MERLIN PROPERTIES SOCIMI, S.A. and Subsidiaries

Interim Condensed Consolidated Financial Statements and Interim Directors' Report for the six-month period ended 30 June 2018, together with Report on Limited Review

Translation of a report originally issued in Spanish and of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 17). In the event of a discrepancy, the Spanish-language version prevails.

Deloitte.

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Translation of a report originally issued in Spanish and of interim condensed consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 17). In the event of a discrepancy, the Spanish-language version prevails.

REPORT ON LIMITED REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Merlin Properties SOCIMI, S.A. at the request of Board of Directors,

Report on the Interim Condensed Consolidated Financial Statements

Introduction

We have performed a limited review of the accompanying interim condensed consolidated financial statements ("the interim financial statements") of Merlin Properties SOCIMI, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the interim condensed consolidated statement of financial position as at 30 June 2018, and the interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity, interim condensed consolidated statement of cash flows and explanatory notes thereto for the six-month period then ended. The Parent's directors are responsible for the preparation of these interim financial statements in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, for the preparation of interim condensed financial information, in conformity with Article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of the Review

We conducted our limited review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A limited review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A limited review is substantially less in scope than an audit conducted in accordance with the audit regulations in force in Spain and, consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the accompanying interim financial statements.

Conclusion

As a result of our limited review, which under no circumstances may be considered to be an audit of financial statements, nothing came to our attention that might cause us to believe that the accompanying interim financial statements for the six-month period ended 30 June 2018 have not been prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, Interim Financial Reporting, as adopted by the European Union, pursuant to Article 12 of Royal Decree 1362/2007, for the preparation of interim condensed financial statements.

Emphasis of Matter

We draw attention to Note 2.1 to the accompanying interim condensed consolidated financial statements, which indicates that the aforementioned accompanying interim financial statements do not include all the information that would be required for a complete set of consolidated financial statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union and, therefore, the accompanying interim financial statements should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2017. Our conclusion is not modified in respect of this matter.

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

Report on Other Legal and Regulatory Requirements

The accompanying interim consolidated directors' report for the six-month period ended 30 June 2018 contains the explanations which the Parent's directors consider appropriate about the significant events which took place in that period and their effect on the interim financial statements presented, of which it does not form part, and about the information required pursuant to Article 15 of Royal Decree 1362/2007. We have checked that the accounting information in the interim consolidated directors' report is consistent with that contained in the interim financial statements for the six-month period ended 30 June 2018. Our work was confined to checking the interim consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Merlin Properties SOCIMI, S.A. and Subsidiaries.

Other Matters

This report was prepared at the request of the Board of Directors of Merlin Properties SOCIMI, S.A. in relation to the publication of the half-yearly financial report required by Article 119 of Consolidated Spanish Securities Market Law approved by Royal Decree 4/2015, of 23 October, and implemented by Royal Decree 1362/2007, of 19 October.

DELOITTE, S.L.

Antonio Sánchez-Covisa Martín-González
30 July 2018

Merlin Properties SOCIMI, S.A. and Subsidiaries

Condensed Consolidated Interim Financial Statements for the six-month period ended 30 June 2018, prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 17). In the event of a discrepancy, the Spanish-language version prevails.

MERLIN PROPERTIES, SOCIMI, S.A.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2018

(Thousands of euros)

ASSETS	Notes	30/06/2018	31/12/2017	EQUITY AND LIABILITIES	Notes	30/06/2018	31/12/2017
NON-CURRENT ASSETS:				**EQUITY:**	Note 9		
Concession projects	Note 5	238,481	242,166	**Share capital**		469,771	469,771
Other intangible assets	Note 5	1,151	584	**Share premium**		3,858,624	3,970,842
Property, plant and equipment	Note 5	3,543	3,879	**Reserves**		1,324,904	330,232
Investment property	Note 6	10,790,220	10,352,415	**Other shareholder contributions**		540	540
Investments accounted for using the equity method	Note 7	447,680	371,408	**Valuation adjustments**		(36,795)	(35,806)
Non-current financial investments-	Note 8	246,783	275,882	**Treasury shares**		(12,274)	(24,881)
Derivatives		178,560	207,274	**Interim dividend**		-	(93,457)
Other financial assets		68,223	68,608	**Profit for the year attributable to the Parent**		457,609	1,100,418
Deferred tax assets		144,051	144,127	**Equity attributable to the Parent**		6,062,379	5,717,659
Total non-current assets		11,871,909	11,390,461	**Non-controlling interests**		6,228	6,124
				Total equity		6,068,607	5,723,783
				NON-CURRENT LIABILITIES:			
				Debt instruments and other marketable securities	Note 10	3,223,411	3,221,317
				Non-current bank borrowings	Note 10	2,008,028	2,032,678
				Other financial liabilities	Note 11	90,596	88,194
				Deferred tax liabilities	Note 11	598,359	592,418
				Provisions	Note 11	61,905	72,382
				Total non-current liabilities		5,982,299	6,006,989
				CURRENT LIABILITIES:			
				Provisions	Note 11	867	867
CURRENT ASSETS:				**Debt instruments and other marketable securities**	Note 10	21,771	34,007
Inventories		1,991	1,997	**Current bank borrowings**	Note 10	43,571	144,191
Trade and other receivables	Note 8	96,016	78,533	**Other current financial liabilities**	Note 11	3,936	18,807
Other current financial assets	Note 8	73,426	73,454	**Trade and other payables**	Note 12	52,088	65,484
Other current assets		11,514	6,558	**Current income tax liabilities**	Note 12	1,815	1,762
Cash and cash equivalents		135,771	454,036	**Other current liabilities**	Note 11	15,673	9,149
Total current assets		318,718	614,578	**Total current liabilities**		139,721	274,267
TOTAL ASSETS		12,190,627	12,005,039	**TOTAL EQUITY AND LIABILITIES**		12,190,627	12,005,039

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated statement of financial position at 30 June 2018.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 17). In the event of a discrepancy, the Spanish-language version prevails.

MERLIN PROPERTIES, SOCIMI, S.A.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Thousands of euros)

	Notes	30/06/2018	30/06/2017
CONTINUING OPERATIONS:			
Revenue	**Notes 4 and 13.a**	**323,469**	**233,357**
Other operating income		**2,409**	**1,497**
Staff costs	**Note 13.c**	**(36,446)**	**(38,587)**
Other operating expenses	**Note 13.b**	**(27,709)**	**(27,383)**
Gains or losses on disposal of non-current assets		**(459)**	**241**
Depreciation and amortisation charge	**Note 5**	**(5,223)**	**(3,612)**
Excessive provisions		**8,239**	**96**
Impairment of goodwill:		**-**	**(9,839)**
Absorption of the revaluation of investment property		-	(9,839)
Changes in fair value of investment property	**Note 6**	**313,031**	**332,316**
Negative goodwill on business combinations		**19**	**(1,775)**
PROFIT FROM OPERATIONS		**577,330**	**486,311**
Changes in fair value of financial instruments		**(34,022)**	**(701)**
Changes in fair value of financial instruments - Embedded derivative	**Note 8**	(28,714)	(7,317)
Changes in fair value of financial instruments - Other		(5,308)	6,616
Finance income		**93**	**280**
Finance costs		**(62,420)**	**(60,069)**
Impairment and gains or losses on disposal of financial instruments		**(167)**	**101**
Share of results of companies accounted for using the equity method	**Note 7**	**(12,829)**	**8,337**
PROFIT BEFORE TAX		**467,985**	**434,259**
Income tax		**(10,272)**	**(12,260)**
PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS		**457,713**	**421,999**
Attributable to shareholders of the Parent		**457,609**	**421,398**
Attributable to non-controlling interests		**104**	**601**
EARNINGS PER SHARE (in euros)		**0.98**	**0.90**
BASIC EARNINGS PER SHARE (in euros)		**0.98**	**0.90**
DILUTED EARNINGS PER SHARE (in euros)		**-**	**-**

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated income statement for the six-month period ended 30 June 2018.

MERLIN PROPERTIES, SOCIMI, S.A.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Thousands of euros)

	Notes	30/06/2018	30/06/2017
PROFIT PER INCOME STATEMENT (I)		**457,713**	**421,999**
OTHER COMPREHENSIVE INCOME:			
Income and expense recognised directly in equity-			
Cash flow hedges		**(7,273)**	**(8,344)**
Translation differences		**-**	**-**
OTHER COMPREHENSIVE INCOME RECOGNISED DIRECTLY IN EQUITY (II)		**(7,273)**	**(8,344)**
Transfers to profit or loss		**6,284**	**18,114**
Hedging instruments		**6,284**	**18,114**
TOTAL TRANSFERS TO PROFIT OR LOSS (III)		**6,284**	**18,114**
TOTAL COMPREHENSIVE INCOME (I+II+III)		**456,724**	**431,769**
Attributable to shareholders of the Parent		**456,620**	**431,168**
Attributable to non-controlling interests		**104**	**601**

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated statement of comprehensive income for the six-month period ended 30 June 2018.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 17). In the event of a discrepancy, the Spanish-language version prevails.

MERLIN PROPERTIES, SOCIMI, S.A.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Thousands of euros)

	Share capital	Share premium	Reserves	Shareholder contributions	Profit for the year	Interim dividend	Valuation adjustments	Translation differences	Treasury shares	Equity attributable to the Parent	Non-controlling interests	Total equity
Balances at 31 December 2016	**469,771**	**4,017,485**	**(143,537)**	**540**	**582,645**	**(59,759)**	**(47,582)**	**-**	**(105)**	**4,819,458**	**21,311**	**4,840,769**
Consolidated comprehensive income	-	-	-	-	421,398	-	9,770	-	-	431,168	601	**431,769**
Distribution of 2016 profit	-	-	522,886	-	(582,645)	59,759	-	-	-	-	-	**-**
Transactions with shareholders or owners-												
Distribution of dividends	-	(46,643)	(47,310)	-	-	-	-	-	-	(93,953)	-	**(93,953)**
Acquisition of treasury shares	-	-	-	-	-	-	-	-	(35,393)	(35,393)	-	**(35,393)**
Recognition of share-based payments	-	-	8,000	-	-	-	-	-	-	8,000	-	**8,000**
Other changes	-	-	670	-	-	-	-	-	-	670	-	**670**
Balances at 30 June 2017	**469,771**	**3,970,842**	**340,709**	**540**	**421,398**	**-**	**(37,812)**	**-**	**(35,498)**	**5,129,950**	**21,912**	**5,151,862**
Balances at 31 December 2017	**469,771**	**3,970,842**	**330,232**	**540**	**1,100,418**	**(93,457)**	**(35,806)**	**-**	**(24,881)**	**5,717,659**	**6,124**	**5,723,783**
Consolidated comprehensive income	-	-	-	-	457,609	-	(989)	-	-	456,620	104	**456,724**
Distribution of 2017 profit (Note 9)	-	-	1,006,961	-	(1,100,418)	93,457	-	-	-		-	**-**
Transactions with shareholders or owners-												
Distribution of dividends (Note 9)	-	(112,218)	(9,624)	-	-	-	-	-	-	(121,842)	-	**(121,842)**
Recognition of share-based payments	-	-	21,920	-	-	-	-	-	-	21,920	-	**21,920**
Delivery of shares under the 2016 stock plan	-	-	(24,340)	-	-	-	-	-	12,607	(11,733)	-	**(11,733)**
Other changes	-	-	(245)	-	-	-	-	-	-	(245)	-	**(245)**
Balances at 30 June 2018	**469,771**	**3,858,624**	**1,324,904**	**540**	**457,609**	**-**	**(36,795)**	**-**	**(12,274)**	**6,062,379**	**6,228**	**6,068,607**

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated statement of changes in equity at 30 June 2018

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 17). In the event of a discrepancy, the Spanish-language version prevails.

MERLIN PROPERTIES, SOCIMI, S.A.
AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

(Thousands of euros)

	Notes	30/06/2018	30/06/2017
CASH FLOWS FROM OPERATING ACTIVITIES:		**56,527**	**534,032**
Profit for the year before tax		**467,985**	**434,259**
Adjustments for-		**(267,164)**	**(232,553)**
Depreciation and amortisation	**Note 5**	5,223	3,612
Change in fair value of investment property	**Note 6**	(313,031)	(332,316)
Change in provisions for contingencies and charges		20,580	32,725
Gains/(Losses) on derecognition and disposal of non-current assets		459	(241)
Finance income		(93)	(280)
Finance costs		62,420	60,069
Change in fair value of financial instruments	**Note 8**	34,022	701
Impairment and gains or losses on disposal of financial instruments		167	(101)
Share of results of investments accounted for using the equity method	**Note 7**	12,829	(8,337)
Impairment of goodwill	**Note 5**	-	9,839
Other gains/(losses)	**Note 7**	(89,740)	1,775
Changes in working capital-		**(64,112)**	**407,446**
Accounts receivable	**Note 8**	(19,569)	448,213
Other current assets		28	3,793
Accounts payable	**Note 12**	(40,000)	(42,383)
Other assets and liabilities		(4,571)	(2,177)
Other cash flows from operating activities-		**(80,183)**	**(75,120)**
Interest paid		(73,182)	(74,769)
Interest received		93	280
Income tax paid		(7,094)	(631)
CASH FLOWS FROM INVESTING ACTIVITIES:		**(122,186)**	**(272,884)**
Payments due to investment-		**(122,235)**	**(281,212)**
Net cash outflow from business acquisitions	**Note 6**	(31,281)	(12,553)
Investment property		(89,449)	(267,720)
Concession assets and property, plant and equipment		(1,505)	(739)
Contributions to associates			(200)
Proceeds from disposals-		**49**	**8,328**
Financial assets		-	-
Investment property		49	8,178
Property, plant and equipment		-	150
CASH FLOWS FROM FINANCING ACTIVITIES:		**(252,605)**	**(112,773)**
Proceeds and payments relating to equity instruments-		**(121,842)**	**(129,346)**
Refund of premium	**Notes 9.2 and 9.3**	(112,218)	(46,643)
Dividends paid	**Note 9.3**	(9,624)	(47,310)
Purchase of equity instruments	**Note 10**	-	(35,393)
Proceeds and payments relating to financial liabilities-		**(130,763)**	**16,573**
Issue of bank borrowings		-	-
Repayment of bank borrowings	**Note 10.1**	(130,763)	(576,862)
Debenture issues	**Note 10.2**	-	600,000
Other payments due to financing activities		-	(6,565)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(318,265)**	**148,375**
Cash and cash equivalents at beginning of year		454,036	247,081
Cash and cash equivalents at end of year		135,771	395,456

The accompanying explanatory Notes 1 to 17 are an integral part of the condensed consolidated statement of cash flows for the six-month period ended 30 June 2018.

Merlin Properties SOCIMI, S.A.
and Subsidiaries

Explanatory Notes to the Condensed
Consolidated Interim Financial Statements
for the six-month period ended 30 June 2018

1. Nature, activity and description of the Group

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

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

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

- The acquisition and development of urban real estate for subsequent leasing, including the refurbishment of buildings as per the Value Added Tax Law 37/1992, of 28 December;
- The ownership of interests in the share capital of listed real estate investment trusts (REITs) or other non-resident entities in Spain with the same corporate purpose, which are subject to a regime similar to that established for REITs in relation to the obligatory profit distribution policy stipulated by law or the bylaws.
- The ownership of equity interests in other resident or non-resident entities in Spain, the main corporate purpose of which is the acquisition of urban properties earmarked for lease, which are subject to the regime established for REITs in relation to the obligatory profit distribution policy stipulated by law or the bylaws and meet the investment requirements stipulated for these companies; and
- The ownership of shares or equity interests in collective real estate investment undertakings governed by Law 35/2003, of 4 November, on collective investment undertakings, or any law that may replace it in the future.

In addition to the economic activity relating to the main corporate purpose, the Parent may also carry on any other ancillary activities, i.e., those that generate income, which in total represents less than 20% of its income in each tax period, or those that may be considered ancillary activities under the legislation applicable at any time.

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

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

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

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

The tax regime of the Parent and a portion of its subsidiaries is governed by Law 11/2009, of 26 October, as amended by Law 16/2012, of 27 December, governing listed real estate investment trusts (REITs). Article 3 of said Law sets out the investment requirements for these types of companies, namely:

1. REITs must have invested at least 80% of the value of their assets in urban properties earmarked for lease, in land to develop properties to be earmarked for that purpose, provided that development begins

within three years following their acquisition, and in equity investments in other companies referred to in Article 2.1 of the aforementioned Law.

The value of the asset is calculated based on the average of the quarterly individual balance sheets of the year. To calculate this value, the REIT may opt to substitute the carrying amount for the fair value of the items contained in these balance sheets, which will apply to all the balance sheets of the year. Any money or collection rights arising from the transfer of the aforementioned properties or investments made in the year or in prior years will not be included in the calculation provided that, in this last case, the reinvestment period referred to in Article 6 of the aforementioned Law has expired.

2. Similarly, at least 80% of the rental income for the tax period corresponding to each year, excluding the rental income arising from the transfer of the ownership interests and the properties used by the company to achieve its main corporate purpose, once the holding period referred to below has elapsed, should be obtained from the lease of properties and dividends or shares of profits arising from the aforementioned investments.

   This percentage must be calculated on the basis of consolidated profit if the company is the parent of a group, in accordance with the criteria established in Article 42 of the Spanish Commercial Code, regardless of its place of residence and of the obligation to formally prepare consolidated financial statements. Such a group must be composed exclusively of the REIT and the other entities referred to in Article 2.1 of this Law.

3. The properties included in the REIT's assets should remain leased for at least three years. The time during which the properties have been made available for lease, up to a maximum of one year, will be included for the purposes of this calculation.

   This period will be calculated:

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

   b) For properties developed or acquired subsequently by the REIT, from the date on which they were leased or made available for tease for the first time.

   c) In the case of shares or investments in entities referred to in Article 2.1 of this Law, they should be retained on the asset side of the REIT's balance sheet for at least three years following their acquisition or, where applicable, from the beginning of the first tax period in which the special tax regime set forth in this Law is applied.

As established in transitional provision one of Law 11/2009, of 26 October, amended by Law 16/2012, of 27 December, governing listed real estate investment trusts, REITs may opt to apply the special tax regime under the terms and conditions established in Article 8 of this Law, even if they do not meet the requirements established therein, provided that such requirements are met within two years after the date of the option to apply the regime.

Failure to meet this condition will require the REIT to file income tax returns under the general tax regime from the tax period in which the aforementioned condition is not met, unless this situation is rectified in the following tax period. The REIT will also be obliged to pay, together with the amount relating to the aforementioned tax period, the difference between the amount of tax payable under the general tax regime and the amount paid under the special tax regime in the previous tax periods, including any applicable late-payment interest, surcharges and penalties.

The income tax rate for REITs was set at 0%. However, where the dividends that the REIT distributes to its shareholders holding an ownership interest exceeding 5% are exempt from tax or are subject to a tax rate lower than 10%, the REIT shall be subject to a special charge of 19%, which shall be considered to be the income tax charge, on the amount of the dividend distributed to these shareholders. If applicable, this special charge must be paid by the REIT within two months after the dividend distribution date.

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

2.1 Regulator framework

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

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

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

- Law 11/2009, of 26 October, as amended by Law 16/2012, of 27 December, governing listed real estate investment trusts (REITs) and other corporate law.

- All other applicable Spanish accounting legislation.

The consolidated financial statements for 2017 were prepared in accordance with the regulatory financial reporting framework described in the paragraph above and, accordingly, they present fairly the Group's consolidated equity and consolidated financial position at 31 December 2017 and the consolidated results of its operations, the changes in consolidated equity and the consolidated cash flows in the year ended 31 December 2017.

The separate and consolidated financial statements of Merlin Properties, SOCIMI, S.A. for 2017 prepared by its directors were approved by the shareholders at the Annual General Meeting on 7 May 2018.

The 2017 separate financial statements of the other Group companies, which were prepared by their respective directors, were approved by the sole shareholder on 29 and 30 June 2018.

These condensed consolidated interim financial statements are presented in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting, and were approved by the directors of the Parent on 30 July 2018, in accordance with the provisions of Article 12 of Royal Decree 1362/2007.

In accordance with IAS 34, interim financial information is prepared solely to update the content of the most recent consolidated financial statements prepared by the Group, focusing on new activities, events and circumstances arising during the period, and does not duplicate the information previously reported in the consolidated financial statements. The condensed consolidated interim financial statements at 30 June 2018 therefore do not include all the disclosures that would be required in complete consolidated financial statements prepared in conformity with International Financial Reporting Standards as adopted by the European Union and, accordingly, the accompanying condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2017.

The consolidated results and the determination of consolidated equity are sensitive to the accounting principles and policies, measurement bases and estimates used by the Parent's directors in the preparation of the condensed consolidated financial statements. In this regard, the principal accounting policies and measurement bases used relate to those applied in the consolidated financial statements for 2017, except for the standards and interpretations that entered into force during the first half of 2018.

2.2 Basis of presentation of the condensed consolidated interim financial statements

The condensed consolidated interim financial statements were obtained from the accounting records of the Parent and consolidated companies, and have been prepared in accordance with the regulatory financial reporting framework described in Note 2.1 and, accordingly, they present fairly the Group's consolidated equity and consolidated financial position at 30 June 2018 and the consolidated results of its operations, the changes in consolidated equity and the consolidated cash flows in the six-month period ended 30 June 2018.

Given that the accounting policies and measurement bases applied in preparing the Group's condensed consolidated interim financial statements for the six-month period ended 30 June 2018 may differ from those applied by some of the Group companies, the necessary adjustments and reclassifications were made on consolidation to unify these policies and bases and to make them compliant with IFRSs as adopted by the European Union

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

These condensed consolidated interim financial statements at 30 June 2018 were subject to review by the auditors. The figures relating to 30 June 2017 and 31 December 2017 are presented for comparison purposes only.

2.2.1 Adoption of International Financial Reporting Standards effective as from 1 January 2018

In the first half of 2018 the following standards, amendments and interpretations came into force, which, where applicable, were used by the Group in preparing the condensed consolidated interim financial statements:

Standards, amendments and interpretations	**Description**	**Mandatory application in the years beginning on or after:**
IFRS 15, Revenue from Contracts with Customers (issued in May 2014) and its clarifications (issued in April 2016)	New standard on revenue recognition (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31)	1 January 2018
IFRS 9, Financial Instruments (issued in July 2014)	Replaces the rules for the classification, measurement, recognition and derecognition of financial assets and liabilities and for hedge accounting and impairment established in IAS 39.	1 January 2018
Amendments to IFRS 2, Classification and Measurement of Share-based Payment Transactions (issued in June 2016)	These are limited amendments that clarify specific matters such as the accounting for the effects of vesting conditions on cash-settled share-based payment transactions, the classification of share-based payment transactions with net settlement features and certain aspects of the modifications to the type of share-based payment.	1 January 2018
Amendments to IFRS 4, Insurance Contracts (issued in June 2016)	Provides entities with the option of applying the overlay approach (IFRS 9) or the deferral approach, within the scope of IFRS 4	1 January 2018
Amendments to IAS 40, Reclassification of Investment Property (issued in December 2016)	The amendment clarifies that a reclassification of an investment as investment property shall only be permitted when it can be demonstrated that there has been a change in use.	1 January 2018
Amendments to IFRS 1, First-time Adoption of IFRS (issued in December 2016)	Deletion of certain short-term exemptions (improvements to IFRSs 2014-2016 Cycle)	1 January 2018
Amendments to IAS 28, Investments in Associates and Joint Ventures (issued in December 2016)	Clarification in relation to the option of measuring at fair value (improvements to IFRSs 2014-2016 Cycle)	1 January 2018
Amendments to IFRIC 22, Foreign Currency Transactions and Advance Consideration (issued in December 2016)	This interpretation establishes the “transaction date” in order to establish the exchange rate applicable to transactions with advance considerations in foreign currency.	1 January 2018

With regard to IFRS 15, it did not have a significant impact as the scope of this standard does not include lease agreements, which are still regulated by IAS 17/IFRS 16. Given the nature a REIT and the obligations arising from this regime, the Group does not have other significant income other than its rental income.

With regard to IFRS 9, it did not have a significant impact given that no refinancing took place, that the derivative instruments arranged by the Group follow the same recognition and measurement criteria under the new standard as that indicated in IAS 39 and that the balance of accounts receivable is also immaterial, taking into account that the risk of default is less than 1% of turnover and that the Group has security deposits provided by the tenants to secure their loan.

The other standards and amendments did not have a significant impact.

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

2.2.2 Standards not yet in force in 2018

The following standards were not yet in force in the first half of 2018, either because their effective date is subsequent to the date of the consolidated interim financial statements or because they had not yet been adopted by the European Union.

Standards, amendments and interpretations	Description	Mandatory application in the years beginning on or after:
IFRS 16, Leases	Replaces IAS 17 and the related interpretations. The main development involves a single lessee accounting model, which will include all leases on the balance sheet (with specific exceptions) with an impact similar to that of current financial leases (right-of-use assets will be depreciated and a finance cost will be recognised for the depreciated cost of the liability).	1 January 2019
Amendments to IFRS 9, Prepayment Features with Negative Compensation	This amendment will enable the measurement at amortised cost of certain financial assets that can be cancelled early for an amount less than the outstanding principal and interest on this principal.	1 January 2019
IFRIC 23, Uncertainty over Income Tax Treatments	This interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over whether a certain tax treatment used by the entity will be accepted by the tax authorities.	1 January 2019 (1)
Amendments to IAS 28, Long-term Interests in Associates and Joint Ventures	It clarifies that IFRS 9 must be applied to long-term interests in an associate or joint venture to which the equity method is not applied.	1 January 2019 (1)
Improvements to IFRSs, 2015-2017 Cycle	Amendments to a series of standards	1 January 2019 (1)
Amendments of IAS 19, Plan Amendment, Curtailment or Settlement	It clarifies how to calculate the service cost for the current period and the interest for the rest of the year when there is an amendment, curtailment or settlement of a defined benefit plan.	1 January 2019 (1)
IFRS 17, Insurance Contracts	It will replace IFRS 4. It includes the principles for the recognition, measurement, presentation and disclosure of insurance contracts.	1 January 2021 (1)

(1) Pending adoption by the European Union

The Group is currently assessing the impacts that the future application of these standards, which must be applied for all periods beginning on or after 1 January 2019, may have on the consolidated financial statements once they enter into force, whereby it is not possible to give a reasonable estimate of their effects until this analysis is completed. In the case of IFRS 16 (Leases), this standard will replace the current IAS 17 and will be applicable as of 1 January 2019. One of the new developments involves a single lessee accounting model, which will include all leases on the balance sheet (with specific exceptions) as if they were financed purchases, i.e., with an impact similar to that of the current financial leases. Otherwise, lessors will continue to use a dual model, similar to that currently set forth in IAS 17 and, therefore, the Group considers that the impact of the adoption of this standard will not be significant.

The other main new development involves the amendments to IAS 40 as a result of the entry into force of IFRS 16, which indicates that the use rights that the Group has leased will be classified and measured in the same manner as other investment property. This amendment means that concession projects will be classified under “Investment property”, which entailed an increase in value of approximately EUR 43 million at 30 June 2018.

2.3 Functional currency

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

2.4 Comparative information

In accordance with that set forth in the international financial reporting standards adopted by the European Union, the information contained in these condensed consolidated interim financial statements relating to 30 June 2017 is presented for comparison purposes with the information relating to the six-month period ended 30 June 2018 for the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity, the condensed consolidated statement of cash flows and the condensed consolidated statement the financial position for the year ended 31 December 2017.

2.5 Responsibility for the information and use of estimates

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

The Group's condensed consolidated interim financial statements for the six-month period ended 30 June 2018 occasionally uses estimates made by the senior executives of the Group and of the consolidated entities, later ratified by the directors, in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

1. The market value of the net assets acquired in business combinations.

2. The market value of the Group's property assets. The Group obtained valuations from independent experts at 30 June 2018.

3. The fair value of certain financial instruments.

4. The assessment of provisions and contingencies.

5. Management of financial risk and, in particular, of liquidity risk.

6. The recovery of deferred tax assets and the tax rate applicable to temporary differences.

7. Definition of the transactions carried out by the Group as a business combination in accordance with IFRS 3 or as an acquisition of assets.

8. Compliance with the requirements that govern listed real estate investment trusts.

Changes in estimates:

Although these estimates were made on the basis of the best information available at 30 June 2018 on the events analysed, events that take place in the future might make it necessary to change these estimates (upwards or downwards) in coming years. Changes in accounting estimates would be applied prospectively in accordance with the requirements of IAS 8, recognising the effects of the change in estimates in the related consolidated income statement.

2.6 Contingent assets and liabilities

There were no significant changes in the Group's main contingent assets or liabilities in the first six months of 2018.

2.7 Correction of accounting errors

In preparing the condensed consolidated interim financial statements for the six-month period ended 30 June 2018, no errors were detected that would have made it necessary to restate the amounts included in the consolidated financial statements for 2017.

2.8 Seasonality of the Group's transactions

In view of the business activities in which the Group companies engage, their transactions do not have a cyclical or seasonal market. Therefore, no specific disclosures are included in this connection in these explanatory notes to the condensed consolidated interim financial statements for the six-month period ended 30 June 2018.

2.9 Condensed consolidated statement of cash flows

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

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

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

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

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

2.10 Materiality

In accordance with IAS 34, in deciding on the information to be disclosed in the explanatory notes to the condensed consolidated interim financial statements or other matters in the notes to the financial statements, the Group took into account their materiality in relation to the condensed consolidated financial statements for the six-month period ended 30 June 2018.

3. Changes in the scope of consolidation

The changes in the scope of consolidation in the first six months of 2018 were as follows:

The Parent acquired 100% of the ownership interest in Torre Dos Oceanus Investimentos Imobiliarios, S.A., the share capital of which amounted to EUR 50,000, which was fully paid and represented by 50,000 shares of EUR 1 par value each, for a total of EUR 33,300 thousand. The main line of business of the acquired company is the lease of offices, whereby its main asset is the Torre Zen Building in Lisbon which is 100% leased and has a surface area of 10,207 square meters. Its fair value at the time of purchase according to an independent appraiser was EUR 35,374 thousand. The purpose of this business combination is to increase the Group's presence in the Lisbon real estate market. The impact on the financial statements of the main aggregates is of limited relevance with respect to the Group.

Appendix I to the consolidated financial statements for 2017 provides relevant information on the consolidated Group companies and the companies accounted for using the equity method at that date. Only the change described in the paragraph above took place in 2018.

Corporate restructuring of subsidiaries

On 27 June 2018, the Parent's Board of Directors approved the start of the process for the merger by absorption of the following Merlin Group companies:

- Metropolitana Castellana, S.L.U. Merlin Properties Adequa, S.L.U. and Belkyn West Company, S.L.U. by Merlin Oficinas, S.L.U.

- Obraser, S.A.U. by Merlin Retail, S.L.U.

- Merlin Logistica II, S.L.U. by Merlin Logística I, S.L.U.

These processes did not have any effect on the consolidated financial statements of the Group.

4. Segment reporting

a) Basis of segmentation

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

- Office buildings

- High street retail

- Shopping centres

- Logistics assets

- Other

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

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

The Group only carried out its business activities in Spain and Portugal in the six-month period ended 30 June 2018.

b) Basis and methodology for segment reporting

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

Segment revenue relates to ordinary revenue directly attributable to the segment plus the relevant proportion of the Group's general income that can be allocated on a reasonable basis to that segment. The revenue of each segment does not include interest income or dividends, or gains on debt redemption or repayment transactions.

Segment expenses are the expenses directly attributable to each segment arising from its operating activities, plus the corresponding proportion of expenses that can be allocated thereto using a reasonable allocation basis.

The segment's profit or loss is presented before any adjustment for non-controlling interests.

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

The table below presents the information, by segments, on these activities at 30 June 2018 and their comparison with the previous period (30 June 2017 for income and expenses, and 31 December 2017 for assets and liabilities):

a) Segment reporting

At 30 June 2018	Thousands of euros						
	Office buildings	High Street Retail	Shopping centres	Logistics	Other	Corporate Unit	Total Group
Revenue from non-Group customers							
Rental income	103,400	53,930	45,207	22,595	7,006	13	232,151
Services rendered	-	-	149	-	9	91,160	91,318
Revenue	**103,400**	**53,930**	**45,356**	**22,595**	**7,015**	**91,173**	**323,469**
Other operating income	343	1	123	91	32	1,819	2,409
Staff costs	(94)	-	(92)	(214)	(48)	(35,998)	(36,446)
Operating expenses	(10,403)	(1,135)	(6,482)	(2,513)	(2,486)	(4,690)	(27,709)
Gains or losses on disposal of non-current assets	(1)	2	(116)	-	(343)	(1)	(459)
Depreciation and amortisation charge	(507)	(1)	(911)	(3,047)	(5)	(752)	(5,223)
Excessive provisions	-	-	-	-	-	8,239	8,239
Changes in fair value of investment property	128,506	93,534	33,873	28,287	28,831	-	313,031
Negative goodwill on business combinations	(462)	-	-	-	-	481	19
Profit/(loss) from operations	**220,782**	**146,331**	**71,751**	**45,199**	**32,996**	**60,271**	**577,330**
Net financial profit/(loss)	(261)	(13,945)	(1,954)	(1,207)	-	(44,960)	(62,327)
Profit/(loss) on disposal of financial instruments	(12)	-	(23)	(32)	(3)	(97)	(167)
Changes in the value of derivative financial instruments	(2)	(29,394)	-	(275)	-	(4,351)	(34,022)
Share of results of companies accounted for using the equity method	-	-	-	-	-	(12,829)	(12,829)
Profit/(Loss) before tax	**220,507**	**102,992**	**69,774**	**43,685**	**32,994**	**(1,966)**	**467,985**
Income tax	(6,990)	(2,156)	(780)	(365)	(120)	139	(10,272)
Profit/(Loss) for the year	**213,517**	**100,836**	**68,994**	**43,320**	**32,874**	**(1,827)**	**457,713**

At 30 June 2017	Thousands of euros						
	Office buildings	High Street Retail	Shopping centres	Logistics	Other	Corporate Unit	Total Group
Revenue from non-Group customers							
Rental income	103,371	53,329	45,456	19,829	6,937	-	228,922
Revenue from services provided	-	-	-	-	4,098	337	4,435
Revenue	**103,371**	**53,329**	**45,456**	**19,829**	**11,035**	**337**	**233,357**
Other operating income	53	31	1,079	135	-	199	1,497
Staff costs	-	-	(401)	(234)	-	(37,952)	(38,587)
Operating expenses	(8,702)	(1,027)	(6,622)	(2,431)	(955)	(7,646)	(27,383)
Gains or losses on disposal of non-current assets	18	158	65	-	-	-	241
Depreciation and amortisation charge	-	(2)	(5)	(2,492)	-	(1,113)	(3,612)
Excessive provisions	-	-	-	-	-	96	96
Absorption of the revaluation of investment property	-	-	-	(7,018)	(2,821)	-	(9,839)
Changes in fair value of investment property	176,087	12,364	92,624	40,287	10,954	-	332,316
Negative goodwill on business combinations	(1,775)	-	-	-	-	-	(1,775)
Profit/(loss) from operations	**269,052**	**64,853**	**132,196**	**48,076**	**18,213**	**(46,079)**	**486,311**
Net financial profit/(loss)	(1,540)	(10,938)	(1,984)	(1,314)	-	(44,013)	(59,789)
Profit/(loss) on disposal of financial instruments	-	-	(8)	-	-	109	101
Changes in the value of derivative financial instruments	(24)	(7,798)	-	226	-	6,895	(701)
Share of results of companies accounted for using the equity method	-	-	791	-	-	7,546	8,337
Profit/(Loss) before tax	**267,488**	**46,117**	**130,995**	**46,988**	**18,213**	**(75,542)**	**434,259**
Income tax	(1,821)	(1,019)	(7,012)	799	(1,699)	(1,508)	(12,260)
Profit/(Loss) for the year	**265,667**	**45,098**	**123,983**	**47,787**	**16,514**	**(77,050)**	**421,999**

At 30 June 2018	Thousands of euros						
	Office buildings	High Street Retail	Shopping centres	Logistics	Other	Corporate Unit	Total Group
Investment property	5,367,906	2,233,889	1,703,858	701,683	782,884	-	10,790,220
Non-current financial investments-	18,574	193,366	8,868	5,809	1,331	18,835	246,783
Derivatives	-	*178,560*	-	-	-	-	*178,560*
Other financial assets	*18,574*	*14,806*	*8,868*	*5,809*	*1,331*	*18,835*	*68,223*
Deferred tax assets	93	6,979	807	508	9,572	126,092	144,051
Other non-current assets	27,352	5	85,916	125,362	911	451,309	690,855
Non-current assets	**5,413,925**	**2,434,239**	**1,799,449**	**833,362**	**794,698**	**596,236**	**11,871,909**
Trade receivables	11,460	2,319	1,908	4,697	6,806	68,826	96,016
Other current financial assets	60	401	27	1,669	39	71,230	73,426
Other current assets	21,764	10,138	20,084	16,756	1,442	79,092	149,276
Current assets	**33,284**	**12,858**	**22,019**	**23,122**	**8,287**	**219,148**	**318,718**
Total assets	**5,447,209**	**2,447,097**	**1,821,468**	**856,484**	**802,985**	**815,384**	**12,190,627**
Non-current bank borrowings and debenture issues	20,861	945,191	131,332	71,114	-	4,062,941	5,231,439
Other non-current liabilities	330,050	93,594	112,516	37,984	3,936	172,780	750,860
Non-current liabilities	**350,911**	**1,038,785**	**243,848**	**109,098**	**3,936**	**4,235,721**	**5,982,299**
Current liabilities	**32,351**	**14,760**	**6,481**	**29,892**	**10,382**	**45,855**	**139,721**
Total liabilities	**383,262**	**1,053,545**	**250,329**	**138,990**	**14,318**	**4,281,576**	**6,122,020**

At 31 December 2017	Thousands of euros						
	Office buildings	High Street Retail	Shopping centres	Logistics	Other	Corporate Unit	Total Group
Investment property	5,187,207	2,140,262	1,661,845	624,097	739,004	-	10,352,415
Non-current financial investments-	19,363	222,083	8,963	5,680	1,626	18,167	275,882
Derivatives	-	*207,274*	-	-	-	-	*207,274*
Other financial assets	*19,363*	*14,809*	*8,963*	*5,680*	*1,626*	*18,167*	*68,608*
Deferred tax assets	23	7,079	808	553	9,572	126,092	144,127
Other non-current assets	-	6	85,518	156,110	915	375,488	618,037
Non-current assets	**5,206,593**	**2,369,430**	**1,757,134**	**786,440**	**751,117**	**519,747**	**11,390,461**
Trade receivables	8,649	1,589	2,368	5,334	7,258	53,335	78,533
Other current financial assets	47	405	17	1,408	17	71,560	73,454
Other current assets	26,257	59,583	45,593	17,196	1,822	312,140	462,591
Current assets	**34,953**	**61,577**	**47,978**	**23,938**	**9,097**	**437,035**	**614,578**
Total assets	**5,241,546**	**2,431,007**	**1,805,112**	**810,378**	**760,214**	**956,782**	**12,005,039**
Non-current bank borrowings and debenture issues	20,844	948,049	131,152	96,264	-	4,057,686	5,253,995
Other non-current liabilities	323,312	91,797	112,331	42,127	3,502	179,925	752,994
Non-current liabilities	**344,156**	**1,039,846**	**243,483**	**138,391**	**3,502**	**4,237,611**	**6,006,989**
Current liabilities	**41,774**	**12,783**	**9,338**	**10,597**	**8,415**	**191,360**	**274,267**
Total liabilities	**385,930**	**1,052,629**	**252,821**	**148,988**	**11,917**	**4,428,971**	**6,281,256**

b) Geographical segment reporting

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

The following table summarises, by geographical area, the revenue, non-current investment property and concession projects at 30 June 2018:

	Thousands of euros			
	Revenue	%	Investment property / Concession projects	%
Madrid	203,396	63%	6,133,578	55%
Catalonia	42,208	13%	1,874,139	17%
Galicia	11,035	3%	437,731	4%
Basque Country	10,651	3%	421,636	4%
Andalusia	10,546	3%	405,668	4%
Valencia	11,654	4%	433,123	4%
Castilla y León	3,202	1%	134,098	1%
Rest of Spain	23,933	7%	1,036,057	9%
Portugal	6,844	3%	331,231	2%
Total	**323,469**	**100%**	**11,207,261**	**100%**

At 31 December 2017

	Thousands of euros			
	Revenue	%	Investment property / Concession projects	%
Madrid	231,743	50%	5,921,608	55%
Catalonia	82,916	18%	1,793,210	17%
Galicia	21,303	5%	434,525	4%
Basque Country	20,735	4%	409,118	4%
Andalusia	20,585	4%	402,565	4%
Valencia	22,920	5%	421,745	4%
Castilla y León	6,401	1%	132,446	1%
Rest of Spain	45,882	10%	1,014,149	8%
Portugal	10,809	3%	272,489	3%
Total	**463,294**	**100%**	**10,801,855**	**100%**

c) Main customers

The table below lists the main lessees at 30 June 2018, and the primary characteristics of each of them:

Position	Name	Type	% of total rental income	% accumulated	Maturity
1	BBVA	High street retail	19.3%	19.3%	2029-2040
2	Endesa	Offices	4.5%	23.8%	2020-2028
3	Inditex	Shopping centres	2.7%	26.5%	2020
4	Técnicas Reunidas	Offices	2.2%	28.7%	2019
5	PWC	Offices	1.6%	30.3%	2022
6	Hotusa+WTC	Hotel	1.5%	32.0%	2023
7	Caprabo	High street retail	1.4%	33.5%	2025
8	Indra	Offices	1.3%	34.9%	2024
9	Madrid	Offices	1.3%	36.2%	2019
10	XPO	Logistics	1.1%	37.3%	2022

5. Concession projects, other intangible asset and property, plant and equipment

The changes in the first six months of 2018 in “Concession projects”, “Other intangible assets” and “Property, plant and equipment” are due mainly to the depreciation and amortisation for the year, which amounted to EUR 5,223 thousand, and is recognised under “Depreciation and amortisation charge” in the accompanying condensed consolidated income statement.

6. Investment property

The changes in this heading in the six-month period ended 30 June 2018 were as follows:

	Thousands of euros
Balances at 1 January 2017	**9,027,184**
Additions due to business combinations	96,312
Additions for the year	356,854
Disposals	(25,336)
Changes in value of investment property	897,401
Balances at 31 December 2017	**10,352,415**
Additions due to business combinations (Note 3)	35,374
Additions for the year	89,449
Disposals in the year	(49)
Changes in value of investment property	313,031
Balances at 30 June 2018	**10,790,220**

Investment property is recognised at fair value. Income recognised in the condensed consolidated income statement from measuring investment property at fair value amounted to EUR 313,031 thousand.

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

The main additions of assets carried out in the first six months of 2018 relate to the turnkey delivery of a logistics park in Gavilanes (Madrid) in the amount of EUR 29 million. In the first half of 2018 the Group also acquired two plots of land for the development of logistics buildings in Seseña and Guadalajara in the amount of EUR 8 million.

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

At 30 June 2018, the Group had pledged real estate assets totalling EUR 2,643,971 thousand to secure various loans and derivative financial instruments, the balances of which at 30 June 2018 amounted to EUR 1,160,966 thousand and EUR 34,286 thousand, respectively (see Note 10).

On 13 February 2018, the Parent terminated the finance leases that it had at the end of the previous year.

All properties included under “Investment property” were insured at 30 June 2018.

At 30 June 2018, the Group did not have any outright purchase agreements for investment property.

At 30 June 2018, the gross surface areas and occupancy rates of the assets by line of business were as follows:

	Square metres (*)										
	Gross leasable area										
	Madrid	Catalonia	Castilla y León	Galicia	Basque Country	Andalusia	Valencia	Rest of Spain	Portugal	Total	Occupancy rate (%)
Offices	972.773	214.532	-	-	-	15.078	-	4.488	70.324	1.277.195	87.9%
High street retail	95.006	112.985	24.673	26.910	31.789	31.839	40.456	96.322	-	459.981	99.3%
Shopping centres	74.281	93.155	-	100.207	24.323	40.805	69.273	81.225	5.495	488.763	88.2%
Logistics	278.791	202.543	-	-	72.717	114.128	26.613	381.842	-	1.076.633	97.4%
Other	56.381	55.137	-	5.898	46	-	-	-	-	117.462	76.6%
Total surface area	**1.477.232**	**678.352**	**24.673**	**133.015**	**128.875**	**201.850**	**136.342**	**563.877**	**75.819**	**3.420.034**	**92.1%**
% weight	**43%**	**20%**	**1%**	**4%**	**4%**	**6%**	**4%**	**16%**	**2%**		

(*) Does not include land or projects under development

Fair value measurement and sensitivity

All investment property leased or earmarked for lease through operating leases is classified as investment property.

In accordance with IAS 40, the Group calculates the fair value of its investment property on a regular basis. This fair value is determined by using the appraisals carried out every six months by independent third-party experts as reference values, such that at the end of each six-month period the fair value reflects the market conditions of the investment properties at that date.

The market value of the Group's investment property at 30 June 2018, calculated on the basis of appraisals carried out by Savills Consultores Inmobiliarios, S.A. and CBRE Valuation Advisory, S.A., independent appraisers not related to the Group, amounted to EUR 10,772,315 thousand. This valuation does not include the value of the embedded derivative of the rent in the lease agreement with BBVA amounting to EUR 178,560 thousand, and does not include any prepayments made by the Group to third parties for the purchase of assets in the amount of EUR 17,905 thousand. The valuation was carried out in accordance with the Appraisal and Valuation Standards issued by the Royal Institute of Chartered Surveyors (RICS) of the United Kingdom and the International Valuation Standards (IVS) issued by the International Valuation Standards Council (IVSC).

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

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

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

In any case, the situation of the rental property market could give rise to material differences between the fair value of the Group's investment property and the effective realisable value thereof.

Breakdown of fair value of investment property

At 30 June 2018, the detail of assets measured at fair value by their level in the fair value hierarchy is as follows:

	Thousands of euros			
	At 30 June 2018			
	Total	Level 1	Level 2	Level 3
Recurring fair value measurement	10,790,220			10,790,220
Investment property				
Offices				
- Land	2,112,712			2,112,712
- Buildings	3,255,194			3,255,194
High street retail				
- Land	816,837			816,837
- Buildings	1,417,052			1,417,052
Shopping centres				
- Land	424,633			424,633
- Buildings	1,279,225			1,279,225
Logistics				
- Land	215,148			215,148
- Buildings	486,535			486,535
Other				
- Land	268,635			268,635
- Buildings	514,249			514,249
Total assets measured at fair value on a recurring basis	10,790,220			10,790,220

	Thousands of euros			
	At 31 December 2017			
	Total	Level 1	Level 2	Level 3
Recurring fair value measurement	10,352,415			10,352,415
Investment property				
Offices				
- Land	1,989,164			1,989,164
- Buildings	3,198,043			3,198,043
High street retail				
- Land	799,221			799,221
- Buildings	1,341,041			1,341,041
Shopping centres				
- Land	418,282			418,282
- Buildings	1,243,563			1,243,563
Logistics				
- Land	183,117			183,117
- Buildings	440,980			440,980
Other				
- Land	268,665			268,665
- Buildings	470,339			470,339
Total assets measured at fair value on a recurring basis	10,352,415			10,352,415

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

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

At 30 June 2018

	Exit yield	Discount rate
Offices	3.50% - 8.00%	4.00% - 8.00%
High street retail	3.50% - 7.00% (*)	5.00% - 9.00% (*)
Shopping centres	4.50% - 7.50%	6.25% - 10.00%
Logistics	5.75% - 7.50%	7.25% - 16.00%
Other	5.00% - 10.00%	5.00% - 16.00%

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

At 31 December 2017

	Exit yield	Discount rate
Offices	3.75% - 8.00%	4.00% - 8.00%
High street retail	4.00% - 7.00% (*)	5.00% - 9.00% (*)
Shopping centres	4.75% - 7.50%	6.25% - 10.00%
Logistics	5.75% - 7.50%	7.25% - 16.00%
Other	4.75% - 10.0%	5.00% - 16.00%

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

The effect of a one-quarter, one-half and one point change in the required rates of return, calculated as income over the market value of the assets, on consolidated assets and on the consolidated income statement, regarding investment property, would be as follows:

	Thousands of euros					
	30.06.2018					
	Assets			Consolidated net profit/(loss)		
	0.25%	0.50%	1%	0.25%	0.50%	1%
Increase in the rate of return	(529,638)	(1,013,682)	(1,866,672)	(529,638)	(1,013,682)	(1,866,672)
Decrease in the rate of return	581,992	1,224,503	2,733,230	581,992	1,224,503	2,733,230

	Thousands of euros					
	31.12.2017					
	Assets			Consolidated net profit/(loss)		
	0.25%	0.50%	1%	0.25%	0.50%	1%
Increase in the rate of return	(511,059)	(978,158)	(1,801,366)	(511,059)	(978,158)	(1,801,366)
Decrease in the rate of return	561,532	1,181,402	2,636,737	561,532	1,181,402	2,636,737

The effect of a 1%, 5% and 10% change in the rent considered on consolidated assets and on the consolidated income statement, regarding investment property, would be as follows:

	Thousands of euros					
	30.06.2018					
	Assets			Consolidated net profit/(loss)		
	1%	5%	10%	1%	5%	10%
Increase in rent	69,596	347,982	695,964	69,596	347,982	695,964
Decrease in rent	(69,596)	(347,982)	(695,964)	(69,596)	(347,982)	(695,964)

	Thousands of euros					
	31.12.2017					
	Assets			Consolidated net profit/(loss)		
	1%	5%	10%	1%	5%	10%
Increase in rent	65,869	329,346	658,692	65,869	329,346	658,692
Decrease in rent	(65,869)	(329,346)	(658,692)	(65,869)	(329,346)	(658,692)

The effect of a one-quarter and one-half point change in the exit yields considered, in the case based on return calculated as the result of dividing the net operating income for the last year of the period analysed by the estimated exit value, on consolidated assets and on the consolidated income statement, regarding investment property, would be as follows:

	Thousands of euros			
	30.06.2018			
	Assets		Consolidated net profit/(loss)	
	0.25%	0.50%	0.25%	0.50%
Increase in the exit yield	(274,514)	(526,261)	(274,514)	(526,261)
Decrease in the exit yield	300,516	630,911	300,516	630,911

	Thousands of euros			
	31.12.2017			
	Assets		Consolidated net profit/(loss)	
	0.25%	0.50%	0.25%	0.50%
Increase in the exit yield	(266,588)	(511,018)	(266,588)	(511,018)
Decrease in the exit yield	291,904	612,908	291,904	612,908

Accordingly, the impact on the consolidated income statement of the increases in value of the Group's property assets in the first six months of 2018, taking into consideration all headings affected in the consolidated income statement, is as follows:

	Thousands of euros	
	30/06/2018	30/06/2017
Changes in fair value of investment property	313,031	332,316
Changes in the fair value of derivatives	(28,714)	(7,317)
Absorption of the increases in value of the investment property of Testa Inmuebles en Renta	-	(9,839)
Effect on the income statement	**284,317**	**315,160**

7. Investments accounted for using the equity method

The changes in the balance of "Investments accounted for using the equity method" are due mainly to the profit obtained by investees in 2018 as a result of terminating the management agreement entered into between the Parent and Testa Residencial SOCIMI, S.A.

On 19 January 2018, Testa Residencial SOCIMI, S.A. terminated early the service agreement entered into with the Parent. In accordance with the terms and conditions of this agreement, if a situation such as that described above arises, the Parent is entitled to receive compensation, the amount of which is determined based on the annual management fee and the years left of the agreement. As a result of terminating the agreement, the Parent earned income amounting to EUR 89,721 thousand, which was paid in full through the delivery of 640,693,342 shares issued in the capital increase carried out by Testa Residencial SOCIMI, S.A.

The capital increase of Testa Residencial SOCIMI, S.A. was approved at the Annual General Meeting held on 26 March 2018, whereby the Parent now holds an ownership interest of 16.95%.

Appendix I of the Group's consolidated financial statements for 2017 includes a list of the main interests in associates, which includes the name, country of incorporation, business activity and the percentage of interest in the share capital. There were no significant changes in the main aggregates of the Group's associates.

8. Current and non-current financial assets

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

Classification of financial assets by category:

	Thousands of euros	
	30/06/2018	31/12/2017
Non-current:		
At fair value-		
Derivative embedded in BBVA lease agreement	178,560	207,274
At amortised cost-		
Equity instruments	1,332	873
Loans to third parties	1,015	1,488
Deposits and guarantees	65,876	66,247
	246,783	**275,882**
Current:		
At amortised cost-		
Investments in associates	66,320	66,340
Other financial assets	7,106	7,114
Trade and other receivables	96,016	78,533
	169,442	**151.987**

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

Derivatives

"Derivatives" includes the value of the embedded derivative corresponding to the inflation multiplier included in the lease agreement with BBVA to revise rents annually (see Note 12 to the financial statements for 2017). The loss in the value of this derivative in the six-month period ended 30 June 2018 amounted to EUR 28,714 thousand and was recognised under "Change in fair value of financial instruments" in the accompanying condensed consolidated income statement. The measurement approach used is described in Note 5.9 to the consolidated financial statements for 2017 and is applicable to Level 2 of the fair value hierarchy established in IFRS 7, as observable inputs but not quoted prices are reflected.

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

At 30 June 2018

Scenario	Thousands of euros	
	Assets	Consolidated profit/(loss) before tax
+50 bps	63,181	63,181
-50 bps	(54,929)	(54,929)

At 31 December 2017

Scenario	Thousands of euros	
	Assets	Consolidated profit/(loss) before tax
+50 bps	60,655	60,655
-50 bps	(45,631)	(45,631)

Trade and other receivables

This heading includes an account receivable amounting to EUR 50.8 million in relation to the sale of the hotel assets sold in 2016 and maturing in the second half of 2018.

Classification of financial assets by maturity:

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

At 30 June 2018

	Thousands of euros				
	Less than 1 year	From 1 to 5 years	More than 5 years	Undetermined	Total
Derivative embedded in BBVA lease agreement	-	-	178,560	-	178,560
Equity instruments	-	-	-	1,332	1,332
Loans to third parties	-	-	1,015	-	1,015
Deposits and guarantees	-	-	-	65,876	65,876
Investments in associates	66,320	-	-	-	66,320
Other financial assets	7,106	-	-	-	7,106
Trade and other receivables	96,016	-	-	-	96,016
Total financial assets	**169,442**	**-**	**179,575**	**67,208**	**416,225**

At 31 December 2017

	Thousands of euros				
	Less than 1 year	From 1 to 5 years	More than 5 years	Undetermined	Total
Derivative embedded in BBVA lease agreement	-	-	207,274	-	207,274
Equity instruments	-	-	-	873	873
Loans to third parties	-	-	1,488	-	1,488
Deposits and guarantees	-	-	-	66,247	66,247
Investments in Group companies and associates	66,340	-	-	-	66,340
Other financial assets	7,114	-	-	-	7,114
Trade and other receivables	78,533	-	-	-	78,533
Total financial assets	**151,987**	**-**	**208,762**	**67,120**	**427.869**

9. Equity

9.1 Share capital

There were no changes in the share capital of the Parent in the first half of 2018.

At 30 June 2018, the share capital of Merlin Properties SOCIMI, S.A., amounted to EUR 469,771 thousand, represented by 469,770,750 fully subscribed and paid shares of EUR 1 par value each, all of which are of the same class and confer the holders thereof the same rights.

All the Parent’s shares are admitted to official listing on the Madrid, Barcelona, Bilbao and Valencia stock exchanges. The market price of the Parent’s shares at 30 June 2018 and the average market price for the fourth quarter amounted to EUR 12.46 and EUR 12.23 per share, respectively.

At 30 June 2018, the significant shareholders of Merlin Properties SOCIMI, S.A. with direct or indirect ownership interests exceeding 3% of share capital, are as follows:

	Shares			% of share capital
	Direct	Indirect	Total	
Banco Santander, S.A.	78,437,100	26,172,125	104.609.225	22.27%
BlackRock, INC	-	18,773,897	18,773,897	3.99%

9.2 Share premium

The revised text of the Spanish Limited Liability Companies Law expressly permits the use of the share premium to increase capital and establishes no specific restrictions as to its use.

This reserve is unrestricted so long as its allocation does not lower the Parent’s equity to below the amount of share capital. In this connection, in 2018 the shareholders at the General Meeting approved the distribution of dividends totalling EUR 112,218 thousand with a charge to the share premium.

9.3 Reserves

The detail of reserves at 30 June 2018 and 31 December 2017 is as follows:

	Thousands of euros	
	30/06/2018	31/12/2017
Legal reserve	26,336	14,883
Reserves of consolidated companies	1,289,459	303,819
Other reserves	9,109	11,530
Total other reserves	**1,324,904**	**330.232**

Legal reserve

The legal reserve will be established in accordance with Article 274 of the revised text of the Spanish Limited Liability Companies Law, which stipulates, in all cases, that 10% of net profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

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

At 30 June 2018, the Group had not yet reached the legally required minimum established in the revised text of the Spanish Limited Liability Companies Law.

The legal reserve of companies which have chosen to avail themselves of the special tax regime established in Law 11/2009, governing listed real estate investment trusts (REITs), must not exceed 20% of share capital. The bylaws of these companies may not establish any other type of restricted reserves.

Reserves of consolidated companies

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

	Thousands of euros	
	30/06/2018	31/12/2017
Merlin Properties SOCIMI, S.A.	314,520	(191,602)
Tree Inversiones Inmobiliarias, SOCIMI, S.A.	445,785	314,709
Merlin Retail, S.L.U.	100,489	79,902
Merlin Oficinas, S.L.U.	96,493	48,353
Merlin Logística, S.L.U.	121,570	41,903
Merlin Logística II, S.L.U.	7,878	4,725
Obraser	8,212	(1,332)
Merlin Properties Adequa, S.L.	41,157	(14,826)
Merlin Parques Logísticos, S.L.U.	9,945	8,913
Varitelia Distribuciones	36,121	12,076
Metroparque	46,019	10,098
Metropolitana Castellana	31,934	754
La Vital Centro Comercial	11,402	298
Global Carihuela, Patrimonio Comercial, S.A.	326	451
Sadorma 2003	(5,447)	(4,458)
Parques Logísticos de la Zona Franca, S.A.	(12,689)	(11,096)
Sevisur Logistica, S.A.	1,106	(418)
Belkyn West Company, S.L.	(14)	(9)
Desarrollo Urbano de Patraix, S.A.	(6,809)	-
Holding Jaureguizahar 2002, S.A.	(3)	-
Acoghe, S.L.	(10)	(4)
Global Murex Iberia, S.L.	(12)	(10)
Testa Hoteles	13	(4)
Gescentesta	387	223
Gesfintesta	(269)	(224)
Merlin Properties Monumental, S.A.	17,972	564
Merlin Properties Torre A, S.A.	8,569	55
MPCVI	8,208	3,876
MPEP	(19)	(9)
VFX Logística, S.A.	1,214	939
Inmobiliaria Metrogolf	(81)	(28)
Promosete Investimentos Imobiliarios, S.A.	5,370	-
Praça do Marqués-Serviços auxiliares, S.A.	122	-
	1,289,459	**303,819**

Dividends

On 7 May 2018, the shareholders at the Annual General Meeting approved the distribution of a dividend out of 2017 profit in the amount of EUR 9,624 thousand, and the distribution of an additional dividend with a charge to the share premium for EUR 112,218 thousand.

9.4 Treasury shares

At 30 June 2018, the Parent held treasury shares amounting to EUR 12,274 thousand.

The changes in the first six months of 2018 were as follows:

	Number of shares	Thousands of euros
Balance at 1 January 2017	**10,230**	**105**
Additions	3,300,000	35,393
Disposals	(990,000)	(10,617)
Balance at 31 December 2017	**2,320,230**	**24,881**
Additions	-	-
Disposals	(1,175,625)	(12,607)
Balance at 30 June 2018	**1,144,605**	**12,274**

On 27 April 2017, the shareholders authorised the Board of Directors to acquire shares of the Parent. The shareholders at the Annual General Meeting held on 7 May 2018 revoked the unused portion of the authorisation granted by the General Meeting on 26 April 2017 and authorised the acquisition of treasury shares by the Parent itself or by Group companies pursuant to Article 146 et seq. of the Spanish Limited Liability Companies Law, in accordance with the requirements and restrictions established in prevailing legislation during the five-year period. The authorisation includes the acquisition of shares which, where applicable, must be handed over directly to employees or directors of the Parent or of Group companies as a result of the purchase option they hold or for the settlement and payment of share-based incentive plans of which they are beneficiaries.

The disposals of treasury shares, amounting to EUR 12,607 thousand (average cost of EUR 10.27 per share), relate to the shares delivered to executive directors, senior executives and the rest of the management team corresponding to the variable remuneration incentive in the 2016 Share Plan agreed upon therewith (see Note 15).

9.5 Earnings per share

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

Basic

Basic earnings per share are calculated by dividing profit or loss for the year attributable to the Parent's ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares.

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

	30/06/2018	30/06/2017
Profit for the year attributable to holders of equity instruments of the Parent (thousands of euros)	457,609	421,398
Weighted average number of shares outstanding (thousands)	468,381	469,049
Basic earnings per share (euros)	**0.98**	**0.90**

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

	Number of shares	
	30/06/2018	30/06/2017
Ordinary shares at beginning of period	469,770,750	469,770,750
Average effect of outstanding treasury shares	(1,389,527)	(721,280)
Weighted average number of ordinary shares outstanding at 30 June (thousands of shares)	**468,381,223**	**469,049,470**

Diluted

Diluted earnings per share are calculated by adjusting the profit or loss for the year attributable to holders of equity instruments of the Parent and the weighted average number of outstanding ordinary shares by all the dilutive effects inherent to the potential ordinary shares, i.e., as if all the potential dilutive ordinary shares had been converted.

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

9.6 Valuation adjustments

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

10. Current and non-current financial liabilities

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

	Thousands of euros	
	30/06/2018	31/12/2017
Non-current:		
Measured at amortised cost		
Syndicated loans	843,176	868,653
Syndicated loan arrangement expenses	(4,662)	(5,643)
Total syndicated loan	**838,514**	**863,010**
Senior syndicated mortgage loan (Tree)	883,601	889,149
Syndicated loan arrangement expenses	(15,037)	(16,281)
Total senior syndicated mortgage loan (Tree)	**868,564**	**872,868**
Revolving credit facility		-
Mortgage loans	266,612	267,181
Leases, credit facilities and loans	-	-
Loan arrangement expenses	(4,147)	(4,559)
Total other loans	**262,465**	**262,622**
Debentures and bonds	3,250,000	3,250,000
Debenture issue expenses	(26,589)	(28,683)
Total debentures and bonds	**3,223,411**	**3,221,317**
Total amortised cost	**5,192,954**	**5,219,817**
Measured at fair value		
Derivative financial instruments	38,485	34,178
Total at fair value	**38,485**	**34,178**
Total non-current	**5,231,439**	**5,253,995**
Current:		
Measured at amortised cost		
Syndicated loans	28,974	6,113
Senior syndicated mortgage loan (Tree)	11,240	10,182
Debentures and bonds	21,771	34,007
Mortgage loans	1,884	1,494
Leases, credit facilities and loans	-	123,555
Revolving credit facility	107	113
Total amortised cost	**63,976**	**175,464**
Measured at fair value		
Derivative financial instruments	1,366	2,734
Total at fair value	**1,366**	**2,734**
Total current	**65,342**	**178,198**

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

On 20 April 2016, the Parent was given a credit rating of “BBB” with a stable outlook by Standard & Poor’s Rating Credit Market Services Europe Limited. On 24 May 2018, Standard & Poor’s updated its rating to “BBB” with a positive outlook. Additionally, on 17 October 2016, the Company was given a credit rating of investment grade “Baa2” by Moody’s.

10.1 Loans and credit facilities

The detail of bank borrowings at 30 June 2018 and 31 December 2017 is as follows:

	Thousands of euros				
	Bank borrowings				
	Limit	Debt arrangement expenses	30.06.2018		Short-term interest
			Non-current	Current	
Syndicated corporate loans	1,290,000	(4,769)	843,176	28,028	1,053
Senior syndicated mortgage loan (Tree)	939,756	(15,037)	883,601	10,011	1,229
Other mortgage loans	268,000	(4,147)	266,612	742	1,142
Revolving credit facilities	420,000	-	-	-	107
Total	**2,917,756**	**(23,953)**	**1,993,389**	**38,781**	**3,531**

	Thousands of euros				
	Bank borrowings				
	Limit	Debt arrangement expenses	31.12.2017		Short-term interest
			Non-current	Current	
Syndicated corporate loans	1,290,000	(5,643)	868,653	5,101	1,012
Senior syndicated mortgage loan (Tree)	939,756	(16,281)	889,149	8,947	1,235
Other mortgage loans	268,000	(4,559)	267,181	346	1,148
Leases	149,125	-	-	123,555	-
Revolving credit facilities	420,000	-	-	-	113
Total	**3,066,881**	**(26,483)**	**2,024,983**	**137,949**	**3,508**

The financing includes commitments to maintain certain coverage ratios, which are standard in these types of real estate companies, such as the loan-to-value ratio, the ratio of the subsidiary's income used to service the debt (interest coverage ratio, ICR), and a minimum credit rating from BBVA by rating agencies. The Parent's directors have confirmed that these ratios were met at 30 June 2018 and do not forecast that they will not be fulfilled in the coming years.

Following are the main changes that took place in the first half of 2018:

Termination of leases

In February 2018 the Parent terminated upon maturity, by executing the purchase option, the leases associated with the Ribera del Loira (Madrid), Borbolla (Seville) and Escudo del Carmen (Granada) buildings for EUR 122.6 million.

10.2 Debenture issues

Following are the main changes that took place in the first half of 2018:

On 18 May 2018, the Parent expanded the Euro Medium Term Notes (EMTN) issue programme to EUR 5,000 million.

The detail at 30 June 2018 of the bonds issued by Parent is as follows (in thousands of euros):

Maturity	Face value (Millions of euros)	Coupon	Listed price	Return	Market
May 2022	700	2.375%	MS + 74 bp	0.89%	Ireland (a)
April 2023	850	2.225%	MS + 101 bp	1.25%	Luxembourg
May 2025	600	1.750%	MS + 137 bp	1.89%	Luxembourg
November 2026	800	1.875%	MS + 149 bp	2.18%	Luxembourg
September 2029	300	2.375%	MS + 172 bp	2.66%	Luxembourg
	3,250	**2.097%**			

(a) Due to the business combination with Metrovacesa carried out in 2016, the Group recognised a bond issue launched by Metrovacesa for EUR 700 million. The terms and conditions of the bonds abide by UK laws and are traded on the Irish Stock Exchange. This issue also includes a series of compliance obligations and guarantees, which is common in these types of transactions. At the end of the first half of 2018, the Group complied with the covenants set forth in this contract and the directors consider that they will be met in 2018.

The bond issue has the same guarantees and ratio compliance obligations as the syndicated loan and the revolving credit facilities.

10.3 Derivatives

The detail of the financial instruments at 30 June 2018 is as follows:

	Thousands of euros	
	30/06/2018	31/12/2017
Non-current		
Interest rate derivatives	38,485	34,178
Total non-current	**38,485**	**34,178**
Current		
Interest rate derivatives	1,366	2,734
Total current	**1,366**	**2,734**

To determine the fair value of the interest rate derivatives, the Group discounts the cash flows based on the embedded derivatives determined by the euro interest rate curve in accordance with market conditions on the measurement date.

These financial instruments were categorised as Level 2 based on the fair value hierarchy established in IFRS 7.

The detail of the derivative financial instruments included in the consolidated statement of financial position at 30 June 2018 is as follows:

At 30 June 2018

	Thousands of euros	
	Financial assets	Financial liabilities
Non-current		
Interest rate derivatives	-	39,851
Derivative embedded in	-	-
BBVA lease agreement	178,560	-
Total derivatives recognised	**178,560**	**39,851**

At 31 December 2017

	Thousands of euros	
	Financial assets	Financial liabilities
Non-current		
Interest rate derivatives	-	36,912
Derivative embedded in	-	-
BBVA lease agreement	207,274	-
Total derivatives recognised	**207,274**	**36,912**

The derivatives arranged by the Group at 30 June 2018 and their fair values at that date are as follows (in thousands of euros):

		Thousands of euros					
			Outstanding notional amount at each date				
Interest rate	Interest rate contracted	Fair value	2018	2019	2020	2021	Subsequent years
Syndicated - the Parent	0.0981% - (0.12%)	(4,165)	840,000	840,000	840,000	-	-
Tree Inversiones	0.959%	(33,077)	901,578	889,831	878,084	865,750	851,654
Other subsidiaries	2.085% - 0.25%	(1,243)	115,081	110,306	-	-	-
		(38,485)	**1,856,659**	**1,840,137**	**1,718,084**	**865,750**	**851,654**

Having opted to use hedge accounting, the Group adequately designated the hedging relationships in which these derivative instruments hedge the borrowings used by the Group, neutralising changes in interest payment flows by setting a fixed rate to be paid thereon. These hedging relationships have been highly effective, prospectively and retrospectively, on a cumulative basis, since their date of designation for certain derivatives.

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

	Thousands of euros		
Scenario	Liabilities	Equity	Consolidated profit/(loss) before tax
5% rise in credit risk rate	(26,009)	25,669	339
5% reduction in credit risk rate	26,980	(18,827)	(8,153)

10.4 Loan repayment dates

The detail of the Group’s loan repayment dates at 30 June 2018 is as follows:

	Thousands of euros			
	Syndicated loan	Senior syndicated mortgage loan (Tree)	Mortgage loans	Total
2018	2,551	4,462	173	7,186
2019	26,748	11,062	3,115	40,925
2020	1,905	10,925	71,868	84,698
2021	840,000	10,789	5,375	856,164
2022	-	12,773	5,876	18,649
More than 5 years	-	843,601	180,947	1,024,548
	871,204	**893,612**	**267,354**	**2,032,170**

11. Other current and non-current liabilities

The detail of these headings at 30 June 2018 is as follows:

	Thousands of euros			
	30/06/2018		31/12/2017	
	Non-current	Current	Non-current	Current
Provisions	61,905	867	72,382	867
Guarantees and deposits received	87,596	818	85,194	340
Deferred tax liabilities	598,359	-	592,418	-
Other payables	3,000	3,118	3,000	18,467
Other current liabilities	-	15,673	-	9,149
Total	**750,860**	**20,476**	**752,994**	**28,823**

"Guarantees and deposits received" includes mainly the guarantee deposits paid by lessees, which will be reimbursed at the end of the lease term.

The Parent and the majority of its subsidiaries adhere to the REIT regime. Under this regime, gains from the sale of assets are taxed at a rate 0%, provided that certain requirements are met (basically, the assets must have been held by the REIT for at least three years). The gains obtained on the disposal of assets obtained prior to inclusion in the REIT regime shall be distributed on a straight-line basis (in the absence of proof otherwise) over those years in which the asset was owned by the REIT. The gains relating to the years prior to inclusion in the REIT regime shall be subject to tax at the standard rate, while for other years the rate will be 0%. In this regard, the Parent's directors estimated the tax rate applicable to the tax gain on the assets acquired prior to their inclusion to the REIT regime (calculated in accordance with the fair value of the assets obtained from expert appraisals at the date of the business combination and at 30 June 2018), recognising the related deferred tax liability.

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

12. Trade and other payables

The detail of this heading is as follows:

	Thousands of euros	
	30/06/2018	31/12/2017
Current		
Payable to suppliers	32,451	37,244
Payable to suppliers - Group companies and associates	3	-
Sundry accounts payable	4,440	6,915
Remuneration payable	7,146	8,052
Current tax liabilities	1,816	1,762
Other accounts payable to public authorities	7,854	13,081
Customer advances	193	192
Total	**53,903**	**67,246**

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

13. Revenue and expenses

a) Revenue

The detail of revenue, together with the segment information, is provided in Note 4.

b) Other operating expenses

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

	Thousands of euros	
	30/06/2018	30/06/2017
Non-recoverable expenses of leased properties	21,946	18,510
General expenses	4,257	5,058
Professional services	*3,121*	*3,990*
Office rental charges	*349*	*437*
Insurance	*94*	*95*
Banking services	*31*	*23*
Taxes other than income tax	*31*	*14*
Other	*631*	*499*
Costs associated with the acquisition of assets	686	2,443
Other professional services	132	496
Losses on, impairment of and change in allowances for trade receivables	688	876
Total	**27,709**	**27,383**

c) Staff costs and average headcount

The breakdown of “Staff costs” is as follows:

	Thousands of euros	
	30/06/2018	30/06/2017
Wages, salaries and similar expenses	13,297	10,838
Termination benefits	28	70
Social security costs	969	929
Other employee benefit costs	233	-
Long-term incentive plan	21,919	26,750
Total	**36,446**	**38,587**

The average number of employees at the various Group companies in the six-month period ended 30 June 2018 was 168 (148 in the same period of 2017).

14. Related party transactions

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

The detail of any significant transactions, given their amount or importance, carried out between the Parent or its Group companies and related parties is as follows:

		Thousands of euros			
Related party	Type of relationship	Revenue	Expense	Assets	Liabilities
Banco Santander, S.A. (a)	Financing	-	2,754	-	166,479
Banco Santander, S.A. (a)	Notional derivatives	-	-	-	312,400
Banco Santander, S.A. (a)	Cash	-	-	41,471	-
Banco Santander, S.A. (b)	Lease	897	-	-	240
Banco Santander, S.A. (b)	Services	-	33	-	-
Magic Real Estate, S.L. (c)	Sublease	3	-	-	-
Testa Residencial, SOCIMI, S.A. (d)	Services	89,973	-	-	-
Testa Residencial, SOCIMI, S.A. (d)	Lease	29	-	-	-
Testa Residencial, SOCIMI, S.A. (e)	Other services	42	-	-	-
Total		**90,944**	**2,787**	**41,471**	**479,119**

(a) The Group has been granted loans from its shareholder Banco Santander, S.A. amounting to EUR 166,479 thousand. In the first half of 2018, the finance costs incurred in financing transactions amounted to EUR 2,754 thousand, which included EUR 28 thousand in guarantee fee expenses and current account management expenses (EUR 25 thousand and EUR 3 thousand, respectively).

At 30 June 2018:

- The Group has bank balances deposited at Banco Santander, S.A. amounting to EUR 41,471 thousand.
- The notional amount of the current derivatives arranged with Banco Santander, S.A. totals EUR 312,400 thousand.
- The Group has been granted guarantee lines by its shareholder Banco Santander, S.A. in the amount of EUR 5,869 thousand.

(b) In the first half of 2018, the Group continued to lease 8 properties to Banco Santander, S.A., the term of which covers a period of between 1 and 7 years. In the first half of 2018, these agreements generated income amounting to EUR 897 thousand. The guarantees deposited to secure these agreements amounted to EUR 240 thousand.

In addition, the Group incurred a total of EUR 33 thousand for organisational services for the General Shareholders' Meeting.

c) Merlin Properties, Socimi, S.A. subleases 20 square meters of office space to Magic Real Estate, S.L. This sublease was formally executed in December 2015 (until April 2017) with regard to a floor of office space, subleasing 125 square meters to Magic Real Estate, S.L. Since May 2017, the company replaced this sublease for another 20 square meters in a different building.

(d) The Group provided management services to its subsidiary Testa Residencial, SOCIMI, S.A. up until 19 January 2018, for which it received a consideration of EUR 252 thousand.

By virtue of this agreement, on 3 January 2018 Testa Residencial SOCIMI, S.A. notified the Parent of its termination effective as of 19 January 2018.

On 26 March 2018, the shareholders at the Extraordinary General Meeting of Testa Residencial SOCIMI, S.A. approved a share capital increase amounting to EUR 89,721 thousand through the cancellation of debt by receiving 640,693,342 shares, which increased its ownership interest to 16.95% of the share capital of Testa Residencial SOCIMI, S.A. The remaining amount, EUR 18,841 thousand corresponding to VAT, was paid in cash.

Lastly, the Group subleases 47.4 square meters of office space to Testa Residencial SOCIMI, S.A., for which it has received EUR 6 thousand in income. This sublease was executed in December 2017 and replaces another sublease agreement for 33.7 square meters of office space that it had for a different property.

In addition, the Group received EUR 23 thousand in income for tenant establishment expenses corresponding to the sublease agreement entered into in December 2017.

(e) As of 19 January 2018, the Group rebills the costs relating to technological infrastructure to Testa Residencial SOCIMI, S.A., for which it has received income of EUR 43 thousand in the first half of 2018.

15. Ownership interest and positions held by directors and parties related thereto in other companies

The Parent's directors and the parties related thereto did not have any conflicts of interest that had to be reported in accordance with the provisions of Article 229 of the revised text of the Spanish Limited Liability Companies Law.

Remuneration and other benefits of directors

At 30 June 2018, salaries, per diem attendance fees and any other type of compensation paid to members of the Parent's managing bodies totalled EUR 1,449 thousand (EUR 1,530 thousand at 30 June 2017), as detailed below:

	Thousands of euros	
	30/06/2018	30/06/2017
Fixed and variable remuneration	1,443	1,525
Bylaw-stipulated emoluments	-	-
Termination benefits	-	-
Attendance fees	-	-
Life and health insurance	6	5
Total	**1,449**	**1,530**

In relation to the variable remuneration of executive directors corresponding to the bonus for previous years, a total of EUR 1,525 thousand was paid in the first half of 2018. At 30 June 2018, the amount of variable remuneration paid over the long term amounts to EUR 5,305 thousand, and is recognised under "Long-term provisions" in the accompanying balance sheet.

As indicated in Note 22 to the consolidated financial statements for 2017, as members of the management team, executive directors have also been awarded a share remuneration plan if they meet certain conditions linked to shareholder return ("2016 Share Plan"). In this regard, at 31 December 2017 the conditions envisaged in the plan were met in order for executive directors to receive an additional 750,000 shares, equal to EUR 8,006 thousand (750,000 shares in 2016). The remuneration policy approved at the General Shareholders' Meeting held on 26 April 2017 stipulates that shares may be delivered early on the dates of the vesting period.

Lastly, as members of the management team, executive directors are entitled to receive compensation under the new 2017-2019 remuneration plan granted to the management team in 2017, which is described below.

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

Director	Type	Thousands of euros	
		30/06/2018	30/06/2017
Directors' remuneration			
Javier García Carranza Benjumea	Chairman - Proprietary director	-	-
Ismael Clemente Orrego	CEO	500	500
Miguel Ollero Barrera	Executive director	500	500
Maria Luisa Jordá Castro	Independent director	59	60
Ana García Fau	Independent director	57	57
Alfredo Fernández Agras	Independent director	35	50
Fernando Ortiz Vaamonde	Independent director	56	55
Ana de Pro	Independent director	-	32
John Gómez Hall	Independent director	50	50
George Donald Johnston	Independent director	57	58
Juan María Aguirre Gonzalo	Independent director	58	58
Pilar Cavero Mestre	Independent director	55	55
Francisca Ortega Hernández Agero	Proprietary director	-	-
José Ferris Monera	Proprietary director	-	50
Emilio Novela Berlín	Independent director	15	-
Total		**1,442**	**1,525**

The Parent did not grant any advances, loans or guarantees to any members of the Board of Directors.

The Parent's directors are covered by the "Corporate Third-Party Liability Insurance Policies for Directors and Executives" taken out by the Parent in order to cover possible damages that may be claimed, and that are evidenced as a result of a management error committed by its directors or executives, as well as those of its subsidiaries, in discharging their duties. The premium amounted to an annual total of EUR 121 thousand (EUR 123 thousand in 2017).

Remuneration and other benefits of senior executives

The remuneration of the Parent's senior executives, excluding those who are simultaneously members of the Board of Directors (whose remuneration is disclosed above), in this six-month period ended 30 June 2018 is summarised as follows:

Thousands of euros			
Number of persons	Fixed and variable remuneration	Other remuneration	Total
6 (*)	1,051	20	1,071

(*) Includes the Internal Audit Manager

At 30 June 2017

Thousands of euros			
Number of persons	Fixed and variable remuneration	Other remuneration	Total
4	866	15	881

In relation to the variable remuneration of senior executives corresponding to the bonus for previous years, a total of EUR 1,680 thousand was paid in the first half of 2018. At 30 June 2018, the amount of variable remuneration paid over the long term amounts to EUR 5,094 thousand, and is recognised under "Long-term provisions" in the accompanying balance sheet.

As indicated in Note 22 to the consolidated financial statements for 2017, the Parent also had a commitment to award an additional annual variable remuneration incentive to the management team as determined by the Appointments and Remuneration Committee, linked to the Parent's shares, which compensates the Parent's management team based on the returns obtained by the Company's shareholders (the "2016 Share Plan"). In accordance with the terms and conditions of this plan, members of senior management must remain at the Group and provide their services for a period of three years, whereby the shares will be delivered on the fifth year.

In this regard, at 31 December 2017 the conditions envisaged in the plan were met in order for senior management to receive an additional 623,334 shares, equal to EUR 6,654 thousand (623,334 shares in 2016).

The "2016 Share Plan" stipulates that the management team will be entitled to receive a maximum of 6,000,000 shares, provided that they continue to provide services to the Group over the next three years following the date on which the incentive was granted. Furthermore, the right to receive two thirds of these shares is conditional on the Parent's financial solvency over the next two years. At 30 June 2018, the Group recognised the expense incurred with a charge to equity in the amount of EUR 7,870 thousand, corresponding to the portion accrued in the 2016 Share Plan, as this obligation must be met with the delivery of the Parent's shares.

The shareholders at the Annual General Meeting held on 26 April 2017 authorised the delivery of the shares corresponding to the "2016 Share Plan" on the dates of the vesting period.

Lastly, at the Annual General Meeting held on 26 April 2017, the shareholders approved a new remuneration plan for the management team and other important members of the Group's workforce, the measurement period of which is from 1 January 2017 to 31 December 2019 ("2017-2019 Incentive Plan"). In accordance with that established in this plan, members of the management team may be entitled to receive (i) a certain monetary amount based on the increase in the share price and (ii) shares of the Parent, provided that certain objectives are met.

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

- the increase in the quoted price of the Parent's share plus the dividends distributed to shareholders during the measurement period; and
- the increase in the EPRA NAV per share of the Parent plus the dividends distributed to shareholders during the measurement period.

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

TSR NAV / TSR share price	Percentage assigned to beneficiaries ("PR")	Percentage assigned to shareholders
< 24%	0%	100%
≥ 24% and < 36%	6%	94%
≥ 36%	9%	91%

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

In this regard, at 30 June 2018 the Group recognised the expense amounting to EUR 14,050 thousand, corresponding to the vested portion of the 2017-2019 Incentive Plan.

Lastly, as regards "golden parachute" clauses for executive directors and other senior executives of the Parent or its Group in the event of dismissal or takeover, these clauses provide for compensation that represented a total commitment of EUR 15,100 thousand at 30 June 2018.

16. Events after the reporting date

On 20 July 2018, the Parent acquired Forum Almada-Gestao de Centro Comercial, Sociedade Uniperssoal, Lda, the owner of the Almada shopping centre in Lisbon, which has a gross leasable area of 60,000 m2. The shopping centre has an occupancy rate of 98% and gross annual rental income is estimated at around EUR 24 million.

The purchase price agreed upon with the seller amounted to EUR 406.7 million, which was paid by the Parent with a charge to cash and the available financing lines.

17. Explanation added for translation to English

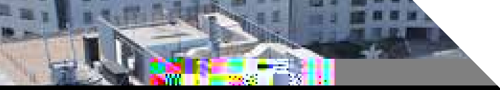
These condensed consolidated interim financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 2.1). Certain accounting practices applied by the Group that conform to that regulatory framework may not conform to other generally accepted accounting principles and rules.

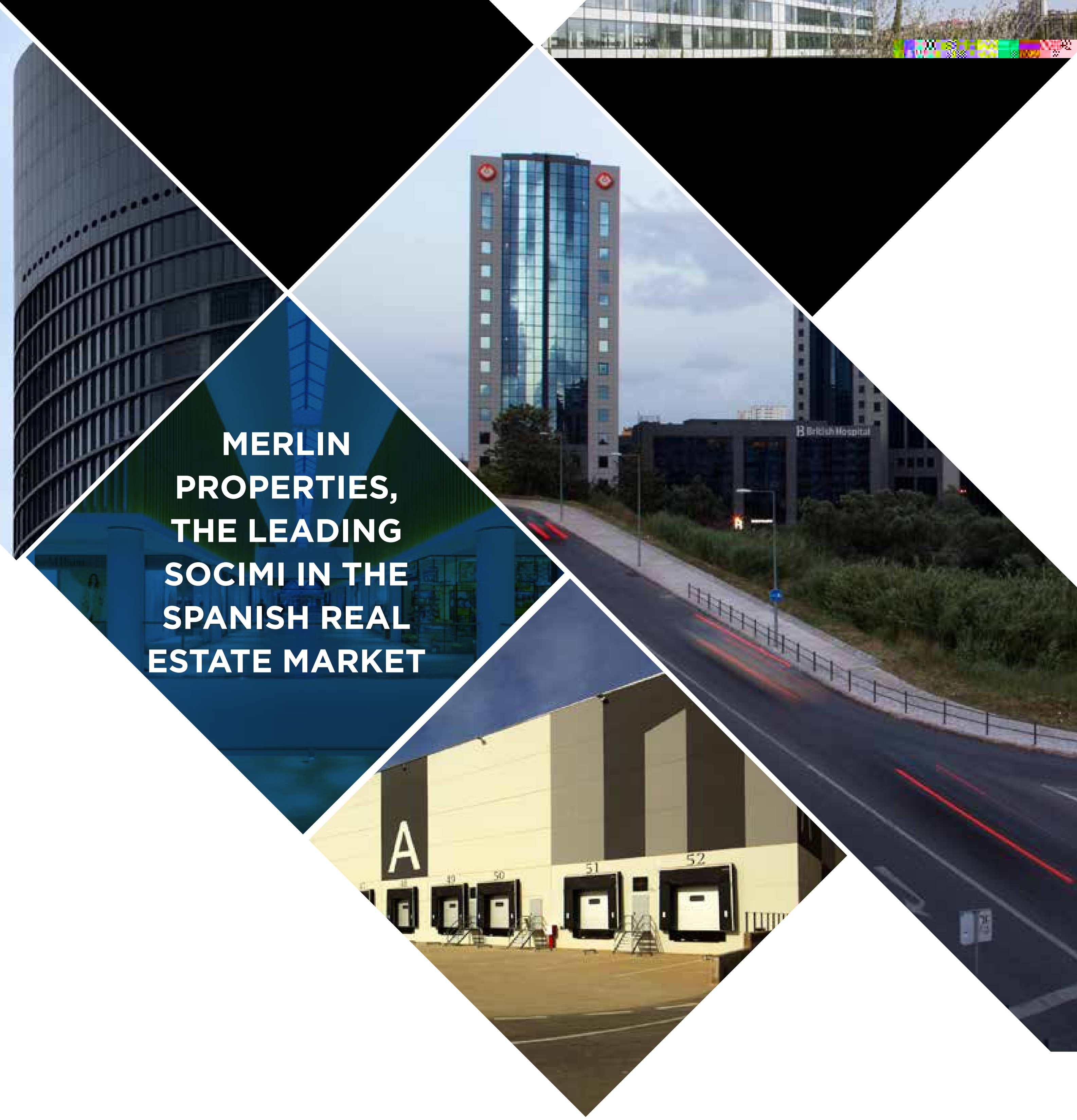
MERLIN PROPERTIES

INTERIM FINANCIAL STAMENTS

6M18

For the period ended on **June 30, 2018**





MERLIN PROPERTIES, THE LEADING SOCIMI IN THE SPANISH REAL ESTATE MARKET

IBEX 35 STOXX® Europe 600 Global property research Solutions for customized property indices EPRA MSCI

APPENDIX

01
EXECUTIVE SUMMARY

CONSOLIDATED PERFORMANCE

+3.5%
Gross rents YoY

+8.6%
EPS YoY

+18.2%
EPRA NAV YoY

- **Solid set of results** delivering **total return to shareholders of 8.1% YTD** and 22.1% YoY
- Cancellation of Testa Residencial means **an increase in TR stake from 12.7% to 17.0%** with two impacts: (i) extraordinary net gain of € 53.0m, and (ii) loss of ca. € 4.0m of recurring EBITDA in the period
- **EPRA NAV per share of € 14.06, an increase of +18.2% YoY**, reflecting rent evolution progressively adapting portfolio to market values
- **AFFO** (€ 0.29 per share in the period) **on track to meet full year 2018 guidance** (€ 0.58 per share)

(€ million)	6M18	6M17	YoY
Total revenues	247.3	242.6	+1.9%
Gross rents	243.2	235.1	+3.5%
Net rents	209.5	208.0	+0.7%
Gross-to-net margin	*86.1%*	*88.5%*	
EBITDA [1]	194.8	198.6	(1.9%)
Margin	*80.1%*	*84.5%*	
FFO [2]	140.9	148.6	(5.2%)
AFFO	136.1	142.6	(4.6%)
Net earnings	457.6	421.4	+8.6%

(€ per share)	6M18	6M17	YoY
FFO	0.30	0.32	(5.2%)
AFFO	0.29	0.30	(4.6%)
EPS	0.97	0.90	+8.6%
EPRA NAV	14.06	11.89	+18.2%

BUSINESS PERFORMANCE

+2.0%
Rents like-for-like[3] YoY

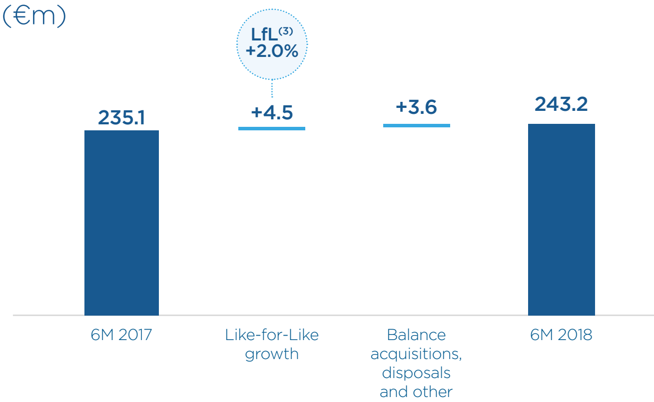
+4.7% Office | **+3.4%** S. Centers | **+11.5%** Logistics
Release spread

(27 bps) → 92.1%
Occupancy vs 31/03/18

- **Office:** 182,621 sqm contracted. **LfL** of **-0.6%** and **release spread** of **+4.7%**
- **Shopping centers:** 49,469 sqm contracted. **LfL** of **+3.2%** and **release spread** of +**3.4%**
- **Logistics:** 241,383 sqm contracted. **LfL** of **+7.8%** and **release spread** of **+11.5%**

	Contracted	Rent		Leasing activity	Occ. vs 31/03/18
	sqm	€ m	Lfl change	Release spread	Bps
Office	182,621	110.2	(0.6%)	+4.7%	+84
Shopping centers	49,469	47.2	+3.2%	+3.4%	(72)
High street retail	n.a.	54.1	+3.8%	n.m.	(12)
Logistics	241,383	24.3	+7.8%	+11.5%	(137)
Other	n.a.	7.4	+5.3%	n.m.	-
Total	**473,473**	**243.2**	**+2.0%**		**(27)**

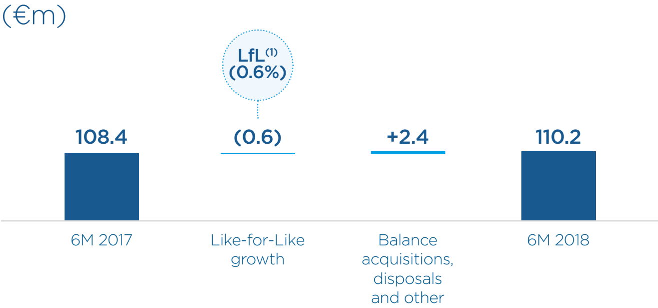
Gross rents bridge
(€m)



[1] Excludes non-recurring items (€ 0.8m) plus LTIP accrual (€ 21.9m)
[2] FFO equals EBITDA less net interest payments, less minorities, less recurring income taxes plus share in earnings of equity method
[3] Portfolio in operation for the 6M17 (€ 224.5m GRI) and for the 6M18 (€ 229.0m GRI)

OFFICES

Gross rents bridge
(€m)



Rents breakdown

	Gross rents 6M18 (€ m)	Passing rent (€/sqm/m)	Wault (yrs)
Madrid	86.0	16.9	2.9
Barcelona	16.2	14.3	3.6
Lisbon	6.6	18.2	2.8
Other	1.5	10.8	7.9
Total	**110.2**	**16.4**	**3.1**

Leasing activity

- **Rental growth accelerating, +4.7% release spread** on average (vs +4.0% in 1Q18 and +3.4% in FY17)
- **2Q leasing activity highlights:**
  - 9,135 sqm new lease with CCC (Facebook) and 1,141 sqm with Dynatrace in Torre Glories, Barcelona
  - 6,176 sqm new lease with Allfunds Bank in Avda Burgos 210, Madrid
  - 1,842 sqm with GloVal Advisory and 1,175 sqm with ADP in Eucalipto 33, Madrid
  - 12,209 sqm renewed with Técnicas Reunidas in PE Sanchinarro, Madrid
  - 3,456 sqm renewed with Sitel in Central Office, Lisbon

6M18	Contracted Sqm	Out	In	Renewals	Net	Release spread	# Contracts
Madrid	121,644	(64,709)	55,260	66,383	(9,449)	+3.8%	165
Barcelona	42,991	(3,674)	17,166	25,825	13,492	+8.8%	71
Lisbon	17,987	(1,525)	1,053	16,934	(472)	+7.3%	23
Total	**182,621**	**(69,908)**	**73,479**	**109,142[2]**	**3,571**	**+4.7%**	**259**

Occupancy

- **Increase in occupancy in all markets in 2Q18**
- **Excellent performance in Madrid** (+86 bps vs 1Q18), mostly driven by the new leases in Eucalipto 33 and Avda Burgos 210
- **Torre Glóries[3] in Barcelona has seen an intense lease activity in 2Q18,** with the leases signed with CCC and Dynatrace (10,276 sqm in aggregate)
- **By markets,** best performer this quarter has been Madrid CBD

Stock	1,277,195 sqm
WIP	97,017 sqm
Stock incl. WIP	1,374,211 sqm

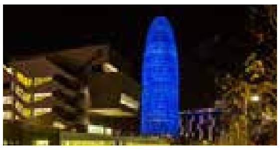
	Occupancy rate 30/06/18	Occupancy rate 31/03/18	Change bps
Madrid	86.9%	86.0%	+86
Barcelona	90.5%	90.3%	+26
Lisbon	89.8%	87.2%	+264
Other	100.0%	100.0%	-
Total	**87.9%**	**87.0%**	**+84**

[1] Office portfolio in operation for the 6M17 (€ 103.4m GRI) and for the 6M18 (€ 102.8m GRI)
[2] Excluding roll-overs
[3] Not included in occupancy rate

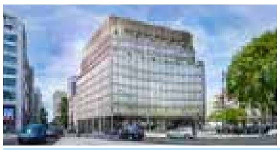
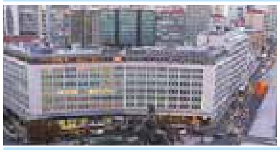
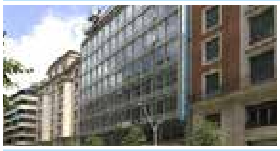
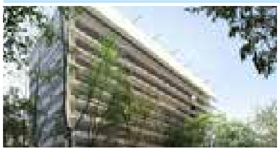
OFFICES (CONT.)

INVESTMENTS, REFURBISHMENTS AND DEVELOPMENTS

Investments in 6M18		GLA (sqm)	GRI	YoC	Acquisition
	Zen Tower	10,207	€ 2.1m	6.4%	€ 33.3m

WIP		GLA (sqm)	Scope	Acquisition	Capex	% executed	Delivery
	Torre Glòries	37,614	Development	€ 142m	€ 15m	91%	Jul-18
	Torre Chamartín	17,733	Development	€ 31m	€ 31m	100%	Completed in May-18 Opening license received in June

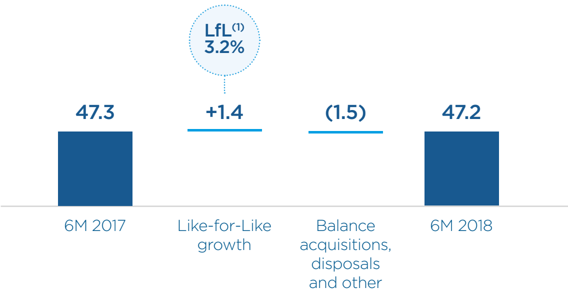
LANDMARK I

		GLA (sqm)	Scope	Budget	% executed
	Monumental	22,387	Full refurb (incl. SC)	€ 23.0m	5%
	Adequa Phase I	27,399	Refurbishment of former Renault and integration in the complex	€ 3.3m	41%
	Marqués de Pombal	12,460	Lobby + common areas + exterior terrace	€ 3.0m	5%
	Balmes	6,187	Full refurb	€ 1.8m	16%
	Diagonal 605	14,795	Full refurb	€ 8.0m	6%

SHOPPING CENTERS

Gross rents bridge

(€m)



- Footfall and sales affected mainly by ongoing Capex actions

Rents breakdown

	Gross rents 6M18 (€ m)	Passing rent (€/sqm/m)	Wault (yrs)
MERLIN	47.2	19.2	2.6

Footfall and tenant sales

	6M18 LTM	YoY
Footfall	93.3m	(2.3%)
Tenant sales	€ 893.4m	(0.3%)
OCR	12.9%	

Leasing activity

- **Steady growth in rents, with a positive release spread of +3.4%**
- **2Q leasing activity highlights:**
  - 1,533 sqm new lease with Musealia in Arenas
  - 2,420 sqm renewal with Ozone in Thader
  - 2,051 sqm renewal with FNAC in Arenas
  - 969 sqm renewal with Cortefiel in El Saler

6M18	Contracted	Out	In	Renewals	Net	Release spread	# Contracts
Total	49,469	(17,230)	12,185	37,283[2]	(5,045)	+3.4%	201

Occupancy

- **Slight decrease in occupancy** (-72 bps). Vacancy has been taken on due to the progress of Flagship Plan in Larios, Porto Pi and El Saler (4,328 sqm in aggregate)
- **Highest lease-up** in 2Q has been Vilamarina

Stock	441,339 sqm
X-Madrid	47,424 sqm
Tres Aguas[3]	67,972 sqm
Stock with X-Madrid+Tres Aguas	556,735 sqm

	Occupancy rate		
	30/06/18	31/03/18	Change bps
Total	88.2%	88.9%	(72)

(1) Shopping centers portfolio in operation for the 6M17 (€ 45.2m GRI) and for the 6M18 (€ 46.7m GRI)
(2) Excluding roll-overs
(3) Tres Aguas at 100% allocation

SHOPPING CENTERS (CONT.)

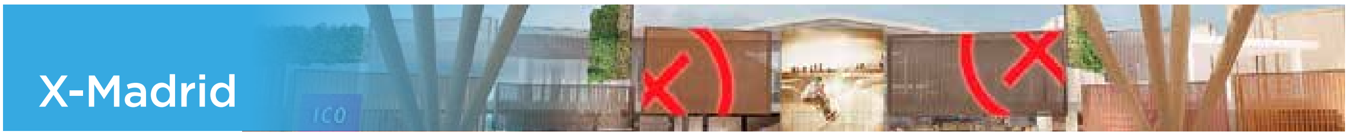
INVESTMENTS, REFURBISHMENTS AND DEVELOPMENTS

INVESTMENTS

One retail unit has been acquired in Porto Pi

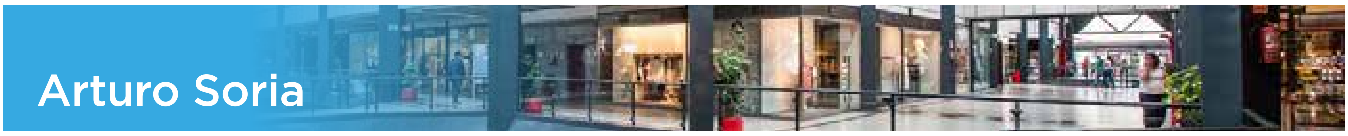
Shopping center	GLA (sqm)	Price (€ m)
Porto Pi	228	0.8

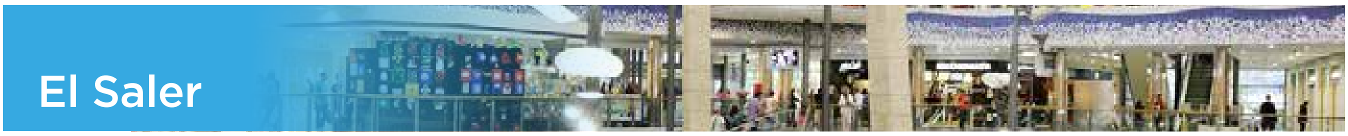
WIP



	Scope	Budget	% executed	GLA (sqm)	Delivery	Pre-let
X-Madrid	Full revamp	€ 31.8m	19%	47,424	May-19	76%

FLAGSHIP





	Scope	Budget[(1)]	% executed	GLA (sqm)	Delivery
Arturo Soria	Façade, accesses, installations, terraces and floors	€ 4.7m	88%	6,959	Nov-18 Phase II
Larios	Full refurb	€ 23.4m	21%	45,076	Dec-18
El Saler	Extension (+2,700 sqm), façade and accesses	€ 15.2m	8%	47,013	Dec-19
Porto Pi	Full refurb	€ 16.0m	7%	58,779	Mar-20

(1) GLA and Capex budget for shopping centers refurbishments include 100% of the asset, regardless of the stake owned by MERLIN in the owners' community

LOGISTICS

Gross rents bridge

(€m)

Rents breakdown

	Gross rents 6M18 (€ m)	Passing rent (€/sqm/m)	Wault (yrs)
Madrid	12.5	3.8	3.8
Barcelona	6.1	5.5	2.8
Other	5.6	3.7	6.3
Total	**24.3**	**4.1**	**3.6**

Leasing activity

- **Significant LfL growth** driven by meaningful increase in rents
- **Outstanding release spread in all markets,** with Barcelona ahead of Madrid **(+13.4% vs +9.2%)**
- **2Q leasing activity highlights:**
  - 3,494 sqm new lease with Gefco in Valencia-Almussafes
  - 2,098 sqm new lease with Kuehne & Nagel in Sevilla-ZAL
  - 14,911 sqm renewal with Reckitt Benckiser in Barcelona-Lliça del Val
  - 10,429 sqm renewal with Airpharm in PLZF, Barcelona

	Contracted	Out	In	Renewals	Net	Release spread	# Contracts
Madrid	161,595	(16,242)	110,408	51,186	94,116	+9.2%	7
Barcelona	43,378	(10,866)	5,596	37,782	(5,270)	+13.4%	8
Other	36,410	(7,724)	21,293	15,117	13,569	+15.9%	5
Total	**241,383**	**(34,832)**	**137,298**	**104,085[2]**	**102,466**	**+11.5%**	**20**

Occupancy

- **Temporary drop in occupancy** due to the insolvency of Souto (Madrid-Getafe -16,242 sqm). Eviction has now been completed and the asset will be subject to refurbishment

Stock	1,076,633 sqm
WIP	493,210 sqm
Stock incl. WIP	1,569,843 sqm
ZAL PORT	468,743 sqm
ZAL PORT WIP	121,957 sqm
Stock managed	2,160,543 sqm

	Occupancy rate		
	30/06/18	31/03/18	Change bps
Madrid	97.4%	100.0%	(263)
Barcelona	96.5%	98.6%	(213)
Other	98.0%	95.8%	+221
Total	**97.4%**	**98.8%**	**(137)**

[1] Logistics portfolio in operation for 6M17 (€ 17.1m GRI) and for the 6M18 (€ 18.4m GRI)
[2] Excluding roll-overs

LOGISTICS (CONT.)

INVESTMENTS, REFURBISHMENTS AND DEVELOPMENTS

INVESTMENTS

	GLA (sqm)	GRI (annual)	YoC	Investment
Cabanillas X	21,544	€ 0.9m	7.4%	€ 11.5m
Toledo-Seseña	28,541	€ 1.1m	8.1%	€ 14.0m

WIP delivered in 6M18

	GLA (sqm)	GRI (annual)	YoC	Investment
Meco II	59,814	€ 2.6m	8.9%	€ 29.4m
Sevilla ZAL I	5,400	€ 0.2m	7.9%	€ 2.7m
Madrid-Getafe (Gavilanes)	39,415	€ 2.6m	8.1%	€ 32.6m
Madrid-San Fernando I	11,165	€ 0.7m	7.5%	€ 9.9m

BEST II (as from 30/06/18)

	GLA (sqm)	ERV (€m)	Investment (€m)	ERV YoC
Madrid-Pinto II B	29,473	1.1	10.9	9.7%
Madrid-San Fernando II	34,224	1.8	20.3	8.7%
Guadalajara-Azuqueca II	98,000	4.3	47.6	9.0%
Guadalajara-Azuqueca III	51,000	2.2	29.6	7.5%
Guadalajara-Cabanillas Park I F	19,750	0.8	10.4	7.5%
Guadalajara-Cabanillas Park II	210,678	8.3	109.6	7.6%
Guadalajara-Cabanillas X	21,544	0.9	11.5	7.4%
Toledo-Seseña	28,541	1.1	14.0	8.1%
Total	**493,210**	**20.5**	**253.9**	**8.1%**

MERLIN PROPERTIES

BALANCE SHEET

- **Repayment of leasings** upon maturity for € 123.6m
- **Distribution of € 0.26 per share to shareholders** on May 25th
- **Leverage reduced** by 30 bps vs 31/12/2017 to end the period at 43.3%
- **S&P upgraded** the **outlook** for MERLIN's BBB rating from stable to **positive**

	€ million
GAV	11,755
Gross financial debt	5,282
Cash[1]	(190)
Net financial debt	5,092
EPRA NAV	6,604

Ratios	**30/06/2018**	**31/12/2017**
LTV	43.3%	43.6%
Av. interest rate	2.21%	2.23%
Av. Maturity (years)	5.7	6.1
Unsecured debt to total debt	78.0%	78.5%
Interest rate fixed	99.3%	98.6%
Liquidity position[2] (€m)	610	949

Corporate rating		**Outlook**
S&P Global	BBB	Positive
Moody's	Baa2	Stable

VALUATION

- **€ 11,755m GAV. +3.7% LfL growth,** showing a steady growth revaluation pattern year to date
- By asset category, **+3.4%** Lfl growth in **office, +2.5% in shopping centers, +4.4% in logistics** and **+2.8% in high street retail**
- **EPRA NAV of € 6,604m,** which represents an increase of **+6.1% vs 31/12/17** and **+18.2% YoY,** reflecting the rent evolution and progressive adaptation of the portfolio to market

€m	**GAV**	**LfL Growth**	**Gross yield**	**Yield compression**
Offices	5,400	+3.4%	4.1%	7 bps
Shopping centers	1,797	+2.5%	5.2%	15 bps
Logistics	771	+4.4%	6.2%	39 bps
High street retail	2,412	+2.8%	4.5%	4 bps
Land under development	458	n.a.	n.a.	
Other	413	+0.5%	4.6%	
Equity method	503	+19.5%	n.a.	
Total	**11,755**	**+3.7%**	**4.5%**	**8 bps**

(1) Includes cash and receivable of hotels disposal (€ 50.8m)
(2) Includes available cash plus receivable of hotels disposal and unused credit facilities (€ 420m)

INVESTMENTS, DIVESTMENTS AND CAPEX

- Low investment activity year to date. Zen Tower in Lisbon was the only asset acquired in 2Q18.
- The three plans of the Company, Landmark I, Flagship and Best II continue progressing properly

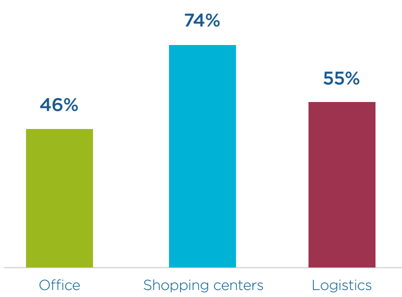
	Office	Retail	Logistics	€ million
Acquisitions	Zen Tower Endesa leasings	Porto Pi unit	Getafe-Gavilanes San Fernando I	83.6
Development & WIP	Torre Chamartin Torre Glòries	X-Madrid	Cabanillas X Toledo-Seseña Madrid-Meco II	27.6
Refurbishment	Adequa Juan Esplandiu Castellana 85 Diagonal 605	Arturo Soria Porto Pi		10.4
Like-for-like portfolio (Defensive Capex)[1]				6.3
Total				**127.8**

SUSTAINABILITY

- **Excellent progression of the portfolio certification program,** having obtained **14 new LEED/BREEAM** certificates in 6M18
- **7** of the **LEED** certificates obtained are **Gold**

Madrid - Getafe (Gavilanes)	El Saler	Vitoria-Jundiz
LEED Gold	BREAAM Good	BREAAM Good

% GAV certified



[1] € 4.8m are capitalized in balance sheet and € 1.5m are expensed in P&L

POST CLOSING

- On July 20, MERLIN acquired **Almada shopping** center for € 406.7m, a **81,951 sqm shopping center** (60,049 attributable) located in **Lisbon.** Almada is the undisputed dominant shopping and leisure destination in the south bank of the Tagus river, receiving more than 14.4 million visitors per annum. The popularity of the complex in terms of visitors goes hand in hand with its commercial success, currently nearing full occupancy (98% of GLA let). With **annual gross rents of € 24m,** the asset offers potential for future rental growth through improvements in management, variable rents and focused capex on selected areas.
- On July 19, MERLIN acquired a portfolio of **2 logistics assets:** (i) **26,775 sqm** logistics facilities in **Vitoria-Jundiz** fully let to DHL (under a Mercedes-Benz procurement contract) for € 10.7m, and (ii) **15,075 sqm** logistics asset in **Cabanillas-Guadalajara,** let to Jaguar Land Rover, for € 10.2m. The portfolio delivers a **6.9% yield on cost**
- On July 31, MERLIN has secured a **turn-key project in Ribarroja** of ca. **35,000 sqm** in the Central axis, in the junction between the A-3 and A-7, to increase its logistics footprint in **Valencia**
- Since 30/06/2018, MERLIN has signed **several leases totalling 23,422 sqm:** (i) **3,385 sqm** signed in **Torre Glóries** with Oracle with the option to extend the lease by **2,122 sqm,** (ii) a heads of terms with an international services company for the lease of **6,046 sqm (+2,122 sqm optioned)** in **Torre Chamartin,** (iii) **1,664 sqm** signed with Isolux in **Elipse,** (iv) **1,507 sqm** signed with ID logistics in **PE Las Tablas,** (v) **1,234 sqm** signed with Tigenix in **PE Euronova** and (vi) a heads of terms with an international retailer for the lease of **9,586 sqm** in **Muntadas I**


CHAT

02
BUSINESS PERFORMANCE

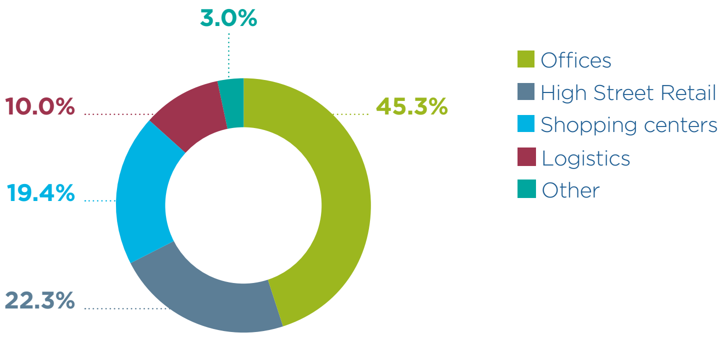
RENTS

Gross rents in the period amount to € 243,246 thousand with respect to € 235,117 thousand in 6M17.

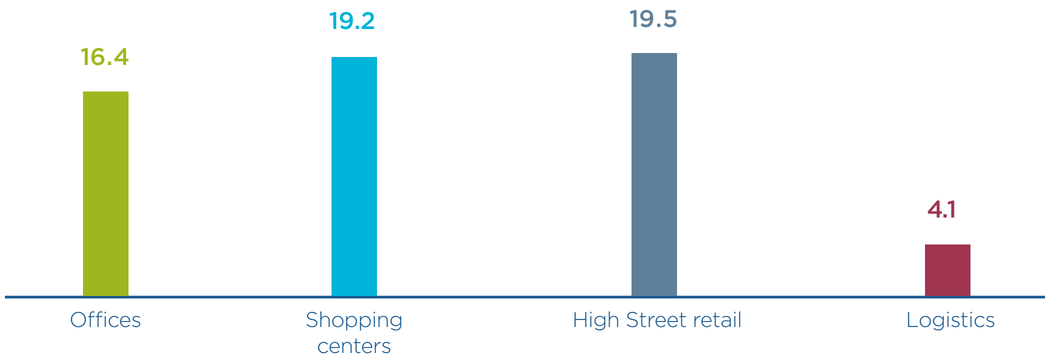
Gross rents breakdown

	6M18	6M17	YoY (%)
Office	110,217	108,427	1.7%
Shopping centers	47,207	47,305	(0.2%)
Logistics	24,254	19,525	24.2%
High street retail	54,148	52,196	3.7%
Other	7,419	7,664	(3.2%)
Total	**243,246**	**235,117**	**3.5%**

6M18 gross rents per asset category

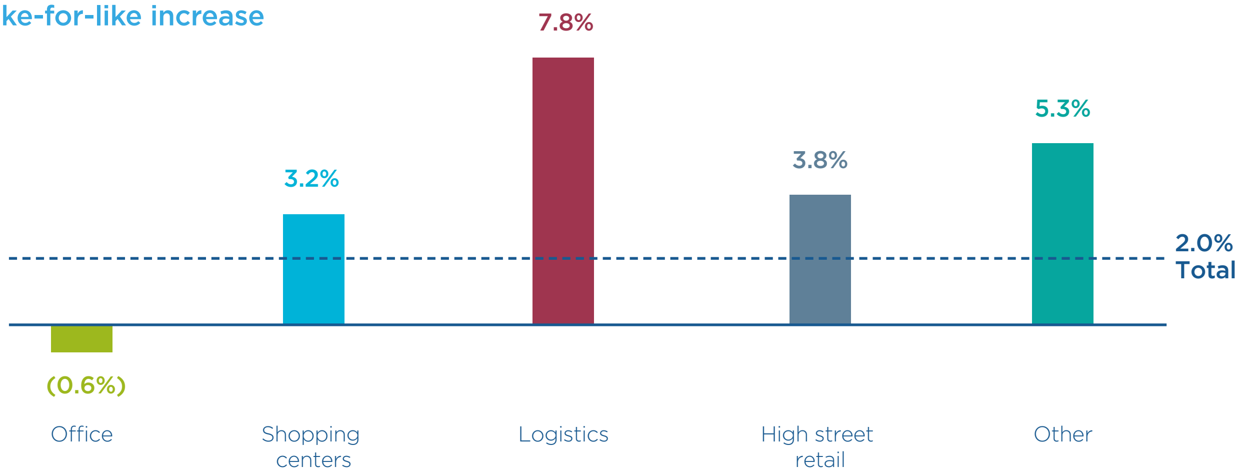


Average passing rent (€/sqm/month)



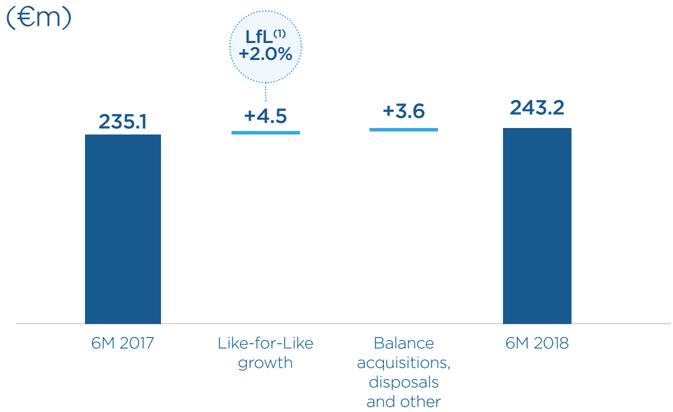
Aggregate gross rents have increased by 2.0% on a like-for-like basis.

Like-for-like increase

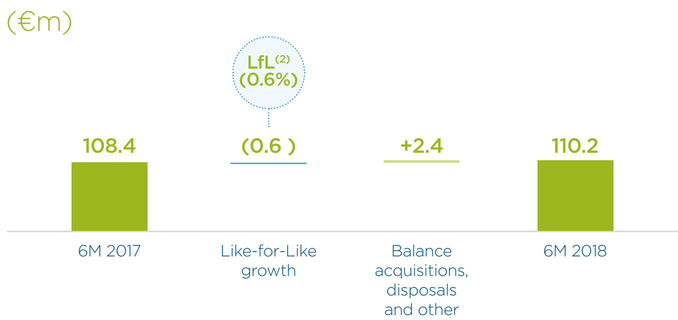


Bridge of 6M18 gross rents from 6M17 gross rents, for MERLIN and by asset category

MERLIN

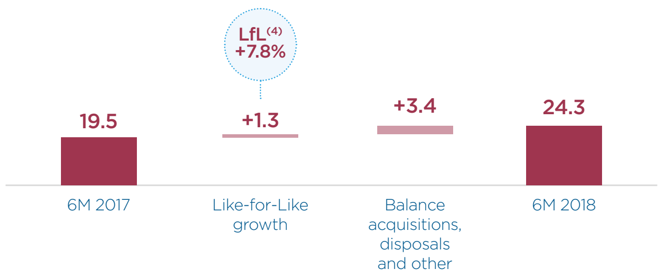


Offices



Shopping centers

Logistics



[1] Portfolio in operation for the 6M17 (€ 224,5m GRI) and for the 6M18 (€ 229.0m GRI)
[2] Office portfolio in operation for the 6M17 (€ 103.4m GRI) and for the 6M18 (€ 102.8m GRI)
[3] Shopping centers portfolio in operation for the 6M17 (€ 45.2m GRI) and for the 6M18 (€ 46.7m GRI)
[4] Logistics portfolio in operation for 6M17 (€ 17.1m GRI) and for the 6M18 (€ 18.4m GRI)

OCCUPANCY

Stock G.L.A. of MERLIN as of 30 June 2018 amounts to 3,420,034 sqm. Stock as of 31 December 2017 amounted to 3,293,916 sqm, resulting in a net increase of the stock during the period of 126,118 sqm. Occupancy rate as of 30 June 2018 is 92%[1].

	30/06/18	31/12/17	Change Bps
Offices			
Total G.L.A. (sqm)	1,277,195	1,267,344	
G.L.A. occupied (sqm)	1,122,058	1,118,106	
Occupancy rate (%)[1]	87.9%	88.2%	(37)
Shopping centers			
Total G.L.A. (sqm)	488,763	488,304	
G.L.A. occupied (sqm)	374,219	379,398	
Occupancy rate (%)[2]	88.2%	89.4%	(122)
Logistics			
Total G.L.A. (sqm)	1,076,633	960,825	
G.L.A. occupied (sqm)	1,032,155	946,448	
Occupancy rate (%)[3]	97.4%	98.5%	(112)
High Street retail			
Total G.L.A. (sqm)	459,981	459,981	
G.L.A. occupied (sqm)	456,719	457,264	
Occupancy rate (%)	99.3%	99.4%	(12)
Other			
Total G.L.A. (sqm)	117,462	117,462	
G.L.A. occupied (sqm)	89,979	90,099	
Occupancy rate (%)	76.6%	76.7%	(10)
MERLIN			
Total G.L.A. (sqm)	**3,420,034**	**3,293,916**	
G.L.A. occupied (sqm)	**3,075,130**	**2,991,316**	
Occupancy rate (%)[1]	**92.1%**	**92.6%**	**(51)**

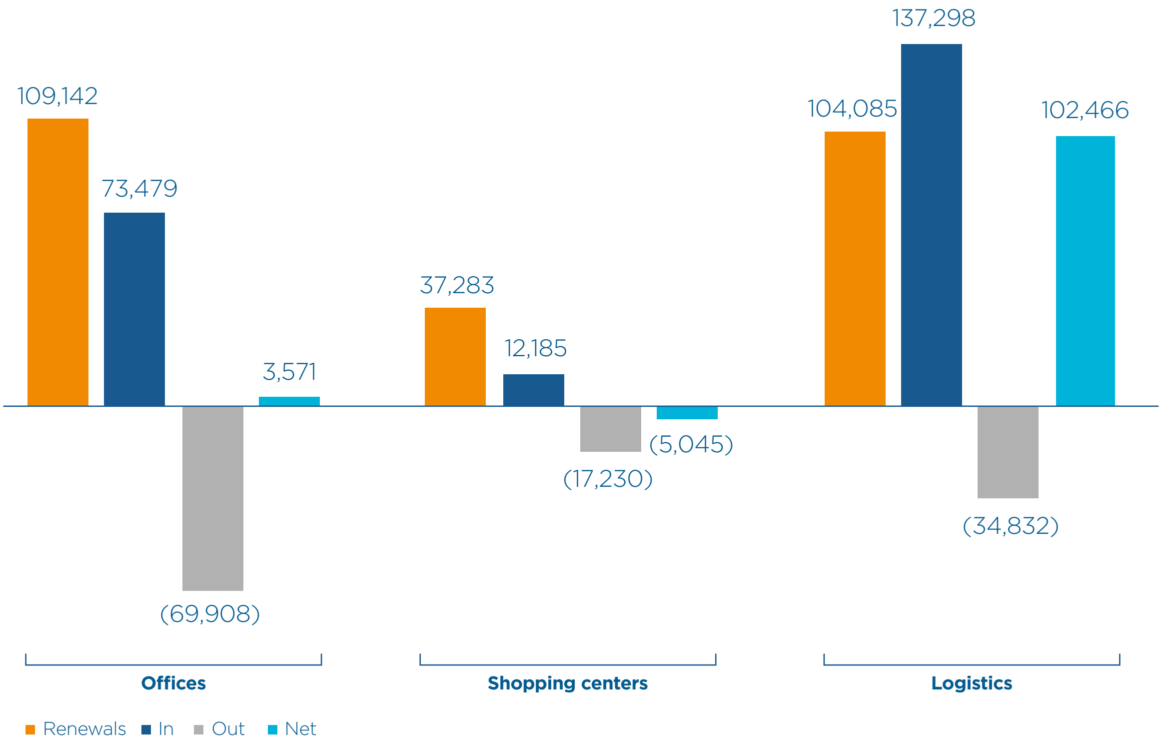
[1] Excluding assets being or to be developed (Torre Chamartin, Torre Glòries, Adequa 4 and 7)
[2] Excluding X-Madrid and vacant units recently acquired to be refurbished
[3] Excluding La Granada del Penedés warehouse held for sale

LEASING ACTIVITY
===

Since the beginning of 2018, or since the acquisition date for the assets acquired during the year, until 30 June 2018, MERLIN has signed lease agreements amounting to 473,473 sqm, out of which 222,962 sqm corresponds to new leases and 250,511 sqm to renewals.

The total of contracts expired in the period, excluding roll-overs, amounts to 372,481 sqm, of which 250,511 have been renovated or released, therefore the retention ratio in the period amounts to 67.3%.

The breakdown per asset category is as follows:



Offices

Total take-up amounts to 182,621 sqm, out of which 73,479 sqm correspond to new contracts (including contracts signed in Torre Glòries, still not forming part of the inventory) and 109,142 sqm to renewals.

Exits amounted to 69,908 sqm, and therefore the net take up is positive by 3,571 sqm. Main contracts signed in the 6M18 period are the following:

Asset	Tenant	G.L.A. (sqm)
PE Poble Nou 22@	Schneider	11,007
Alcalá 40	Government of Spain	9,315
Torre Gòries	CCC (Facebook)	9,135
PE San Chinarro	Técnicas Reunidas	12,209
Avda Burgos 210	Allfunds Bank	6,176
Partenon 12-14	Publicis	9,502
Atica	Phone House	5,243
Sitel	Central Office	3,456
WTC6	Vanderlande	2,907

The release spread achieved in the contracts renewed or relet in the last twelve months amount to 4.7%, mainly driven by the excellent performance of our core markets, Madrid, Barcelona and Lisbon

	Release spread	# contracts
Madrid	3.8%	165
Barcelona	8.8%	71
Lisbon	7.3%	23
Total	**4.7%(1)**	**259**

(1) Excluding Other

Shopping centers

Total take-up amounts to 49,469 sqm, out of which 12,185 sqm correspond to new contracts and 37,283 sqm renewals. Exits amounted to 17,230 sqm, and therefore the net take-up is negative by 5,045 sqm. Main new contracts signed are the following:

Asset	Tenant	G.L.A. (sqm)
Porto Pi	Zara	3,761
Artea	Yelmo	3,693
La Fira	H&M	3,110
Thader	Ozone	2,420
Vilamarina	Mercadona	2,597
Arenas	FNAC	2,051
Marineda	Lefties	1,264
Arenas	Musealia	1,533

The release spread achieved in the contracts renewed or relet in the last twelve months amount to 3.4%.

Logistics

Total take-up amounts to 241,383 sqm, out of which 137,298 sqm correspond to new contracts and 104,085 sqm to renewals.

Exits amounted 34,832 sqm, therefore net take-up amounts to 102,466 sqm. Main new contracts signed are the following:

Asset	Tenant	G.L.A. (sqm)
Madrid-Meco II	Leroy Merlin	59,814
Barcelona-Lliça del Vall	Reckitt Benckiser	14.,911
Madrid-San Fernando I	GLS	11,179
Barcelona-PLZF	AirPharm	10,429
Madrid-Coslada Complex	UPS	7,171
Barcelona-PLZF	Molenbergnatie	6,859

The release spread achieved in the contracts renewed or relet in the last twelve months amount to 11.5%, driven by the excellent performance of Madrid and Barcelona.

	Release spread	# contracts
Madrid	9.2%	7
Barcelona	13.4%	8
Other	15.9%	5
Total	**11.5%**	**20**

03

ACQUISITIONS, REFURBISHMENTS AND DEVELOPMENTS

ACQUISITIONS, REFURBISHMENTS AND DEVELOPMENTS

During the first half of 2018, investment activity has been as follows:

	Office	Retail	Logistics	€ million
Acquisitions	Zen Tower Endesa leasings	Porto Pi unit	Getafe-Gavilanes San Fernando I	83.6
Development & WIP	Torre Chamartin Torre Glòries	X-Madrid	Cabanillas X Toledo-Seseña Madrid-Meco II	27.6
Refurbishment	Adequa Juan Esplandiu Castellana 85 Diagonal 605	Arturo Soria Porto Pi		10.4
Like-for-like portfolio (Defensive Capex)[1]				6.3
Total				**127.8**

[1] € 4.8m are capitalized in balance sheet and € 1.5m are expensed in P&L

ACQUISITIONS

OFFICE

Acquisition of Zen Tower

On 17 April, MERLIN completed the acquisition of ZEN Tower. The asset, located in Dom Joao II, the main avenue in Parque das Nações in Lisbon, comprises 10,207 sqm of lettable area in 13 floors plus 5 floors for parking (331 spaces). With a unique glass curtain wall design, the property features raised floors, two terraces and excellent views over the river Tagus. The asset is 100% let to best-in-class companies such as Danone, Avigilon (Motorola Solutions) and the global engineering company Subsea7.

The acquisition price amounts to € 33.3 million representing a 6.4% gross yield over € 2.1m of gross rents

	Zen Tower
Acquisition price of the asset[1] (€ thousand)	33,345
Asset debt outstanding as of the date of purchase (€ thousand)	-
Equity disbursement (€ thousand)	33,345
% Debt to acquisition Price of the asset	-
Annualized gross rent 2018 (€ thousand)	2,119
Gross yield	6.4%
Total G.L.A. (sqm)	**10,207**

SHOPPING CENTERS

Acquisition of retail units in shopping centers

As part of the strategy to acquire retails units in our portfolio of shopping centers, MERLIN has acquired one additional unit in Porto Pi, with 228 sqm of GLA and a purchase price of € 0.8m

[1] Excluding transaction costs

LOGISTICS

Acquisition of Cabanillas X

Land plot located in Guadalajara-Cabanillas for the construction of a ready-to-build 21,544 sqm logistics facility. The warehouse will feature 2 modules and will be suitable for 3PL operators, including 23 loading docks and 10m clear height. Cabanillas is located in the third logistics ring of Madrid (50 kms from city center), which covers cross-national activity. The plot is located close to MERLIN Cabanillas I asset (let to Logista) and enjoys excellent access to the N-320 road connecting the A-2 to the R-2.

	Cabanillas X
G.L.A. (sqm)	21,544
Acquisition price[(1)] (€ thousand)	4,240
Estimated Capex (€ thousand)	7,295
Total cost (€ thousand)	**11,535**
ERV (€ thousand)	853
ERV yield[(2)]	7.4%
Delivery date	**1Q 2019**

Acquisition of Toledo-Seseña

Land plot for the development of a 28,541 sqm warehouse in the A-4 corridor, in an area with a clear deficit of modern logistics space suitable for 3PL operators.

The plot is located 36 kms from Madrid city centre, in Toledo-Seseña, in a very convenient location for the distribution of goods from Madrid to the south of Spain.

	Toledo-Seseña
G.L.A. (sqm)	28,541
Acquisition price[(1)] (€ thousand)	3,979
Estimated Capex (€ thousand)	10,041
Total cost (€ thousand)	**14,020**
ERV (€ thousand)	1,130
ERV yield[(2)]	8.1%
Delivery date	**2Q 2019**

[(1)] Excluding transaction costs
[(2)] Calculated as ERV divided by acquisition price plus estimated Capex

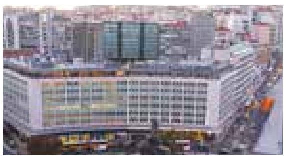
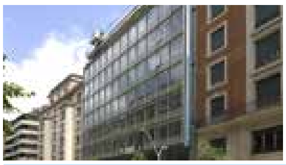
DEVELOPMENTS / WORK IN PROGRESS (WIP)

OFFICES

WIP

		GLA (sqm)	Scope	Acquisition	Capex	% executed	Delivery
	**Torre Glòries**	37,614	Development	€ 142m	€ 15m	91%	Jul-18
	**Torre Chamartín**	17,733	Development	€ 31m	€ 31m	100%	Completed in May-18 Opening license received in June

LANDMARK I

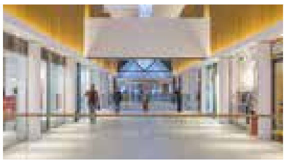
		GLA (sqm)	Scope	Budget	% executed
	**Monumental**	22,387	Full refurb (incl. SC)	€ 23.0m	5%
	**Adequa Phase I**	27,399	Refurbishment of former Renault and integration in the complex	€ 3.3m	41%
	**Marqués de Pombal**	12,460	Lobby + common areas + exterior terrace	€ 3.0m	5%
	**Balmes**	6,187	Full refurb	€ 1.8m	16%
	**Diagonal 605**	14,795	Full refurb	€ 8.0m	6%

SHOPPING CENTRES

WIP

		Scope	Budget	% executed	GLA (sqm)	Delivery	Pre-let
	**X-Madrid**	Full revamp	€ 31.8m	19%	47,424	May-19	76%

FLAGSHIP

		Scope	Budget[1]	% executed	GLA (sqm)	Delivery
	**Arturo Soria**	Façade, accesses, installations, terraces and floors	€ 4.7m	88%	6,959	Nov-18 Phase II
	**Larios**	Full refurb	€ 23.4m	21%	45,076	Dec-18
	**El Saler**	Extension (+2,700 sqm), façade and accesses	€ 15.2m	8%	47,013	Dec-19
	**Porto Pi**	Full refurb	€ 16.0m	7%	58,779	Mar-20

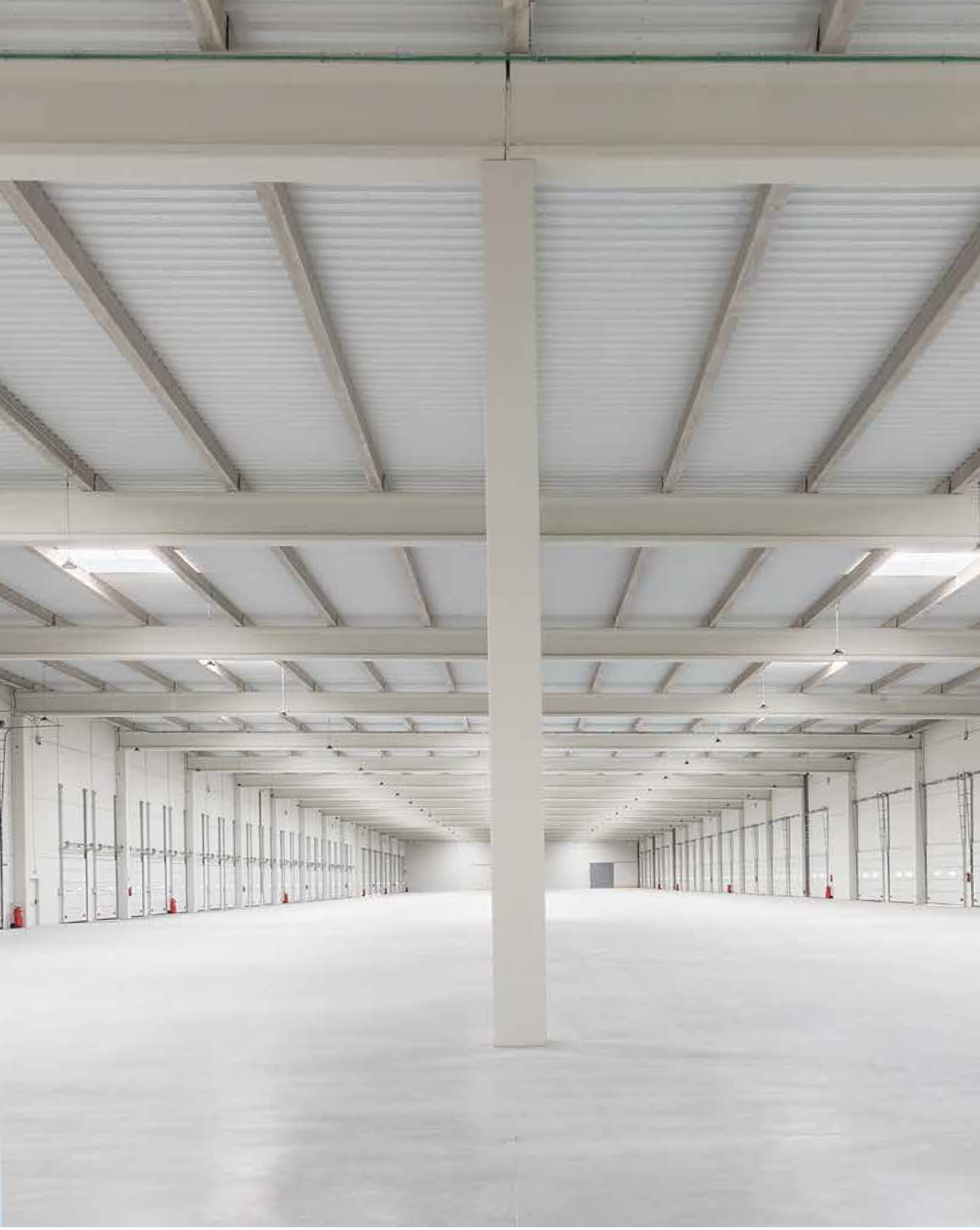
[1] GLA and Capex budget for shopping centers refurbishments include 100% of the asset, regardless of the stake owned by MERLIN in the owners' community

LOGISTICS

MERLIN continues expanding its logistics footprint through the developments / WIP program in logistics. As of 30 June 2018, main assets under Best II Plan are the following:

BEST II (as from 30/06/18)

	GLA (sqm)	ERV (€m)	Investment (€m)	ERV YoC
Madrid-Pinto II B	29,473	1.1	10.9	9.7%
Madrid-San Fernando II	34,224	1.8	20.3	8.7%
Guadalajara-Azuqueca II	98,000	4.3	47.6	9.0%
Guadalajara-Azuqueca III	51,000	2.2	29.6	7.5%
Guadalajara-Cabanillas Park I F	19,750	0.8	10.4	7.5%
Guadalajara-Cabanillas Park II	210,678	8.3	109.6	7.6%
Guadalajara-Cabanillas X	21,544	0.9	11.5	7.4%
Toledo-Seseña	28,541	1.1	14.0	8.1%
Total	**493,210**	**20.5**	**253.9**	**8.1%**



04
PORTFOLIO VALUATION

PORTFOLIO VALUATION

MERLIN portfolio has been appraised by CBRE and Savills, for a total GAV of € 11,755m. GAV breakdown is the following:

	€ thousand	€/sqm AG	Gross yield
Offices	5,400	4,228	4.1%
Shopping centers	1,797	3,676	5.2%
Logistics	771	716	6.2%
High Street retail	2,412	5,245	4.5%
Other[(1)]	413	857	4.6%
Land for development	458	777	
Total	**11,252**	**2,572**	**4.5%**
Equity method stakes	503		
Total	**11,755**		

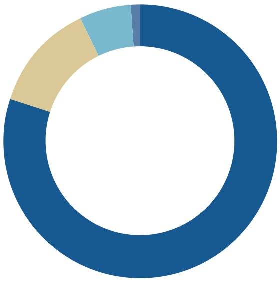
[(1)] Including hotels, non-core land and others

MERLIN PROPERTIES

A broader analysis of the asset portfolio by valuation in the different categories is shown below:

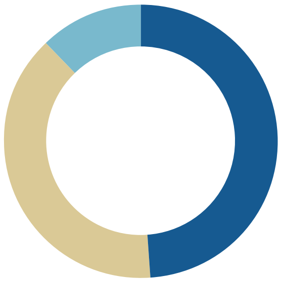
Offices (by GAV)

By geography



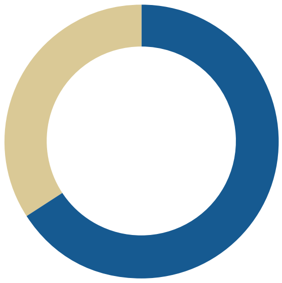
- Madrid **80%**
- Barcelona **13%**
- Lisbon **6%**
- Other Spain **1%**

By location



- Prime + CBD **39%**
- NBA **49%**
- Periphery **12%**

By product



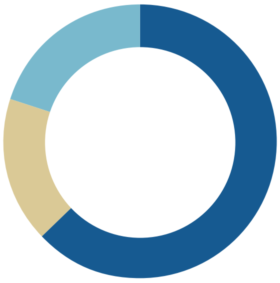
- Multi tenant **66%**
- Single tenant **34%**

Shopping centers (by GAV)

By geography

- Madrid **18%**
- Catalonia **18%**
- Galicia **17%**
- Valencia **13%**
- Andalusia **8%**
- Other **26%**

By type



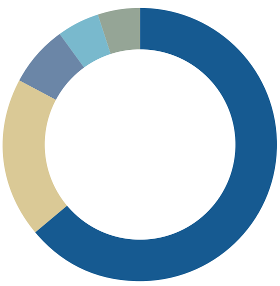
- Urban **63%**
- Dominant **17%**
- Secondary **20%**

By size

- Large **45%**
- Medium **30%**
- Extra-large **17%**
- Small **8%**

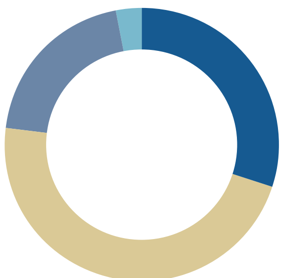
Logistics (by GAV)

By geography



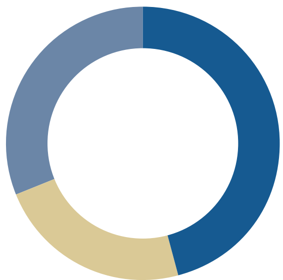
- Madrid **64%**
- Catalonia **19%**
- Sevilla **7%**
- Basque Country **5%**
- Other **5%**

By reach



- National **46%**
- Regional **31%**
- Ports **20%**
- Production related **3%**

By tenant type

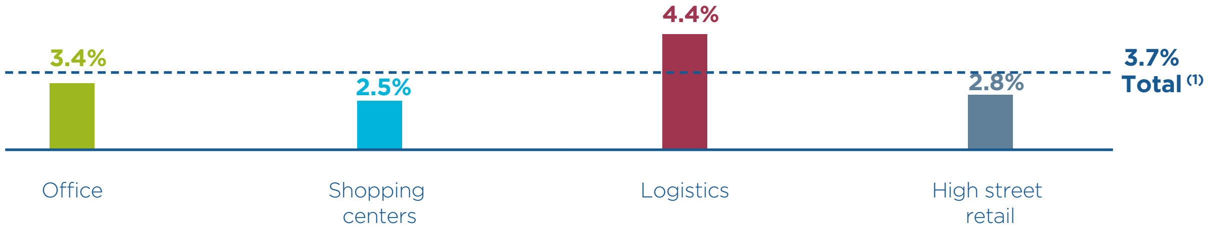


- 3PL multi-client **46%**
- 3PL mono-client **23%**
- End user **31%**

GAV Evolution

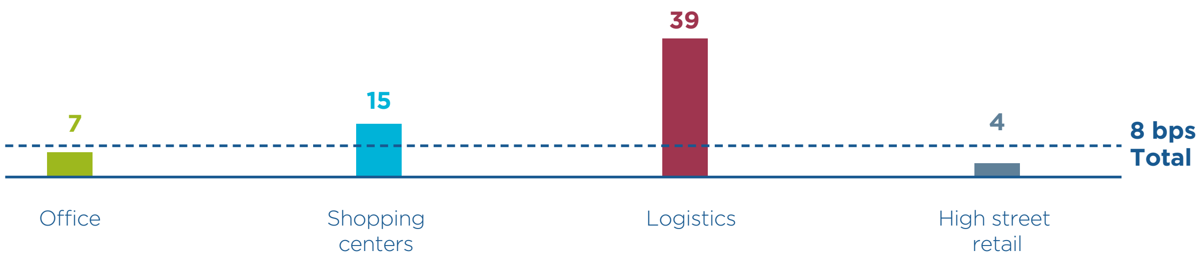
GAV has increased by € 501m, raising from a GAV of € 11,254m as of 31 December 2017 to € 11,755m.

The like-for-like increase of GAV from 31 December 2017 is +3.7%.

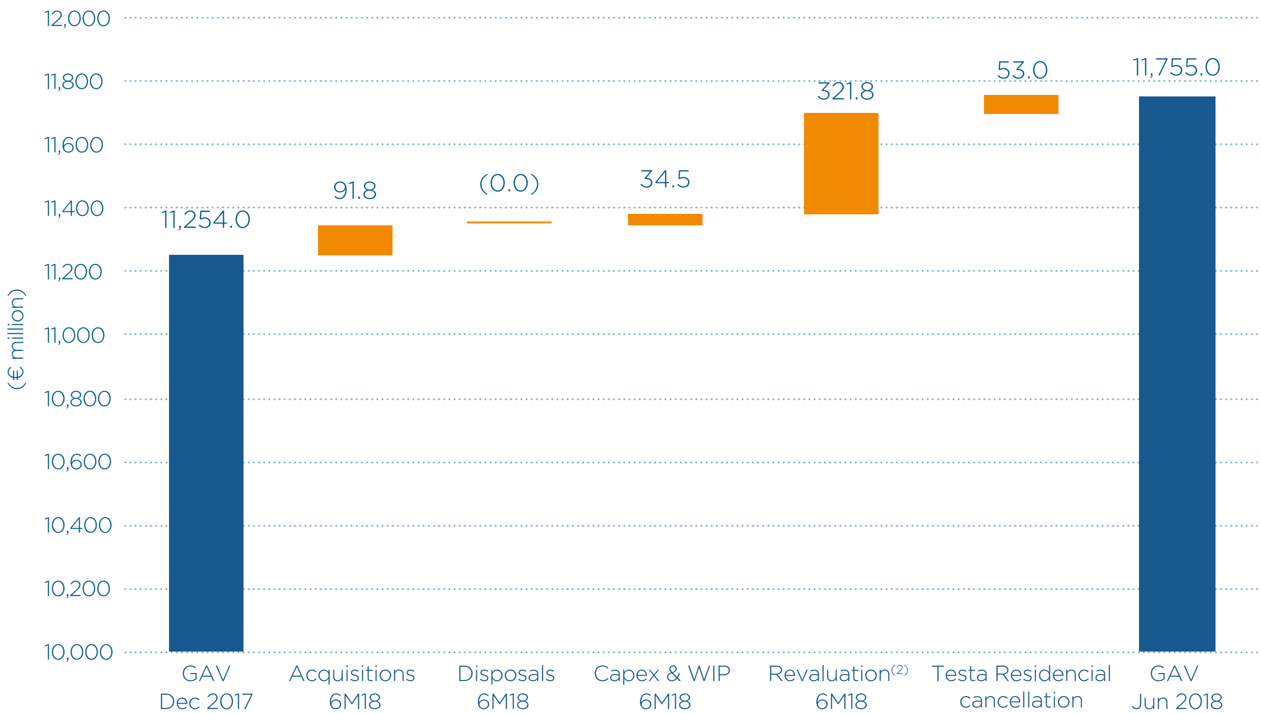


Yield Compression

Yields have compressed by 8 bps since December 2017



GAV Bridge



Source: Company

(1) Including equity method
(2) Including off-balance sheet revaluations

05
FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

(€ thousand)	30/06/18	30/06/17
Gross rents	**243,246**	**235,117**
Offices	110,217	108,427
Shopping centers	47,207	47,305
Logistics	24,254	19,525
High street retail	54,148	52,196
Other	7,419	7,664
Other income	**4,007**	**7,440**
Total revenues	**247,253**	**242,557**
Incentives	(11,096)	(7,704)
Collection loss	(688)	(876)
Total Operating Expenses	**(63,468)**	**(65,095)**
Propex	(21,946)	(18,510)
Personnel expenses	(14,500)	(11,767)
Opex recurring	(4,257)	(5,096)
Opex non-recurring	(846)	(2,972)
LTIP Provision	(21,919)	(26,750)
EBITDA	**172,001**	**168,882**
Depreciation	(5,223)	(3,612)
Gain / (losses) on disposals of assets	(459)	241
Provision surpluses	8,240	96
Absorption of the revaluation of investment property	-	(9,839)
Change in fair value of investment property	313,031	332,316
Difference on business combination	19	(1,775)
EBIT	**487,609**	**486,309**
Net financial expense	(57,703)	(51,603)
Debt amortization cost	(4,624)	(8,184)
Gain/(losses) on disposal of financial instruments	(167)	101
Change in fair value of financial instruments	(34,022)	(701)
Share in earnings of equity method investees	23,865	8,337
Testa Residencial cancellation	53,027	-
PROFIT BEFORE TAX	**467,985**	**434,259**
Income taxes	(10,272)	(12,260)
PROFIT (LOSS) FOR THE PERIOD	**457,713**	**421,999**
Minorities	104	601
PROFIT (LOSS) FOR THE PERIOD ATTRIBUTABLE	**457,609**	**421,398**

Notes to the consolidated income statement

Gross rents (€ 243,246 thousand) less portfolio operating expenses not rechargeable to tenants (€ 21,946 thousand) equals to net rents before incentives and collection loss of € 221,300 thousand. After deducting incentives and collection loss (€ 11,784 thousand) the resulting amount is € 209,516 thousand of net rents.

The total amount of operating expenses of the Company in the period is € 41,522 thousand, with the following breakdown:

i. € 14,500 thousand correspond to personnel expenses.

ii. € 4,257 of recurring general expenses.

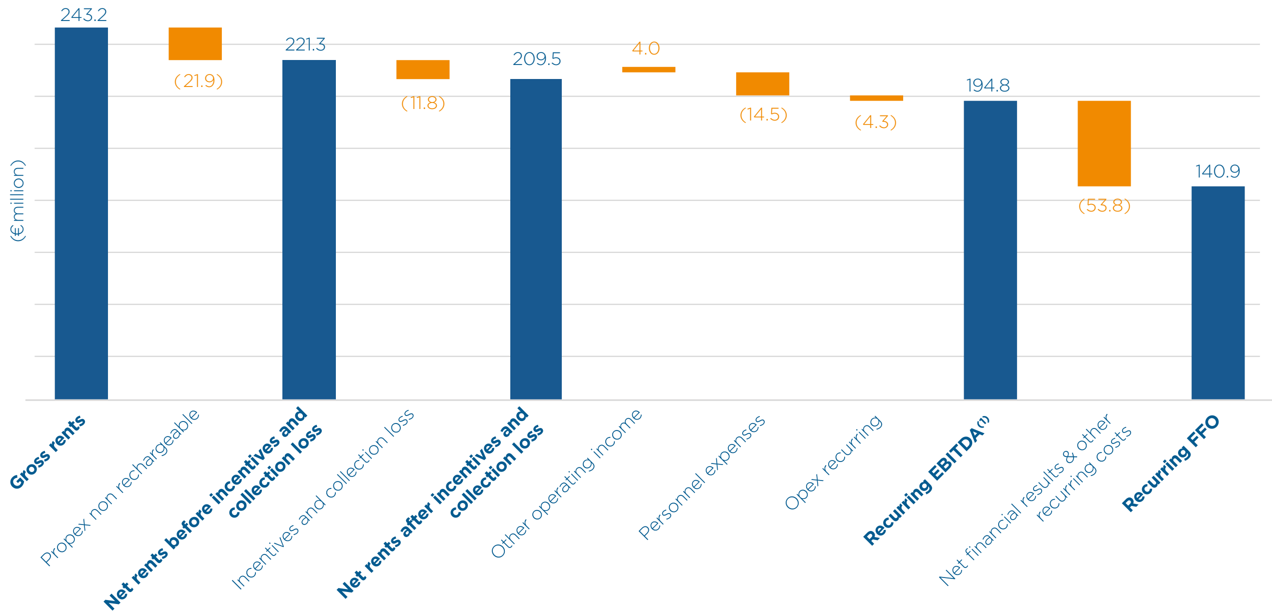
iii. € 21,919 thousand corresponding to the long-term incentive plan (LTIP) accrued: (i) 25% of the 2016 incentive awarded in 2016 (€ 7,869 thousand), and (ii) a total provision of € 14,050 thousand for the 2017-2019 incentive plan. This amount is booked under personnel expenses too.

iv. € 846 thousand of non-recurring operating expenses.

The sum of the personnel expenses (excluding the amount accrued for the LTIP) and the recurring operating expenses of the Company are within the threshold of overheads of the Company, prevailing this period the 0.575% of the EPRA NAV of the Company.

Extraordinary net gain arising from the early cancellation of Testa Residencial service level agreement (€ 53,027 thousand) is the result of a penalty of € 89,721 thousand partially offset by the impairment of the equity value in Testa (€ 36,694 thousand).

The reconciliation between gross rents of the period and FFO is as follows:



Source: Company
(1) Excludes non-recurring items (€ 0.8m) plus LTIP accrual (€ 21.9m)

CONSOLIDATED BALANCE SHEET

(€ thousand)

ASSETS	30/06/18	EQUITY AND LIABILITIES	30/06/18
NON CURRENT ASSETS	**11,871,909**	**EQUITY**	**6,068,607**
Intangible assets	239,632	Subscribed capital	469,771
Property plant and equipment	3,543	Share premium	3,858,624
Investment property	10,790,220	Reserves	1,324,904
Investments accounted for using the equity method	447,680	Treasury stock	(12,274)
Non-current financial assets	246,783	Other equity holder contributions	540
Deferred tax assets	144,051	Profit for the period	457,609
		Valuation adjustments	(36,795)
		Minorities	6,228
		NON CURRENT LIABILITIES	**5,982,299**
		Long term debt	5,322,035
		Long term provisions	61,905
		Deferred tax liabilities	598,359
CURRENT ASSETS	**318,718**	**CURRENT LIABILITIES**	**139,721**
Trade and other receivables	98,007	Short term debt	69,278
Short term investments in group companies and associates	66,320	Short term provisions	867
Short term financial assets	7,106	Trade and other payables	53,904
Cash and cash equivalents	135,771	Other current liabilities	15,672
Other current assets	11,514		
TOTAL ASSETS	**12,190,627**	**TOTAL EQUITY AND LIABILITIES**	**12,190,627**

MERLIN PROPERTIES

Notes to the consolidated balance sheet

Fair value of the portfolio corresponds to the appraisal value delivered by CBRE and Savills as of 30 June 2018. It is important to note that in accordance with accounting regulations the increase of value in concessions, equity method and non-current assets for disposal are not reflected in the financial statements. The referred appraisal value is reflected in the following accounting Items:

€ million	
Leaseholds (included in intangible assets)	238.5
Investment property	10,790.2
Derivatives (in non-current financial assets)	178.6
Equity method	447.7
Non-current assets	0.9
Total balance sheet items	**11,655.9**
Increase of value in concessions	43.5
Increase of value in equity method	55.3
Increase of value in non-current assets	0.3
Total valuation	**11,755.0**

FINANCIAL DEBT

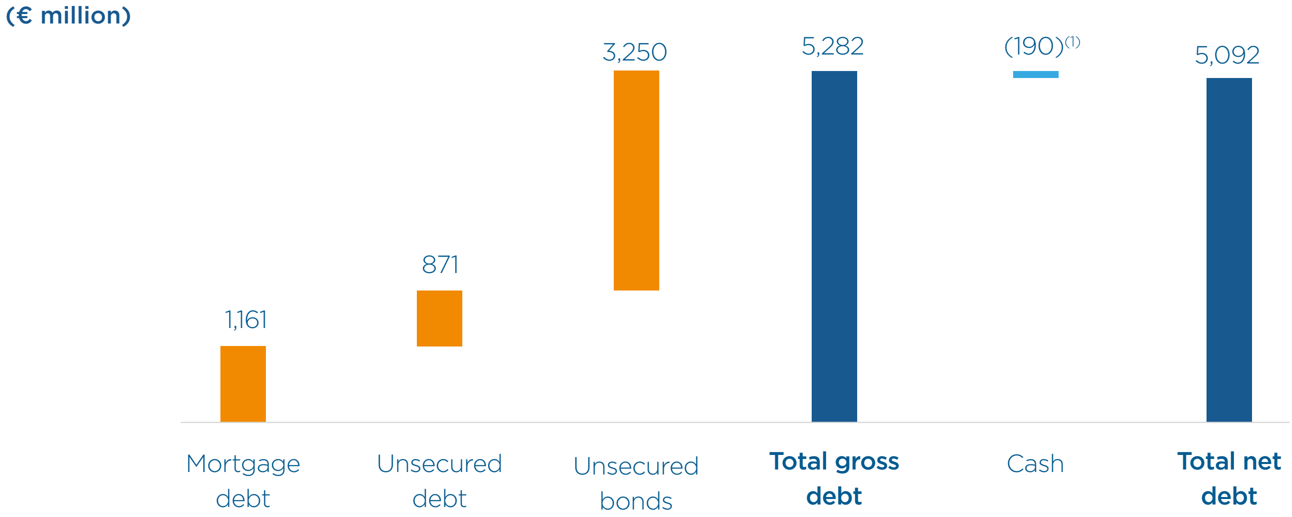
During the period, MERLIN has repaid leasing upon its maturity for an aggregate amount of € 123.6m.

The balance of long term debt and short term debt includes Company's outstanding financial debt, mark-to-market of interest-rate and inflation hedging contracts and other financial liabilities, corresponding to guarantees and legal deposits received. The breakdown of gross financial debt is as follows:

Financial debt breakdown

€ Thousand	Long term	Short term	Total
Financial debt	5,243,389	38,781	5,282,170
Loan arrangement costs	(50,435)	(107)	(50,542)
Debt interest expenses	-	25,303	25,303
Mark-to-market of interest-rate hedging contracts	38,485	1,366	39,850
Other financial liabilities (i.e. legal deposits)	90,596	3,936	94,532
Total debt	**5,322,035**	**69,279**	**5,391,314**

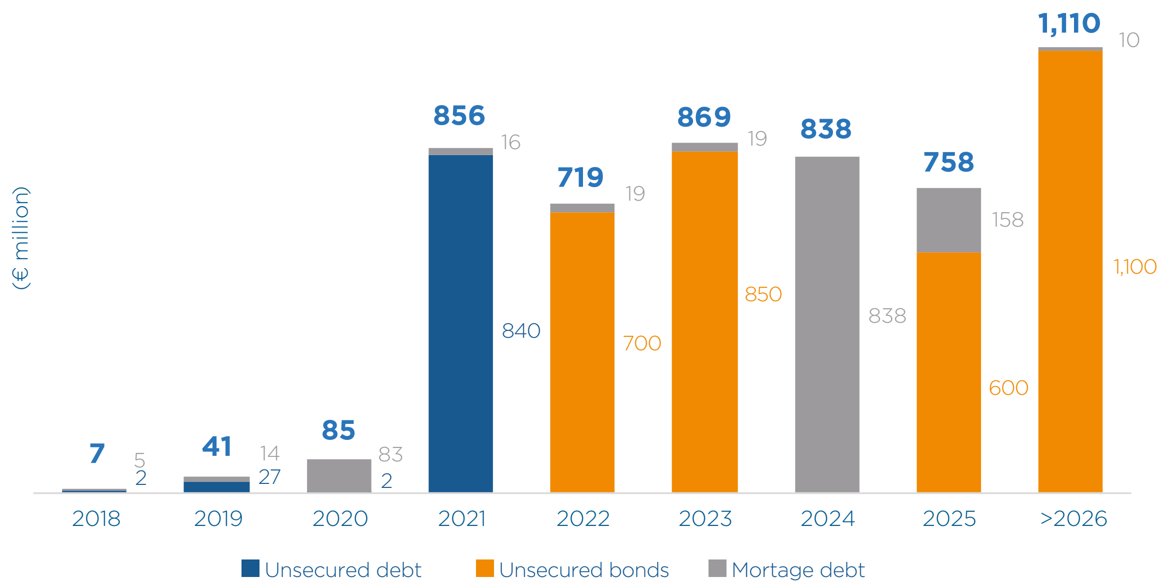
MERLIN's net financial debt as of 30 June is € 5,091,756 thousand. This represents a Loan To Value of 43.3%, which represents a reduction of 20 bps since 31/12/2017 (43.6%). The breakdown of MERLIN's debt is the following:



	Mortgage debt	Unsecured debt	Unsecured bonds	Total gross debt
% Gross financial debt	22.0%	16.5%	61.5%	**100.0%**
Spot average cost (%)	2.69%	1.97%	2.10%	**2.21%**
% interest rate hedged	99.3%	96.7%	100.0%	**99.3%**

Source: Company
(1) Cash balance includes the deferred payment receipt from the sale of the Hotel Portfolio (€ 50.8m). If unused credit facilities were to be included, liquidity position would increase to € 610m

MERLIN'S debt has an average maturity period of 5.7 years. The chart with debt maturity is the following:



MERLIN's debt as of 30 June has a spot average cost of 2.21%. Nominal debt with interest rate hedged amounts to 99.3%. Key debt ratios are shown below:

(€ thousand)	30/06/2018	31/12/2017
Gross financial debt	5,282,170	5,412,933
Cash	190,413 (1)	508,649 (1)
Net financial debt	5,091,756	4,904,284
GAV	11,755,041	11,253,954
LTV	43.3%	43.6%
Average cost	2.21%	2.23%
Fixed interest rate	99.3%	98.6%
Average maturity (years)	5.7	6.1
Liquidity (2)	610,413	928,649
Non-mortgage debt	78.0%	78.5%

Source: Company
(1) Including cash and net proceeds from the sale of hotels
(2) Including available treasury plus payment rights (nets) of divestments and unused credit facilities

SHAREHOLDERS RETURN

The Shareholder Return for a given year is equivalent to the sum of (a) the change in the EPRA NAV per share of the Company during such year; and (b) the total dividends per share (or any other form of remuneration or distribution to the Shareholders) that are paid in such year (the "Shareholder Return"). The Shareholder Return Rate is defined as the Shareholder Return for a given year divided by the EPRA NAV per share of the Company as of 31 December of the immediately preceding year (the "Shareholder Return Rate"). In accordance with these definitions, the Shareholder Return in 6M 2018 (from 01/01/2018 to 30/06/2018) amounts to € 1.07 per share (or € 501.2m of value created in absolute terms) and the Shareholder Return Rate amounts to 8.1%.

	Per share (€)	€ thousand
EPRA NAV 31/12/2017	13.25	6,224,741
NAV growth in 6M 2018	0.81	379,082
EPRA NAV 30/06/2018	14.06	6,603,823
DPS	0.26	122,140
NAV growth + DPS (Shareholder Return)	1.07	501,222
Shareholder Return Rate	**8.1%**	**8.1%**

06
POST-CLOSING

POST CLOSING

- On July 20, MERLIN acquired **Almada shopping** center for € 406.7m, a **81,951 sqm shopping center** (60,049 attributable) located in **Lisbon.** Almada is the undisputed dominant shopping and leisure destination in the south bank of the Tagus river, receiving more than 14.4 million visitors per annum. The popularity of the complex in terms of visitors goes hand in hand with its commercial success, currently nearing full occupancy (98% of GLA let). With **annual gross rents of € 24m,** the asset offers potential for future rental growth through improvements in management, variable rents and focused capex on selected areas.

- On July 19, MERLIN acquired a portfolio of **2 logistics assets:** (i) **26,775 sqm** logistics facilities in **Vitoria-Jundiz** fully let to DHL (under a Mercedes-Benz procurement contract) for € 10.7m, and (ii) **15,075 sqm** logistics asset in **Cabanillas-Guadalajara,** let to Jaguar Land Rover, for € 10.2m. The portfolio delivers a **6.9% yield on cost**

- On July 31, MERLIN has secured a **turn-key project in Ribarroja** of ca. **35,000 sqm** in the Central axis, in the junction between the A-3 and A-7, to increase its logistics footprint in **Valencia**

- Since 30/06/2018, MERLIN has signed **several leases totalling 23,422 sqm:** (i) **3,385 sqm** signed in **Torre Glóries** with Oracle with the option to extend the lease by **2,122 sqm,** (ii) a heads of terms with an international services company for the lease of **6,046 sqm (+2,122 sqm optioned)** in **Torre Chamartin,** (iii) **1,664 sqm** signed with Isolux in **Elipse,** (iv) **1,507 sqm** signed with ID logistics in **PE Las Tablas,** (v) **1,234 sqm** signed with Tigenix in **PE Euronova** and (vi) a heads of terms with an international retailer for the lease of **9,586 sqm** in **Muntadas I**

07
EPRA METRICS

EPRA METRICS

Performance Measure	Definition	30/06/2018	
		€ thousand	**€ per share**
EPRA Earnings (€ thousand)	Recurring earnings from core operational activities	140,845	0.30
EPRA NAV (€ thousand)	EPRA Net Asset Value (EPRA NAV) is calculated based on the consolidated shareholders' equity of the Group adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model, as per EPRA's recommendations	6,603,823	14.06
EPRA NNNAV (€ thousand)	EPRA NAV adjusted to include the fair value of financial instruments, debt and deferred taxes	6,161,572	13.12
EPRA Net Initial Yield	Annualized rental income based on the cash passing rents at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with acquisition costs	4.0%	
EPRA "topped-up" NIY	Adjustment to the EPRA Net Initial Yield in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents)	4.1%	
EPRA vacancy rate	Estimated Market Rental Value (ERV) of vacant space divided by ERV of the whole portfolio	7.9%	
EPRA costs	Running costs of the Company divided by recurring rents	18.0%	
EPRA costs (excluding non-recurring costs)	Recurring running costs of the Company divided by recurring rents	17.6%	

MERLIN Properties has been awarded by EPRA with the gold award of best practices in financial reporting. It is the highest recognition for an outstanding compliance with the best practices

08

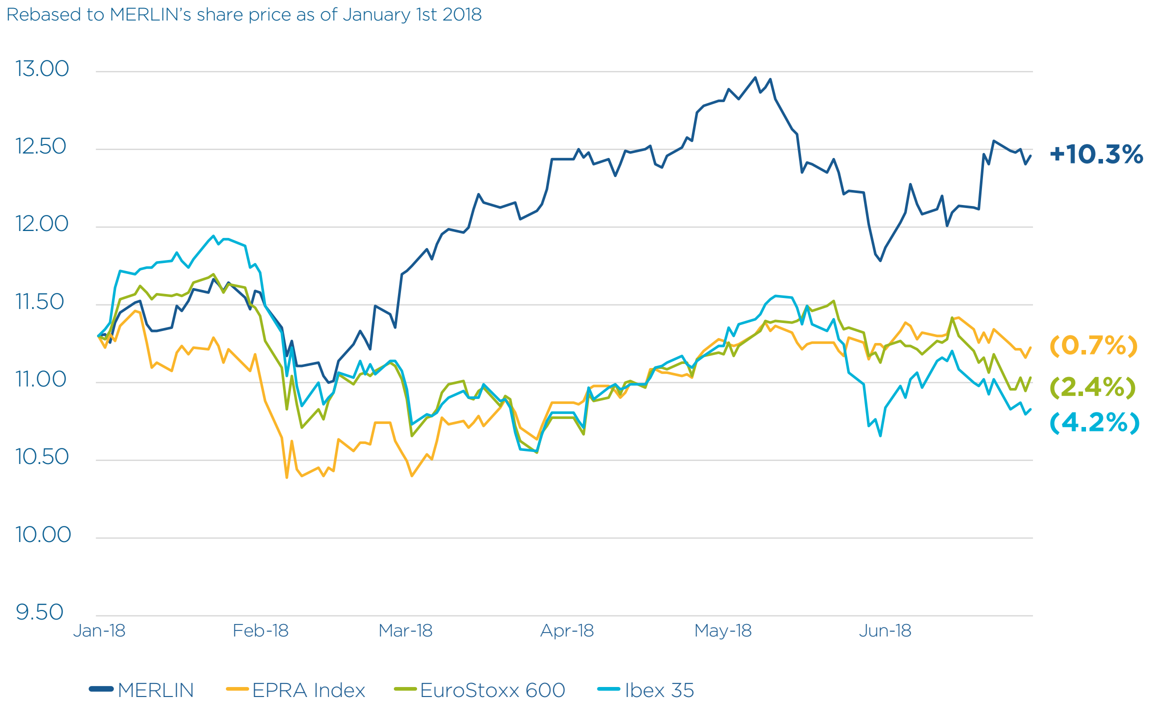
STOCK EXCHANGE EVOLUTION

STOCK EXCHANGE EVOLUTION

MERLIN shares closed on 30 June 2018 at € 12.46, an increase of 10.3% versus 31 December 2017 closing price (€ 11.30).

The share has outperformed the sectorial EPRA reference index (-0.7%), IBEX-35 (-4.2%) and Euro Stoxx 600 (-2.4%)

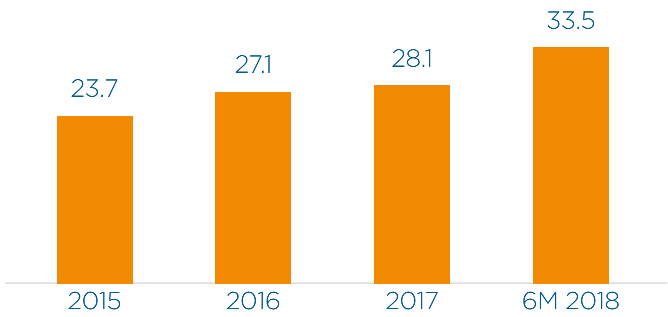
MERLIN share price performance vs IBEX 35 / EPRA Index / Euro Stoxx 600



Source: Bloomberg, as of 30 June 2018.

Average daily trading value (€ m)

Average daily trading volume during the period has been € 33.5 million.



MERLIN PROPERTIES

As of the date of this report, MERLIN is covered by a wide variety of 23 equity research houses. Consensus target price is € 13.56.

Target prices and analyst recommendations

Broker	Report date	Recommendation	Target price (€)
Kepler Cheuvreux	23/07/2018	Buy	13.70
Sabadell	18/07/2018	Buy	14.43
ING	10/07/2018	Buy	13.30
Green Street Advisors	04/07/2018	Sell	13.75
BARCLAYS	02/07/2018	Neutral	13.00
EXANE BNP PARIBAS	27/06/2018	Buy	13.80
SOCIETE GENERALE	27/06/2018	Neutral	13.70
GVC Gaesco	22/06/2018	Buy	14.49
Goldman Sachs	19/06/2018	Neutral	12.10
BPI	13/06/2018	Neutral	13.35
JBCapitalMarkets	11/06/2018	Buy	15.00
ALANTRA	11/05/2018	Neutral	13.15
CREDIT SUISSE	11/05/2018	Buy	13.50
Deutsche Bank	11/05/2018	Buy	13.50
MIRABAUD	11/05/2018	Sell	12.30
J.P.Morgan	10/05/2018	Buy	14.00
Morgan Stanley	08/05/2018	Buy	15.00
NATIXIS	29/03/2018	Buy	14.00
KEMPEN & CO	29/03/2018	Neutral	13.40
UBS	09/03/2018	Buy	13.00
bankinter.	28/02/2018	Buy	12.80
fidentiis	25/01/2018	Buy	13.50
BBVA	06/09/2017	Buy	13.00
Market consensus			**13.56**

APPENDIX

EPRA METRICS

EPRA Earnings

(€ thousand)	
Consolidated net profit in accordance with IFRS	**457,609**
Adjustments to calculate EPRA earnings	(339,457)
(i) changes in value of investment properties	(316,048)
(ii) gain/(losses) on disposal of assets	459
(iii) absorption of revaluation on investment properties	-
(iv) non recurring taxes	9,222
(iv) share in equity method investees	(71,884)
(v) negative difference in business combination	(19)
(vi) changes in fair value of financial instruments and cancellation costs	38,646
(vii) impairment of fiscal credit	-
(viii) gain/(losses) on disposal of financial instruments	167
Minority interests in respect of previous adjustments	(77)
EPRA net earnings pre-specific adjustments	**118,075**
EPRA net earnings per share pre-specific adjustments	**0.25**
Company specific adjustments:	22,765
(i) LTIP provision	21,919
(ii) non recurring general expenses	846
Minority interests in respect of previous adjustments	5
EPRA net earnings post-specific adjustments	**140,845**
EPRA net earnngs per share post-specific adjustments	**0.30**

EPRA NAV

(€ thousand)		
Equity in balance sheet		**6,062,378**
Derivatives Mark-to-market		38,485
Deferred taxes Mark-to-market:		454,308
Deferred tax assets	(144,051)	
Deferred tax liabilities	598,359	
Cost of debt		(50,542)
Revaluations not recorded in the financial statements		
Adjustment in concessions		43,518
Adjustments in tangible assets		331
Adjustments in equity method		55,345
EPRA NAV		**6,603,823**
Shares		**469,770,750**
EPRA NAV / share		**14.06**

EPRA Yields

(€ thousand)	Offices	Shopping centers	Logistics
Gross asset value	5,400,372	1,796,796	771,341
Exclude:	-		
Land for development			
Non-core land			
Commercial property portfolio GAV	5,400,372	1,796,796	771,341
Gross rents annualized	**222,843**	**91,405**	**47,584**
Exclude:			
Propex not recharged to tenants	(24,578)	(13,161)	(2,940)
"Topped-up" net rents annualized	**198,265**	**78,244**	**44,644**
Exclude:			
Incentives	(6,625)	(3,434)	(2,060)
Net rents annualized	**191,640**	**74,810**	**42,584**
EPRA "topped-up" yield[1]	**3.7%**	**4.4%**	**5.8%**
EPRA net initial yield[1]	**3.6%**	**4.2%**	**5.5%**

[1] Excluding Torre Glories and X-Madrid GAV for Yield calculation purposes


High Street Retail	Other	Land under development	TOTAL
2,412,449	412,712	458,347	11,252,016
	-	(458,347)	(458,347)
	(104,839)		(104,839)
2,412,449	307,873	-	10,688,831
107,923	**14,090**	-	**483,845**
(1,242)	(1,110)	-	(43,031)
106,682	**12,980**	-	**440,814**
(414)	(245)	-	(12,778)
106,267	**12,735**	-	**428,036**
4.4%	**4.2%**		**4.1%**
4.4%	**4.1%**		**4.0%**

EPRA cost ratio

(€ thousand)	**30/06/18**
Property expenses not recharged to tenants	(21,946)
Collection loss	-
Personnel expenses	(36,419)
General expenses recurring	(4,257)
General expenses non-recurring	(846)
LTIP accrual	21,919
Exclude	
Investment property depreciation	-
Ground rent costs	-
Service charge recovered through rents but not invoiced separately	-
Expenses related to 3rd party asset management services	-
EPRA Cost ratio (including ditrect vacancy costs)	**(41,549)**
Gross rents	243,246
Less: incentives	(11,784)
Less: service fee if part of gross rents	-
Add: income of Joint-Ventures	-
Gross rental income	**231,462**
EPRA Cost ratio	**18.0%**
EPRA Cost ratio (excluding non-recurring general expenses)	**17.6%**

ALTERNATIVE MEASURES OF PERFORMANCE

In accordance with the recommendations issued by the European Securities and Markets Authority (ESMA), the alternative measures of performance are described as follows.

Glossary

Average debt maturity (years)
It represents the average debt duration of the Company until maturity.

Average Passing Rent
It represents the rent for sqm/month to which an asset or category of assets is rented as
of 30 June.

EBITDA
Earnings before net revaluations, amortizations, provisions, interest and taxes.

EPRA costs
Recurring running costs of the Company divided by recurring rents.

EPRA Earnings (€ thousand)
Recurring earnings from core operational activities.

EPRA NAV (€ thousand)
EPRA Net Asset Value (EPRA NAV) is calculated based on the consolidated shareholders' equity of the Group adjusted to include properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a longterm investment property business model, as per EPRA's recommendations.

EPRA NNNAV (€ thousand)
EPRA NAV adjusted to include the fair value of financial instruments, debt and deferred taxes.

EPRA Net Initial Yield
Annualised rental income based on the cash passing rents at the balance sheet date, less nonrecoverable property operating expenses, divided by the market value of the property, increased with acquisition costs.

EPRA "topped-up" NIY
Adjustment to the EPRA Net Initial Yield in respect of the expiration of rentfree periods (or other unexpired lease incentives such as discounted rent periods and step rents).

EPRA Vacancy Rate
Estimated Market Rental Value (ERV) of vacant space divided by ERV of the whole portfolio.

FFO
Recurring result of the Company calculated as EBITDA less debt interest expenses of the period.

GAV
Value of the commercial portfolio in accordance with the latest external valuation available as of 30 June 2018 plus advanced payments for turn-key projects and developments and capex invested in 6M18.

Gross annualized rents
Passing rent as of 30 June multiplied by 12.

Gross yield
It represents the gross yield of an asset or category of assets. It is calculated by dividing the annualized gross rent between the latest available GAV.

Recurring EBITDA
EBITDA less non-recurring general expenses of the Company.

Recurring FFO
FFO less non-recurring general expenses of the Company.

Release Spread
Difference between the new rent signed and the old prevailing rent on renewals (same space, same tenant) or relets (same space, different tenant) during last twelve monts.

Rents Like-for-Like
Difference between the rents received in the period of analysis and the rents received on the similar period one year before for the same perimeter of assets.

WAULT
Weighted average unexpired lease term, calculated as the number of years of unexpired lease term, as from 30 June 2018, until the lease contract expiration, weighted by the gross rent of each individual lease contract.

LIST OF ASSETS

Asset	Location	G.L.A sqm AG
Torre Castellana 259	Madrid	21,390
Castellana 280	Madrid	16,918
Castellana 278	Madrid	14,468
Castellana 93	Madrid	11,650
Castellana 83	Madrid	15,254
Plaza Pablo Ruíz Picasso	Madrid	31,576
Alcala 40	Madrid	9,315
Principe de Vergara 187	Madrid	10,732
Alfonso XI	Madrid	9,945
Pedro de Valdivia 10	Madrid	6,721
Beatriz de Bobadilla 14	Madrid	16,979
Princesa 3	Madrid	17,810
Princesa 5	Madrid	5,788
Ventura Rodriguez 7	Madrid	10,071
Juan Esplandiu 11-13	Madrid	28,008
Eucalipto 33	Madrid	7,185
Eucalipto 25	Madrid	7,368
Santiago de Compostela 94	Madrid	13,130
Parking Princesa*	Madrid	-
Total Madrid Prime + CBD		**254,308**
Ulises 16-18	Madrid	9,576
Josefa Valcarcel 48	Madrid	19,893
Alvento	Madrid	32,928
Cristalia	Madrid	11,712
Trianon	Madrid	18,400
Ribera del Loira 36-50	Madrid	39,150
Ribera del Loira 60	Madrid	54,960
Partenon 12-14	Madrid	19,609
Partenon 16-18	Madrid	18,343
Arturo Soria 128	Madrid	3,206
Total Madrid NBA A2		**227,778**

*Below ground surface has not been taken into account for G.L.A. purposes.

Asset	Location	G.L.A sqm AG
Torre Chamartin*	Madrid	17,733
Arturo Soria 343	Madrid	6,615
Manoteras 18	Madrid	7,515
Fuente de la Mora	Madrid	4,482
Aquamarina	Madrid	10,856
Via Norte	Madrid	37,224
María de Portugal 9-13	Madrid	17,191
Las Tablas	Madrid	27,073
Avenida de Burgos 210	Madrid	6,176
Manuel Pombo Angulo 20	Madrid	3,623
Miniparc Alcobendas I	Madrid	9,195
Miniparc Alcobendas II	Madrid	3,347
Avenida de Bruselas 24	Madrid	9,164
Avenida de Bruselas 26	Madrid	8,895
Avenida de Bruselas 33	Madrid	33,718
Avenida de Europa 1A	Madrid	12,605
Avenida de Europa 1B	Madrid	12,606
Maria de Portugal T2	Madrid	17,139
Adequa 1	Madrid	27,399
Adequa 2	Madrid	5,013
Adequa 3	Madrid	15,937
Adequa 5	Madrid	13,790
Adequa 6	Madrid	3,434
Adequa 4*	Madrid	14,926
Adequa 7*	Madrid	26,744
Total Madrid NBA A1		**362,757**
Francisco Delgado 9A	Madrid	5,496
Francisco Delgado 9B	Madrid	5,400
Costa Brava 2-4	Madrid	16,000
Avenida de Aragon 334	Madrid	3,890
Atica 1	Madrid	7,080
Atica 2	Madrid	5,644
Atica 3	Madrid	5,746
Atica 4	Madrid	4,936
Atica 5	Madrid	9,526
Atica 6	Madrid	3,790
Atica XIX	Madrid	15,411
Cerro Gamos 1	Madrid	35,498
El Plantío 6 G	Madrid	1,780
El Plantío 8 F	Madrid	1,723

*Project under development

Asset	Location	G.L.A sqm AG
El Plantío 10 E	Madrid	1,749
El Plantío 12 D	Madrid	1,816
Copenhague 4-8	Madrid	5,972
Alvia	Madrid	23,567
Euronova	Madrid	32,665
Total Madrid Periphery		**187,689**
Diagonal 605	Catalonia	14,795
Diagonal 514	Catalonia	9,664
Diagonal 458	Catalonia	4,174
Balmes 236-238	Catalonia	6,187
Vilanova 12-14	Catalonia	16,494
Gran Vía Cortes Catalanas 385	Catalonia	5,190
Total Barcelona Prime + CBD		**56,504**
Citypark Cornella	Catalonia	12,916
WTC6	Catalonia	14,461
WTC8	Catalonia	14,542
Av. Parc Logistic 10-12 (PLZFA)	Catalonia	11,411
Av. Parc Logistic 10-12 (PLZFB)	Catalonia	10,652
Total NBA WTC		**63,982**
Diagonal 211 (Torre Glòries)*	Catalonia	37,614
Diagonal 199	Catalonia	5,934
Llull 283 (Poble Nou 22@)	Catalonia	31,337
Total NBA 22@		**74,884**
Muntadas I	Catalonia	24,380
Muntadas II	Catalonia	3,783
Sant Cugat I	Catalonia	15,379
Sant Cugat II	Catalonia	10,008
Total Periphery		**56,778**
Monumental	Lisbon	16,892
Marques de Pombal 3	Lisbon	12,460
Total Lisbon Prime + CBD		**29,352**

*Project under development

Asset	Location	G.L.A sqm AG
Lisboa Expo	Lisbon	6,740
Torre Lisboa	Lisbon	13,715
Central Office	Lisbon	10,310
Torre Zen	Lisbon	10,207
Total Lisbon NBA		**40,972**
Lerida - Mangraners	Catalonia	3,228
Zaragoza - Aznar Molina	Zaragoza	4,488
Sevilla - Borbolla	Andalusia	13,037
Granada - Escudo del Carmen	Andalusia	2,041
TOTAL OFFICES		**1,374,211**
Marineda	Galicia	100,207
Arturo Soria	Madrid	5,974
Centro Oeste	Madrid	10,876
Tres Aguas	Madrid	67,972
Leroy Merlin Getafe (Nassica)	Madrid	10,007
X-Madrid	Madrid	47,424
Larios	Andalusia	40,805
Porto Pi	Mallorca	32,578
Artea	Basque Country	24,323
Arenas	Catalonia	31,918
Vilamarina	Catalonia	32,224
La Fira	Catalonia	29,013
El Saler	Valencian C.	26,262
La Vital	Valencian C.	20,868
Bonaire	Valencian C.	17,559
Medianas Bonaire	Valencian C.	4,584
Thader	Murcia	48,646
Monumental SC	Lisbon	5,495
TOTAL SHOPPING CENTERS		**556,735**
Madrid-Coslada	Madrid	28,491
Madrid-Coslada Complex	Madrid	36,234
Madrid-Getafe	Madrid	16,242
Madrid-Getafe (Los Olivos)	Madrid	11,488
Madrid-Meco I	Madrid	35,285
Madrid-Pinto I	Madrid	11,099
Madrid-Pinto II A	Madrid	29,544
Madrid-Pinto II B	Madrid	29,473

Asset	Location	G.L.A sqm AG
Madrid-Getafe (Gavilanes)	Madrid	39,415
Madrid-Meco II	Madrid	59,891
Madrid-San Fernando I	Madrid	11,179
Madrid-San Fernando II	Madrid	34,224
Toledo-Seseña	Castilla la Mancha	28,541
Guadalajara-Alovera	Castilla la Mancha	38,763
Guadalajara-Azuqueca I	Castilla la Mancha	27,995
Guadalajara-Azuqueca II	Castilla la Mancha	98,000
Guadalajara-Azuqueca III	Castilla la Mancha	51,000
Guadalajara-Cabanillas I	Castilla la Mancha	70,134
Guadalajara-Cabanillas Park I A	Castilla la Mancha	38,054
Guadalajara-Cabanillas Park I B	Castilla la Mancha	17,917
Guadalajara-Cabanillas Park I C	Castilla la Mancha	48,952
Guadalajara-Cabanillas Park I D	Castilla la Mancha	47,892
Guadalajara-Cabanillas Park I E	Castilla la Mancha	49,793
Guadalajara-Cabanillas Park I F	Castilla la Mancha	19,750
Guadalajara-Cabanillas Park II	Castilla la Mancha	210,678
Guadalajara-Cabanillas X	Castilla la Mancha	21,544
Barcelona-ZAL Port	Catalonia	527,954
Barcelona-Granada Penedes	Catalonia	16,758
Barcelona-Lliça del Vall	Catalonia	14,911
Barcelona-Sant Esteve	Catalonia	16,811
Barcelona- Castellbisbal	Catalonia	21,508
Barcelona-PLZF	Catalonia	132,554
Zaragoza-Pedrola	Zaragoza	21,579
Zaragoza-Plaza	Zaragoza	20,764
Zaragoza Plaza - logistics	Zaragoza	11,262
Valencia-Almussafes	Valencian C.	26,613
Vitoria-Jundiz	Basque Country	72,717
Sevilla Zal	Andalusia	114,128
SPL	Lisbon	-
TOTAL LOGISTICS (incl. WIP)		**2,160,543**

Tree		365,916
Caprabo	Catalonia	64,252
Plaza de los Cubos	Madrid	13,479
Callao 5	Madrid	11,629
Torre Madrid locales	Madrid	4,393
Locales Plaza Castilla	Madrid	311
TOTAL HIGH STREET RETAIL		**459,981**

Asset	Location	G.L.A sqm AG
Eurostars Torre Castellana 259	Madrid	31,800
General Ampudia 12*	Madrid	-
Yunque	Madrid	1,780
San Francisco de Sales	Madrid	171
Amper	Madrid	22,510
Torre Madrid residencial	Madrid	120
Novotel Diagonal 199	Catalonia	15,332
Jovellanos 91	Catalonia	4,519
Rambla Salvador Sama 45-47-49	Catalonia	1,140
Sant Boi de Llucanes	Catalonia	8,422
CIM Valles	Catalonia	25,724
Hotel Marineda	Galicia	5,898
Parking Palau*	Valencian C.	-
Bizcargi 1 1D	Basque Country	46
Arapiles 8	Madrid	1,700
Valdebebas - office land	Madrid	25,955
Zaragoza - residencial land	Zaragoza	47,971
Navalcarnero	Madrid	288,389
TOTAL OTHER		**481,476**

*Belons ground surface has not been taken into account for G.L.A. purposes

MERLIN PROPERTIES

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MERLIN PROPERTIES, SOCIMI, S.A.
Formulación de los Estados Financieros Intermedios correspondientes al periodo de 6 meses terminado el 30 de junio de 2018

Reunidos los Administradores de Merlin Properties SOCIMI, S.A., con fecha de 30 de julio de 2018, proceden a formular los Estados Financieros Intermedios correspondientes al periodo de 6 meses terminado el 30 de junio de 2018. Los Estados Financieros Intermedios Consolidados vienen constituidos por los documentos anexos que preceden a este escrito, y constan extendidos en [*hay número*] folios de papel común. Asimismo, mediante la suscripción y firma del presente folio de firmas, los miembros que integran el Consejo de Administración de MERLIN PROPERTIES, SOCIMI, S.A. declaran como firmados de su puño y letra los Estados Financieros Intermedios Consolidados, que han sido rubricados en todas sus páginas por la Secretario o el Vice-Secretario no consejero a los solos efectos de su identificación.

Firmantes:

[Hay firma]	[Hay firma]
D. Javier Garcia-Carranza Benjumea Presidente del Consejo	D. Ismael Clemente Orrego Vice-presidente del Consejo
[Hay firma]	[Hay firma]
Dña. Francisca Ortega Hernández-Agero Vocal	D. John Gómez-Hall Vocal
[Hay firma]	[Hay firma]
Dña. María Luisa Jorda Castro Vocal	Dña. Pilar Cavero Mestre Vocal
[Hay firma]	[Hay firma]
D. Juan María Aguirre Gonzalo Vocal	D. Miguel Ollero Barrera Vocal
[Hay firma]	[Hay firma]
D. Fernando Javier Ortiz Vaamonde Vocal	Dña. Ana María García Fau Vocal
[Hay firma]	[Hay firma]
D. Emilio Novela Berlín Vocal	D. George Donald Johnston Vocal

MERLIN PROPERTIES, SOCIMI, S.A.

Declaración de responsabilidad de los Estados Financieros Intermedios correspondientes al periodo de 6 meses terminado el 30 de junio de 2018

Los miembros del Consejo de Administración de Merlin Properties, SOCIMI, S.A. declaran que, hasta donde alcanza su conocimiento los Estados Financieros Intermedios correspondientes al periodo de 6 meses terminado el 30 de junio de 2018 formulados y aprobados por el Consejo de Administración en su reunión de 30 de julio de 2018 y elaborados conforme a los principios de contabilidad que resultan de aplicación ofrecen la imagen fiel del patrimonio, de la situación financiera y de los resultados de Merlin Properties, SOCIMI, S.A., así como de las sociedades dependientes comprendidas en la consolidación, tomadas en su conjunto, y que el Informe de gestión intermedio incluye un análisis fiel de la información exigida

Firmantes:

[Hay firma]

D. Javier Garcia-Carranza Benjumea
Presidente del Consejo

[Hay firma]

D. Ismael Clemente Orrego
Vice-presidente del Consejo

[Hay firma]

Dña. Francisca Ortega Hernández-Agero
Vocal

[Hay firma]

D. John Gómez-Hall
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Dña. María Luisa Jorda Castro
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Dña. Pilar Cavero Mestre
Vocal

[Hay firma]

D. Juan María Aguirre Gonzalo
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[Hay firma]

D. George Donald Johnston
Vocal