
MANAGEMENT REPORT
ON CONSOLIDATED
FINANCIAL STATEMENTS

For the period ended
on December 31, 2014



MERLIN
PROPERTIES

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MERLIN
PROPERTIES

1.

ORGANIZATION AND STRUCTURE

1.1. Constitution and flotation

MERLIN Properties (hereinafter, MERLIN Properties or the Company) was incorporated on 25 March, 2014 in Spain under the Spanish Corporate Law (Ley de Sociedades de Capital) by issuing 60,000 registered shares par value of 1 euro each. On 5 June 2014, the shareholders made a monetary contribution of 540 thousand euros, through "Other shareholder contributions".

On 22 May 2014, the Company requested its incorporation into the REIT tax regime, effective from 1 January 2014.

On 30 June 2014, the Company floated on the Spanish Stock Exchange completing a capital increase of 125,000 thousand euros with an issue premium of 1,125,000 thousand euros by issuing 125,000,000 new registered shares of 1 euro par value each. These shares were fully paid and subscribed.

In order to cater for the exercise of the green shoe option, on 14 July 2014 the Company performed a second share capital increase of 4,152 thousand euros, with a share premium of 37,368 thousand euros, through the creation of 4,152,001 fully subscribed and paid new shares of EUR 1 par value each.

The Company's share capital at December 31, 2014, was represented by 129,212,001 fully subscribed and paid ordinary shares, with a par value of 1 euro, all of the same class. All of the Company's shares are admitted for public trading and official listing on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges.

The Company owns a portfolio of real estate assets with a value over € 2,230 million, as per Savills valuation, focused on incoming producing commercial assets with the following characteristics:

- Leading shopping center complexes dominant in their local area
- Offices located in prime or secondary locations, mainly in Madrid, Barcelona and, to a lesser degree, in Lisbon.
- Logistics properties located in major logistics centers in Spain and Portugal.
- Urban hotels located in prime locations.

1.2. Subsidiaries

The Company has created three subsidiaries dividing its assets by category as follows

- MERLIN Retail S.L.U. (hereinafter, MERLIN Retail), 100% owned by MERLIN Properties, devoted to the acquisition and management of shopping centers.
- MERLIN Oficinas S.L.U. (hereinafter, MERLIN Office), 100% owned by MERLIN Properties, devoted to the acquisition and management of office assets.
- MERLIN Logística S.L.U. (hereinafter, MERLIN Logistics), 100% owned by MERLIN Properties, devoted to the acquisition and management of logistic and industrial assets.

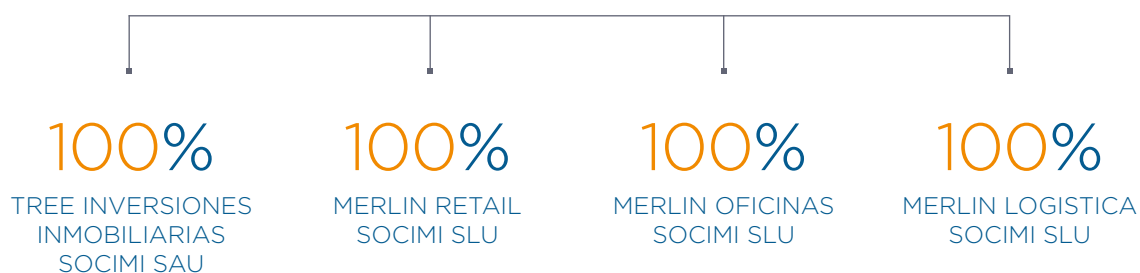
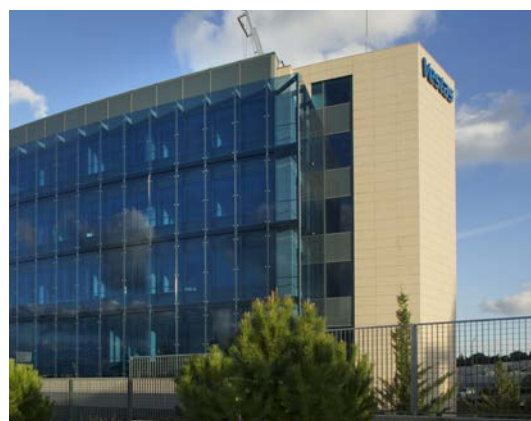
Additionally, as part of its investment activities, as further detailed below, the Company has acquired 100% of the shares of Tree Inversiones Inmobiliarias Socimi, S.A., a company owning a portfolio comprised of 885 assets fully let to BBVA

MERLIN group of companies is shown below:

1.3. Management Organization

The internal management organization structure can be summarized as follows:

- Board of Directors: consisting of nine directors, advised by both the Audit Control Committee and the Remuneration and Nomination Committee.
- President and Chief Executive Officer: reporting directly to the Board of Directors and forming part of it.
- Investment Committee: reporting to the President / CEO and consisting of 9 members, with the right of veto held by the Chief Investment Officer



2. BUSINESS PERFORMANCE

2.1. Economic context

The Spanish economy is growing at a considerably faster rate with progressively more positive data in almost every macro-economic indicator. This growth is even more impressive, coming as it does against a background of an economic slowdown in most other European countries. In the third quarter of 2014, the GDP increased by 1.6% year-on-year (0.5% quarter-on-quarter, as previous months). This is the fifth consecutive quarter of progressively increasing growth and it is expected to continue rising in the succeeding quarters of this year.

Private consumption is to a large extent responsible for this GDP expansion with several indicators (e.g., retail sales, consumer confidence) showing signs of a gradual normalization after a significant improvement during 2014. Exports, in turn, registered good figures, counterbalanced by the substantial volume of imports. On the supply side, the industrial and service indicators, including construction, are also posting positive figures. Employment has increased in every quarter of 2014 across most industries, while Social Security data indicates that this trend should continue through 2015.

Further, while prices remain depressed by the decline in the price of energy products, the expansion of demand and the economic growth forecast do not indicate continued deflation, and they are expected to increase in the medium term. Thus, after several years

of pronounced crises and poor expectations in the short term, forecasts for growth have been revised upwards throughout 2014. There is little doubt that the upward movement will continue more intensively in 2015, notwithstanding the threats and serious imbalances that the Spanish economy still suffers. The job destruction, as well as the declining household income due to significant adjustment in the business sector is finally reversing. This should be constructive for economic growth during 2015.

2.2. Portfolio of assets

Following its flotation on 30 June 2014, MERLIN Properties has executed 9 investments during this fiscal year, amounting to a total of 2,127,833 thousand euros, of which 2,114,934 thousand euros correspond to the acquisition price of the assets, and 12,898 thousand euros to transaction costs.

The property portfolio has a Gross Leasable Area ("G.L.A.") of 680,045 sqm. The Gross Asset Value is 2,231,623 thousand euros. The Net Asset Value of the assets, according to the EPRA Net Asset Value, is 1,354,970 thousand euros (10.5 euros per share).

KEY ASPECTS OF THE PORTFOLIO

	31/12/2014
Portfolio Gross Asset Value ⁽²⁾ (€ thousand)	2,231,623
Portfolio acquisition costs ⁽¹⁾ (€ thousand)	2,127,833
Gross annualized rents 2014 (€ thousand)	128,309
Net annualized rents 2014 (€ thousand)	126,146
EPRA Gross Yield ⁽³⁾	6.03%
EPRA Topped-up Initial Yield ⁽⁴⁾	5.93%
Total G.L.A (sqm)	680,045
Occupancy Rate	96.6%
WAULT by rents (years) ⁽⁵⁾	18.7

⁽¹⁾ The portfolio acquisition costs correspond to: (i) integration of Tree Inversiones Inmobiliarias, SOCIMI, S.A. as a business combination (1,369,069 thousand euros) plus the value of the embedded derivative related to the BBVA contract inflation uplift multiplier, which is accounted as a financial asset (287,422 thousand euros at the time of acquisition of Tree by MERLIN), plus (ii) acquisition costs of the remaining assets of the portfolio, amounting to 551,394 thousand euros, less (iii) 79,039 thousand euros corresponding to the difference between the aggregate of the integration of Tree as a business combination plus the value of the embedded derivative less Tree acquisition cost of 1,577,452 thousand euros, (iv) plus 782 thousand euros of equipment acquired as part of the Marineda transaction, accounted as property, plant and equipment, and less (v) 1,795 thousand euros of contingent price adjustment in the World Trade Center Alameda Park 8 asset, the said adjustment being applicable if and when the former owner completes some leases under negotiation, and which has been accounted as higher acquisition price

⁽²⁾ According to Savills valuation as of December 31, 2014

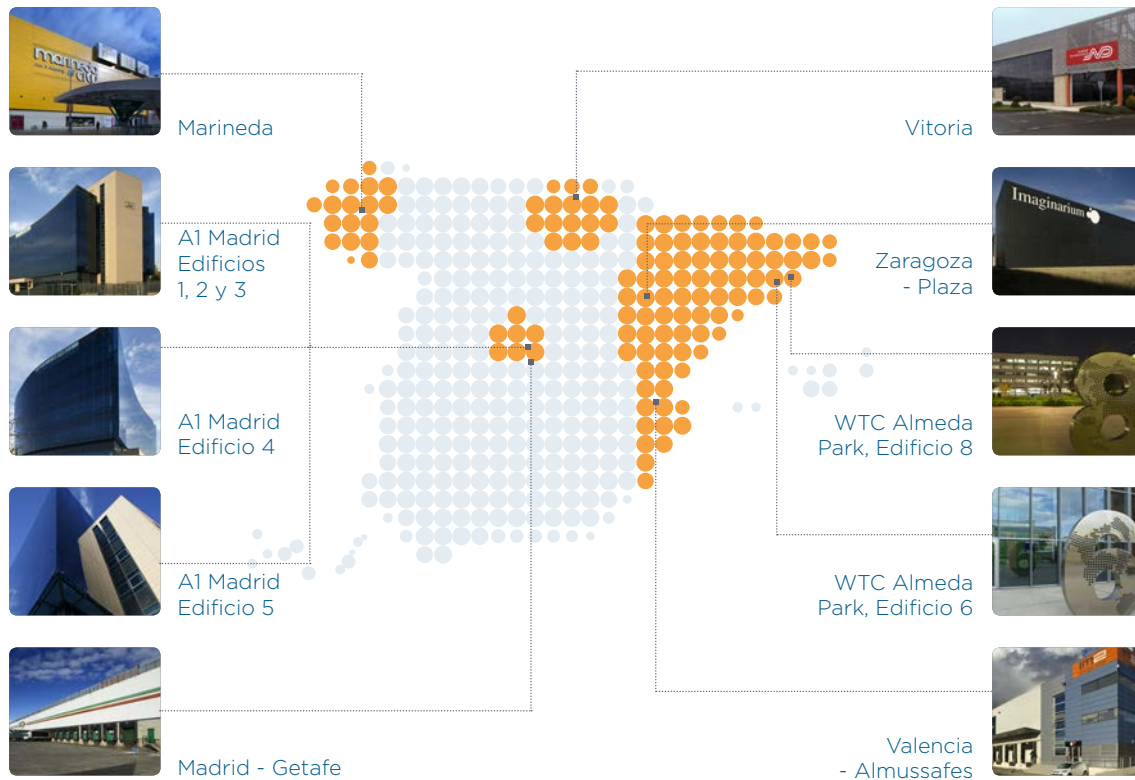
⁽³⁾ Calculated as Gross annualized rents divided by Portfolio acquisition costs

⁽⁴⁾ Calculated as the Gross annualized rents minus non-recoverable charges, divided by Portfolio acquisition costs

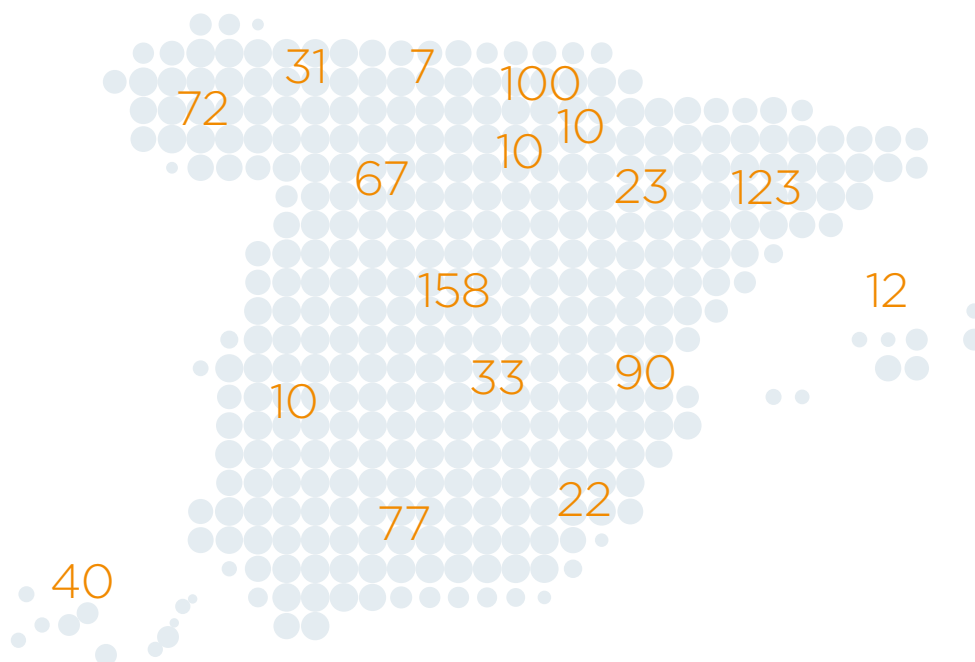
⁽⁵⁾ Weighted average unexpired lease term, calculated as the number of years of unexpired lease term, as from 31 December 2014, until the first break option of the lease contracts, weighted by the gross rent of each individual lease contract



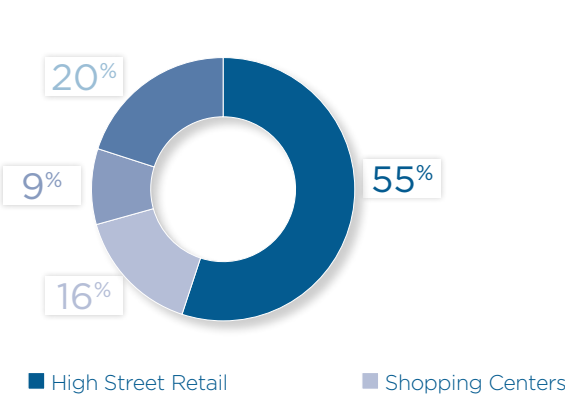
LOCATION OF THE ASSETS OF THE PORTFOLIO



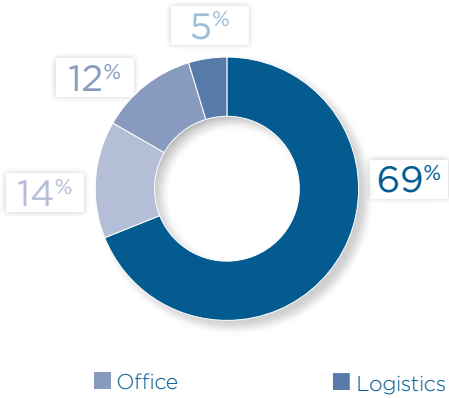
LOCATION OF THE TREE INVERSIONES INMOBILIARIAS ASSETS



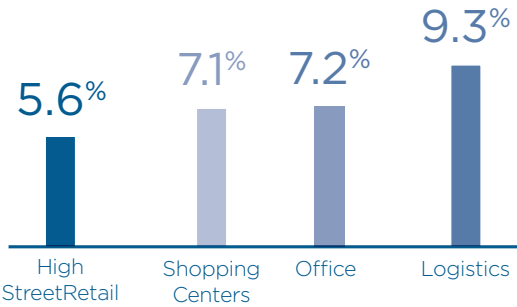
G.L.A BY TYPE OF ASSET
OF THE PORTFOLIO



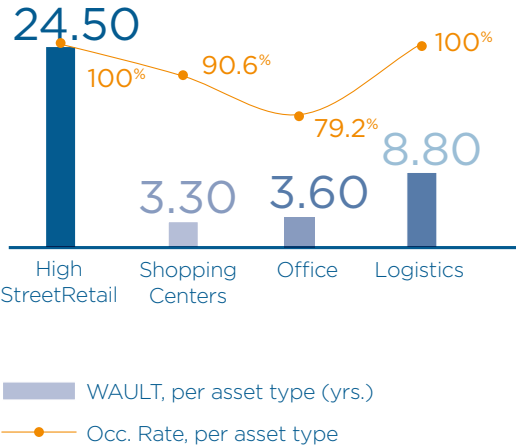
GROSS ANNUALIZED RENTS
BY TYPE OF ASSET



GROSS YIELD BY TYPE OF ASSET



OCCUPANCY AND WAULT
BY TYPE OF ASSET



The main characteristics of the assets in the portfolio are shown below.

2.2.1. Tree Inversiones Inmobiliarias

On July 3, 2014, the Company acquired 100% of the shares of Tree Inversiones Inmobiliarias, SOCIMI, S.A., for a total amount of € 739,484 thousand.

Currently, Tree Inversiones Inmobiliarias is devoted to the operation and management of 880 branches and 5 buildings fully let to BBVA with a long-term lease, 30 years for the branches

(25 years remaining), and 20 years for the buildings (15 years remaining). The portfolio G.L.A. is 374,181 sqm, and is spread across all Spain, with presence in 442 municipalities and 49 provinces. Over 60% of the portfolio is located in the 5 regions with higher GDP per capita than the Spanish average (Madrid, Cataluña, Basque Country, Comunidad Valenciana and Castilla y León).

The main characteristics of the acquired portfolio are the following:

TREE INVERSIONES INMOBILIARIAS

Acquisition price of the assets (€ thousand)	1,577,452
Assets debt outstanding as of the date of purchase (€ thousand)	(842,857)
Cash generated by the individual sale of assets during the second quarter of 2014	4,888
Equity disbursement (€ thousand)	739,483
Debt to acquisition price of assets	53.1%
Gross rent since acquisition up until 12/31/14 (€ thousand)	44,242
Annualized Gross Rent 2014 (€ thousand)	88,516
Annualized Net Rent 2014 (€ thousand)	88,516
EPRA Gross Yield	5.61%
EPRA Topped-up Initial Yield ⁽¹⁾	5.61%
Total G.L.A. (sqm)	374,181
Occupancy rate	100%
WAULT by rents (years) ⁽²⁾	24.5

⁽¹⁾ Calculated as the Gross annualized rent minus non-recoverable service charges, divided by the acquisition price of the assets

⁽²⁾ Weighted average unexpired lease term, calculated as the number of years of unexpired lease term, as from December 31, 2014, until the first break option of the lease contracts, weighted by the gross rent of each individual lease contract

2.2.2. Marineda shopping centre

On July 31, 2014, the Company acquired, through its subsidiary MERLIN Retail, the Marineda shopping centre and an adjacent hotel for a total amount of € 260,000 thousand.

Marineda is the leading shopping complex in Galicia and the second largest in Spain. Opened in 2011, as part of the “Marineda City” shopping and leisure complex, the entire complex has a built area of more than 500,000 sqm and a G.L.A. of approximately 196,000 sqm. The complex, which received 15.1 million visitors in 2014, has 6,000 parking spaces.

The Marineda shopping centre is located just 6.6 km from the city centre of A Coruña and boasts excellent connections with both the city center and adjacent municipalities. The centre's catchment area covers a population of almost 2,800,000 people. The centre has 100,378 sqm of G.L.A. and an attractive and balanced retail mix which includes prestigious operators such as the Inditex Group brands, Primark, H&M, C&A, Decathlon, Bricor, Media Markt and Worten. El Corte Inglés and IKEA's company-owned stores also form part of the Marineda City shopping and leisure complex.

MARINEDA

Acquisition price of the assets (€ thousand)	260,000
Assets debt outstanding as of the date of purchase (€ thousand)	0
Equity disbursement (€ thousand)	260,000
Debt to acquisition price of assets	0%
Gross rent since acquisition up until 12/31/14 (€ thousand)	7,631
Annualized Gross Rent 2014 (€ thousand)	18,460
Annualized Net Rent 2014 (€ thousand)	17,239
EPRA Gross Yield	7.10%
EPRA Topped-up Initial Yield ⁽¹⁾	6.63%
Total G.L.A. (sqm)	106,276
Occupancy rate	91%
WAULT by rents (years) ⁽²⁾	3.3

⁽¹⁾ Calculated as the Gross annualized rent minus non-recoverable service charges, divided by the acquisition price of the assets

⁽²⁾ Weighted average unexpired lease term, calculated as the number of years of unexpired lease term, as from December 31, 2014, until the first break option of the lease contracts, weighted by the gross rent of each individual lease contract

2.2.3. Portfolio of 5 office buildings in Madrid A-1 corridor

On October 2, 2014, the Company purchased through its subsidiary MERLIN Oficinas, a portfolio of 5 office buildings located in Madrid, for a total amount of € 130,000 thousand.

The portfolio has a total G.L.A. of 34,175 sqm and includes 5 office buildings, one with total G.L.A. of 10,856 sqm and 281 parking places fully let to Vestas, an office complex with 3 buildings with total G.L.A. of 17,139 sqm and 392 parking places, let to Philips and Neoris,

and a building available for letting with a total G.L.A. of 6,180 sqm and 98 parking places.

All the properties are built to the highest standards and are highly visible from the A1 highway, very close to Plaza de Castilla.

BUILDINGS IN MADRID A-1 CORRIDOR

Acquisition price of the assets (€ thousand)	130,000
Assets debt outstanding at October 7th (€ thousand)	70,000
Equity disbursement (€ thousand)	60,000
Debt to acquisition price of assets	53.8%
Gross rent since acquisition up until 12/31/14 (€ thousand)	2,490
Annualized Gross Rent 2014 (€ thousand)	9,800
Annualized Net Rent 2014 (€ thousand)	9,215
EPRA Gross Yield	7.54%
EPRA Topped-up Initial Yield ⁽¹⁾	7.09%
Total G.L.A. (sqm)	34,175
Occupancy rate	76.4%
WAULT by rents (years) ⁽²⁾	2.5

⁽¹⁾ Calculated as the Gross annualized rent minus non-recoverable service charges, divided by the acquisition price of the assets

⁽²⁾ Weighted average unexpired lease term, calculated as number of years of unexpired lease term, as from December 31, 2014, until the first break option window of the lease contracts, weighted by the gross rent of each individual lease contract

2.2.4. Office buildings in World Trade Center Alameda Park – 6 and 8

On August 13, 2014, the Company, through its subsidiary MERLIN Oficinas, purchased an office building located in World Trade Center Alameda Park business center, for a total amount of € 46,750 thousand. On December 10, 2014, MERLIN Oficinas acquired a second building in World Trade Center Alameda Park for an amount of € 36,500 thousand.

Both assets enjoy twin shape, lay-out and specifications, being efficient and class-A properties. The aggregate G.L.A. is 29,078 sqm, distributed over a ground floor and four upper levels. The buildings are also equipped with 460 parking spaces and over 1,700 sqm of storage space. Building 6 is fully let out with long-term lease contracts to blue chip multinationals such as Axa

Seguros, Sharp Electronics and Eclipse Support, while building 8 is partially let to multinational companies such as Panasonic, Technip and Colt Telecom, for a combined occupancy rate of 82.5%.

The properties are located in Cornellà de Llobregat (Barcelona) and form part of the well-established WTCAP business park, which is made up of 7 office buildings with a total surface area of approximately 90,000 sqm. This strategic location, just 15 minutes from the centre of Barcelona and 10 minutes from the city's airport, coupled with its excellent connections (Ronda Litoral, Ronda de Dalt and A-2 roads) has attracted prestigious multinational companies such as Luxottica, Revlon, Alstom, Panasonic and Schweppes to this business park.

WORLD TRADE CENTER ALMEDA PARK

Acquisition price of the assets (€ thousand)	83,250
Assets debt outstanding as of the date of purchase (€ thousand)	0
Equity disbursement (€ thousand)	83,250
Debt to acquisition price of assets	0%
Gross rent since acquisition up until 12/31/14 (€ thousand)	1,408
Annualized Gross Rent 2014 (€ thousand)	5,537
Annualized Net Rent 2014 (€ thousand)	5,206
EPRA Gross Yield	6.65%
EPRA Topped-up Initial Yield ⁽¹⁾	6.25%
Total G.L.A. (sqm)	29,078
Occupancy rate	82.5%
WAULT by rents (years) ⁽²⁾	5.3

⁽¹⁾ Calculated as the Gross annualized rent minus non-recoverable service charges, divided by the acquisition price of the assets

⁽²⁾ Weighted average unexpired lease term, calculated as the number of years of unexpired lease term, as from December 31, 2014, until the first break option of the lease contracts, weighted by the gross rent of each individual lease contract

2.2.5. Vitoria - Jándiz

On December 30, 2014, the Company, through its subsidiary MERLIN Logística, purchased a logistics warehouse in Vitoria, for a total amount of € 28,582 thousand.

On a plot of 107,183 sqm, the constructed area of the property is 72,717 sqm, and is fully leased on a long-term basis to Norbert Dentressangle, one of the leading international logistics operator. The property benefits from the highest logistics standards including 33 sheltered loading docks.

The property is located between the Ali Gobeo and Jándiz industrial parks. Ali Gobeo is notable for the presence of the 650,000 sqm Mercedes Benz factory, and Jándiz is in an excellent location, at the crossroads of national highways A68/A-1/N-1 and N-240, which make it a perfect location for logistics. Over 500 companies are located in Jándiz, including the Spanish Postal Service, DHL, DB Schenker, Azkar, ADIF, and Eroski.

VITORIA - JÚNDIZ

Acquisition price of the assets (€ thousand)	28,582
Assets debt outstanding as of the date of purchase (€ thousand)	0
Equity disbursement (€ thousand)	28,582
Debt to acquisition price of assets	0%
Gross rent since acquisition up until 12/31/14 (€ thousand)	15
Annualized Gross Rent 2014 (€ thousand)	2,754
Annualized Net Rent 2014 (€ thousand)	2,754
EPRA Gross Yield	9.63%
EPRA Topped-up Initial Yield ⁽¹⁾	9.63%
Total G.L.A. (sqm)	72,717
Occupancy rate	100%
WAULT by rents (years) ⁽²⁾	9.8

⁽¹⁾ Calculated as the Gross annualized rent minus non-recoverable service charges, divided by the acquisition price of the assets

⁽²⁾ Weighted average unexpired lease term, calculated as the number of years of unexpired lease term, as from December 31, 2014, until the first break option window of the lease contracts, weighted by the gross rent of each individual lease contract

2.2.6. Madrid - Getafe

On December 12, 2014, the Company, through its subsidiary MERLIN Logística, purchased a logistics warehouse in Getafe, for a total amount of € 12,750 thousand.

The property is located in the industrial area known as CLA Getafe, the most logistics area in South Madrid (15 kilometers from Madrid center), which boasts excellent access to the A-4, M-50, R-4 and A-42 roads.

This asset, built in 2000 following the highest standards for logistics facilities, has a gross lettable area of 16,242 sqm and is fully leased on a long-term basis to Transportes Souto, one of the leading logistics operator in the Spanish market.

SOUTO GETAFE

Acquisition price of the assets (€ thousand)	12,750
Assets debt outstanding as of the date of purchase (€ thousand)	0
Equity disbursement (€ thousand)	12,750
Debt to acquisition price of assets	0%
Gross rent since acquisition up until 12/31/14 (€ thousand)	89
Annualized Gross Rent 2014 (€ thousand)	1,072
Annualized Net Rent 2014 (€ thousand)	1,072
EPRA Gross Yield	8.41%
EPRA Topped-up Initial Yield ⁽¹⁾	8.41%
Total G.L.A. (sqm)	16,642
Occupancy rate	100%
WAULT by rents (years) ⁽²⁾	9.9

⁽¹⁾ Calculated as the Gross annualized rent minus non-recoverable service charges, divided by the acquisition price of the assets

⁽²⁾ Weighted average unexpired lease term, calculated as number of years of unexpired lease term, as from December 31, 2014, until the first break option window of the lease contracts, weighted by the gross rent of each individual lease contract

2.2.7. Valencia - Almussafes

On September 30, 2014, the Company, through its subsidiary MERLIN Logística, purchased a logistics warehouse in Almussafes, for a total amount of € 12,150 thousand.

The asset, built in 2008 with the highest standards for logistics facilities, has a G.L.A. of 26,613 sqm and is 100% leased to blue chip tenants such as

Ford, Johnson Controls and Truck & Wheel. The property is located in the Sollana industrial area of the town of Almussafes (22 km. from Valencia) and boasts excellent access to the AP-7, A-7 and V-31 roads. This industrial hub has successfully grown around Ford's main manufacturing facility in Spain, housing major operators serving the automobile industry.

ALMUSSAFES

Acquisition price of the assets (€ thousand)	12,150
Assets debt outstanding as of the date of purchase (€ thousand)	0
Equity disbursement (€ thousand)	12,150
Debt to acquisition price of assets	0%
Gross rent since acquisition up until 12/31/14 (€ thousand)	318
Annualized Gross Rent 2014 (€ thousand)	1,118
Annualized Net Rent 2014 (€ thousand)	1,093
EPRA Gross Yield	9.21%
EPRA Topped-up Initial Yield ⁽¹⁾	9.00%
Total G.L.A. (sqm)	26,613
Occupancy rate	100%
WAULT by rents (years) ⁽²⁾	2.4

⁽¹⁾ Calculated as the Gross annualized rent minus non-recoverable service charges, divided by the acquisition price of the assets

⁽²⁾ Weighted average unexpired lease term, calculated as the number of years of unexpired lease term, as from December 31, 2014, until the first break option of the lease contracts, weighted by the gross rent of each individual lease contract

2.2.8. Zaragoza - Plaza

On August 5, 2014, the Company, through its subsidiary MERLIN Logística, purchased the logistic center and headquarters of Imaginarium, for a total amount of € 10,750 thousand.

The asset comprises 3 buildings (2 for logistic and storage use and one for office use), leased on a long-term basis, to Imaginarium, a leading brand in the educational toys sector, present in over 28 countries around the world. The asset benefits from approximately 15,000 sqm of unused buildability.

With a G.L.A. of 20,764 sqm, the property is located in Zaragoza, in the consolidated Logistics Platform of Zaragoza (PLAZA), one of the largest logistics premises in Spain, with an area of over 13 million sqm. The strategic location and excellent communications, by road, rail and plane, make PLAZA an appealing location for renowned international companies such as Inditex, DHL, Azkar and Balay.

IMAGINARIUM

Acquisition price of the assets (€ thousand)	10,750
Assets debt outstanding as of the date of purchase (€ thousand)	0
Equity disbursement (€ thousand)	10,750
Debt to acquisition price of assets	0%
Gross rent since acquisition up until 12/31/14 (€ thousand)	423
Annualized Gross Rent 2014 (€ thousand)	1,050
Annualized Net Rent 2014 (€ thousand)	1,050
EPRA Gross Yield	9.77%
EPRA Topped-up Initial Yield ⁽¹⁾	9.77%
Total G.L.A. (sqm)	20,764
Occupancy rate	100%
WAULT by rents (years) ⁽²⁾	11.9

⁽¹⁾ Calculated as the Gross annualized rent minus non-recoverable service charges, divided by the acquisition price of the assets

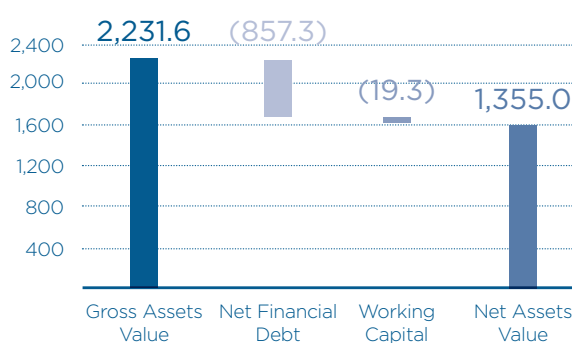
⁽²⁾ Weighted average unexpired lease term, calculated as number of years of unexpired lease term, as from December 31, 2014, until the first break option of the lease contracts, weighted by the gross rent of each individual lease contract

2.2.9. Market value of the portfolio of assets

The valuation of the portfolio of assets of MERLIN Properties as at 31 December 2014 was conducted by Savills. The market value of the portfolio of assets of the Company is 2,231.6 million euros. MERLIN Properties owns 100% of the valued assets. The acquisition price of the assets under valuation, excluding the transaction costs, was 2,114.9 million euros. The total acquisition price including the capitalized transaction costs was 2,127.8 million euros⁽¹⁾.

The valuation of the assets was performed in accordance with the professional standards of valuation and appraisal of the RICS (Royal Institution of Chartered Surveyors).

The net asset value, according to EPRA's methodology, amounted to 1,354.9 million euros, resulting from subtracting the market value of the portfolio according to Savills, the net debt of the Company as at 31 December 2014 and the working capital on the same date. The following table shows the details of this calculation



PORTFOLIO NET ASSET VALUE (ACCORDING TO EPRA)

(thousand euros)	31/12/2014
Gross Assets Value ("GAV")	2,231,623
Gross Financial Debt	(1,010,166)
Cash and short-term investments	152,844
Net Financial Debt	(857,322)
Working Capital ⁽²⁾	(19,331)
Net Assets Value according to EPRA ("EPRA NAV")	1,354,970
Number of shares	129,212,001
EPRA NAV per share (€)	10.50

⁽¹⁾ Includes the price adjustment applicable for the World Trade Centre Almeda Park 8

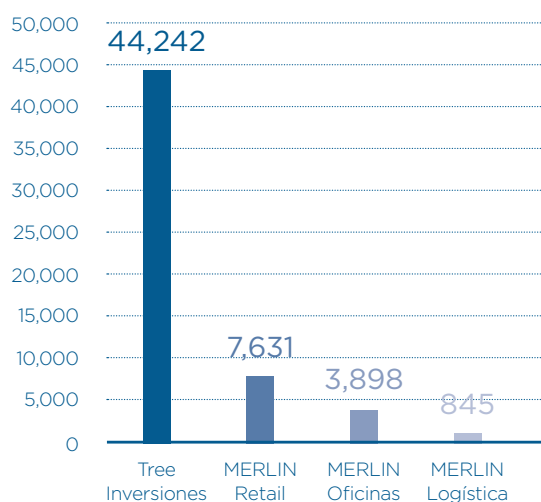
⁽²⁾ Calculated as trade and other receivables and other current assets, less trade and other payables and other current liabilities

2.3. Results of FY2014

2.3.1. Revenues and EBITDA

The Company recognised rental income of 56,616 thousand euros, an EBITDA of 38,031 thousand euros and a consolidated net profit of 49,670 thousand euros (0.38 euros per share).

The breakdown of revenues by subsidiaries is the following:



MAIN ECONOMIC-FINANCIAL FIGURES

(thousand euros)	31/12/2014
Gross Rental Income	56,616
Net Rental Income	54,031
EBITDA	38,031
Net Profit for the Period	49,670
Gross Financial Debt	1,010,167
Net Financial Debt	858,327
Net Financial Debt / Gross Asset Value ("GAV")	38.5%
Net Profit for the Period per Share (€)	0.38

2.3.2. Operating costs

In compliance with the policy committed by the Company when it started trading on the Spanish Stock Market, the annual total overheads of the Company are set at the higher of (a) 6.0% of the consolidated gross rental income of the Company, and (b) 0.6% of the consolidated EPRA NAV. As detailed in the chart below, for the period from the listing to 31 December 2014, the resulting amounts are (a) 3,397 thousand euros and (b) 4,065 thousand euros. Based on the foregoing formula, article (b) is applicable to determine the total annual overheads for this financial year.

For purposes of calculating the annual overheads of the Company, excluded items are, among other things, financing expenses and fees associated with the financing of assets, flotation costs, transaction costs over acquired assets, taxes and facility management associated to assets, severance payments and/or any dismissal costs of employees and extraordinary expenses.

Total operating costs of the Company for 2014 were 19,092 thousand euros, of which 15,027 thousand euros are excluded from the overheads limitation. This amount includes significant items incurred in this fiscal year with non-recurring nature, such as (i) costs associated with the financing of the A-1 office portfolio in Madrid and the financing of Tree Inversiones, (ii) costs associated with the acquisition of Tree Inversiones which have not been capitalized and (iii) costs associated with the flotation which have not been accounted as negative reserves. Additionally, asset level operating costs non-rechargeable to tenants amount to 2,585 thousand euros.

Out of the total amount of the costs included within the limit of the annual overheads (4,065 thousand euros), 3,079 thousand euros correspond to personnel costs and 986 thousand euros to running costs of the Company (external consultants such as lawyers, auditors, advisors as well as the office rental cost, Spanish Stock Exchange costs, travel, transaction costs related to projects not completed, etc.).

OPERATIONAL COSTS BREAKDOWN

(€ thousand)	31/12/2014	% Total
Asset level expenses non rechargeable to tenants	2,585	13%
Asset Financing expenses	11,766	62%
Non-capitalized listing and assets acquisition costs	676	3%
Total Costs excluded from the Overheads Limit	15,027	78%
Running Costs	986	5%
Personnel Costs	3,079	17%
Total Costs included in Overheads Limit	4,065	22%
Total Operating Costs	19,092	100%

The total amount of personnel costs are 3,079 thousand euros, of which 1,098 thousand euros correspond to fixed remuneration, 1,870 thousand euros correspond to variable remuneration and 111 thousand euros correspond to the Company's labour costs (Social Security).

Furthermore, the Company has agreed to grant an additional incentive of annual variable remuneration to the management team, to be determined by the Remuneration and Nomination Committee, linked to the Company's shares which rewards the management team depending on the returns achieved by the Company's shareholders (the "Management Stock Plan").

The members of the management team will be entitled to the delivery of the shares stemming from the Management Stock Plan if the following two key hurdles are met:

- The Shareholder Return Rate (defined as the Shareholder Return for a given year divided by the EPRA NAV of the Company as of 31 December of the immediately preceding year) for such year exceeds 8% The Shareholder Return for a given year is equivalent

to the sum of the change in the EPRA NAV of the Company during such year less net proceeds of any issuance of shares during such year, plus the total dividends that are paid in such year.

- The sum of (i) the EPRA NAV of the company on 31 December of the fiscal year and (ii) the total dividends (or any other form of remuneration or distribution to the shareholders) that has been distributed in that fiscal year, or in any preceding fiscal year since the most recent fiscal year in respect of which a payment under the Management Stock Plan was made, exceeds the Relevant High Watermark (the amount by which such sum exceeds the Relevant High Watermark is the "High Watermark outperformance"). The Relevant High Watermark at any time is the higher of (i) the Initial EPRA NAV, and (ii) the EPRA NAV on 31 December (adjusted to exclude the net proceeds any issuance of any Ordinary Shares during that year) of the most recent year in respect of which a payment was made under the Management Stock plan.

If the above hurdles are met, the Management Stock Plan in respect of such year will be equal to the lesser of:

- 10% of the Shareholder Return Outperformance if the Shareholder Return Rate for such year exceeds 8% and 15% of the Shareholder Return Outperformance if the Shareholder Return Rate for such year exceeds 12%. A "Catch-up mechanism will be implemented at both the 8% and 12% hurdles for the Management Stock Plan, or
- 20% of the High Watermark Outperformance.



Based on the performance of the Company for the six months period from the listing on the Spanish Stock Exchange until 31 December 2014

annualized, both of the key hurdles have been met by MERLIN Properties, as detailed in the following chart:

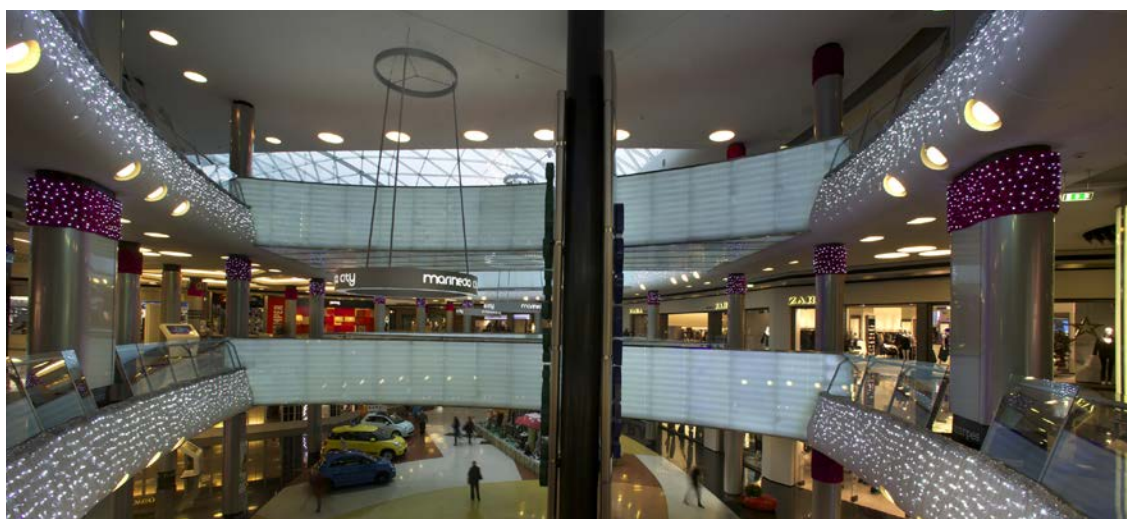
(€ thousand)	Annualized
EPRA NAV Beginning of the Period	1,292,120
EPRA NAV End of the Period	1,354,973
Variation in EPRA NAV	62,853
Dividends paid in the year	0
Total Shareholder Return	62,853
Total Shareholder Return in %	9.73%
Necessary return to shareholders to exceed the threshold of annualized return of 8% in 6 months	51,684
Excess of 6 months annualized return of the shareholders at over 8% in annual terms	11,169
Relevant High Watermark	1,292,120
EPRA NAV end of period + dividends paid	1,354,973
High Watermark Outperformance	62,853
Key Hurdles Test:	
Shareholder Return above 8%	YES
High Watermark Outperformance	YES
Promote Calculation. It is the lower of the following:	Annualized
10% of the Total Shareholder Return	6,285
20% of the excess return on Relevant High Watermark	12,570
Applicable Stock Plan	6,285

MERLIN Properties management team has elected to waive its rights to any payments under the Management Stock Plan for this financial year as they consider that most of the Shareholder Return was due to the increase in value of Tree Inversiones, for the difference

between the Savills valuation at the time of acquisition of € 1,656 million and the acquisition cost of € 1,577 million, amounting to a total difference of € 79 million of increase in value, which had already been crystallized at the time of the acquisition.

2.3.3. EPRA Performance Metrics

Performance Measure	Definition	31/12/2014
EPRA Earnings	Recurring earnings from core operational activities	20,394.7
EPRA NAV	Net Asset Value 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	1.354,9
EPRA NNNAV	EPRA NAV adjusted to include the fair values of financial instruments, debt and deferred taxes.	1,285.0
EPRA Net Initial Yield	Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the property, increased with acquisition costs	5.86%
EPRA “topped-up” NIY	Adjustment to the 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)	5.93%
EPRA Vacancy Rate	Estimated Market Rental Value (ERV) of vacant space divided by ERV of the whole portfolio	3.40%



EPRA Earnings have been calculated as follows:

RECONCILIATION OF IFRS NET INCOME WITH EPRA EARNINGS

(€ thousand)	31/12/2014
Consolidated Net Profit in accordance with IFRS	49,670
(i) changes in value of investment properties	-56,718
(ii) profits or losses on disposal of investment properties	-126
(iii) changes in value of financial instruments and associated close-out costs	+25,920
(iv) acquisition costs on share deals / joint ventures	+606
(v) deferred tax in respect of adjustments	+1,042
EPRA Earnings for the fiscal year	20,395
EPRA Earnings for the fiscal year per share (€)	0.16



3.

LIQUIDITY AND CAPITAL RESOURCES

Long-term and short-term debt items include the Company's financial debt, the market value of interest rate and inflation hedging contracts of the debt and other

financial liabilities, arising from deposits and guarantees received, according to the following breakdown:

	LONG-TERM	SHORT-TERM	TOTAL
Principal	999,358	10,398	1,009,756
Interests	0	411	411
Gross Financial Debt	999,358	10,809	1,010,167
Cash and Short-term Financial Investments			(151,840)
Total Net Financial Debt			858,327
Cash and Short-term Financial Investments			151,840
Arrangement Costs	(25,423)		(25,423)
Market value of interest rate and inflation hedges	53,407		53,407
Guarantees, deposits and other financial liabilities	21,498	190	21,688
Total Debts	1,048,840	10,999	1,058,839

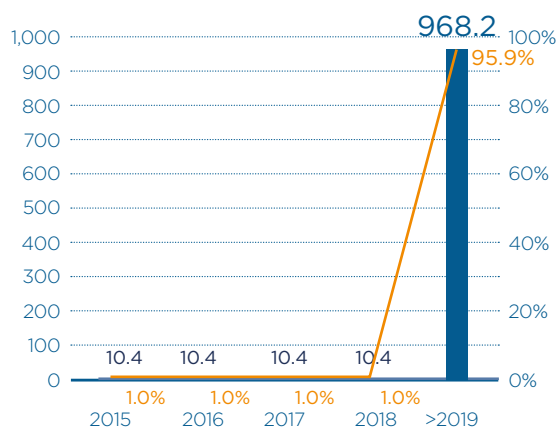
On 31 December 2014, the Company's gross financial debt has the following characteristics

- Average period of duration of the debt from 31/12/2014 until maturity: 9.1 years.
- Average cost of the debt from 31 December 2014 until 31 December 2017: 4.0%

- Average cost of the debt from 31 December 2017 until maturity: 2.7%.

On 31 December, the net financial debt of the Company is 858,327 thousand euros, which equates to 38.5% of the gross value of the assets. The cash position and short term financial investments of the Company are 151,840 thousand euros.

A schedule of the Company's debt maturity profile in the coming years is as follows:



4. MAIN RISKS AND UNCERTAINTIES

The policies of financial risk management within the commercial real estate sector deal mainly with the analysis of investment projects, the management of the building's occupation and the situation of the financial markets:

- Credit risk: credit risk relating to the Company's ordinary business is not significant because the contracts signed with the tenants require payment in advance of most sums. These contracts also require the tenant to provide legal and additional financial guarantees or deposits to cover possible non-payment of the rent.
- Liquidity risk: The Company, in order to manage liquidity risk and to meet the needs of funds, uses an annual budget and monthly forecast of the liquid assets. This monthly forecast is detailed and updated on a daily basis. The main liquidity risk is due to the potential for negative working capital resulting from short term debt from tenants. The factors mitigating liquidity risk include the following: (i) cash generated in the ordinary course of business is very stable; and (ii) the company's liabilities are largely long-dated and the high quality of the assets provides ample ability to obtain new sources of funding.

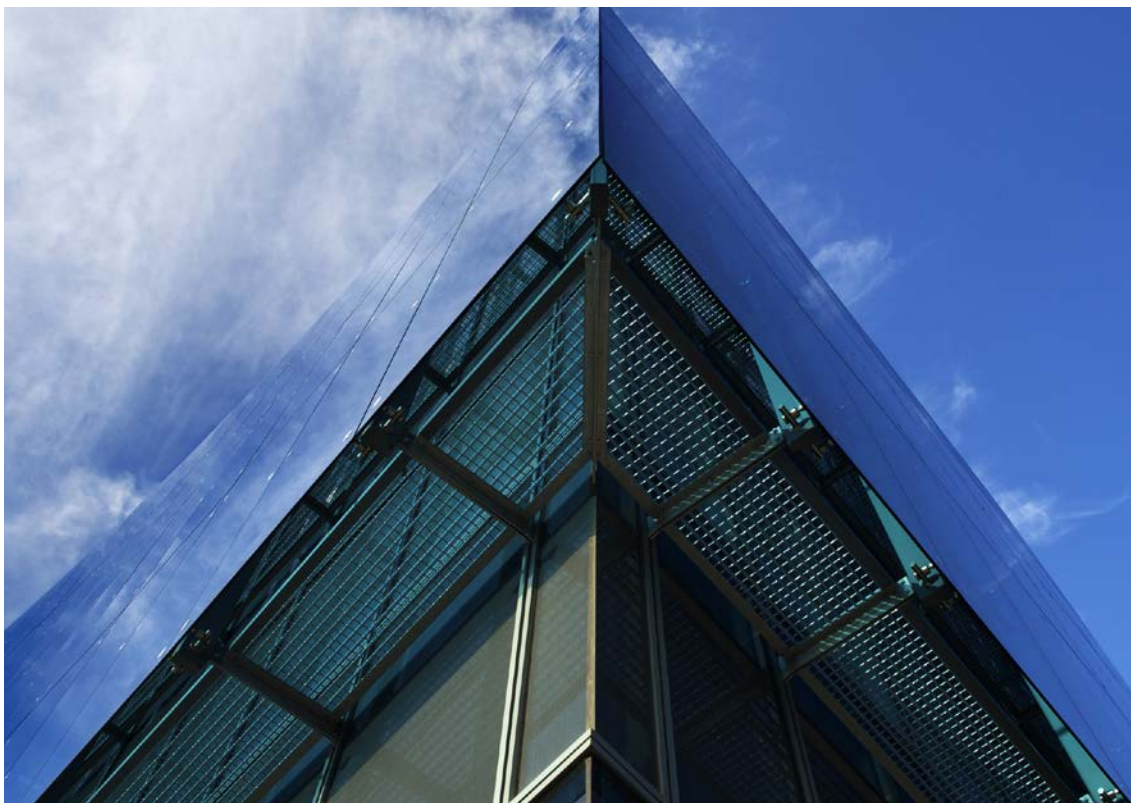
When formulating consolidated annual accounts, the Company had already covered all of its funding requirements, enabling it to meet its commitments with providers, employees and the Public Sector, according to the cash flow for FY2014.

Furthermore, given the type of industry in which the Company operates, the investments, the financing for such investments, the stable EBITDA generated and the high occupancy rate of properties is more likely to produce surplus cash. The company's policy is to invest this cash in Short-term investments and liquid deposits with highly rated institutions. The acquisition of options or futures on stocks, or any other high-risk activities as a means of investing its cash surplus are not considered by the Company.

- Interest rate risk: in order to minimize the Company's exposure to this risk, financial hedges, such as interest rate swaps, have been executed. Total interest rate hedged amount to 99% of total debt.

- Exchange rate risk: the Company only invests in assets in Spain and Portugal with all contracts denominated in euro and the Company's policy is to contract debt only in the same currency as that of the cash flows of each business. Therefore, the Company is currently not exposed to exchange rate risk.

- Market risk: MERLIN Properties is exposed to market risk from potential downward movement in rental rates when current contracts terminate. This risk could negatively affect the cash flow and valuation of the assets of the Company. However, the market risk is mitigated by policies of attracting and selecting new high quality clients and negotiating compulsory lease terms that maximize the length of the lease term. For this reason, on 31 December 2014, the occupancy rate of the Company's assets is 96.6%, with a weighted average unexpired lease term of 18.7 years (weighted by gross rents).



5. EVENTS POST-CLOSING

- On 19 February 2014, MERLIN Properties signed a ten year loan facility of 133.6 million euros with Allianz Real Estate, with mortgage security on Marineda shopping centre. This loan has been signed at a fixed interest rate of 2.66% with no annual amortization requirement and full repayment of principal upon maturity. Post the closing of this financing, MERLIN's loan-to-value ratio (net debt over the value of the assets) is 38.5%, with 1,144 million euros of gross debt financing in place. The weighted average maturity of the Company's liabilities is approximately 9.1 years, with a cost of 3.8% until late 2017 and 2.7% thereafter.
- BBVA exercised its right to substitute certain properties in the Tree portfolio, as set out in the clause 20.2 (Properties Replacement) of the Lease Contract concluded on 25 September 2009. On 3 February 2015, the Company formalized the replacement of 42 branch offices (from Tree Inversiones Inmobiliarias to BBVA) with 45 new branch offices (from BBVA to Tree Inversiones Inmobiliarias). The purchased branch offices' annual income is 3,851,602.7 euros and the appraisal conducted by Savills is 68,592,000 euros. As regulated in the Lease Contract, the earned income, the expiration date, and the value of the sold branch offices are the same as the earned income, the expiration date and the value of the purchased branch offices.

6. EXPECTED DEVELOPMENTS

In 2015, MERLIN expects to continue with high occupation rates and the maintenance of strong cash flow due to the long remaining lease period (18.7 years from 31 December 2014, weighted by each tenant rents.).

The Company also expects to continue with the acquisition of assets that fit within its investment strategy. To this end, it holds a cash position that exceeds 150 million euros, as well as additional leverage capacity on certain of its assets. After Marineda's financing, the liquid assets of the Company exceeds 284 million euros.

7. R&D INFORMATION / OWN SHARES TRANSACTIONS

The Company has not developed any research and development activities during FY2014.

The Company has not carried out any acquisition of own shares.

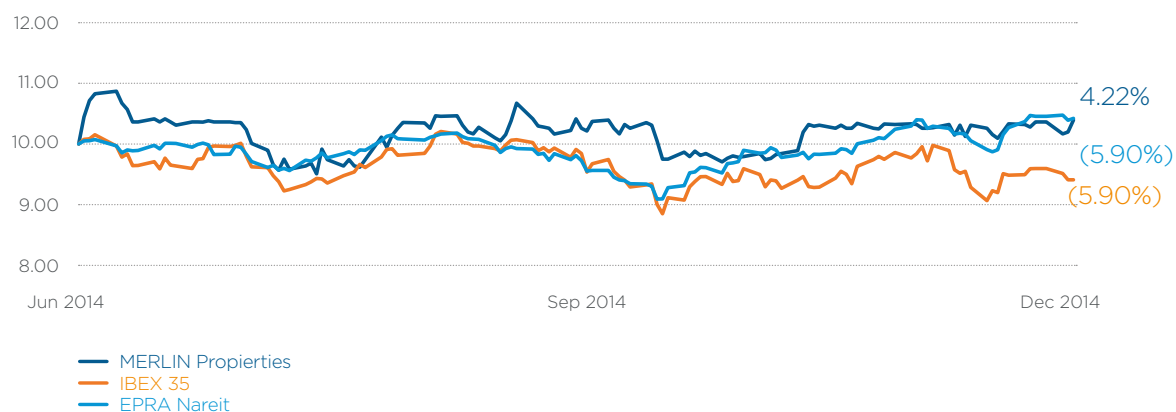
8. STOCK EXCHANGE EVOLUTION

The stock market capitalization parameters for FY2014 and its evolution are shown in the following data

- Closing Price at year-end 2014 (€/share): 10.03
- Variation in the market price (%): +0.3%
- Market capitalisation at the end of FY2014 (Millions €): 1,296
- Maximum share price in the period: 10.56
- Minimum share price in the period: 9.175
- Average daily trading volume (Millions €): 6.5

- Average daily trading volume (shares): 661,753

MERLIN Properties is part of the EPRA NAREIT's index, an index that reflects the evolution of the real estate companies listed worldwide which meet EPRA's eligibility requirements. MERLIN's stock price has increased from its flotation until 31 December 2014 by +0.3%, compared to the EPRA NAREIT's index evolution, which is +4.4%. Comparatively, the growth in MERLIN Property's stock price from the start of trading until 31 December has been higher than that of the IBEX-35, which dropped 5.9% in the same period.



Certain national and international financial analysts follow the company's development and thus monitor and analyses the value of the shares. The target prices and

analyst recommendations, published on 31 December are:

Analyst	Report Date	Recommendation	Target Price(€)
Ahorro Corporación	17/09/2014	Buy	11.70
Deutsche Bank	22/09/2014	Hold	9.30
Morgan Stanley	13/10/2014	Buy	11.60
Sabadell	28/11/2014	Buy	12.54



9. DIVIDENDS POLICY

The Company intends to initiate and maintain a dividend policy that takes into account sustainable levels of distributions. The Company does not intend to create reserves that cannot be distributed to the shareholders, other than those required by law.

According to the Spanish regime for REIT's, the Company will be obligated to adopt agreements to distribute the profits obtained in this financial year in the form of dividends to shareholders, after complying with any relevant requirement of the Spanish Corporation Law. The Company will be obligated to agree its distribution within six months of the close of each financial period, in the following manner: (i) at least 50% of the profits derived from the transfer of real properties, shares, or shareholdings in qualified affiliates, provided that the remaining profits are reinvested in other real

estate assets within a maximum period of three years from the date of transmission or, if not, 100% of the profits must be distributed as dividends at the end of this three year period; (ii) 100% of the profits obtained by receiving dividends paid by qualified subsidiaries; (iii) at least 80% of the rest of the obtained profits. If the dividend distribution agreement is not adopted within the legal timeframe, the Company will lose its REIT status during the financial year to which the dividends refer.



10. OTHER

- Related party transactions. For further information on related party transactions, please refer to Note 18 of the consolidated financial statements, attached to this report.
- Bad debt measures and policies. The Company estimates its compliance with the maximum term permitted by the applicable law.



11. CORPORATE GOVERNANCE ANNUAL REPORT

In accordance with article 526 of the “Ley de Sociedades de Capital” (Corporate Law), it is hereby expressly stated that the Corporate Governance Annual Report is part of the present Management Report.

The Corporate Governance Annual Report has been registered with the CNMV on February 26th, 2015, and is available to the public domain on the following link

<https://www.cnmv.es/Portal/consultas/EE/InformacionGobCorp.aspx?nif=A86977790>



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