dwellings valued at Discounted Cash Flow (Exit Yield)	n/a

Yields (%)	**31 December 2016**
Offices valued at Discounted Cash Flow (Exit Yield)	4.30%-8.84%
Offices valued at Capitalisation (Initial Yields)	5.30%-5.25%
Offices valued at Capitalisation (Equivalent Yield)	5.20%-6.10%
Hotels valued at Discounted Cash Flow (Exit Yield-Fixed Income)	5.75% - 8%
Hotels valued at Discounted Cash Flow (Exit Yield- Variable Income)	6.50% - 8.75%
Dwellings valued at Discounted Cash Flow (Exit Yield)	4.40%

The valuation of residential assets does not provide for a net yield since it is estimated that they will be sold upon expiry of the current leases.

The 0.25-point change in net yields, as well as the 10% change in terms of the increase in rental income considered, had the following impact on the valuations used by the Company to measure the value of its assets (offices and hotels) recorded as "Investment property" as well as "Property, plant and equipment" in the attached consolidated statement of financial position:

	Thousands of euros		
Sensitivity of valuation to changes by a quarter point in net yield	Valuation	**Quarter point decrease**	**Quarter point increase**
Period ending 30 June 2017			
Offices valued at Discounted Cash Flow (Exit Yield)	417,330	13,525	(12,013)
Offices valued at Capitalisation (Initial Yields)	77,400	3,920	(3,735)
Offices valued at Capitalisation (Equivalent Yield)	38,600	1,995	(1,570)
Hotels valued at Discounted Cash Flow (Exit Yield-Fixed Income)	1,463,550	52,615	(48,910)
Dwellings valued at Discounted Cash Flow (Exit Yield)	165,590	n/a	n/a
Financial year 2016			
Offices valued at Discounted Cash Flow (Exit Yield)	363,790	10,810	(10,095)
Offices valued at Capitalisation (Initial Yields)	72,700	3,750	(3,310)
Offices valued at Capitalisation (Equivalent Yield)	34,900	1,600	(1,500)
Hotels valued at Discounted Cash Flow (Exit Yield-Fixed Income)	1,243,630	50,695	(47,430)
Dwellings valued at Discounted Cash Flow (Exit Yield)	18,450	850	(750)

Sensitivity of valuation to 10% in rent increase	Valuation	**10% decrease**	**10% increase**
	Thousands of euros		
Period ending 30 June 2017			
Offices valued at Discounted Cash Flow (Exit Yield)	417,330	(36,365)	36,500
Offices valued at Capitalisation (Initial Yields)	77,400	-	-
Offices valued at Capitalisation (Equivalent Yield)	38,600	(3,200)	3,400
Hotels valued at Discounted Cash Flow (Exit Yield-Fixed Income)	1,463,550	(185,825)	126,677
Dwellings valued at Discounted Cash Flow (Exit Yield)	165,590	n/a	n/a
Financial Year 2016			
Offices valued at Discounted Cash Flow (Exit Yield)	363,790	(33,470)	32,610
Offices valued at Capitalisation (Initial Yields)	72,700	-	-
Offices valued at Capitalisation (Equivalent Yield)	34,900	(3,000)	3,000
Hotels valued at Discounted Cash Flow (Exit Yield-Fixed Income)	1,243,630	(156,600)	155,950
Dwellings valued at Discounted Cash Flow (Exit Yield)	18,450	(2,200)	2,200

A 5% variation in the sale prices of residential assets would have an impact on the valuations used by the Group to calculate the value of such assets of an increment of 12,545,000 euros (11,263,000 euros at 31 December 2016) and a decrease of 12,620,000 euros (11,193,000 euros at 31 December 2016) according to whether this variation were upwards or downwards respectively by that percentage.

8. Non-current financial assets

Non-current financial assets

At 30 June 2017, the heading "Non-current financial assets" primarily listed the (i) guarantees received by Barceló companies relating to the majority of the deferred tax liabilities recognised under acquisitions of hotels through business combinations held by the companies BAY, BHC and PDV in the amount of €26,238 k (the same amount as at 31 December 2016), pursuant to which BHM shall pay to Grupo Hispania he taxes that the latter may pay for the individual sale of any of the hotels contributed to BAY, provided that this sale takes place before 1 November 2026 or the date on which five years have elapsed since the admission to trading of BAY shares on a regulated market. The Company Business Plan considers the possible divestment of some of these assets before the end of such a period, which is why it has recognised deferred tax liabilities and a BHM receivable for that same amount and (ii) amounts deposited with the relevant Public Bodies in relation to the guarantees received via the lease contracts executed by the Group in the amount of €10,894 k (€10,324 k at 31 December 2016).

9. Cash and cash equivalents

At 30 June 2017 and 31 December 2016, this heading listed cash and cash equivalents amounting to €146,454 k and €226,612 k respectively and included a deposit balance at 30 June 2016 of €86,609 k (€124,609 k at 31 December 2016), with a short-term maturity and convertible into cash at the Group's sole disposal. The Group expects to use these funds over the short term in accordance with its investment policy.

The Group has in place pledge agreements concerning the current accounts related to financing agreements. It has access to their balances and may use them in the course of ordinary business, provided no early expiry of the guaranteed obligations has been notified.

In general, the Group deposits its cash and liquid assets with highly solvent financial institutions.

10. Equity

Share capital and share premium

At 30 June 2017 and 31 December 2016 the share capital of the Parent Company was represented by 109,169,542 fully subscribed and paid-up shares each with a par value of €1. All shares are represented by book entries and have the same rights.

In accordance with the information provided to the CNMV regarding corporate holdings, shareholders with significant direct and indirect stakes in the Parent Company's share capital and the corresponding voting rights, at 30 June 2017 and 31 December 2016, are as follows:

30 June 2017

Shareholder name and address:	% of voting rights allocated to shareholders		% of voting rights through financial instruments	Total voting rights
	% Direct	% Indirect	%	
Soros Fund Management LLC	-	16.68	-	16.68
Fmr Llc	-	7.01	-	7.01
Bw Gestao De Investimentos Ltda	-	3.65	-	3.65
Tamerlane, S.A.R.L.	5.99	-	-	5.99
Bank Of Montreal	-	2.87	-	2.87
Fmr Co., Inc	4.97	-	-	4.97
Novo Viseu Fondo De Investimento Multimercado	3.65	-	-	3.65
Qp Sfm Capital Holdins Limited	12.71	-	-	12.71
Qpb Holdings Ltd	3.97	-	-	3.97
Blackrock Inc.	-	3.28	0.01	3.29
Thames River Capital Llp	2.87	-	-	2.87
Row Fund	-	5.99	-	5.99
Canepa Managment LTD	-	5.99	-	5.99
AXA Investment Managers Paris	-	3.03	-	3.03

31 December 2016

Shareholder name and address:	% of voting rights allocated to shareholders		% of voting rights through financial instruments	Total voting rights
	% Direct	% Indirect	%	
Soros Fund Management Llc	-	16.56	-	16.56
FMR LLC	-	7.64	0.11	7.64
BW Gestao De Investimentos Ltda	-	3.62	-	3.62
Tamerlane. s.a.r.l.	5.95	-	-	5.95
Bank of montreal	-	3.25	-	3.25
Blackrock inc.	-	3.26	-	3.26
FMR Co.. Inc	6.08	-	0.11	6.08
Novo viseu fondo de investimento multimercado	3.62	-	-	3.62
Qp sfm capital holdins limited	12.61	-	-	12.61
Qpb holdings ltd	3.94	-	-	3.94
Blackrock inc.	3.25	-	-	3.25
Thames river capital llp	3.25	-	-	3.25
Row fund	-	5.95	-	5.95

The Parent Company is not aware of any other ownership interests that, being lower than the percentages indicated, enable significant influence to be exercised on the Company.

Legal reserve

Pursuant to the Spanish Limited Liability Companies Law ("Ley de Sociedades de Capital"), the equivalent of 10% of profits for the financial year must be transferred to the legal reserve until it exceeds at least 20% of the share capital.

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

Shareholders' contributions

On 17 February 2014 Azora Altus, S.L. made a cash contribution to the Parent Company's shareholders' equity of €540,000 k.

Parent Company treasury shares

On 30 June 2015 the Parent Company drew up a liquidity contract with Beka Finance, S.V., S.A. to assist the liquidity of its transactions and the regularity of its quoted share price. This liquidity contract was terminated on 1 November 2016.

The transactions carried out to date have been directly carried out by the Parent Company of the Group.

At 30 June 2017 the Parent Company held 209,671 treasury shares (188,121 treasury shares at 31 December 2016) for a total amount of €2,377 k (€2,177 k at 31 December 2016).

The purchase and sale of these treasury shares in 2017 have generated a `profit of €64 k (the Parent Company posted losses on 31 December 2016 of €40 k).

Distribution of profit and capital management

Real-estate investment trusts [SOCIMI] are regulated by the special tax regime established in Law 11/2009 of 26 October, amended by Law 16/2012 of 27 December, which governs listed limited liability companies in the real-estate investment market. They are required, after complying with any relevant commercial obligations, to distribute the profits earned during the financial year to their shareholders in the form of dividends. Such dividends must be distributed within six months after the end of each financial year, as follows:

a) 100% of profits from dividends or from profit-sharing agreements distributed as a result of holdings in other real-estate investment trusts (SOCIMI) or other holdings whose principal purpose is the acquisition of urban real-estate property.

b) At least 50% of the profits derived from the transfer of properties and shares or holdings referred to in Section 1, Article 2 of this Law, made after the periods stipulated in Section 3, Article 3 of this Law, subject to fulfilment of its corporate purpose. Any remaining profits must be reinvested in other properties or holdings subject to fulfilment of its corporate purpose, within a period of three years following the transfer date. When this is not the case, these profits must be distributed in full together with any profits, where appropriate, recorded during the financial year in which the investment period ends. When the items subject to reinvestment are transferred before the end of the holding period, any such profits must be distributed in full together with any profits, where appropriate, recorded during the financial year of their transfer. The distribution obligation does not relate, where appropriate, to any profits attributable to financial years when the Company did not benefit from the special tax regime established by this Law.

c) At least 80% of the remaining profits recognised.

When dividends are distributed on the basis of reserves established from profits from a financial year to which the special tax regime is applicable, its distribution must comply with the provisions established in the previous section.

The legal reserve of companies that have opted for the application of the special tax regime established in this Law may not exceed 20% of share capital.

The articles of association of these companies may not stipulate any other unavailable reserves apart from that stated above.

Non-controlling interests

The details of the heading "Non-controlling interests" at 30 June 2017 and 31 December 2016 are as follows:

	Thousands of euros		
	Hispania Fides, S.L. (*)	**Bay Hotels & Leisure, S.A. (**)**	**Total**
Balance at 31 December 2015	**10,056**	**68526**	**78,582**
Profit/(loss) for the year	-	50,402	50,402
Cash flow hedging instruments	-	(1,389)	(1,389)
Acquisition of non-controlling interests	(10,056)	-	(10,056)
Contributions from non-controlling interests	-	7,431	7,431
Distribution of dividends to minority interests	-	(8,633)	(8,633)
Balance at 31 December 2016	**-**	**116,337**	**116,337**
Profit/(loss) for the period	-	23,362	23,362
Cash flow hedging instruments	-	1,152	1,152
Distribution of dividends to minority interests	-	(1,358)	(1,358)
Balance at 30 June 2017	**-**	**139,493**	**139,493**

(*) 10% held by Corporación Empresarial Once, S.A.
(**) 24% held by Barceló Hoteles Mediterráneo S.L.,

Adjustments to equity for changes in the value of financial instruments

This heading on the consolidated statement of financial position includes the fair value of financial derivatives designated as hedging instruments in cash flow hedges.

11. Financial liabilities

The composition of financial liabilities at 30 June 2017 and 31 December 2016 is as follows:

	Thousands of euros					
	Bank borrowings		**Derivatives and Others**		**Total**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Long-term financial liabilities						
Loans and payables	581,213	595,066	36,060	34,064	617,273	629,130
Hedging derivatives	-	-	15,807	23,254	15,807	23,254
	581,213	595,066	51,867	57,318	633,080	652,384
Short-term financial liabilities						
Loans and payables	22,744	23,240	46,480	37,967	69,224	61,207
Hedging derivatives	-	-	8,281	8,433	8,281	8,433
	22,744	23,240	54,761	46,400	77,505	69,640
	603,957	**618,306**	**106,628**	**103,718**	**710,585**	**722,024**

These amounts are included in the following items on the consolidated statement of financial position:

	Thousands of euros					
	Bank borrowings		**Derivatives and Others**		**Total**	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Non-current financial liabilities						
Long-term bank borrowings	581,213	595,066	-	-	581,213	595,066
Hedging derivatives	-	-	15,807	23,254	15,807	23,254
Other non-current financial liabilities	-	-	36,060	34,064	36,060	34,064
	581,213	595,066	51,867	57,318	633,080	652,384
Current financial liabilities						
Short-term bank borrowings	22,744	23,240	-	-	22,744	23,240
Hedging derivatives	-	-	8,281	8,433	8,281	8,433
Other current financial liabilities	-	-	19,240	16,267	19,240	16,267
Trade creditors and other payables	-	-	18,523	20,889	18,523	20,889
Staff (remuneration payable)	-	-	185	376	185	376
Customer advances	-	-	8,532	435	8,532	435
	22,744	23,240	54,761	46,400	77,505	69,640
	603,957	**618,306**	**106,628**	**103,718**	**710,585**	**722,024**

11.1 Bank borrowings

The details of payables to banks by maturity at 30 June 2017 and 31 December 2016 are as follows:

2017	Thousands of euros							
	Current	Non-current						Total
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years	Total non-current	
Bank borrowings:								
Loans from third parties	21,476	26,046	26,324	37,780	63,497	439,434	593,081	614,557
Interest in third-party debt	1,268	-	-	-	-	-	-	1,268
Arrangement costs on borrowings	-	(3,393)	(1,620)	(1,548)	(1,448)	(3,859)	(11,868)	(11,868)
Total at 30 June 2017	**22,744**	**22,653**	**24,704**	**36,232**	**62,049**	**435,575**	**581,213**	**603,957**

2016	Thousands of euros							
	Current	Non-current						Total
	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	More than 5 years	Total non-current	
Bank borrowings:								
Loans from third parties	21,772	24,457	26,048	29,951	38,875	488,473	607,804	629,576
Interest in third-party debt	1,468	-	-	-	-	-	-	1,468
Arrangement costs on borrowings	-	(3,434)	(1,646)	(1,589)	(1,498)	(4,571)	(12,738)	(12,738)
Total at 31 December 2016	23,240	21,023	24,402	28,362	37,377	483,902	595,066	618,306

The breakdown of the various loans formalised by the Group at 30 June 2017 and 31 December 2016 by type of asset are as follows:

2017		Thousands of euros				
Company	Assets	Payables pending	Long-term	Short-term	Finance costs incurred (Note 13.6)	Finance costs from derivative interest (Note 13.6)
Parent Company	Offices	183,376	180,125	3,251	1,479	831
Parent Company	Residential	73,466	67,550	5,916	684	315
Parent Company	Hotels	22,120	21,539	581	193	90
Hesperides Bay	Hotels	65,900	64,550	1,350	580	219
Subgroup Bay	Hotels	249,172	239,439	9,733	2,440	2,904
Eco Resort	Hotels	20,523	19,878	645	157	119
Leading Hospitality	Hotels	-	-	-	19	-
		614,557	**593,081**	**21,476**	**5,552**	**4,478**
Outstanding interest		1,268	-	1,268	-	-
Arrangement costs on borrowings		(11,868)	(11,868)	-	870	-
Total		**603.957**	**581,213**	**22,744**	**6,422**	**4,478**

2016		**Thousands of euros**				
Company	**Assets**	**Payables pending**	**Long-term**	**Short-term**	**Finance costs incurred (note 13.6)**	**Finance costs from derivative interest (note 13.6)**
Parent Company	Offices	184,028	182,547	1,481	2,985	1.523
Parent Company l	Residential	79,539	74,284	5,255	1,487	582
Parent Company	Hotels	22,351	21,850	501	411	251
Hespérides Bay	Hotels	65,900	64,550	1,350	1,101	391
Bay Subgroup	Hotels	253,779	244,372	9,407	5,104	4.051
Eco Resort	Hotels	20,846	20,201	645	324	230
Leading Hospitality	Hotels	2,636	-	2,636	437	n/a
Leading Hospitality	Non-mortgage loans and credit lines	497	-	497	-	n/a
		629,576	**607,804**	**21,772**	**11,849**	**7.028**
Outstanding interest		1,468	-	1,468	-	-
Arrangement costs on borrowings		(12,738)	(12,738)	-	1,705	-
Total		**618,306**	**595,066**	**23,240**	**13,554**	**7,028**

At 30 June 2017 the Group has no credit lines available (the Group had credit lines available amounting to €7,000 k at 31 December 2016, against which no drawdowns had been made during the year).

On the same date as taking out the mortgage loans detailed above, the Group acquired a pledge – among others- over the credit rights derived from the lease contracts of the mortgaged assets to guarantee compliance with all obligations and responsibilities derived from the aforementioned loan contracts, only enforceable in the event of termination of the contract for reason of default (Note 9).

Certain loans with credit institutions set out financial ratios to be adhered to by the Group during their term and the lenders are entitled to early repayment of the principal if they are not met. At the close of the first six months of 2017, the Group has met the financial ratios and/or obligations associated with the loans and anticipates no breach of any of these in the short term. At the close of 2016, the Group had also complied with the aforementioned ratios and obligations.

Arrangement costs on borrowings

At 30 June 2017, the debt arrangement costs pending attribution to the interim consolidated comprehensive income statement amounted to €11,868 k (€12,738 k at 31 December 2016).

The finance costs at 30 June 2017 entailed by the Group's debt arrangement costs totalled €870 k (€1,705 k at 31 December 2016).

Guarantees provided

The Group must provide certain guarantees during its normal course of business and to finance its operations but the estimation is that the guarantees provided will not give rise to any additional liability in these consolidated annual accounts.

11.2 Other financial liabilities

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

	Thousands of euros	
	30 June 2017	**31 December 2016**
Long-term		
Sureties and deposits received as a result of leases	14,593	12,821
Long-term debts	21,467	21,243
Hedging derivatives	15,807	23,254
	51,867	**57,318**
Short-term		
Sureties and deposits received as a result of leases	485	428
Short term deposits	-	5,100
Short-term debts	2,523	3,633
Other current financial liabilities	16,232	7,106
Sundry payables	18,523	20,889
Staff remuneration pending payment	185	376
Customer advances	8,532	435
Hedging derivatives	8,281	8,433
	54,761	**46,400**

<u>Long-term and short-term debts</u>

On 14 and 20 July 2016, BHM granted the Group BAY company a loan respectively amounting to €1,920 k and €5,598 k. The term of the two loans is of 5 years, accruing interest at a EURIBOR linked variable rate. At 30 June 2017 the total amount of both loans remains outstanding, recognised for a total of €7,518 k in the long term.

In addition, this heading includes the deferred payments and withholdings held as a guarantee for several acquisitions of stakes in group companies during 2016 totalling €5,661 k in the long term and €943 k in the short term.

<u>Customer advances</u>

At 30 June 2017 this heading mainly includes the amount of €7,600 k received by the Parent Company by way of customer advances following the agreement to sell, subject to certain conditions precedent, the building known as Aurelio Menéndez for a total amount of €37.5 million in the first half of this year.

Hedging derivatives

At 30 June 2017 and 31 December 2016 the breakdown of cash flow hedging instruments by interest rate risk is as follows:

Company	Assets	Spread	Variable Interest Rate	Notional		Fair value	
				30 June 2017	**31 December 2016**	**30 June 2017**	**31 December 2016**
Parent Company	Offices	(*)	€3 m	179,412	180,040	(3,861)	(5,828)
Parent Company	Residential	(*)	€3 m	67,331	69,451	(1,229)	(1,639)
Parent Company	Hotels	(*)	€3 m	22,120	22,351	(406)	(583)
Hespérides Bay	Hotels	(*)	€3 m	58,310	58,310	(697)	(1,320)
Bay Subgroup	Hotels	(*)	€3 m	249,172	253,779	(16,432)	(20,516)
Eco Resort San Blas	Hotels	(*)	€3 m	20,523	20,845	(505)	(820)
				596,868	**604,776**	**(23,130)**	**(30,706)**

(*) Derivative costs are set in a range between 0.366% and 1.910%

12. Fiscal situation

Income tax for the period is calculated on the basis of taxable profit, which differs from the net profit reported in the consolidated statement of comprehensive income because it excludes income and expense items that are taxable or deductible in other years, together with items that are never taxable or deductible. The Group's assets and liabilities for current income tax are calculated using tax rates that were approved at the date of the interim consolidated statement of financial position.

The breakdown of balances receivable from and payable to government agencies on the accompanying consolidated statement of financial position is as follows:

	30 June 2017	**31 December 2016**
	Thousands of euros	
Deferred tax assets	11,731	11,731
Receivables from government agencies	18,796	11,998
Tax Office (VAT receivable and IGIC [Island General Indirect Tax] receivable)	18,301	10,912
Current tax assets	216	334
Withholdings and interim payments	279	752
Total Balance Receivable	**30,527**	**23,729**
Deferred tax liabilities	81,165	73,959
Payables to government agencies	1,341	16,066
Tax Office – Corporate Income Tax payable	-	419
Tax Office VAT and IGIC payable	1,051	2,573
Tax Office Withholdings payable	165	10,822
Social Security payable	125	2,252
Total Balance Payable	**82,506**	**90,025**

Corporate Income tax

Details of the "Income tax" heading on the statement of comprehensive income for the periods ended 30 June 2017 and 2016 are as follows:

	30 June 2017	
	Thousands of euros	
	Income Statement	**Equity**
Income tax expense	-	-
Change due to prepaid and deferred tax		
Tax-loss carry-forwards and other temporary differences recognised	-	-
Differences between carrying amount and tax base of investment property	(6,661)	(545)
Income tax	(6,661)	(545)

	30 June 2016	
	Thousands of euros	
	Income Statement	**Equity**
Income tax expense	9	-
Change due to prepaid and deferred tax		
Tax-loss carry-forwards and other temporary differences recognised	(1,752)	-
Differences between carrying amount and tax base of investment property	4,451	-
Income tax	**2,708**	-

Details and movements of the various items comprising deferred tax assets and deferred tax liabilities are as follows:

(Thousands of euros)	Initial Balance	Due to income statement	Due to changes in equity statement	Balance at 30 June 2017
Deferred assets				
Tax loss carry-forwards and deductions recognised	11,731	-	-	11,731
Deferred liabilities				
Revaluation of assets	(73,959)	(6,661)	(545)	(81,165)
Total	**(62,228)**	**(6,661)**	**(545)**	**(69,434)**

(Thousands of euros)	Initial Balance	Additions due to business combination	Due to income statement	Due to changes in equity statement	Balance at 31 December 2016
Deferred assets					
Tax loss carry-forwards and deductions recognised	8,024	7,412	(3,705)	-	11,731
Deferred liabilities					
Revaluation of assets	(53,544)	(17,241)	(2,429)	(745)	(73,959)
Total	**(45,520)**	**(9,829)**	**(6,134)**	**(745)**	**(62,228)**

Financial year 2017:

Entries added under deferred tax assets mainly relate to the temporary differences in liabilities arising from the recognition of investment property and property, plant and equipment at market value, based on the best analysis of the asset divestment process determined by the Management Company to allow it to meet the SOCIMI tax regime for most of the assets and/or enable future tax burdens to be minimised.

In addition, the amounts of deferred tax liabilities not recognised at 30 June 2017 arising from the temporary differences resulting from the acquisition of assets that have not been considered to be business combinations, have totalled 1,640,000 euros.

13. Income and expenses

13.1 Rental income

The amount recognised under this heading at 30 June 2017 and 30 June 2016 relates to rental income arising from the Group's property rental business.

Revenue from the Company's ordinary business turnover is mainly concentrated on Madrid, the Canary Islands and the Balearic Islands. Details of revenue, by business, are as follows:

	30 June 2017	30 June 2016
Activities	**Thousands of euros**	
Office building leases	10,569	9,135
Residential leases	2,912	3,046
Hotel leases	57,248	41,151
Total	**70,729**	**53,332**

	30 June 2017	30 June 2016
Geographic markets	**Thousands of euros**	
Catalonia	3,713	4,399
Community of Madrid	10,784	8,792
Andalusia	4,229	2,592
Canary Islands	43,226	31,225
Balearic Islands	8,777	6,324
Total	**70,729**	**53,332**

13.2 Services rendered

The amount of €6,971 k for services rendered pertains to income accrued in 2017 for hotel and hotel management services. The income earned in this activity during the six-month period ending on 30 June 2016 amounted to €6,856 k.

13.3 Staff costs

The breakdown of staff costs is as follows:

	Thousands of euros	
	30 June 2017	**30 June 2016**
Wages and salaries	(2,114)	(2,000)
Social Security paid by the Company	(638)	(667)
Other social charges	-	2
Total	**(2,752)**	**(2,665)**

The expenses recognised under this heading at 30 June 2017 and 2016 correspond to the cost of the staff required to provide the hospitality services at the hotels managed by the Group until their repositioning was complete.

13.4 Other operating costs

Operating costs correspond to the fixed management fees of Azora Gestión, S.G.I.I.C., S.A. amounting to €9,502 k at 30 June 2017 (€6,756 k at 30 June 2016) and expenditure on Property Tax earned in 2017 on each asset owned by the Group, totalling €3,782 k (€3,248 k at 30 June 2016).

13.5 Related-party transactions

The Group has related-party transactions associated with the fix and variable management fees of Azora Gestión, S.G.I.I.C., S.A. amounting to €9,502 k (€6,756 k at 30 June 2016) and €56,000 k respectively. The amounts outstanding are €4,832 k at 30 June 2017 (€3,684 k at 30 June 2016) and €56,000 k respectively.

In addition, the Group has related-party transactions associated with management services from Azzam Gestión Inmobiliaria, S,L, amounting to €201 k (€257 k at 30 June 2016). The amount outstanding is € 93 k at 30 June 2017 (€65 k at 30 June 2016).

13.6 Finance costs

The detail of finance costs is as follows:

	Thousands of euros	
	30 June 2017	**30 June 2016**
Arrangement costs on borrowings (Note 11.1)	870	858
Interest on bank borrowings (Note 11.1)	10,030	9,173
Others	187	194
Total	**11,087**	**10,225**

13.7 Profit/(loss) by company

The contributions by each company included in the scope of consolidation to the consolidated profit/(loss) for the period were as follows:

	Thousands of euros	
	30 June 2017	**30 June 2016**
Hispania Activos Inmobiliarios SOCIMI, S.A.	13,108	38,864
Hispania Fides, S.L.	-	7,073
Hespérides Bay, S.L.U.	9,189	18,399
Hospitia, S.L.U.	(351)	(390)
Hispania Hotel Management, S.L.U.	(195)	(90)
Leading Hospitality, S.L.	3,694	(374)
Subconsolidado Bay	97,877	65,846
Eco Resort San Blas S.L.U.	7,637	7,793
Club de Tenis Maspalomas S.L.U.	118	35
Real Estate San Miguel S.A.	2,402	(552)
Europroyectos Pitiusos SLU	(21)	-
Mangareva Development SLU	(70)	-
Sahara Propco SLU	51,302	-
Milenial Business 21 SLU	-	-
Topaz Eurogroup SL	31	-
Total	**184,721**	**136,604**

13.8 Other results

Other results correspond to the variable management fee of Azora Gestion, S.G.I.I.C., S.A. amounting to € 56,000 k at 30 June 2017 accounted as a long-term provision (Note 14).

<u>14. Long-term provisions</u>

The detail of long-term provisions is as follows:

	Thousands of euros	
	30 June 2017	**30 June 2017**
Variable management fee (Note 13.4)	56,000	-
Others	711	719
Total	**56,711**	**719**

The Management's goal, from Hispania's IPO until the end of the divestment period, is to obtain an internal rate of return greater than 10% as specified in the Management Contract, which would mean that the Parent Company should pay the Incentive Fees.

In accordance with the Management Contract, the Incentive Fees shall depend only on the proceeds effectively distributed to the shareholders as cash flows. As a result, the Management Company shall in no case receive any such payment on the basis of accounting calculations.

The funds may be distributed as dividend payments or as repayments of funds associated with divestments. These divestments may be made via sales of assets or via sales of shares of the Parent Company in a situation of change of control. These distributions may be made during the entire time the Management Contract, which expires on 14 March 2020, is in effect.

The Management considers that, at the time of these Interim Condensed Consolidated Financial Statements, even if there are factors and future uncertainties which are not within its control, and whose quantitative and time variations may have a significant effect on the amount of the Incentive Fees, it is likely that, in the future, there will be an outflow of funds from the Parent Company, for which purpose it has set aside a provision in the amount of EUR 56 million.

This provision has been calculated on the basis of the following assumptions: (i) distributions of funds made up to the time of these Interim Condensed Consolidated Financial Statements, (ii) EPRA NNNAV as of 30 June 2017, (iii) dividends and other distributions expected to be paid during fiscal 2017, (iv) future dividends (estimated as dividends anticipated in 2017, increased by inflation).

Since the Incentive Fees might have to be paid at any time during the entire time the Management Contract is in effect, the amount of the provision has been estimated using the Expected Value Method in accordance with IAS 37. For this purpose, we have considered alternate half-year scenarios from June 2018 until expiry of the Management Contract, and assigned the same probability to each of these dates. Finally, the expected value calculated has been adjusted to present value using a pre-tax discount rate based on the cost of equity.

The Management shall thus continue to adjust these calculations as of each closing date, and do so, in principle, in accordance with a similar method, unless the Management deems there are grounds to change this method in order to improve the accuracy of the estimate.

15. Remuneration and other benefits of the Board of Directors and senior executives

Remuneration of the Board of Directors

The remuneration earned during the first six months of 2017 and the six-month period ended 30 June 2016 by the current members of the Parent Company's Board of Directors in the form of wages and salaries, incentives, attendance fees and statutory allowances amounted to €221 k and €219 k respectively. The breakdown of this remuneration is as follows:

Remuneration received by Board members	Thousands of euros	
	30 June 2017	**30 June 2016**
Directors' remuneration 1)	156	154
Additional remuneration of the Executive Committee 1)	25	25
Additional remuneration of the Audit and Control Committee 1)	25	25
Additional remuneration of the Appointments and Remuneration Committee 1)	15	15
Total	**221**	**219**

1) Includes the remuneration of the Company's non-executive Secretary.

At 30 June 2017 and 2016 no advance payments or loans had been granted to the joint administrators and no obligations had been undertaken on their behalf by way of guarantees.

16. Risk management policies

Financial risk management policies in the sector in which the Group operates are chiefly determined by analyses of investment projects, management of property occupancy and the situation of financial markets:

- Credit risk: The Group's credit risk is due mainly to the risk of tenants defaulting on their contractually agreed rent payments, Each company manages this risk through its selection of tenants, the contracts drawn up, stipulating advance payment of rents and legal financial guarantees and additional collateral to cover any potential non-payments, The Group also holds cash and short-term deposits (Note 9) with highly creditworthy financial institutions.

- Liquidity risk: At the present time this is considered a non-material risk as the Group is involved in an investment phase and has sufficient liquidity to meet its ongoing commitments.

- Market risk: This is one of the Group's main risks, in view of possible vacant properties or unfavourable renegotiations of lease contracts when current agreements expire. This risk would have a direct adverse effect on the valuation of Group assets. The Group mitigates this risk through proactive management of its property focusing on adding value to it by applying an investment policy to reposition the assets and select its customers.

- Interest-rate risk: At 30 June 2017 the Group had external financing at a variable rate indexed to Euribor (see Note 11). At 30 June 2017 the amount drawn down from this funding amounted to €614,557 k (€629,576 k at 31 December 2016) in respect of which there are cash flow hedging instruments to cover part of the interest-rate risk for a notional amount of €596,868 k (€604,776 k at 31 December 2016).

Fair value hierarchy

All financial instruments at fair value are classified in the following tiers according to the inputs used to value them:

- Tier 1. Use of quoted prices of similar assets or liabilities on active markets (with no adjustments).
- Tier 2. Use of inputs (not quoted prices as above), directly or indirectly observable.
- Tier 3. Use of non-observable inputs.

	Thousands of euros			
	30/06/2017	**Tier 1**	**Tier 2**	**Tier 3**
Financial assets				
Property, plant and equipment	65,340	-	-	65,340
Investment property	2,260,647	-	-	2,260,647
Financial liabilities				
Hedging derivatives	23,130	-	23,130	-

	Thousands of euros			
	31/12/2016	**Tier 1**	**Tier 2**	**Tier 3**
Financial assets				
Property, plant and equipment	113,210	-	-	113,210
Investment property	1,888,418	-	-	1,888,418
Financial liabilities				
Hedging derivatives	30,706	-	30,706	-

The Group does not have financial instruments whose fair value cannot be measured and there have been no transfers between the different tiers in the hierarchy of financial instruments at fair value in the first six months of the current year.

17, Subsequent events

Up to the date of preparation of these Interim Condensed Consolidated Financial Statements no significant events subsequent to the close of the period have taken place.

HISPANIA ACTIVOS INMOBILIARIOS SOCIMI, S.A. AND SUBSIDIARIES

Interim consolidated management report for the first half of 2017

1. Macroeconomic situation and analysis by business sector

World economy growth for 2017 is estimated to be of 3.5% according to an International Monetary Fund report. This report indicates that in advanced economies the recovery will be mostly driven by the project increase in growth in the US, whose activity was slowed down in 2016 by stock adjustment and weak investment.

According to data from the Bank of Spain, the expansive phase of the Spanish economy persisted throughout 2016, with a growth of 3.2% in the GDP of that year, over half the growth experienced in the Eurozone. This increase is due to several factors, including the improved financial conditions brought about by monetary policy, the expansive trend of tax policy and the lagged effect of the drop in oil prices, among others.

The improved situation of the employment market is worthy of mention, having continued to grow at a sustained rate throughout the period and achieving an unemployment rate in May 2017 of 17.7%. The Bank of Spain has increased its job creation expectations with regard to previous forecasts and reduces the unemployment rate to 13.2% by the end of 2019. Estimates for the end of 2017 in Spain point to a growth of 3.1% in the GDP, three decimal points above the rate predicted three months ago. As for 2018, the expected growth in GDP is of 2.5%.

The main uncertainties on worldwide level are associated with global economic policies, particularly with regard to the United States. Within the European Union, the main concern will be the break of the UK from the EU, as well as the uncertainty emerging from various upcoming national elections.

Hotel Market

According to The Travel & Tourism Competitiveness Index 2017 report, Spain has been awarded the first place in the ranking according to the global T&T competitiveness index, placing the country as the most competitive in the world in 2016, with a rating of 5.4 points over 6. This index analyses a number of factors, including the cultural and nature-based tourism offer, infrastructures, flights frequency and connectivity, and support to tourism by the country's government.

According to the Irea report of July 2017, hotel investment in Spain during the first half of the year has reached 1,655 million euros, more than double compared to the same period last year. During the first half, 79 operations (52% holiday related) were carried out, compared to 56 in the first half of the previous year, highlighting the extraordinary performance of hotel investment in Spain.

According to INE data, foreign tourists arriving in Spain during the January-May 2017 period have increased by 11% compared to the same period in 2016, reaching a total of 28 million tourists.

During the first five months of the year there has been a significant increase in tourists from America and Asian countries, thus increasing the diversity of tourism in Spain. It is worth noting that, despite the referendum in the United Kingdom, tourists from the country have registered an increase of 11% compared to the same period in 2016, so there is still no impact from Brexit.

According to the latest data reported by INE for the months of January to May 2017, a RevPar growth of 10% was observed in hotels in the Balearic and Canary Islands. These increases in profitability in holiday hotels, especially on the coast, are mainly due to an increase in prices, which recorded an average growth of 7% in Spain compared to the same period in 2016.

Office market

According to the CBRE report of June 2017, the average profitability for the office segment in Spain is around 4%.

In the city of Madrid, according to Jones Lang Lasalle (JLL) in its first half of 2017 report, a contracting of office space of 156,334 m2 has been observed, that is 25% higher than the same period of 2016, accumulating 165 operations in the second quarter compared to 122 of the last quarter.

In addition, offices rental price in Madrid continue their upward trend, especially in the central business district (CBD), with an annual increase of + 7.5% to € 30/ m2/month.

On the other hand, in Barcelona, according to the JLL report for the first half of 2017, the contracting of the 128,108 m2 has increased by 46% compared to the same period in 2016. The number of transactions remained stable at 129 compared to 125 recorded in the first quarter of the year.

As for the development of rents, Barcelona has continued its upward trend, reaching a rent in Passeig de Gracia/Diagonal of € 22.5/m2/ month, recording a year-on-year growth of 7.5%. In particular, the 22@ business district has recorded a significant growth in average rent, accumulating 23% of the area's operations according to the CBRE report of June 2017.

The availability rate in offices in Madrid and Barcelona has continued to decline, standing at 11.3% in Madrid and 7.8% in Barcelona.

According to the latest data provided by CBRE, the significant presence of assets traded in the Barcelona market has considerably increased its share of the national total, from 20% from the first quarter of 2014 to 52% in the second quarter of 2017, and overtaking Madrid for the first time in the historical series. The volume of investment in offices in the city of Barcelona has reached almost 450 million euros in the first quarter, compared to 40 million in the same period last year. That is, there has been an increase of more than 1,000%.

Residential market

According to data from the National Statistics Institute (INE), there has been a 12% increase in the purchase of homes in the months of January to May compared to the same period of the previous year, confirming the good performance of the residential market in Spain.

According to the Gesvalt report the number of residential transactions shows an annual variation of 19% against the national total during the second quarter, with a 12% increase in Madrid and 28% in Barcelona.

According to the latest data reported by Idealista in the second quarter of 2017, in terms of second-hand housing prices, Barcelona has registered a 16.6% increase over the previous year, reaching an average price of € 4,253/m2, while Madrid registered a year-on-year increase of 4.4%, registering an average price of 3,047 €/m2.

According to the rent price development report published by Idealista, the average price of property for rent in Spain is € 9.4/m2/month, a figure that was not reached in the last 6 years. The year-on-year variation reached 19.7%, being the highest to date. In addition, the increase in the price of rental housing in the second quarter stands at 4.8% higher than in the first quarter, and 19.7% compared to the same period last year.

Barcelona has become the Spanish city with the most expensive rents, reaching an average rental price of € 20.19/m2/ month according to Gesvalt's second quarter report. Madrid, on the other hand, has an average rental price of € 16.26/m2, rising to € 20.60/m2 in its central business district.

2. The Group's organisational and operational structure

The Group is managed externally on the basis of the contract signed in 2014 with Azora Gestión SGIIC, S.A.

3. Development of Group activity

Hispania has recorded revenues of 77.7 million euros in the first half of 2017, compared to 60 million euros in the same period of 2016. The Parent Company's net attributable profit amounted to 161.4 million euros, equivalent to 1.48 euros per share, 10% higher than 1.34 euros per share obtained in the first half of 2016.

The Company's operating results before general expenses stood at 63.2 million euros, compared with 48.2 million euros for the same period of the preceding fiscal year. Some 83% of revenue in the first six months came from the hotel segment, Hispania's main growth driver.

These annualised results represent a net profitability of 6.4% in terms of GAV at the end of the first six months of 2017 calculated according to EPRA methodology.

At the end of the half year, Hispania recorded a gross asset value of 2,339 million euros, representing an increase of 51% compared to the acquisition price and 39% in terms of to the total investment. The value of assets has resulted in the posting of 205 million euros for these revalued assets in the profit and loss account for the first six months.

These extraordinary results, together with the significant revaluation of Hispania's assets, helped to achieve a net asset value, calculated in accordance with the recommendations of EPRA (EPRA NAV), of 1,647.6 million euros, equivalent to 15.12 euros/share, 25% higher than at the end of the first half of 2016.

In terms of investments, Hispania completed the following transactions during the first half of the year:

- On 21 June 2017, the Group acquired the Fergus Tobago Hotel in Palmanova (Mallorca) for a total value of 20,546,000 euros.

- On 16 June 2017, it acquired Hotel Selomar located in Benidorm for an amount of 16,085,000 euros.

- On 8 February 2017, the NH Málaga hotel was acquired in the historic centre of Málaga, for an amount of 23,586,000 euros. The operation contemplates the expansion of this hotel that will raise this amount by 18 million euros.

- Also, during the financial year, three land were acquired for the development of different hotel projects for a total amount of 14,535,000 euros and a plot land for the construction of apartments that is expected to be allocated for the lodging of the employees of the Group for an amount of 1,272,000 euros.

The hotels portfolio had a very strong performance on the back of the holiday segment and mainly from hotels in the Canary Islands, which recorded solid results for the period, registering growth in ADR, RevPar and Occupation of 9.3%, 10.1% and 0.6 p.p respectively versus the same period in 2016. The NOI of the hotel portfolio for the first half of the year amounted to 53.1 million euros, which represents a 36% increase over the same period in 2016.

Regarding the offices portfolio, the marketing effort has continued to deliver excellent results, which has resulted in a total occupancy of the office portfolio of 84%, 1.7 pp higher than the end of 2016. The NOI of the offices portfolio amounted to 8.4 million euros, 17% more than the same period of 2016. Also, the average income of the portfolio is 13.8 euros / m ^{2}.

Finally, in the residential segment, it is worth mentioning that during the first half of 2017 the active sale of houses in the buildings of Isla del Cielo began with the sale of 5 houses, and in Sanchinarro with the sale of 16 houses that generated a profit of 0.8 million euros, which represents a capital gain of 10.7%.

4. Outlook for the market and the Group

Hotel Market

According to the Exceltur report of July 2017, it is estimated that financial year 2017 will continue its upward trend. Overseas tourist demand is expected to maintain its growth, driven, among other things, by the positive economic performance shown by the main European markets.

Tourism GDP growth is estimated at 4.1% at the end of 2017, compared to the Spanish GDP growth of 3.1%, according to data from the Bank of Spain. The growth estimate has increased 0.6 pp compared to the initial forecasts made in April due to the high growth of foreign demand. In addition, this growth of 1 point above the Spanish economy would be the eighth consecutive year in which Tourism GDP exceeds economic growth in Spain.

According to the Caixabank report, at the pace recorded so far, Spain will receive more than 83 million tourists by the end of this year, which would represent a 10% increase over last year's figure.

Office market

According to a JLL report for the second quarter of 2017, the economy will continue its upward trend and office space is expected to increase by 3.1% in Madrid and 4% in Barcelona in the next three years.

The prospects of the change of cycle have encouraged the renovation of the office stock with major reforms under way, particularly in Madrid, where there are currently several emblematic buildings under renovation in the Azca area.

Office vacancy rates in the Madrid and Barcelona markets are expected to continue to decline during 2017, driven by improved economic activity and the lack of new developments in the market.

According to the Cushman and Wakefield report of May 2017, the positive Spanish macroeconomic data is reflected in the creation of employment with the forecast of seventy thousand new jobs in the services sector in Madrid for the next three years, which would translate into approximately 280,000 m2 of office space contracting.

According to the CBRE report, Madrid is expected to have an expected average annual growth rate of 5.4% until 2021, leading the list of European markets with a higher forecast for growth in rent prices, followed by Barcelona in the fourth place with a growth of 3.2%.

Residential market

According to the CBRE report, average selling prices for 2017 are expected to increase between 4% and 6% and even higher in those areas with the highest demand, mainly in Madrid and Barcelona. The outlook and projections according to this report point to the continuity in the positive trend of the economy for the 2017-2019 period.

Supported by the increase in demand, the 2015 momentum in residential development has been maintained. This trend is expected to continue throughout 2017, supported by favourable market conditions of low interest rates, an improved economic outlook and private deleveraging. Despite the growth in new housing development, this is still far from the potential demand, which is estimated to exceed 150,000 units as of 2018. Therefore, there is leeway for the construction of new housing, as production rates for the next 2 or 3 years are expected to not cover the entire demand, according to CBRE.

On the other hand the rental market has continued its upward trend and reached 21.8% in 2016, still far from the European average of 33.6%. According to CBRE's June 2017 report, the average gross profitability at the beginning of 2017 was 4.3% per year, well above the historical average of 2.5-3%. The imbalance between supply and demand is resulting in a rise in rental prices mainly in large cities.

For financial year 2017, the rental market and the purchase and sell market are expected to continue to grow, particularly after the introduction of the new National Housing Plan that will promote rental housing. This plan includes, among others:

- Purchase and sale of housing assistance for young people.
- Rental housing assistance for young people.
- Assistance to promote and improve energy efficiency.

According to a JLL report, there will be increases in rental prices in excess of 5% in consolidated areas.

5. Treasury shares

On 30 June 2015 the Parent Company drew up a liquidity contract with Beka Finance, S.V., S.A. to assist the liquidity of its transactions and the regularity of its quoted share price. This liquidity agreement was resolved on 1 November 2016.

The transactions performed since that date have been carried out directly by the Parent Company of the Group.

The Parent Company held 209,671 treasury shares at 30 June 2017 (188,121 treasury shares at 31 December 2016) for a total amount of 2,377,000 euros (2,177,000 euros at 31 December 2016).

6. Subsequent events

Up to the date of preparation of these Interim Consolidated Condensed Financial Statements there have been no significant events after the end of the period.

Directors' signatures

The Interim Condensed Consolidated Financial Statements for the six-month period ended 30 June 2017 of Hispania Activos Inmobiliarios SOCIMI, S.A. and its subsidiaries, along with the consolidated statement of financial position at 30 June 2017, the statement of comprehensive income, the statement of changes to equity and the cash flow statement, as well as the condensed explanatory notes and the interim consolidated management report, were drafted by the Board of Directors of Hispania Activos Inmobiliarios SOCIMI, S.A. at its meeting held on 27 July 2017.

The Interim Condensed Consolidated Financial Statements, the condensed explanatory notes and the interim consolidated management report are issued on 50 sheets of ordinary paper, all of which have been signed by the Secretary of the Board of Directors.

Pursuant to Royal Decree 1362/2007, of 19 October (Article 8.1 b) and Article 10), the undersigned Directors of Hispania Activos Inmobiliarios SOCIMI, S.A., hereby state the following:

That, to the best of their knowledge, the Interim Condensed Consolidated Financial Statements, the condensed explanatory notes and the interim consolidated management report have been prepared in accordance with the applicable accounting principles and offer a true and fair view of the equity, financial position and results of the issuer and of the companies included within its overall scope of consolidation.

In witness whereof, the Directors sign below:

MR RAFAEL MIRANDA ROBREDO
Chairman of the Board of Directors
Chairman of the Executive Committee
Member of the Appointments Committee and Remunerations

MR JOAQUIN AYUSO GARCÍA
Member of the Board of Directors
Member of the Executive Committee
Member of the Audit Committee

JOSE PEDRO PÉREZ-LLORCA Y RODRIGO,
Member of the Board of Directors
Member of the Audit Committee
Chairman of the Appointments and Remunerations Committee

MR LUÍS ALBERTO MAÑAS ANTÓN.
Member of the Board of Directors
Chairman of the Audit Committee

Ms. Mª CONCEPCIÓN OSÁCAR GARAICOECHEA.

Member of the Board of Directors
Member of the Appointments Committee and Remunerations Committee

MR FERNANDO GUMUZIO IÑIGUEZ DE OZOÑO

Member of the Board of Directors
Member of the Executive Committee

MR BENJAMIN DAVID BARNETT
Member of the Board of Directors