Merlin Properties SOCIMI, S.A. and Subsidiaries

Consolidated Financial Statements for the year ended 31 December 2015
prepared in accordance with the International Financial Reporting Standards (IFRS)
adopted by the European Union and
the Consolidated Directors' Report

Merlin Properties SOCIMI, S.A. and Subsidiaries

Notes to the consolidated financial statements for the year ended 31 December 2015

1. Nature and activity of the Group

Merlin Properties SOCIMI, S.A. (hereinafter, 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 companies investing in the property market (SOCIMIs), effective from 1 January 2014.

Its registered office is at Paseo de la Castellana, 42, 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 holding of equity interests in other SOCIMIs or in other non-resident entities in Spain with the same corporate purpose and that operate under a similar regime as that established for SOCIMIs with respect to the mandatory profit distribution policy enforced by law or by the bylaws;
- The holding of equity interests in other resident or non-resident entities in Spain whose corporate purpose is to acquire urban real estate for subsequent leasing, and which operate under the same regime as that established for SOCIMIs with respect to the mandatory profit distribution policy enforced by law or by the bylaws, and which fulfil the investment requirements stipulated for these companies; and
- The holding of shares or equity interests in collective real estate investment undertakings regulated by Law 35/2003, of 4 November, on collective investment undertakings, or any law that may replace this in the future.

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

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

The direct and, where applicable, indirect performance of any activities which are reserved under special legislation are excluded. If the law prescribes the need for a professional qualification, 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 (hereinafter, the "Group") mainly engage in the acquisition and management (through leasing to third parties) of offices, shopping centres, commercial premises, industrial buildings and logistic centres. They may also invest to a lesser extent in other assets for lease.

Merlin Properties SOCIMI, S.A.'s shares have been listed on the electronic trading system of the Spanish stock exchanges since 30 June 2014.

The Parent is governed by Law 11/2009, of 26 October, as amended by Law 16/2012, of 27 December, regulating SOCIMIs. Article 3 of said Law sets out the investment requirements for these types of companies, namely:

1. SOCIMIs must have invested at least 80% of the value of their assets in urban properties intended for lease, and in land for the development of property that will be intended for this purpose provided that development begins within three years following acquisition, along with investments in the capital or equity other entities referred to in Article 2.1 of the aforementioned Law.

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

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

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

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

   This period will be calculated:

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

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

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

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

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

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

The consolidated financial statements of the Group and the individual financial statements of the Group companies for 2015, which were prepared by the respective directors, have not yet been approved by the shareholders at their respective Annual General Meetings. However, the Parent's directors consider that the aforementioned financial statements will be approved without any material changes. The consolidated and individual financial statements of Merlin Properties, SOCIMI, S.A. for 2014 were approved by the shareholders at the Annual General Meeting on 1 April 2015.

In view of the business activities currently carried on by the Group, it does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position or results. Therefore, no specific disclosures relating to environmental issues are included in these notes to the consolidated financial statements.

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

2.1 Regulatory framework

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

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

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

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

- All other applicable Spanish accounting legislation.

2.2 Basis of presentation of the consolidated financial statements

The consolidated financial statements for 2015 were obtained from the accounting records and financial statements 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 financial position at 31 December 2015 and the consolidated results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.

Given that the accounting policies and measurement bases applied in preparing the Group's consolidated financial statements for 2015 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 consolidated financial statements, the accounting, policies and measurement bases used by the Parent were applied to all the consolidated companies.

2.2.1 Adoption of Financial Reporting Standards and Interpretations effective as from 1 January 2015

In 2015 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:**
Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (issued in November 2013)	Amendments clarifying the accounting treatment for contributions from employees or third parties that are linked to service	Annual periods beginning on or after 1 February 2015
IFRIC 21 Levies (issued in May 2013)	Guidance on when to recognise a liability for levies charged for participation by the entity in an activity market on a specified date.	Annual periods beginning on or after 1 January 2014 (1)
Improvements to IFRSs 2010-2012 cycle (issued in December 2013)	Minor amendments to a series of standards.	Annual reporting periods beginning on or after 1 February 2015.

(1) The European Union endorsed IFRIC 21 (EU Journal 14 June 2014), changing the original date of entry into force established by the IASB from 1 January 2014 to 17 June 2014.

These standards and amendments did not have any material impact on the consolidated financial statements for 2015.

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

2.2.2 Standards not yet in force in 2015

The following standards were not yet in force in 2015, either because their effective date is subsequent to the date of the consolidated 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 9 Financial instruments: Classification and measurement (published in November 2009 and in October 2010) and subsequent amendment to IFRS 9 and IFRS 7 on the effective date and transition disclosures (published in December 2011) and hedge accounting and other amendments (published in November 2013)	Replaces the requirements for classifying, measuring and derecognising financial assets and liabilities of IAS 39.	Annual periods beginning on or after 1 January 2018 (1)
IFRS 10 and IAS 28: Sale or contribution of assets between an investor and its associate or joint venture	Amendments to treatment of a sale or contribution of assets between an investor and its associate or joint venture	Date undetermined (1)
Amendments to IFRS 10, IFRS 12, and IAS 28: Investment Entities (December 2014)	Clarifications concerning consolidation exceptions for investment companies.	Annual periods beginning on or after 1 January 2016 (1)
IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)	Specifies the accounting treatment for the acquisition of an interest in a joint operation that constitutes a business	Annual reporting periods beginning on or after 1 January 2016.
IFRIC 16 Leases (issued in January 2016)	New leases standard which replaces IAS 17. Lessees shall include all leases on the balance sheet as if they were financed purchases.	Annual periods beginning on or after 1 January 2019 (1)
IFRS 15 Revenue from Contracts with Customers (issued in May 2014)	New revenue recognition standard. Replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31. The new IFRS 15 model is far more restrictive and principles-based, and also has a very different contractual approach. Application of the new requirements could therefore give rise to changes in the revenue profile	Annual periods beginning on or after 1 January 2018 (1)
IAS 16 and IAS 38 Acceptable Methods of Depreciation and Amortisation (issued in May 2014)	Provides clarification of acceptable methods of depreciation and amortisation	Annual reporting periods beginning on or after 1 January 2016, applied prospectively (1)
IAS 27 Amendments to prescribe the application of the equity method of accounting in separate financial statements	Amendments to prescribe application of the equity method of accounting in separate financial statements	Annual periods beginning on or after 1 January 2016 (1)

(1) Pending adoption by the European Union

The Group is currently assessing the impact that the future application of these standards might have on the financial statements once they enter into force. The Group's preliminary assessment is that the impact of the application of these standards will not be significant. In relation to IFRS 16, which amends the leases standard, the Parent does not expect the impact on its consolidated financial statements to be significant since accounting for the lessor will not undergo significant changes.

2.3 Functional currency

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

2.4 Comparative information

The information relating to 2014 contained in these notes to the consolidated financial statements is presented solely for comparison purposes with similar information relating to the year ended 31 December 2015. . To facilitate understanding and comparison of the consolidated income statement, the directors have separated the profit obtained in 2014 in the business combination of Tree Inversiones Inmobiliarias, SOCIMI, S.A. amounting to EUR 7,247 thousand from the profit generated through ordinary activities.

2.5 Responsibility for the information and use of estimates

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

In the Group's consolidated financial statements for 2015 estimates were occasionally made by the senior executives of the Group and of the consolidated companies, 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 (see Note 3)

2. The market value of the Group's property assets (see Notes 5.1 and 9). The Group obtained valuations from independent experts at 31 December 2015.

3. Impairment losses on goodwill (see Note 7)

4. The fair value of certain financial instruments (see Note 5.7).

5. The assessment of provisions and contingencies (see Note 5.14)

6. Management of financial risk and, in particular, of liquidity risk (see Note 26).

7. The recovery of deferred tax assets and the tax rate applicable to temporary differences (see Note 5.16).

8. Definition of the transactions carried out by the Group as a business combination in accordance with IFRS 3 or as an acquisition of assets (see Note 3).

Changes in estimates:

Although these estimates were made on the basis of the best information available at 31 December 2015, future events may require these estimates to be modified prospectively (upwards or downwards), in accordance with IAS 8. The effects of any change would be recognised in the corresponding consolidated income statement.

2.6 Basis of consolidation applied

All companies over which effective control is exercised by virtue of holding of a majority of the voting rights in their representation and decision-making bodies and the power to determine the company's financial and operational policies were fully consolidated; and companies in which the Group owns more than a 20% interest and exercises significant influence without holding a majority of the voting rights were accounted for using the equity method (see Note 11).

A number of adjustments have been made in order to bring the accounting principles and measurement bases of Group companies into line with those of the Parent, including the application of International Financial Reporting Standards measurement bases to all Group companies and associates.

It was not necessary to unify accounting periods since the balance sheet date of all the Group companies and associates is 31 December of each year.

2.6.1 Subsidiaries

Subsidiaries are considered to be those companies over which the Parent directly or indirectly exercises control through subsidiaries. The Parent has control over a subsidiary when it is exposed or has rights to variable returns from its involvement with the subsidiary, and when it has the ability to use its power to affect its returns. The Parent has power when the voting rights are sufficient to give it the ability to direct the relevant activities of the subsidiary. The Parent is exposed or has rights to variable returns from its involvement with the subsidiary when its returns from its involvement have the potential to vary as a result of the subsidiary's performance.

The financial statements of the subsidiaries are fully consolidated with those of the Parent. Accordingly, all material balances and effects of the transactions between consolidated companies are eliminated on consolidation.

Third party interests in the Group's equity and profit or loss are recognised under "Non-controlling interests" in the consolidated statement of financial position, the consolidated income statement and consolidated statement of comprehensive income, respectively.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statements from the effective date of acquisition or until the effective date of disposal, as appropriate.

2.6.2 Associates

The companies listed in Appendix I, over which Merlin Properties, SOCIMI, S.A. does not exercise control but rather has a significant influence, are included under "Investments accounted for using the equity method" in the accompanying consolidated statement of financial position and are measured using the equity method, which consists of the value of the net assets and any goodwill of the associate. The share of these companies' net profit or loss for the year is included under "Share of results of associates accounted for using the equity method" in the accompanying consolidated income statement.

2.6.3 Transactions between Group companies

Gains or losses on transactions between consolidated companies are eliminated on consolidation and deferred until they are realised with third parties outside the Group. The capitalised expenses of Group work on non-current assets are recognised at production cost, and any intra-Group results are eliminated. Receivables and payables between consolidated Group companies and any intra-Group income and expenses were eliminated.

2.6.4 Translation of currencies other than the euro

The translation to euros of foreign transactions was carried out by applying the following criteria:

1. The assets and liabilities, including goodwill and adjustments to net assets arising from the acquisition of businesses, including comparative balances, are translated at the exchange rate at each reporting date;

2. Income statement items were translated at the average exchange rates for the year; and

3. Any exchange differences that arise from applying the aforementioned criteria are recognised as translation differences in equity.

In presenting the consolidated statement of cash flows, the cash flows, including comparative balances, of the subsidiaries are translated to euros at the exchange rates prevailing at the date on which such cash flows took place.

Translation differences related to foreign businesses recognised under equity are recognised in the consolidated income statement when such businesses are disposed of or when the Group no longer has control over them.

The local currency of all Group companies is the euro, except for the subsidiary of the Testa subgroup, Testa American Real Estate Corporation, whose operational currency is the US dollar. The assets, liabilities, profit or loss and cash flows contributed by such subsidiary to the Merlin Group's consolidated financial statements for 2015 were not significant.

2.6.5. First-time consolidation differences

At the date of an acquisition, the assets and liabilities of a subsidiary are measured at their fair values at that date. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If a deficiency of the acquisition cost below the fair values of the identifiable net assets acquired (i.e. a discount on acquisition) is disclosed, the measurements of the net assets are reviewed and, where appropriate, the deficiency is credited to profit or loss in the period in which the acquisition is made.

2.6.6 Business combinations

The Group accounts for business combinations using the purchase method. The date of acquisition is the date on which the Group takes control of the acquiree.

The consideration paid is calculated at the date of acquisition as the sum of the fair values of the assets delivered, the liabilities incurred and assumed and the equity instruments issued by the Group in exchange for control of the business acquired. Acquisition costs, such as professional fees, do not form part of the cost of the business combination, but are taken directly to the consolidated income statement.

Where applicable, the contingent consideration is recognised at the acquisition-date fair value. Subsequent changes to the fair value of the contingent consideration are taken to the consolidated income statement unless this change arises within the period of 12 months established as the provisional accounting period, in which case the change is recognised in goodwill.

Goodwill is calculated as the excess of the aggregate of the consideration transferred, any non-controlling interests, and the fair value of any previously acquired interest less the net identifiable assets acquired.

If the acquisition cost of the identifiable net assets is less than their fair value, the related difference is recognised in the consolidated income statement for the year.

2.6.7 Scope of consolidation

The companies composing the Merlin Group at 31 December 2015, along with information relating to the consolidation method, are listed in Appendix I of the consolidated financial statements.

3. Changes in the scope of consolidation

2015-

The changes in the scope of consolidation in 2015 were as follows:

Business combinations

Testa Inmuebles en Renta, SOCIMI, S.A. and subsidiaries

On 8 June 2015, the Parent and the majority shareholder of Testa Inmuebles en Renta, SOCIMI, S.A. (Sacyr, S.A.) entered into a binding agreement for the acquisition by the Parent of a majority shareholding (99.6%) in the share capital of Testa Inmuebles en Renta, SOCIMI, S.A. This agreement was carried out in the following stages:

1. Subscription of the capital increase carried out by Testa Inmuebles en Renta, SOCIMI, S.A. in June 2015. The Parent therefore acquired a shareholding representing 25% of the share capital of Testa Inmuebles en Renta, SOCIMI, S.A. at a price of EUR 430,839 thousand.

2. Acquisition of the remaining shares of Testa Inmuebles en Renta, SOCIMI, S.A., owned by the majority shareholder at the time, in accordance with the following timetable:

    a. At the end of July 2015, acquisition of an additional ownership interest representing 25.1% of the share capital of Testa Inmuebles en Renta, SOCIMI, S.A. for EUR 861 million.

b. Prior to 30 June 2016, acquisition of the remaining shares owned by Sacyr, S.A. (thus reaching 99.6% of the share capital of Testa Inmuebles en Renta, SOCIMI, S.A.) for EUR 694 million.

In addition, on 23 July 2015 the Parent submitted the notice to the CNMV, after obtaining authorisation, of the tender offer for 0.38% of the share capital of Testa Inmuebles en Renta, S.A. owned by minority shareholders. The price offered amounted to EUR 13.54 per share.

At 31 December 2015, the Group had a 77.32% shareholding in Testa Inmuebles en Renta, SOCIMI, S.A., detailed as follows:

- 25% acquired in the subscription of the capital increase carried out by Testa Inmuebles en Renta, SOCIMI, S.A. on 9 June 2015. The cost of this acquisition amounted to EUR 430,839 thousand. The difference between the price paid and the individual carrying amount of the cost of the investment amounted to EUR 5,774 thousand, which relates to the ordinary dividend approved by the shareholders at Testa's Annual General Meeting of 29 June 2015 and paid on 10 July 2015.

- An additional 25.1% acquired on 23 July 2015, which gave the Parent control over Testa Inmuebles en Renta, SOCIMI, S.A. at such date. The acquisition cost was EUR 861,240 thousand.

- Acquisition on 12 August 2015 of an additional 26.913% for EUR 377,160 thousand. In accordance with the agreement entered into with Sacyr, at 31 December 2015 the acquisition of 34,810,520 shares representing 22.61% of the share capital of Testa Inmuebles en Renta, SOCIMI, S.A. for EUR 316,840 thousand had yet to be carried out.

- On 28 October 2015, the Board of the CNMV authorised the tender offer on 100% of the share capital of Testa Inmuebles en Renta, SOCIMI, S.A., whereby 99.62% of the share capital (belonging to Merlin and Sacyr) was withdrawn from circulation until the tender offer was completed. Consequently, the offer was effectively extended to the acquisition of 581,609 shares of Testa Inmuebles en Renta, SOCIMI, S.A., representing 0.38% of its share capital. The price offered and accepted was EUR 13.54 per share for 472,527 shares representing 81.24% of the shares that were subject to the tender offer and 0.31% of its share capital. The price paid for this percentage amounted to EUR 6,398 thousand.

Testa Inmuebles en Renta SOCIMI, S.A. is the head of a group of companies whose main activity is the ownership of investment property for lease. Following the aforementioned transactions, at 31 December 2015 the Company held 119,048,116 shares of Testa Inmuebles en Renta SOCIMI, S.A. and has a purchase commitment with Sacyr, S.A. for an additional 34,810,520 shares at a price of EUR 9.1 per share. Once this purchase is made, the Parent will have 153,858,636 shares out of a total of 153,967,718 shares (99.93%).

The Testa Group's shares are listed on the Spanish electronic trading system. At 31 December 2015, its shares were listed at EUR 12.46 per share and the average market price in the last quarter was EUR 13.23 per share. The average purchase price for shares owned by the Parent, along with those to be purchased in 2016, amounted to EUR 12.91 per share.

On 28 September 2015, the shareholders at the General Shareholders' Meeting of Testa Inmuebles en Renta, SOCIMI, S.A. approved Testa's adherence to the SOCIMI tax regime as of 1 January 2015.

MPCVI – Compra e Venda Imobiliária, S.A.

On 18 March 2015, the Parent acquired 100% of the ownership interest in MPCVI – Compra e Venda Imobiliária, S.A., the share capital of which amounts to EUR 50,000, and is fully paid and represented by 10,000 shares of EUR 5 par value each.

Merlin Logística II, S.L.U. (formerly, Bintan Directorship, S.L.)

On 17 April 2015, the Parent acquired 100% of the share capital of Bintan Directorship, S.L. for EUR 8,671 thousand. The share capital of Bintan amounted to EUR 100,000 and was represented by 100,000 shares of EUR 1 par value each. Merlin Logística II, S.L.U. was the owner of a logistics unit leased to a third party at the date of acquisition.

Obraser, S.A.

On 30 September 2015, the Parent acquired 100% of the share capital of Obraser, S.A., a company which owns 50% of the Arturo Soria Plaza shopping centre for EUR 36,600 thousand. Obraser's share capital amounts to EUR 601,000 and is fully paid and represented by 100,000 shares of EUR 6.01 par value each.

Companies acquired and consideration transferred-

	Main line of business	Date of acquisition	Percentage of ownership acquired (voting rights)	Consideration transferred (thousands of euros)
Testa Inmuebles en Renta, S.A. and subsidiaries	Acquisition and operation of property assets for lease	23/07/2015	77.32% (a)	1,986,703 (a)
MPCVI – Compra e Venda Imobiliária, S.A.	Acquisition and development of property assets for lease	18/03/2015	100%	74
Merlin Logística II, S.L.U. (formerly, Bintan Directorship, S.L.)	Acquisition and development of property assets for lease	17/04/2015	100%	8,671
Obraser, S.A.	Acquisition and development of property assets for lease	30/09/2015	100%	36,600
				2,032,048

(a) In accordance with the purchase agreement entered into, at 31 December 2015 the Group had yet to purchase an additional 22.61% of its Testa from Sacyr, S.A. for EUR 316,840 thousand (see Note 19). Accordingly, the aforementioned ownership interest held by Sacyr, S.A. in the equity of Testa Inmuebles en Renta, SOCIMI, S.A. at 31 December 2015 is included under "Current liabilities – Trade and other payables" in the consolidated statement of financial position, instead of under "Equity – Non-controlling interests", as it is subject to a mandatory purchase agreement at a fixed price that is not affected by the results obtained by Testa up until the date of the sale of the aforementioned shares.

The purpose of the business combinations carried out during the year was to increase the asset portfolio and comply with the Merlin Group's investment strategy with the aim of becoming one of the leading property rental groups in Spain.

The sale and purchase agreements of the aforementioned companies do not include any type of contingent consideration. The acquisition cost totalled EUR 20,196 thousand and was recognised under "Other operating expenses" in the accompanying consolidated income statement for 2015.

- *Testa Inmuebles en Renta, S.A. and subsidiaries*

	Thousands of euros		
	Carrying amount	Valuation adjustments	Fair value
Intangible assets	46,353	73,796	120,149
Investment property	2,013,812	1,006,948	3,020,760
Investments accounted for using the equity method	30,643	12,840	43,483
Other non-current assets	41,088	1	41,089
Deferred tax assets	16,610	-	16,610
Current assets	233,022	-	233,022
Non-current liabilities	(1,533,618)	(224,667)	(1,758,285)
Current liabilities	(223,610)	-	(223,610)
Total net assets	**624,300**	**868,918**	**1,493,218**
Consideration transferred			1,986,703
Value assigned to non-controlling interests			1,217
Goodwill			494,702
Impairment of goodwill			(224,667)
Goodwill (Note 7)			**270,035**

The Parent's directors initially allocated the cost of the business combination by provisionally estimating that the difference between the cost of the business combination and the fair value of the net assets acquired would amount to EUR 270,035 thousand.

To estimate the fair value of the net assets of Testa Inmuebles en Renta, SOCIMI, S.A., the Parent used the valuations of the acquired assets (mainly real estate assets) carried out by independent experts. As a result of these appraisals, the value of Testa's assets was adjusted by EUR 1,093,585 thousand. The tax effect estimated by the Parent's directors associated with the recognition of the aforementioned increase in value amounted to EUR 224,667 thousand (see Note 18), which would mean increasing the goodwill detailed in the paragraph above by the same amount.

In accordance with current expectations regarding changes in the real estate market and the business plans drawn up for the acquisition of Testa Inmuebles en Renta, SOCIMI, S.A., the Parent's directors consider that the real estate assets acquired will increase in value over the coming years and will absorb the goodwill in the amount of EUR 270,035 thousand. However, when assessing the goodwill arising from the tax effect of assigning the value (EUR 224,667 thousand), the Parent's directors do not consider its recovery to be sufficiently evidenced and, therefore, have followed a conservative approach and have adjusted the business combination, recognising a loss that is included under "Impairment of goodwill" in the accompanying consolidated income statement for 2015.

In any case, and in accordance with IFRS 3, these initial estimates are merely provisional and the Group has a period of one year to adjust them in accordance with the most relevant and complete information that may be subsequently obtained.

- *MPCVI – Compra e Venda Imobiliária, S.A.*

	Thousands of euros		
	Carrying amount	Valuation adjustments	Fair value
Current assets	7	-	7
Current liabilities	(26)	-	(26)
Total net assets	**(19)**	**-**	**(19)**
Consideration transferred			74
Loss incurred in business combinations			**(93)**

- *Merlin Logística II, S.L.U.*

	Thousands of euros		
	Carrying amount	Valuation adjustments	Fair value
Investment property	15,787	6,423	22,210
Other financial assets	229	-	229
Current assets	403	-	403
Non-current liabilities	(13,098)	(191)	(13,289)
Current liabilities	(884)	-	(884)
Total net assets	**2,477**	**6,232**	**8,709**
Consideration transferred			8,671
Gain generated from the business combination			**38**

Investment property has been measured at fair value. The only asset of the acquiree is a logistics unit in the Meco industrial park (Madrid), the appraisal value of which at the time of purchase was EUR 22,210 thousand according to an independent appraiser. This asset was leased to Transportes Azkar, S.A. by virtue of the lease agreement entered into on 18 August 2014 and novated on 1 September 2014. This lease was the acquiree's business activity and only source of revenue.

The valuation adjustment to non-current liabilities of EUR 191 thousand corresponds to the deferred tax asset associated with the valuation adjustment of investment property. The Parent estimated this amount taking into account that the acquiree is a SOCIMI, estimating the tax rate applicable to gains and considering the expected date on which the gain will be generated when it is sold.

- *Obraser, S.A.*

	Thousands of euros		
	Carrying amount	Valuation adjustments	Fair value
Investment property	6,052	29,694	35,746
Other financial assets	124	-	124
Deferred tax assets	14	-	14
Current assets	3,306	-	3,306
Non-current liabilities	-	(6,666)	(6,666)
Current liabilities	(3,054)	-	(3,054)
Total net assets	**6,442**	**23,028**	**29,470**
Consideration transferred			36,600
Loss incurred in business combinations			**(7,130)**

Investment property has been measured at fair value (50% of the premises in the Arturo Soria Plaza shopping centre). The fair value was obtained from the appraisals carried out by an independent expert on the date of the purchase. The valuation adjustment to non-current liabilities of EUR 6,666 thousand corresponds to the deferred tax liability associated with the revaluation of the investment property. The Parent estimated this amount taking into account that the acquiree is a SOCIMI, estimating the tax rate applicable to gains arising on the purchase date. The difference between the fair value of the net assets acquired and the consideration transferred was taken to the consolidated income statement for 2015.

The fair value of the receivables acquired in the business combinations, which are mainly trade receivables, is EUR 11,048 thousand and does not differ from the gross contractual amounts. The Parent's directors do not consider that at the acquisition date there were any indications that these receivables would not be collected in full. The detail, by company, is as follows:

	Thousands of euros
Testa Inmuebles en Renta, SOCIMI, S.A. and subsidiaries	9,912
MPCVI – Compra e Venda Imobiliária, S.A.	5
Merlin Logística II, S.L.U.	35
Obraser, S.A.	1
	9.953

The net profit and income generated by the acquired businesses in 2015 and included in the consolidated income statement for 2015 amounted to:

	Thousands of euros	
	Net profit (loss)	Income
Testa Inmuebles en Renta, SOCIMI, S.A. and subsidiaries (a)	(177,823)	79,615
MPCVI – Compra e Venda Imobiliária, S.A.	1,295	790
Merlin Logística II, S.L.U.	2,591	1,007
Obraser, S.A.	(5,912)	-
	(179,849)	**81,412**

Had the two businesses been acquired on 1 January 2015, net profit would have increased by EUR 36,872 thousand and the revenue contributed to the Group would have been approximately EUR 82,767 thousand higher compared to the figures in these consolidated financial statements.

When calculating these amounts, the directors considered that the revenue generated and expenses incurred between 1 January 2015 and the acquisition date, along with the acquisition costs, did not vary.

Net cash flow from acquisitions:

	Thousands of euros				
	Testa Inmuebles en Renta, S.A.	MPCVI – Compra e Venda Imobiliária, S.A.	Merlin Logística II, S.L.U.	Obraser, S.A.	Total
Cash paid	1,669,863	74	8,671	36,600	1,715,208
Less: cash and cash equivalents	(189,283)	(2)	(368)	(441)	(190,095)
Total	**(1,480,580)**	**72**	**8,303**	**36,159**	**1,525,114**

Other changes

MPEP - Properties Escritórios Portugal, S.A

On 6 March 2015, the Parent incorporated MPEP - Properties Escritórios Portugal, S.A., with a share capital of EUR 50,000, divided into 50,000 ordinary shares of EUR 1 par value each. This share capital was contributed in full by Merlin Properties SOCIMI, S.A. and, therefore, is wholly owned thereby. This subsidiary did not have any assets, liabilities or significant profit or loss at 31 December 2015.

Centro Intermodal de Logística, S.A. (CILSA)

On 22 October 2015, Merlin Properties SOCIMI, S.A. acquired a 32% shareholding in CILSA for a total of EUR 56,638 thousand. CILSA (Centro Intermodal de Logística, S.A.) is the company that manages the port concession of the logistics activity area of the Port of Barcelona. Following the acquisition, 63% of CILSA was owned by the Barcelona Port Authorities, 32% by the Parent and 5% by Entidad Pública Empresarial de Suelo (SEPES) (see Note 11). The share capital of CILSA amounted to EUR 15,467 and is represented by 13,125 class A nominal shares and by 12,610 class B nominal shares of EUR 601.01 par value each, all fully subscribed and paid up. Both classes of shares carry the same voting and dividend rights.

<u>2014-</u>

The Merlin Group was incorporated in 2014, whereby all the subsidiaries were consolidated in the Group in 2014. The subsidiaries forming part of the Merlin Group at 31 December 2014 were as follows:

Company	Lines of business	Reason for inclusion in scope of consolidation	Ownership interest	Consolidation method
Tree Inversiones Inmobiliarias, SOCIMI, S.A.	Acquisition and development of property assets for lease	Acquisition	100%	Full consolidation
Merlin Oficinas, S.L.	Acquisition and development of property assets for lease	Incorporation	100%	Full consolidation
Merlin Logística, S.L.	Acquisition and development of property assets for lease	Incorporation	100%	Full consolidation
Merlin Retail, S.L.	Acquisition and development of property assets for lease	Incorporation	100%	Full consolidation
Bosque Portfolio Management, S.L.	Real estate management	Acquisition	100%	Full consolidation

On 3 July 2014, the Parent acquired all shares of Tree Inversiones Inmobiliarias, SOCIMI, S.A. (owner of a portfolio of 885 assets leased to BBVA) and Bosque Portfolio Management, S.L. (company responsible for managing this portfolio). This business combination was intended to fulfil the corporate purpose of Merlin Properties SOCIMI, S.A. with regard to the acquisition of urban property assets for subsequent leasing to third parties.

Companies acquired and consideration transferred-

	Main line of business	Date of acquisition	Percentage of ownership acquired (voting rights)	Consideration transferred (thousands of euros)
Tree Inversiones Inmobiliarias SOCIMI, S.A.	Office leasing	03/07/2014	100%	739,483
Bosque Portfolio Management, S.L.	Real estate management	03/07/2014	100%	3
				739.486

The sale and purchase agreement for Tree Inversiones Inmobiliarias SOCIMI, S.A. and Bosque Portfolio Management, S.L. did not include any contingent considerations. The costs related to the acquisition amounted to EUR 603 thousand.

	Thousands of euros		
	Carrying amount	Valuation adjustments	Fair value
Intangible assets	58	-	58
Property, plant and equipment	22	-	22
Investment property	990,002	379,066	1,369,068
Derivatives	-	287,422	287,422
Other financial assets	12,560	-	12,560
Deferred tax assets	11,125	-	11,125
Current assets	16,156	-	16,156
Non-current liabilities	(889,411)	(25,090)	(914,501)
Current liabilities	(35,289)	-	(35,289)
Total net assets	**105,223**	**641,398**	**746,621**
Consideration transferred			739,483
Gain generated from the business combination			**7,138**

Investment property has been measured at fair value. The fair value was obtained from the valuations performed by Savills at 31 December 2013, adjusted for the disposals of real estate assets prior to the purchase date, i.e. 3 July 2014. This fair value included an embedded derivative corresponding to the rent multiplier included in the lease agreements signed with the current lessee of the properties, BBVA. Since these specific conditions on reviewing rents were considered by the independent appraiser when valuing the real estate assets, the Parent estimated such rent reviews and recognised them separately in the consolidated statement of financial position. It has presented them separately from the host contract as a derivative financial instrument.

In this regard, the Parent estimated the value of the embedded derivative based on an estimate of total future cash flows from the contract adjusted for counterparty credit risk. Future rental income was estimated using the eurozone inflation swap curve on the date of analysis (harmonised price index excluding tobacco) and factoring in the respective counterparty credit risk. The measurement approach used was based on the discounted cash flow model.

The valuation adjustment to non-current liabilities of EUR 25,090 thousand corresponds to the deferred tax asset associated with the revaluation of investment property. The Parent estimated this amount taking into account that the company acquired is a SOCIMI, estimating the tax rate applicable to gains, and also considering the expected date on which the gain will be generated when the property is sold.

- Bosque Portfolio Management, S.L.

	Thousands of euros		
	Carrying amount	Valuation adjustments	Fair value
Intangible assets	33	-	33
Other financial assets	11	-	11
Deferred tax assets	50	-	50
Current assets	761	-	761
Current liabilities	(267)	(476)	(743)
Total net assets	**588**	**(476)**	**112**
Consideration transferred			3
Gain generated from the business combination			**109**

The fair value of the receivables acquired in the business combinations, which are mainly trade receivables, amounted to EUR 440 thousand in the case of Tree Inversiones Inmobiliarias SOCIMI, S.A. and zero in the case of Bosque Portfolio Management, S.L., which did not differ from the gross contractual amounts. The Parent's directors did not consider there to be any indications at the date of acquisition that these receivables would not be collected in full.

The net profit and income generated by the acquired businesses in 2014 and recognised in the consolidated income statement totalled EUR 32,783 thousand and EUR 44,242 thousand (Tree Inversiones Inmobiliarias SOCIMI, S.A.) and EUR 17 thousand and EUR 162 thousand (Bosque Portfolio Management, S.L.).

Had the two businesses been acquired on 1 January 2014, net profit would have increased by EUR 4,449 thousand and the revenue contributed to the Group would have been approximately EUR 44,965 thousand higher compared to the figures in the 2014 consolidated financial statements. When calculating these amounts, the directors considered that the revenue generated and expenses incurred between 1 January 2014 and the acquisition date, along with the acquisition costs, did not vary.

Net cash flow from the acquisition

	Thousands of euros
Cash paid	739,486
Less: cash and cash equivalents	(15,761)
Total	**723,725**

4. Distribution of the profit of the Parent

The distribution of profit proposed by the Parent's directors for approval by its shareholders at the Annual General Meeting is as follows:

	Thousands of euros
Profit/(Loss) for the year	29,859
Distribution:	
Legal reserve	2,986
Interim dividend	25,035
Dividends	1,838

Interim dividend

On 14 October 2015, the Parent's Board of Directors resolved to distribute EUR 25,035 thousand as an interim dividend with a charge to profit for 2015. This interim dividend was paid to shareholders prior to 31 December 2015.

The provisional accounting statement prepared in accordance with legal requirements evidencing the existence of sufficient liquidity for the distribution of the dividends was as follows:

	Thousands of euros
Profit before tax at 30 September 2015	28,369
Less: required transfer to the legal reserve	(2,837)
Profit that may be distributed with a charge to income for 2015	25,532
Interim dividend to be distributed	**25,035**
Forecast of cash for the period from 30 September 2015 to 30 September 2016:	
- Cash balance at 30 September 2015	337,980
- Projected proceeds	120,826
- Projected payments, including the interim dividend.	(366,450)
Projected cash balance at 30 September 2016	**92,356**

5. Accounting policies

The main accounting policies and measurement bases applied in preparing the Group's consolidated financial statements, which comply with the IFRSs in force at the date thereof, are as follows:

5.1 Goodwill on consolidation

Goodwill is calculated as the excess of the aggregate of the consideration transferred, any non-controlling interests, and the fair value of any previously acquired interest less the net identifiable assets acquired measured at fair value.

In determining the aforementioned fair value the Group:

1. Allocates cost to specific assets and liabilities of the companies acquired, increasing the carrying amount at which they were recognised in the statements of financial position of the companies acquired up to the limit of their market values.

2. If a cost is attributable to specific intangible assets, it is recognised explicitly in the consolidated statements of financial position provided that the market value at the date of acquisition can be measured reliably.

3. If the costs assigned differ from their values for tax purposes, the related deferred tax is recognised.

Goodwill is only recognised when it has been acquired for consideration.

If a cash-generating unit is sold, the amount attributed to goodwill is included in determining the profit or loss from the sale.

Goodwill is not amortised. However, at the end of each reporting period or whenever there is any indication of a decline in value, the Group tests the goodwill for impairment to determine whether there is any indication that the goodwill has suffered a permanent loss of value that has reduced the recoverable amount thereof to below its carrying amount. If there is any impairment, the goodwill is written down and the impairment loss is recognised. An impairment loss recognised for goodwill must not be reversed in a subsequent period.

All goodwill is allocated to one or more cash-generating units. The recoverable amount of each cash-generating unit is the higher of value in use and the net selling price of the assets associated with the cash-generating unit. The value in use is calculated according to the methodology described Notes 5.4 and 7.

5.2 Intangible assets

This heading includes computer software and intangible assets relating to concession projects. They are recognised at acquisition or production cost less any accumulated amortisation and any accumulated impairment losses. And intangible asset is recognised if and only if it is probable that it will generate future economic benefits for the Group and that is cost may be measured reliably.

The gains or losses arising from the derecognition of an intangible asset are calculated as the difference between the net profit obtained on the sale and the carrying amount of the asset, and are recognised in the consolidated income statement when the asset is derecognised.

Computer software

"Computer software" includes the amount of computer programs acquired from third parties, and exclusively in those cases in which they are expected to be used over several years. Computer software is amortised over its useful life, which is normally four years.

Concession projects

This heading includes administrative concessions which are recognised at acquisition or production cost less any accumulated amortisation and any accumulated impairment losses.

Administrative concessions are recognised at the amount paid by the Group in operating fees and are amortised on a straight-line basis over the years of the concession.

The gains or losses arising from the derecognition of a concession project are calculated as the difference between the net profit obtained on the sale and the carrying amount of the asset, and are recognised in the consolidated income statement when the asset is derecognised.

5.3 Investment property

Investment property comprises buildings under construction and development for use as investment property, which are partially or fully held to generate revenue, profits or both, rather than for use in the production or supply of goods or services, or for the Group's administrative purposes or sale in the ordinary course of business.

All assets classified as investment property are occupied by various tenants. These properties are earmarked for leasing to third parties. The Parent's directors do not plan to dispose of these assets in the near future and have therefore decided to recognise them as investment property in the consolidated statement of financial position.

Investment property is carried at fair value at the reporting date and is not depreciated. Investment property includes land, buildings or other constructions held to earn rentals or for the obtainment of gains on the sale as a result of future increases in the respective market prices.

Gains or losses arising from changes in the fair value of investment property are included in the income statement for the year in which they arise.

While construction work is in progress, the costs of construction work and finance costs are capitalised. The aforementioned assets are recognised at fair value when they become operational.

In accordance with IAS 40, the Group periodically determines the fair value of its investment property so that the fair value reflects the actual market conditions of the investment property items at that date. This fair value is determined each year based on the appraisals undertaken by independent experts.

The market value of the Group's investment property at 31 December 2015, calculated on the basis of appraisals carried out by Savills and CBRE, independent appraisers not related to the Group, amounted to EUR 5,397,091 thousand (see Note 9).

5.4 Impairment of property, plant and equipment and intangible assets

At the end of each reporting period, the Merlin Group reviews the carrying amounts of its items of property, plant and equipment and intangible assets to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset itself does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

5.5 Investments accounted for using the equity method

At 31 December 2015, this heading in the consolidated statement of financial position included the amount corresponding to the percentage of shareholders' equity of the investee relating to the Parent and accounted for using the equity method. In addition, and after accounting for these investments using the equity method, the Group decides whether or not an additional impairment loss needs to be recognised with regard to the Group's net investment in the associate.

5.6 Leases

5.6.1 Classification of leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the Group, which usually has the option to purchase the assets at the end of the lease under the terms agreed upon when the lease was arranged. All other leases are classified as operating leases.

5.6.2 Accounting treatment as lessor

Operating leases

Assets leased to third parties under operating leases are recognised according to their nature.

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the lease, net of any incentives granted.

Contingent payments from operating leases are recognised in the consolidated income statement when it is probable that they will be collected, which generally occurs when the conditions stipulated in the lease agreement are fulfilled.

5.6.3 Accounting treatment as lessee

Finance leases

At the commencement of the lease term, the Group recognises finance leases in the consolidated statement of financial position at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments. To calculate the present value of the lease payments the interest rate stipulated in the finance lease is used.

The cost of assets acquired under finance leases is presented in the consolidated statement of financial position on the basis of the nature of the leased asset. These assets relate in full to investment property and are measured in accordance with that established in Note 5.3.

Finance charges are recognised over the lease term on a time proportion basis.

Operating leases

Lease payments under an operating lease, net of any incentives received, are recognised as an expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern of the benefits of the lease.

The Group expenses the initial costs directly incurred under the operating leases as they are incurred. Contingent payments on operating leases are expensed when it is probable that they will be incurred.

5.7 Financial Instruments

Financial instruments are classified upon initial recognition as financial assets, financial liabilities or equity instruments, in accordance with the economic reality of the contractual arrangement and the definitions of a financial asset, financial liability and equity instrument given in IAS 32 Financial Instruments: Presentation.

Financial instruments are recognised when the Group becomes a party to the contractual provisions of the instrument.

For measurement purposes, financial instruments are classified as financial assets or liabilities at fair value through profit or loss, separating those initially classified as held for trading, loans and receivables, held-to-maturity investments, available-for-sale financial assets and financial liabilities at amortised cost. Financial instruments are classified in these categories depending on their nature and the Group's intentions at the time of initial recognition.

Financial assets

Financial assets are recognised in the consolidated statement of financial position on acquisition and are initially recognised at fair value. The financial assets held by Group companies are classified as:

1. Loans and receivables are initially recognised at the fair value of the consideration given, plus any directly attributable transaction costs and are subsequently measured at amortised cost. The Group has recognised provisions to cover uncollectibility risks. These provisions are calculated according to the probability of recovery of the debt based on age thereof and the debtor's solvency. At 31 December 2015, the fair value of these assets was not materially different from their value in the consolidated statement of financial position.

2. Financial assets held for trading are measured at fair value and the gains or losses arising from changes in fair value are recognised in the consolidated income statement. The fair value of a financial instrument on a given date is taken to be the amount for which it could be bought or sold on that date by two knowledgeable, willing parties in an arm's length transaction acting prudently.

3. Held-to-maturity investments: assets with fixed or determinable payments and fixed maturity. The Group has the positive intention and ability to hold them from the date of purchase to the date of maturity.

4. Available-for-sale financial assets: these relate to equity investments that do not meet the requirements included in IFRSs for treatment as an investment in a subsidiary, associate or joint venture. They are recognised in the consolidated statement of financial position at fair value. Gains and losses from changes in fair value are recognised directly in equity until the asset is disposed of or it is determined that it has become impaired, at which time such gains or losses are taken directly to the consolidated income statement.

At least at each reporting date the Group tests financial assets not measured at fair value through profit or loss for impairment. Objective evidence of impairment is considered to exist when the recoverable amount of the financial asset is lower than its carrying amount. When this occurs, the impairment loss is recognised in the consolidated income statement.

The Group derecognises a financial asset when it expires or when the rights to the cash flows from the financial asset have been transferred and substantially all the risks and rewards of ownership of the financial asset have been transferred. However, the Group does not derecognise financial assets, and recognises a financial liability for an amount equal to the consideration received, in transfers of financial assets in which substantially all the risks and rewards of ownership are retained.

Financial liabilities

The main financial liabilities held by the Group companies are held-to-maturity financial liabilities, which are measured at amortised cost. The financial liabilities held by the Group companies are classified as:

1. Bank loans and other borrowings: loans from banks and other lenders are recognised at the amount received, net of any transaction costs, and are subsequently measured at amortised cost. Borrowing costs are recognised in the consolidated income statement on an accrual basis using the effective interest method and are added to the carrying amount of the liability to the extent that they are not settled in the period in which they arise.

2. Trade and other payables: trade payables are initially recognised at fair value and are subsequently measured at amortised cost using the effective interest method.

The Group derecognises financial liabilities when the obligations giving rise to them cease to exist.

5.8 Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge the risks to which its future activities, transactions and cash flows are exposed. There risks are mainly due to changes in interest rates and inflation. Among the various transactions, the Group uses certain financial instruments as economic hedges.

In order for these financial instruments to qualify for hedge accounting, they are initially designated as such and the hedging relationship is documented. Also, the Group verifies, both at inception and periodically over the term of the hedge (at least at the end of each reporting period), that the hedging relationship is effective, i.e. that it is prospectively foreseeable that the changes in the fair value or cash flows of the hedged item (attributable to the hedged risk) will be almost fully offset by those of the hedging instrument and that, retrospectively, the gain or loss on the hedge was within a range of 80-125% of the gain or loss on the hedged item.

Financial derivatives are initially recognised at cost in the consolidated statement of financial position, and the required valuation adjustments are subsequently made to reflect their fair value at all times. Increases in value are recognised under “Non-current financial assets - Derivatives” and “Other current financial assets - Derivatives” and reductions in value under “Non-current and current bank borrowings - Derivatives” in the consolidated statement of financial position. Gains and losses from fair value changes are recognised in the consolidated income statement, unless the derivative has been designated and is highly effective as a hedge, in which case it is recognised as follows:

- Cash flow hedges: in hedges of this nature, the portion of the gain or loss on the hedging instrument that has been determined to be an effective hedge is recognised temporarily in equity and is recognised in the income statement in the same period during which the hedged item affects profit or loss, unless the hedge relates to a forecast transaction that results in the recognition of a non-financial asset or a non-financial liability, in which case the amounts recognised in equity are included in the initial cost of the asset or liability when it is acquired or assumed.

- Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to net profit or loss for the year.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and provided that the host contracts are not measured at fair value by recognising changes in fair value in the consolidated statement of comprehensive income.

The fair value of the derivative financial instruments is calculated using the valuation techniques described in Note 5.9 below.

5.9 Valuation techniques and applicable assumptions to measure fair value

The fair value of financial assets and liabilities is calculated as followed:

- The fair value of financial assets and liabilities with standard terms and conditions and that are traded on active, liquid markets is calculated by reference to prices quoted in the market.

- The fair value of financial assets and liabilities (except derivative instruments) is calculated in accordance with the generally accepted valuation models on the basis of discounted cash flows using the prices of observable market transactions and the contributor prices of similar instruments.

- The fair value of interest rate swaps is calculated by discounting future settlements between fixed and floating interest rates to their present value, in line with implicit market interest rates, obtained from long-term interest rate swap curves. Implicit volatility is used to calculate the fair values of caps and floors using option valuation models.

Consideration must be given when valuing financial derivative instruments that the derivative must also effectively offset the exposure inherent to the hedged item or position throughout the expected term of the hedge, and there must be adequate documentation evidencing the specific designation of the financial derivative to hedge certain balances or transactions and how this effectiveness was intended to be achieved and measured. Moreover, pursuant to IFRS 13 and due to the inherent risk, the credit risk of the parties to the contract (both their own risk and that of the counterparty) must be included in the valuation of the derivatives. The Group applied the discounted cash flow method, considering a discount rate affected by the Merlin Group's own credit risk.

Financial instruments measured subsequent to initial recognition at fair value are grouped into levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1: those measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: those measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3: those measured using valuation techniques, including inputs for the asset or liability that are not based on observable market data (non-observable inputs).

The Group's financial assets and liabilities measured at fair value were as follows at 31 December 2015 and 2014:

2015

	Thousands of euros			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments (Note 17.2)	-	(48,749)	-	(48,749)
Embedded derivatives (Note 13)	-	194,767	-	194,767
	-	**146,018**	**-**	**146,018**

2014

	Thousands of euros			
	Level 1	Level 2	Level 3	Total
Derivative financial instruments (Note 17.2)	-	(53,407)	-	(53,407)
Embedded derivatives (Note 13)	-	261,689	-	261,689
	-	**208,282**	**-**	**208,282**

Note 9 also provides information on calculating the fair value of investment property in accordance with the valuation techniques described in said note.

5.10 Non-current assets held for sale and associated liabilities

Non-current assets classified as held for sale are recovered mainly through their sale rather than through continuing use.

An asset is classified as a non-current asset classified as held for sale when Group management is committed to a plan to sell the asset, the sale Is considered to be highly probable and an active programme to locate a buyer and complete the plan have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. The sale must be expected to be completed within one year from the date of classification. The liabilities directly associated with the assets classified as held for sale that will be transferred in the transaction are also, classified. Any liabilities retained by the seller will not be included in the liabilities to be classified as held for sale.

Initial recognition

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell.

In addition, any impairment will be determined when the assets are classified as a non-current asset classified as held for sale and the related impairment loss are recognised.

Subsequent measurement

While an asset is classified as a non-current asset held for sale, it is not depreciated but rather the appropriate valuation adjustments are made to ensure that the carrying amount is not higher than fair value less costs to sell.

When the criteria required for classifying an asset as held for sale are no longer met, the asset is reclassified under the balance sheet heading corresponding to Its nature and Is measured at the reclassification date at the lower of its carrying amount prior to its classification as a non-current asset held for sale adjusted, if appropriate, by the amortisation and depreciation charge and impairment losses which would have been recognised had It not been classified as held for sale, and its recoverable amount. Any difference is recognised in the statement of profit and loss in accordance with its nature.

The impairment losses on non-current assets classified as held for sale, and the reversal thereof when the circumstances giving rise to them cease to exist, are recognised in profit or loss, unless they have to be recognised directly in equity based on the general criteria applicable to the assets in their specific rules.

5.11 Equity instruments

An equity instrument is a contract that evidences a residual interest in the assets of the Parent after deducting all of its liabilities.

Capital instruments issued by the Parent are recognised in equity at the proceeds received, net of issue costs.

The Parent's equity instruments acquired by the Group are recognised separately at cost and deducted from equity in the consolidated statement of financial position, regardless of why they were acquired. No gains or losses from transactions involving own equity instruments are recognised in the consolidated income statement.

If the Parent's own equity instruments are subsequently retired, capital is reduced by the nominal amount of these treasury shares and the positive or negative difference between the acquisition price and nominal amount of the shares is debited from or credited to reserves.

5.12 Shareholder remuneration

Dividends are paid in cash and recognised as a reduction in equity when the pay-outs are approved by shareholders at the Annual General Meeting.

The Parent is subject to the special regime for SOCIMIs. As established in Article 6 of Law 11/2009, of 26 October, amended by Law 16/2012, of 27 December, the SOCIMIs opting to pay tax under the special tax regime are required to distribute the profit generated during the year to shareholders as dividends. Once the corresponding commercial obligations have been fulfilled, said distribution must be agreed within six months from year end, and the dividends paid within 30 days from the date on which the pay-out is agreed.

Moreover, as specified in Law 11/2009, of 26 October, amended by Law 16/2012, of 27 December, the Parent must distribute the following as dividends:

- 100% of the profit from dividends or shares in profits distributed by the entities referred to in Article 2.1 of Law 11/2009.

- At least 50% of the profits arising from the transfer of the properties, shares or ownership interests referred to in Article 2.1 of Law 11/2009, of 26 October, once the time limits referred to in Article 3.2 of Law 11/2009 have elapsed, which are used to pursue its main corporate purpose. The remainder of these profits must be reinvested in other property or investments used for the pursuit of said activity within three years after the transfer date. Otherwise these profits should be distributed in full together with any profit arising in the year in which the reinvestment period expires. If the items to be reinvested are transferred prior to the end of the holding period, that profit must be distributed in full together with, if applicable, the profit generated during the year in which the items were transferred. The obligation to distribute profit does not apply to the portion of the profit attributable to prior years in which the Company was not included under the special tax regime established in this Law.

- At least 80% of the remaining profits obtained. When dividend distributions are charged to reserves generated from profits in a year in which the special tax regime applied, the distribution must necessarily be approved as set out above.

5.13 Cash and cash equivalents

The Group includes under this heading cash and short-term highly liquid investments maturing in less than three months that are readily convertible to cash and which are subject to an insignificant risk of changes in value. The interest income associated with these transactions is recognised as income when accrued while unmatured interest is presented in the consolidated statement of financial position as an addition to the balance of the aforementioned heading.

5.14 Provisions

When preparing the consolidated financial statements the Parent's directors made a distinction between:

- Provisions: credit balances covering present obligations arising from past events with respect to which it is probable that an outflow of resources embodying economic benefits that is uncertain as to its amount and/or timing will be required to settle the obligations; and

- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the Group's control.

The consolidated financial statements include all the provisions with respect to which it is likely that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements but rather are disclosed in the notes to the consolidated financial statements, unless the possibility of an outflow in settlement is considered to be remote.

Provisions are measured at the present value of the best possible estimate of the amount required to settle or transfer the obligation, taking into account the information available on the event and its consequences. Where discounting is used, adjustments made to provisions are recognised as finance cost on an accrual basis.

The compensation receivable from a third party on settlement of the obligation is recognised as an asset, provided there is no doubt that the reimbursement will take place, unless there is a legal relationship whereby a portion of the risk has been externalised, as a result of which the Group is not liable, in which case, the compensation will be taken into account when estimating, if appropriate, the amount of the related provision.

5.15 Revenue recognition

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Rental income is measured at the fair value of the consideration received, net of discounts and taxes.

Discounts (rent waivers and rebates) granted to lessees are recognised as a reduction in rental income when it is probable that conditions precedent will be fulfilled requiring them to be granted.

Discounts are recognised by expensing the total rent waiver or rebate on a straight-line basis over the term of the lease agreement in force. If a lease agreement is cancelled earlier than expected, any outstanding rent waiver or rebate is recognised in the last period prior to the end of the agreement.

Leasing of investment property to third parties

The Group companies' principal activity comprises the acquisition and leasing of primarily shopping malls, logistics units and offices. The Group's ordinary income is generated from the leasing of this investment property to third parties.

Ordinary income from the leasing of investment property is recognised taking into account the stage of completion of the transaction at the reporting date, provided the result of the transaction can be reliably estimated. Income from the Group's leases is recognised by Group companies on a monthly basis pursuant to the conditions and amounts agreed with the lessees in the various agreements. This income is only recognised when it can be measured reliably and it is probable that the economic benefits from the lease will be received.

Where the outcome of services rendered cannot be measured reliably, revenue is recognised to the extent that the expenses incurred are deemed recoverable.

Service charges rebilled to lessees are recognised net of other operating expenses.

5.16 Income tax

5.16.1 General regime

Tax expense (tax income) comprises current tax expense (current tax income) and deferred tax expense (deferred tax income).

The current income tax expense is the amount payable by the Group as a result of income tax settlements for a given year. Tax credits and other tax benefits, excluding tax withholdings and pre-payments, and tax loss carryforwards from prior years effectively offset in the current year reduce the current income tax expense.

The deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include temporary differences measured at the amount expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities and their tax bases, and tax loss and tax credit carryforwards. These amounts are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, unless the temporary difference arises from the initial recognition of goodwill, goodwill for which amortisation is not deductible for tax purposes or the initial recognition of other assets and liabilities in a transaction that affects neither accounting profit (loss) nor taxable profit (tax loss).

Deferred tax assets are recognised for temporary differences to the extent that it is considered probable that the consolidated companies will have sufficient taxable profits in the future against which the deferred tax asset can be utilised, and the deferred tax assets do not arise from the initial recognition of other assets and liabilities in a transaction that affects neither accounting profit (loss) nor taxable profit (tax loss). The other deferred tax assets (tax loss, temporary differences and tax credit carryforwards) are only recognised if it is considered probable that the consolidated companies will have sufficient future taxable profits against which they can be utilised.

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Also, unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that they will be recovered through future taxable profits.

5.16.2 SOCIMI tax regime

The SOCIMI special tax regime, as amended by Law 16/2012 of 27 December, is based on a 0% corporate income tax rate, provided certain requirements are met. Particularly noteworthy amongst those conditions is that at least 80% of income must come from urban real estate used for leasing purposes and acquired in full ownership or through holdings in Spanish or foreign companies, regardless of whether or not they are listed on organised markets, that meet the same investment and profit distribution requirements. Likewise, the main sources of income for these entities must come from the real estate market, either through leasing the properties, their subsequent sale after a minimum lease period, or the income generated from holdings in entities with similar characteristics. Nevertheless, tax is accrued in proportion to dividend distributions. Dividends received by the shareholders are exempt, unless the recipient is a legal person subject to corporate income tax or a permanent establishment of a foreign entity, in which case a deduction in the tax liability is established, so that these earnings are taxed at the shareholder's rate. However, the remaining earnings shall not be taxed so long as they are not distributed to shareholders.

As established in Transitional Provision Nine of Law 11/2009, of 26 October, amended by Law 16/2012, of 27 December, which regulate SOCIMIs, the entity will be subject to a special tax rate of 19% on the total dividends or profit shares distributed to shareholders with a shareholding in the entity of 5% or more, when these dividends are exempt or taxed at a rate below 10% in the shareholders. The Group has therefore established the procedure guaranteeing confirmation by shareholders of their tax rate, proceeding where applicable, to withhold 19% of the dividend distributed to shareholders that do not meet the aforementioned tax requirements.

5.17 Share-based payments

The Parent recognises, on the one hand, the goods and services received as an asset or as an expense, depending on their nature, when they are received and, on the other, the related increase in equity, if the transaction is equity-settled, or the related liability if the transaction is settled with an amount based on the value of the equity instruments.

In the case of equity-settled transactions, both the services rendered and the increase in equity are measured at the fair value of the equity instruments granted, by reference to the grant date. In the case of cash-settled share-based payments, the goods and services received and the related liability are recognised at the fair value of the latter, by reference to the date on which the requirements for recognition are met.

At 31 December 2015, the Parent had a commitment to award an additional bonus to the management team as determined by the Appointments and Remuneration Committee, linked to the Parent's shares, since senior management is remunerated based on the returns obtained by the Group's shareholders (the "Management Stock Plan").

The Group must therefore exceed the following thresholds before members of senior management are entitled to shares under the Management Stock Plan:

- Total shareholder return per annum must be over 8%. Annual shareholder return is calculated as the sum of any fluctuation in the Group's EPRA NAV adjusted by the goodwill that arose in the acquisition of Testa

Inmuebles en Renta, SOCIMI, S.A. over the year minus the net funds obtained from shares issued during the year, plus the dividends distributed during the year.

- The sum of (i) the Merlin Group's EPRA NAV at 31 December of said year, and (ii) the total value of the dividends (or any other form of shareholders remuneration or pay-out) distributed during said year or any prior year since the last year when they were entitled to receive shares under the Management Stock Plan, must exceed the greater of the following amounts: (a) the opening EPRA NAV (opening EPRA NAV being the net funds obtained by the Company on offering and trading its shares) and (b) the EPRA NAV at 31 December (plus any adjustments resulting from excluding the net funds of any issuance of ordinary shares in said year) of the last year when they were entitled to receive shares under the Management Stock Plan. This excess is referred to as the High Watermark Outperformance and represents the amount over and above the last EPRA NAV that gave rise to entitlement to shares under the Management Stock Plan.

Once both thresholds are reached, the amount to be allocated to the Management Stock Plan for the year (the bonus) will be the lesser of the following:

(x) 8% of the annual shareholder return once this exceeds 8%, and 12% of the shareholder return if the annual shareholder return is over 12%; or

(y) 16% of the High Watermark Outperformance.

At 31 December 2015, the level of annual return that determines whether or not employees accrue this bonus was not yet reached.

5.18 Current assets and liabilities

The Group classifies its assets and liabilities as current and non-current in the consolidated statement of financial position. To this end, current assets and current liabilities are those that meet the following criteria:

- Assets are classified as current when they are expected to be realised, or are intended for sale or consumption, during the course of the Group's normal operating cycle, when they are held primarily for the purpose of being traded, when they are expected to be realised within twelve months after the reporting date, or when they constitute cash or a cash equivalent, unless they are restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

- Liabilities are classified as current when they are expected to be settled during the course of the Group's normal operating cycle, when they are held primarily for the purpose of being traded, when they are expected to be settled within twelve months after the reporting date, or when the Group does not have an unconditional right to defer repayment of the liability for at least twelve months after the reporting date.

- Derivative financial instruments not held for trading are classified as current or non-current according to the period of maturity or periodic settlement.

5.19 Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenue and incur expenses, whose results from operations are reviewed regularly by the Group's highest operating decision-making body to determine how resources should be allocated to the segment and assess its performance, for which separate financial information is available.

5.20 Earnings per share

Basic earnings per share are calculated by dividing net profit or loss attributable to the Parent by the weighted average number of ordinary shares outstanding during the year, excluding the average number of shares of the Parent held by the Group companies.

5.21 Environmental information

The Group carries out activities whose primary purpose is to prevent, mitigate or repair environmental damage caused by its operations.

Expenses incurred in connection with these environmental activities are recognised as other operating expenses in the year in which they are incurred. However, because of their nature, the Group's business activities do not have a significant environmental impact.

5.22 Consolidated statements of cash flows

The following terms are used in the consolidated statements 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 entities composing the consolidated Group 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 the equity and liabilities that are not operating activities.

6. 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 assets
- Shopping centres
- Logistics assets
- Hotels
- Other (including residential rental assets classified under "Non-current assets held for sale")

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

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

The Group carried out its business activities in Spain and Portugal in the year ended 31 December 2015.

b) Basis and methodology for business segment reporting

The segment information 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 5.

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. Ordinary revenue of each segment does not include interest or dividend income, gains on the disposal of investment property, debt recoveries or cancellation.

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

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

Segment assets and liabilities are those directly related to each segment's operations, plus the assets and liabilities that can be directly attributed thereto using the aforementioned allocation system, and include the proportional part of the assets and liabilities of joint ventures. Liabilities do not include income tax payments.

Segment reporting

Segment information about these businesses at 31 December 2015 is presented below:

	Thousands of euros							
	Office buildings	High Street retail	Shopping centres	Logistics	Hotels	Other	Corporate Unit	Group total
Revenue from non-Group customers								
Rental income	63,327	91,345	28,779	12,703	11,433	6,778	64	214,429
Total revenue	63,327	91,345	28,779	12,703	11,433	6,778	64	214,429
Other income	1,271	-	696	-	-	354	31	2,352
Staff costs	(1,429)	(25)	(399)	(125)	(382)	(1,800)	(11,550)	(15,710)
Operating expenses	(6,126)	(3,737)	(3,473)	(808)	(1,121)	(766)	(23,788)	(39,819)
Gains or losses on disposals of non-current assets	3,406	12	-	(12)	580	-	-	3,986
Excessive provisions	-	-	-	-	-	-	476	476
Depreciation and amortisation charge	-	(28)	-	(1)	(34)	-	(44)	(107)
Operating profit/(loss)	60,449	87,567	25,603	11,757	10,476	4,566	(34,811)	165,607
Impairment of goodwill	(97,450)	-	(57,651)	(12,937)	(18,402)	(45,412)	-	(231,852)
Absorption of the revaluation of investment property	(155,380)	-	(29,470)	(12,240)	(5,260)	132,014	-	(70,336)
Changes in fair value of investment property	181,655	182,184	56,666	23,678	1,760	(131,357)	-	314,586
Net finance income/(expense)	(14,555)	(22,172)	(5,694)	(1,106)	(2,453)	(2,823)	(4,793)	(53,596)
Changes in the value of derivative financial instruments	(12)	(67,905)	-	(23)	-	2	-	(67,938)
Share of results of companies accounted for using the equity method	-	-	-	(33)	1,310	(2,297)	1,825	805
Profit/(Loss) before tax	(25,293)	179,674	(10,546)	9,096	(12,569)	(45,307)	(37,779)	57,276
Income tax	(293)	(8,162)	-	-	-	132	-	(8,323)
Profit/(Loss) for the year	(25,586)	171,512	(10,546)	9,096	(12,569)	(45,175)	(37,779)	48,953

	Thousands of euros							
	Office buildings	High Street retail	Shopping centres	Logistics	Hotels	Other	Corporate Unit	Group total
Investment property	2,198,045	1,689,141	683,680	295,844	325,955	204,426	-	5,397,091
Non-current financial assets-	14,844	208,421	6,511	2,539	3,948	1,691	86	238,040
Derivatives	-	194,767	-	-	-	-	-	194,767
Other financial assets	14,844	13,654	6,511	2,539	3,948	1,691	86	43,273
Deferred tax assets	3,068	7,337	340	235	871	11,289	0	23,140
Other non-current assets	96,135	38	38,483	74,273	140,299	23,865	686	373,779
Non-current assets	**2,312,092**	**1,904,937**	**729,014**	**372,891**	**471,073**	**241,271**	**772**	**6,032,050**
Trade and other receivables	2,461	2,864	793	554	2,597	11,042	4,073	24,384
Other current financial assets	0	2,830	0	1,102	0	426	5	4,363
Other current assets	13,993	17,516	1,905	2,831	1,870	295,005	522,521	855,641
Current assets	**16,454**	**23,210**	**2,698**	**4,487**	**4,467**	**306,473**	**526,599**	**884,388**
Total assets	**2,328,546**	**1,928,147**	**731,712**	**377,378**	**475,540**	**547,744**	**527,371**	**6,916,438**
Non-current bank borrowings	246,430	978,887	130,303	66,774	27,819	5,264	0	1,455,477
Other non-current liabilities	131,360	44,563	65,909	16,452	24,652	17,334	4,856	305,126
Non-current liabilities	**377,790**	**1,023,450**	**196,212**	**83,226**	**52,471**	**22,598**	**4,856**	**1,760,603**
Current liabilities	**911,267**	**16,692**	**146,934**	**67,717**	**225,238**	**180,907**	**680,649**	**2,229,404**
Total liabilities	**1,289,057**	**1,040,142**	**343,146**	**150,943**	**277,709**	**203,505**	**685,505**	**3,990,007**

Segment information about these businesses at 31 December 2014 is presented below:

	Thousands of euros					
	Office buildings	High Street retail	Shopping centres	Logistics	Corporate Unit	Group total
Revenue from non-Group customers						-
Rental income	3,898	44,242	7,631	845	-	56,616
Total revenue	3,898	44,242	7,631	845	-	56,616
Other income	-	-	380	-	1	381
Staff costs	-	(27)	-	-	(3,058)	(3,085)
Operating expenses	(326)	(12,554)	(1,791)	(39)	(1,303)	(16,013)
Gains or losses on disposals of non-current assets	-	126	-	-	-	126
Depreciation and amortisation charge	-	(14)	(14)	-	(7)	(35)
Negative goodwill arising from business combinations	-	7,138	-	-	109	7,247
Operating profit/(loss)	3,572	38,911	6,206	806	(4,258)	45,237
Changes in fair value of investment property	(3,000)	38,751	14,368	(648)	-	49,471
Net finance income/(expense)	(445)	(17,967)	1	-	329	(18,082)
Changes in the value of derivative financial instruments	-	(25,920)	-	-	-	(25,920)
Profit/(Loss) before tax	127	33,775	20,575	158	(3,929)	50,706
Income tax	-	(992)	-	-	(50)	(1,042)
Profit/(Loss) for the year	127	32,783	20,575	158	(3,979)	49,664

	Thousands of euros					
	Office buildings	High Street retail	Shopping centres	Logistics	Corporate Unit	Group total
Investment property	215,990	1,407,820	281,054	65,070	-	1,969,934
Non-current financial assets-	3,981	274,249	2,578	346	38	281,192
Derivatives	-	*261,689*	-	-	-	*261,689*
Other financial assets	*3,981*	*12,560*	*2,578*	*346*	*38*	*19,503*
Deferred tax assets	-	9,369	-	-	-	9,369
Other non-current assets	-	66	767	-	210	1,043
Non-current assets	**219,971**	**1,691,504**	**284,399**	**65,416**	**248**	**2,261,538**
Trade and other receivables	171	658	1,711	127	673	3,340
Other current financial assets	757	31	-	3	125,000	125,791
Other current assets	2,826	16,505	4,049	1,765	1,027	26,172
Current assets	**3,754**	**17,194**	**5,760**	**1,895**	**126,700**	**155,303**
Total assets	**223,725**	**1,708,698**	**290,159**	**67,311**	**126,948**	**2,416,841**
Non-current bank borrowings	69,167	958,175	-	-	-	1,027,342
Other non-current liabilities	2,185	38,656	3,890	1,199	476	46,406
Non-current liabilities	**71,352**	**998,831**	**3,890**	**1,199**	**476**	**1,073,748**
Current liabilities	**5,104**	**23,487**	**1,992**	**1,409**	**2,428**	**34,420**
Total liabilities	**76,456**	**1,020,318**	**5,882**	**2,608**	**2,904**	**1,108,168**

As the Group was incorporated in 2014, all investments in investment property (the Group's primary asset) were recognised as additions in 2014.

a) 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 tables summarises ordinary income and non-current investment property for each of the assets held by the Group by geographical area:

2015

	Thousands of euros			
	Ordinary income	%	Investment property / Intangible assets / Non-current assets held for sale	%
Madrid	89,992	42.0	3,125,795	53.5
Catalonia	28,982	13.5	777,895	13.1
Galicia	23,942	11.2	409,752	7.6
Basque Country	13,485	6.3	238,663	3.5
Andalusia	12,903	6.0	300,087	5.6
Valencia	10,125	4.7	170,792	3.2
Castilla y León	6,250	2.9	96,716	1.8
Rest of Spain	27,960	13.0	618,021	11.5
Portugal	790	0.4	19,160	0.4
Total	**214.429**	**100.0**	**5,756,881**	**100.0**

2014

	Thousands of euros			
	Ordinary income	%	Investment property	%
Madrid	12,875	22.7	515,636	26.2
Galicia	10,892	19.2	375,217	19.0
Catalonia	7,116	12.6	272,024	13.8
Basque Country	5,055	8.9	177,764	9.0
Valencia	4,149	7.3	126,243	6.4
Castilla y León	3,343	5.9	98,216	5.0
Andalusia	3,293	5.8	98,862	5.0
Rest of Spain	9,893	17.5	305,972	15.5
Total	**56,616**	**100.0**	**1,969,934**	**100.0**

b) Main customers

The table below lists the lessees from which the most rental income was received at 31 December 2015 and 2014, and the primary characteristics of each of them:

2015

Position	Name	Type	% of total rental income	% accumulated	Maturity
1	BBVA - Branches Flagship buildings	High street retail	28.7 1.2	29.9	2040 2029
2	Endesa	Offices	7.2	37.1	2022
3	Madrid Municipal Council	Offices	4.5	41.6	2017
4	Hotusa + WTC	Hotel	2.6	44.2	2021
5	Pricewaterhousecoopers, S.L.	Offices	2.3	46.5	2021
6	Caprabo	High street retail	2.3	48.8	2023
7	Indra Sistemas, S.A.	Offices	2.2	51.0	2022
8	L’Oreal España, S.A.	Offices	1.5	52.5	2022
9	Sacyr, S.A.	Offices	1.5	54.0	2019
10	Uría Menéndez Abogados, S.L.P.	Offices	1.4	55.4	2021

2014

Position	Name	Type	% of total rental income	% accumulated	Maturity	Segment
1	BBVA	Branches	75.03	75.03	2040	BBVA branches
2	BBVA	Flagship buildings	3.12	78.14	2029	BBVA branches
3	VESTAS	Offices	1.79	79.93	2016	Office buildings
4	AXA	Offices	1.60	81.53	2025	Office buildings

7. Goodwill on consolidation

The goodwill recognised at 31 December 2015 arose from the business combination with Testa Inmuebles en Renta, SOCIMI, S.A. and subsidiaries (see Note 3). The changes in this heading in 2015 were as follows:

	Thousands of euros				
	Balance at 31/12/2014	Business combination (Note 3)	Transfer to non-current assets held for sale (Note 12)	Transfers due to absorption of value (Note 9)	Balance at 31/12/2015
Cost	-	494,702	(6,660)	-	488,042
Impairment losses	-	(224,667)	-	(70,336)	(295,003)
	-	**270,035**	**(6,660)**	**(70,336)**	**193,039**

As indicated in Note 3, the Parent's directors initially allocated the cost of the business combination by provisionally estimating that the difference between the cost of the business combination and the fair value of the net assets acquired would amount to EUR 270,035 thousand. To estimate the fair value of Testa's net assets, the Parent used valuations of the acquired assets (mainly real estate assets) carried out by independent experts. As a result of these appraisals, the value of Testa's assets was adjusted by EUR 1,093,585 thousand. The tax effect estimated by the Parent's directors associated with the recognition of the aforementioned increase in value amounted to approximately EUR 224,667 thousand, which meant increasing the goodwill described above by the same amount.

The Parent's directors, in accordance with their positive outlook regarding the changes in the real estate market and the business plans drawn up for the acquisition of Testa, consider that the real estate assets acquired will increase in value over the coming years and will absorb the amount paid (goodwill) which totalled EUR 270,035 thousand. Accordingly, the valuations on the assets acquired in the business combination carried out by independent appraisers at 31 December 2015 increased by EUR 70,336 thousand with regard to the appraisal carried out on the date of purchase (see Note 9). The Group considers that this revaluation shows that the expectations existing at the date of the business combination were met. Therefore, the amount of the goodwill was reduced and the value of the real estate assets was increased, respectively.

However, when assessing the goodwill arising from the tax effect of assigning the value (EUR 224,667 thousand), the Parent's directors did not consider its recovery to be sufficiently evidenced and, therefore, have followed a conservative approach and have adjusted the business combination, recognising a loss that is included under "Impairment of goodwill" in the accompanying consolidated income statement.

In accordance with IAS 36, management identifies the various cash-generating units as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

In this context, and when determining its cash-generating units, the Group took into consideration the synergies and efficiency improvements in accordance with which the management of the various real estate assets forming part of the Group is organised. These cash-generating units are included in each business segment and, as indicated above, depend on the operating units for the organised management of the various rental properties.

The cash-generating units, which include goodwill, are as follows.

	Thousands of euros
Offices	96,135
Shopping centres	38,380
Logistics	15,811
Hotels	33,191
Other	9,522
	193,039

The recoverable amount was estimated in accordance with its value in use, which was based on assumptions relating to cash flows, cash flow growth rates and discount rates consistent with those used to calculate the market values of the investment properties

The values in use for each cash-generating unit were calculated as the present value of the cash flows resulting from the financial projections discounted at rates that take into account the specific risks of the assets and the implementation of a strategic plan based on a long-term approach that complements Merlin's identity from a strategic and operational perspective.

Each year Group management prepares a business plan for the next 10 years for each cash-generating unit (which is customary in the investment property sector): The main components of this plan are as follows:

- Projected rent
- Exit yield
- Discount rate

The projections are prepared for each cash-generating unit based on their performance and past experience in the market of similar assets under management by the Merlin Group prior to the acquisition of Testa.

The main variables affecting the calculations of the aforementioned projections are as follows:

- Discount rate and exit yield:

	Discount rate	Exit yield
Offices	7.0% - 7.50%	4.75% - 6.8%
Shopping centres	7.0% - 7.25%	5.25% - 5.8%
Logistics	7.5% - 8.0%	6.0% - 6.5%
Hotels	6.25% - 6.50%	4.1% - 5.9%
Other	5.50% - 5.75%	5.5% - 6.0%

- In relation to the rent assumptions, average growth rates for rental income were estimated at between 1.9% and 2.9% according to the following table:

	Average increase in rent
Offices	2.9%
Shopping centres	2.7%
Logistics	2.9%
Hotels	1.9%
Other	2.6%

In accordance with the impairment test carried out by the Group, no impairment were losses recognised on the aforementioned goodwill. At 31 December 2015, the difference with regard to the goodwill recognised in each cash-generating unit was as follows:

Offices	1.26
Shopping centres	1.73
Logistics	1.85
Hotels	2.50
Other	1.77

The table below includes the sensitivity analysis performed by the Group, in relation to recovering the goodwill arising in the purchase of Testa Inmuebles en Renta, SOCIMI, S.A., on the effect a change in the most significant assumptions used would have on the recoverable amount of the goodwill:

	(Thousands of euros)					
	Increase (decrease) in the recoverable amount of goodwill					
		Exit yield				
	Change in the assumption (in basis points)	(0.50%)	(0.25%)	Rate used	0.25%	0.5%
Discount rate	(0.5%)	(195,502)	(101,770)	1,490	115,818	243,105
	(0.25%)	(138,847)	(43,081)	62,419	179,222	309,260
	Rate used	(80,857)	16,995	124,790	244,131	376,988
	0.25%	(21,496)	78,495	188,643	310,585	446,334
	0.5%	39,274	141,458	254,019	378,628	517,341

Accordingly, the Parent's directors consider that there are no significant events that would require changing the estimates made at year-end 2015 for preparing the impairment tests, and that any potential reasonable change in key assumptions on which the calculation of the recoverable amount is based would not cause the carrying amount of the assets of the Group's cash-generating units to exceed this recoverable amount.

In any case, in accordance with IAS 36, an impairment loss recognised for goodwill shall not be reversed in a subsequent period.

8. Intangible concession projects

The detail of and changes in concession projects at year-end 2015 are as follows:

	Thousands of euros
Balance at 1 January 2015	-
Changes in the scope of consolidation (Note 3)	120,149
Transfer to non-current assets held for sale (Note 12)	(48,649)
Balances at 31 December 2015	**71,500**

Concession projects were acquired in 2015 as the result of the business combinations with Testa Inmuebles en Renta, SOCIMI, S.A. As indicated in Note 3, they were included in the consolidated statement of financial position at the fair value determined by independent experts at the date of purchase.

At 31 December 2015, the balance included under this heading of the consolidated statement of financial position related to the concession that was extended until December 2052 for the use of a hotel located in the World Trade Center in Barcelona. The transfer carried out during the year is the result of a decision made by the Group to dispose of the residential assets included in the acquisition of Testa Inmuebles en Renta, SOCIMI, S.A. and relate to a concession granted up until December 2069 for 255 housing units and 277 parking spaces located in San Sebastián (Guipúzcoa).

No finance costs were capitalised in 2015.

The Group takes out insurance policies to cover the possible risks to which its concession projects are subject. At the end of 2015 the concession projects were fully insured against these risks.

These assets did not have any type of related mortgage guarantee at 31 December 2015.

The Group did not have any additional investment commitments in concession projects at 31 December 2015.

9. Investment property

The breakdown of and changes in items included under this heading in the consolidated statement of financial position in 2015 and 2014 are as follows:

	Thousands of euros
Additions due to business combinations	1,369,069
Additions for the year	551,394
Changes in value of investment property	49,471
Balances at 31 December 2014	**1.969.934**
Additions due to business combinations (Note 3)	3,078,716
Additions for the year	269,045
Transfers to non-current assets held for sale (Note 12)	(235,190)
Changes in value of investment property	314,586
Balances at 31 December 2015	**5,397,091**

Investment property is recognised at fair value. Income recognised in the consolidated income statement from measuring investment property at fair value amounted to EUR 314,586 thousand (EUR 49,471 thousand in 2014). EUR 70,336 thousand of this amount relate to the increase in value of the investment property acquired in the business combination with Testa Inmuebles en Renta, SOCIMI, S.A. (see Note 7).

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

Additions and assets acquired through business combinations in 2015 are as follows:

Type of asset	Thousands of euros	
	Cost of acquisition (a)	Fair value
Business combination		
Offices	1,710,350	1,873,365
Shopping centres	385,146	412,407
Hotels	319,700	321,460
Residential assets (b)	235,190	235,190
Logistics	136,160	150,280
Other	292,170	167,389
	3.078.716	3.160.091
Acquisitions:		
Logistics	70,242	73,484
Offices	88,197	95,790
High street retail	99,138	101,433
	257.577	270.707
	3,336,293	**3,430,798**

(a) The assets included through business combinations and acquisitions at 31 December 2015 include subsequent additions for improvements in the amount of EUR 11,468 thousand.

(b) The residential assets were transferred to “Non-current assets held for sale” (see Note 12).

Real estate assets were incorporated into all of the Group's main operating segments in 2015 as a result of the business combinations and acquisitions carried out during the year. Accordingly, the most significant assets acquired relate to office buildings located in Madrid and Barcelona, logistics units in Madrid and Cataluña, 33 supermarkets (high street retail) in Cataluña, shopping centres in Madrid, Palma de Mallorca and Málaga, residential assets located in Madrid, etc.

Additions and assets acquired through business combinations in 2014 were as follows:

Type of asset	Thousands of euros		
	Acquisition cost	Fair value	
		2014	2015
Business combination:			
High Street retail	1,369,069	1,407,820	1,587,708
Acquisitions:			
Offices	218,990	215,990	228,890
Shopping centre	259,855	277,120	308,310
Logistics	65,718	65,070	72,080
Hotel	6,831	3,934	4,495
	551.394	562.114	613.775
	1,920,463	**1.969.934**	**2,201,483**

The main additions in 2014 related to bank offices (high street retail), a shopping centre and hotel located in La Coruña, various office buildings in Madrid and Barcelona, as well as logistics units and centres in Valencia, Zaragoza, Getafe and Vitoria.

At 31 December 2015, the Group had pledged real estate assets totalling EUR 5,034,621 thousand (EUR 1,501,266 thousand in 2014) to secure various loans and derivative financial instruments, the balances of which at 31 December 2015 amounted to EUR 2,612,250 thousand and EUR 48,749 thousand (EUR 1,009,756 thousand and EUR 53,407 thousand in 2014), respectively (see Note 17). The Group holds no rights of use, attachments or similar situations with regard to its investment property.

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

Type of asset	Thousands of euros			Final maturity
	Number of properties	Fair value	Purchase option price	
Offices	4	324,950	105,992	14/02/2018
Hotel	1	49,000	21,350	23/01/2023
	5	**373.950**	**127.342**	

All properties included in "Investment property" were insured at 31 December 2015 and 2014.

At 31 December 2015, the Group did not have any outright purchase agreements for investment property. As indicated in Note 3, the Group has a commitment with Sacyr, S.A. to acquire its remaining shareholding in Testa Inmuebles en Renta, SOCIMI, S.A. for EUR 316,804 thousand. In 2015 and 2014 no finance costs were capitalised in the cost of constructing the properties.

At 31 December 2015 and 2014, the Group had a building replacement commitment corresponding to the BBVA project, as per clause 20 of the general terms and conditions of the lease agreement. Pursuant to this commitment, 42 BBVA branch offices were replaced in 2015 by 45 other branch offices owned by BBVA. The principles regulating this replacement process are that the lease terms and conditions, including the rent, will remain unchanged, and the market value as calculated by an independent valuer, will be the same.

Fair value measurement and sensitivity

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

In accordance with IAS 40, the Group periodically determines the fair value of its investment property so that the fair value reflects the actual market conditions of the investment property items at that date. This fair value is determined each year based on the appraisals undertaken by independent experts.

The market value of the Group's investment property at 31 December 2015 and 2014, 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 5,591,858 thousand (EUR 2,231,623 thousand in 2014). This valuation includes the value of the embedded derivative of the rent in the lease agreement with BBVA amounting to EUR 194,767 thousand and EUR 261,689 thousand in 2015 and 2014, respectively, and does not include any pre-payments made by the Group to third parties for the purchase of assets in the amount of EUR 17,513 thousand. The valuation was carried out in accordance with the Appraisal and Valuation Standards issued by the Royal Institute of Chartered Surveyors (RICS) of the United Kingdom and the International Valuation Standards (IVS) issued by the International Valuation Standards Committee (IVSC).

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

The method used by Savills to value the BBVA and Caprabo portfolios 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 event, the situation of the rental property market could lead to material differences between the fair value of the Group's investment property and their effective realisable values.

Fees paid by the Group to valuers for appraisals conducted up to 31 December 2015 and 2014 were as follows:

	Thousands of euros	
	2015	2014
Valuation services	670	110
Total	**670**	**110**

Breakdown of fair value of investment property

The detail of assets measured at fair value by their level in the fair value hierarchy is as follows:

2015

	Thousands of euros			
	2015			
	Total	Level 1	Level 2	Level 3
Recurring fair value measurement				1,969,934
Investment property				
Offices				
- Land	719,732			719,732
- Buildings	1,478,313			1,478,313
High Street retail				
- Land	432,658			432,657
- Buildings	1,256,484			1,256,484
Shopping centres				
- Land	52,867			52,867
- Buildings	667,850			667,850
Logistics				
- Land	78,802			78,802
- Buildings	217,042			217,042
Hotels				
- Land	145,549			145,549
- Buildings	180,406			180,406
Other				
- Land	135,450			135,450
- Buildings	31,938			31,938
Total assets measured at fair on a recurrent basis	5,397,091			5,397,091

2014

	Thousands of euros			
	2014			
	Total	Level 1	Level 2	Level 3
Recurring fair value measurement				1,969,934
Investment property				
Office buildings				
- Land	103,264			103,264
- Buildings	112,726			112,726
High Street retail				
- Land	481,285			481,285
- Buildings	926,535			926,535
Shopping centres				
- Land	14,396			14,396
- Buildings	266,658			266,658
Logistics				
- Land	16,353			16,353
- Buildings	48,717			48,717
Total assets measured at fair on a recurrent basis	1,969,934			1,969,934

No assets were reclassified from one level to another during 2015 or 2014.

At 31 December 2015, the gross surface areas and occupancy rates of the assets by line of business were as follows:

31/12/2015	Square metres										Occupancy rate (%)
	Gross leasable area										
	Madrid	Catalonia	Castilla-La Mancha	Galicia	Basque Country	Andalusia	Valencia	Rest of Spain	Portugal	Total	
Offices	399,182	126,828	-	-	-	17,124	-	4,488	6,740	554,362	90.0
High Street retail	65,680	113,692	12,896	29,468	32,655	32,481	41,670	108,866	-	437,408	100.0
Shopping centres	24,040	-	-	99,929	-	21,504	-	26,559	-	172,032	93.4
Logistics	127,739	48,481	136,892	-	72,717	-	26,612	42,343	-	454,784	93.5
Hotels	60,743	30,155	-	5,898	-	10,637	9,308	-	-	116,741	100.0
Residential rental properties (a)	96,348	-	10,327	-	17,344	-	-	-	-	124,019	98.3
Other	311	-	-	5,829	-	-	-	-	-	6,140	100.0
Total surface area	**774,043**	**319,156**	**160,115**	**141,124**	**122,716**	**81,746**	**77,590**	**182,256**	**6,740**	**1,865,487**	**94.7**
% weight	**41.5**	**17.1**	**8.6**	**7.6**	**6.6**	**4.4**	**4.2**	**9.8**	**0.4**	**100.0**	

(a) The residential assets were transferred to “Non-current assets held for sale” (see Note 12).

At 31 December 2014, the gross surface areas and occupancy rates of the assets by line of business were as follows:

31/12/2014	Square metres						Occupancy rate (%)
	Gross leasable area						
	A Coruña	Madrid	Álava	Barcelona	Other	Total	
Offices	-	34,175	-	29,078	-	**63,253**	79.20
High Street retail	13,293	64,619	2,935	39,189	254,144	**374,180**	100.00
Shopping centres	106,276	-	-	-	-	**106,276**	90.62
Logistics	-	16,242	72,717	-	47,377	**136,336**	100.00
Total surface area	**119,569**	**115,036**	**75,652**	**68,267**	**301,521**	**680,045**	**96.60**
% weight	**17.58**	**16.92**	**11.12**	**10.04**	**44.34**	**100.00**	

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

2015

	Net initial yield	Discount rate
Offices	7.37% - 3.14%	9.95% - 7.00%
High Street retail	3.75% - 7.25%	(*)
Shopping centres	4.44% - 5.70%	7.00% - 8.25%
Logistics	4.14% - 8.56%	8.55% - 10.11%
Hotels	3.45% - 10.32%	8.25% - 10.50%
Other	2.14% - 43.77%	5.40% - 15.00%

(*) Not applicable, performed by direct capitalisation of earnings

2014

	Net initial yield	Discount rate
High street retail	4.09% - 7.50%	(*)
Offices	6.17% - 7.9%	8% - 9%
Shopping centre	5.62%	7%
Hotel	6.69%	9%
Industrial units	8.11% - 9.37%	10% - 11%

(*) Not applicable, performed by direct capitalisation of earnings

The effect of a one-quarter of one point change in the required capitalisation rate, calculated as rent divided by the market value of the assets, on investment property in consolidated assets and in the consolidated income statement, would be as follows:

	Thousands of euros			
	2015		2014	
	Assets	Consolidated net profit/(loss)	Assets	Consolidated net profit/(loss)
One-quarter of one point increase in the yield	(272,422)	(272,422)	(96,355)	(96,355)
One-quarter of one point decrease in the yield	299,904	299,904	105,549	105,549

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

	Thousands of euros			
	2015		2014	
	Assets	Consolidated net profit/(loss)	Assets	Consolidated net profit/(loss)
10% increase in market rent	181.716	181.716	23.744	23.744
10% decrease in market rent	(181.716)	(181.716)	(23.744)	(23.744)

Details of “Changes in value of investment property” in the consolidated income statement are as follows:

Type of asset	Thousands of euros	
	2015	2014
Offices	181,655	(3,000)
High Street retail	182,184	38,752
Shopping centres	56,666	17,264
Logistics	23,678	(648)
Hotels	1,760	(2,897)
Other	(131,357)	-
	314,586	**49,471**

Accordingly, the impact on the consolidated income statement of the revaluations of the Group’s real estate assets in 2015, taking into consideration all headings affected in the consolidated income statement, is as follows:

	Thousands of euros	
	2015	2014
Changes in fair value of investment property	314,586	49,471
Changes in the fair value of derivatives	(66,922)	(25,733)
Absorption of the revaluation of the investment property of Testa Inmuebles en Renta (Note 7)	(70,336)	-
Effect on the income statement	**177,328**	**23,738**

10. Operating leases

10.1 Operating leases – Lessee

At the end of 2015 the Group had contracted with tenants for the following minimum lease payments, based on the leases currently in force, without taking into account the charging of common expenses, future increases in the CPI or future contractual lease payment revisions (in thousands of euros).

The operating lease payments expensed in 2015 and 2014 were as follows:

Minimum operating lease payments	Nominal value	
	2015	2014
Within one year	471	149
Between one and five years	1,884	13
Total	**2,355**	**162**

The main expense relating to operating leases corresponds to the lease agreement that the Company entered into to rent out its offices at calle Paseo de la Castellana, 42, Madrid, the location of its registered office.

Until 1 December 2015, Magic Real Estate, S.L.U. had leased, as the lessee, the ninth floor of the building located at Paseo de la Castellana, 42, Madrid, and in turn had subleased part of this floor to the Parent. On 1 December 2015, these lease and sublease agreements were terminated, with the Parent, as the lessee, leasing this floor (along with two other floors) to the owner, as the lessor. This lease agreement was entered into for a term of five years and the monthly rent was set at EUR 41 thousand. In addition, on 1 December 2015 the Parent subleased 125 m^2 of the surface area of the aforementioned ninth floor, plus two parking spaces, to Magic Real Estate, S.L.U.

10.2 Operating leases – Lessor

The occupancy rates of the leased buildings at 31 December 2015 were as follows:

	% occupancy	
	2015	2014
Offices	90.00	79.20
High street retail	100.00	100.00
Shopping centres	93.40	90.62
Logistics	93.50	100.00
Hotels	100.00	100.00
Residential rental properties	98.30	-
Other	100%	-

At 31 December 2015 and 2014, the ordinary income from and the fair value of each of the assets were as follows:

2015

	Thousands of euros	
	Ordinary income (a)	Fair value (b)
Offices	63,327	2,198,045
High street retail	91,345	1,689,142
Shopping centres	28,779	720,717
Logistics	12,703	295,844
Hotels	11,433	397,455
Other	6,842	455,678
Total	**214.429**	**5.756.881**

(a) The income shown in the table above refers to the rental income of the properties accrued since they were included in the Group's scope of consolidation. The annualised amount of rental income would be approximately EUR 320,226 thousand (only the estimate of fixed rental income of the establishments is included in the calculation).

(b) It includes investment property, residential assets classified as non-current assets held for sale and concession projects.

2014

	Thousands of euros	
	Ordinary income (*)	Fair Value
High street retail	44,242	1,407,820
Offices	3,898	215,990
Shopping centres	7,485	277,120
Industrial units	845	65,070
Hotels	146	3,934
Total	**56,616**	**1.969.934**

(a) The income shown in the table above refers to the rental income of the properties accrued since they were included in the Group's scope of consolidation at 31 December 2014. The annualised amount of rental income would be approximately EUR 128,309 thousand (only the estimate of fixed rental income of the establishments is included in the calculation).

The lease agreements entered into between the Group and its customers include a fixed rent and, where applicable, a variable rent linked to the lessee's performance.

At 31 December 2015 and 2014, future minimum lease payments under non-cancellable operating leases (calculated at the nominal amount) are as follows:

	Thousands of euros	
	2015 (a)	2014
Within one year	281,015	128,854
Between one and five years	958,323	451,005
After five years	1,565,985	1,880,329
	2,805,323	**2,460,188**

(a) Includes the future minimum lease payments under non-cancellable operating leases indicated in Note 10.3

10.3 Finance leases – Lessor

At 31 December 2015, the Group had arranged the following lease payments with the lessors:

	Thousands of euros
Within one year	11,705
Between one and five years	140,128
After five years	23,722
Total (Note 17)	**175.555**

There are no rent review or escalation clauses and the restrictions imposed are those found in standard financing agreements. There are no restrictions with regard to the payment of dividends, additional debt or new finance lease agreements.

At the end of 2015 the Group had contracted the aforementioned leases with the lessees for the following minimum lease payments, based on the leases currently in force, without taking into account the charging of common expenses, future increases in line with the CPI or future contractual lease payment revisions until the end of the agreements:

	Thousands of euros
Within one year	16,922
Between one and five years	64,078
After five years	34,705
	115.705

11. Investments accounted for using the equity method

The changes in 2015 in investments in companies accounted for using the equity method are as follows:

	Thousands of euros
Balance at 1 January 2015	-
Investments acquired in	
Business combinations (Note 3)	43,482
Acquisitions made during the year	56,762
Profit/(Loss) for the year	805
Other changes	77
Balance at 31 December 2015	**101.126**

The detail of investments in companies accounted for using the equity method and the profit or loss attributable to the Group at 31 December 2015 is as follows:

Associate	Line of business	Registered office	Percentage of ownership	Thousands of euros	
				Investment	Profit/(loss) attributed to the Group
Bardiomar, S.L.	Leasing of premises	Madrid	50%	32,512	1,301
Provitae Centros Asistenciales, S.L.	Healthcare services	Madrid		5,037	(1,898)
Centro Intermodal de Logística, S.A.	Management of the port concession of the logistics activity area	Barcelona	32%	58,463	1,825
Other investments	-	-	-	5,114	(423)
				101,126	**805**

(a) Profit or loss obtained by the associate since its date of inclusion in the scope of consolidation.

(b) All companies detailed in the table above are accounted for using the equity method.

As indicated in Note 3, the business combination with Testa Inmuebles en Renta, SOCIMI, S.A. took place in 2015. Consequently, the Group included the investments in companies accounted for using the equity method, the fair value of which at the date of acquisition amounted to EUR 43,483 thousand. The fair value was determined based on the appraisals carried out by independent experts. The main investments acquired relate to those in Bardiomar, S.L. and Provitae, S.L.

In addition, the Group acquired a 32% shareholding in Centro Intermodal de Logística, S.L. in 2015. The acquisition cost of this investment was EUR 56,638 thousand. Lastly, the Group also acquired other shareholdings and associates in the amount of EUR 124 thousand.

The key business indicators for the Group's associates (standardised using the regulatory framework applicable to the Group) are as follows:

	Thousands of euros			
	Bardiomar, S.L.	Provitae, S.L.	Centro Intermodal de Logística, S.A.	Other
Non-current assets	28,541	8,299	331,598	77,166
Current assets	622	11	25,281	2,578
Non-current liabilities	6,154	-	138,214	60,935
Current liabilities	6,716	1,902	28,967	2,527
Revenue	7,537	-	-	3,305
Profit/(loss) from continuing operations	3,874	(58)	5,939	953
Income and expenses recognised in equity	-	-	(652)	-
Dividends received in the year	(67)	-	-	(40)

12. Non-current assets held for sale and liabilities associated with non-current assets held for sale

As part of the process of acquiring Testa Inmuebles en Renta, SOCIMI, S.A. and subsidiaries and of assessing the strategic nature of its various assets, the Group decided to take the appropriate actions to dispose of the residential real estate assets acquired, as they were not considered to be strategic for the Group. Consequently, and in accordance with IFRS 5, the Group classified the assets and liabilities associated with the residential activity under

“Non-current assets held for sale” and “Non-current liabilities held for sale” in the accompanying consolidated statement of financial position.

The detail of the assets and liabilities transferred at 31 December 2015 is as follows:

	Thousands of euros
Non-current assets held for sale	**298,534**
Goodwill	6,660
Intangible assets (Note 8)	48,649
Investment property (Note 9)	235,190
Financial assets	6,339
Trade and other receivables	780
Other	916
Non-current liabilities held for sale	**161,425**
Provisions	(100)
Financial debt	(118,836)
Deferred tax liabilities (Note 20)	(39,220)
Trade and other accounts payable	(1,057)
Other liabilities	(2,211)
Non-current assets held for sale	**137,109**

The Group is actively involved in the disposal process, and the directors estimate that the sale will take place within less than twelve months and that it will not give rise to any loss for the Group. However, in accordance with IFRS 5, the Group does not consider the residential assets to represent a significant line business for the Group, which is why they are not recognised as a discontinued operation.

13. Current and non-current financial assets

The breakdown, by type of transaction, of the balance of this heading in the consolidated statement of financial position at 31 December 2015 and 2014 is as follows:

Classification of financial assets by category:

	Thousands of euros	
	2015	2014
Non current:		
At fair value-		
Derivative embedded in BBVA lease agreement	194,767	261,689
At amortised cost-		
Loans to third parties	3,076	-
Deposits and guarantees	40,197	19,503
	238,040	**281.192**
Current:		
At amortised cost-		
Other financial assets	4,363	125,791
Trade and other receivables	24,384	3,340
	28,747	**129.131**

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

“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 9). The changes in the value of this derivative in 2015 amounted to EUR 66,922 thousand (EUR 25,733 thousand in 2014) and were recognised under “Changes in fair value of financial instruments” in the accompanying 2015 consolidated income statement. The measurement approach used is described in Note 5.9 and is applicable to Level two of the fair value measurement hierarchy established in IFRS 7, as observable inputs but not quoted prices are reflected.

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

2015

	Thousands of euros	
Scenario	Assets	Consolidated profit/(loss) before tax
+50 bps	57,736	57,736
-50 bps	(39,165)	(39,165)

2014

	Thousands of euros	
Scenario	Assets	Consolidated profit/(loss) before tax
+50 bps	68,186	68,186
-50 bps	(45,759)	(45,759)

“Deposits and guarantees” primarily includes the guarantees provided by lessees as security amounting to EUR 40,197 thousand (EUR 19,503 thousand at 31 December 2014), which the Group has deposited with the housing authority (Instituto de la Vivienda) in each region. At 31 December 2015, guarantees provided by lessees as security amounted to EUR 49,392 thousand (EUR 21,498 thousand at 31 December 2014) and were recognised under “Non-current liabilities – Other financial liabilities” on the liability side of the accompanying consolidated statement of financial position.

The decrease in the balance of “Other financial assets” relates to the early cancellation of the EUR 125,000 thousand deposit opened with a financial institution on 30 December 2014, which accrues interest at a rate of 1.15%. Although the deposit matures in 2019, the conditions thereof stipulate that the Parent may close the deposit early.

Classification of financial assets by maturity:

The classification of financial assets by maturity at 31 December 2015 and 2014 is as follows:

2015

	Thousands of euros				
	Within one year	From one to five years	Over five years	Undetermined maturity	Total
Derivative embedded in BBVA lease agreement	-		194,767	-	194,767
Deposits and guarantees	-	3,076		40,197	43,273
Other financial assets	4,363		-	-	4,363
Trade and other receivables	24,384		-	-	24,384
Total financial assets	**28,747**	**3,076**	**194,767**	**40,197**	**266,787**

2014

	Thousands of euros			
	Within one year	Over five years	Undetermined maturity	Total
Derivative embedded in BBVA lease agreement	-	261,689	-	261,689
Deposits and guarantees	-	-	19,503	19,503
Other financial assets	125,791	-	-	125,791
Trade and other receivables	3,340	-	-	3,340
Total financial assets	**129.131**	**261,689**	**19,503**	**410.323**

14. Trade and other receivables

"Trade and other receivables" included the following items at 31 December 2015 and 2014:

	Thousands of euros	
	2015	2014
Trade and notes receivable	9,176	2,709
Group companies and associates	9	-
Sundry accounts receivable	10,129	-
Current tax assets	4,477	-
Other receivables from public authorities (Note 20)	2,469	708
Impairment of trade receivables	(1,876)	(77)
	24,384	**3,340**

"Trade and notes receivable" in the accompanying consolidated statement of financial position at 31 December 2015 mainly included the balances receivable from leasing investment property. In general these receivables are interest free and the terms of collection range from immediate payment on billing to payment at 30 days, while the average collection period is approximately four days.

The analysis of the age of the past-due balances that were not considered to have become impaired at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Less than 30 days	56	61
31 to 60 days	29	-
61 to 90 days	20	129
More than 90 days	104	105
	209	**295**

At 31 December 2015 and 2014, no collection rights had been transferred to financial institutions.

The Group periodically analyses the risk of insolvency of its accounts receivable by updating the related provision for impairment losses. The Group's directors consider that the amount of trade and other receivables approximates their fair value.

The changes in the impairment losses and bad debt in 2015 and 2014 were as follows:

	Thousands of euros
Charges for the year	(77)
Balance at 31 December 2014	**(77)**
Changes in the scope of consolidation	(1,720)
Transfers to assets held for sale	517
Charges for the year	(706)
Reversals/amounts used	110
Balance at 31 December 2015	**(1,876)**

The majority of impaired receivables are overdue by more than five months.

Details of the concentration of customers (customers that account for a significant share of business) are included in the segment information in Note 6.

15. Cash and cash equivalents

"Cash and cash equivalents" includes the Group's cash and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets does not differ from their fair value.

At 31 December 2015 and 2014, the balance of "Cash and cash equivalents" is freely available, except for EUR 12,163 thousand and EUR 2,038 thousand, respectively, which are included in reserves to cover payment of a quarterly instalment of the senior syndicated mortgage loan.

16. Equity

The detail of "Equity" and of the changes therein is presented in the consolidated statement of changes in equity.

16.1 Share capital

At 31 December 2015, the share capital of Merlin Properties SOCIMI, S.A., amounted to EUR 323,030 thousand, represented by 323,030,000 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 31 December 2015 and the average market price for the fourth quarter amounted to EUR 11.55 and EUR 11.27 per share, respectively.

The changes in the Parent's shares in 2015 and 2014 were as follows:

	Number of shares	
	2015	2014
Beginning balance	129,212,001	-
Incorporation of the Parent	-	60,000
Capital increase of 30 June 2014	-	125,000,000
Capital increase of 14 July 2014	-	4,152,001
Capital increase of 8 May 2015	64,605,999	-
Capital increase of 7 August 2015	129,212,000	-
Ending balance	**323,030,000**	**129,212,001**

The Parent was incorporated in Spain pursuant to the Spanish Limited Liability Companies Law on 25 March 2014 through the issuance of 60,000 registered shares of EUR 1 par value each.

On 30 June 2014, the Parent carried out a public offering of shares to increase capital by EUR 125,000 thousand, with a share premium of EUR 1,125,000 thousand, issuing 125,000,000 new fully subscribed and paid shares of EUR 1 par value each.

In order to meet demand for shares under the Greenshoe option, on 14 July 2014, the Parent carried out a second share issue of EUR 4,152 thousand, with a share premium of EUR 37,368 thousand, issuing 4,152,001 new fully subscribed and paid shares of EUR 1 par value each.

On 11 May 2015, share capital was increased by EUR 613,756,990 through the issuance of 64,605,999 new ordinary shares, of the same class and series as those currently outstanding, with a par value of EUR 1 each and a share premium of EUR 8.5 per share. The shares were fully subscribed and paid.

Subsequently, on 7 August 2015 share capital was increased again by EUR 1,033,696,000 through the issuance of 129,212,000 new ordinary shares, of the same class and series as those currently outstanding, with a par value of EUR 1 each and a share premium of EUR 7 per share. The shares were fully subscribed and paid.

At 31 December 2015, 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	
BlackRock, INC		17,818,836	17,818,836	5.516%
Principal Financial Group, INC		9,707,605	9,707,605	3.005%

16.2 Share premium

The Consolidated 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 equity to below the amount of share capital.

16.3 Other reserves

The detail of reserves at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
To legal reserve	-	-
Reserves of consolidated companies	49,670	-
Other reserves	(82,034)	(30,475)
Total other reserves	**(32,364)**	**(30,475)**

To legal reserve

The legal reserve will be established in accordance with Article 274 of the Consolidated 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 31 December 2015, the Group had not yet reached the legally required minimum established in the Consolidated 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, of 26 October, governing SOCIMIs, 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
Merlin Properties, SOCIMI, S.A.	(921)
Tree Inversiones Inmobiliarias, SOCIMI, S.A.	31,837
Merlin Retail, S.L.U.	18,678
Merlin Oficinas, S.L.U.	95
Merlin Logística, S.L.U.	(19)
	49,670

Other reserves

This reserve corresponds mainly to expenses related to the capital increases carried out by the Parent in 2015 and 2014, which amount to EUR 51,559 thousand and EUR 30,475 thousand, respectively.

Interim dividend

On 14 October 2015, the Parent's Board of Directors resolved to distribute EUR 25,035 thousand as an interim dividend with a charge to profit for 2015. This interim dividend was paid to shareholders prior to 31 December 2015.

16.4 Non-controlling interests

The changes in "Non-Controlling Interests" in 2015 and in the profit or loss attributable to non-controlling interests were as follows:

	Thousands of euros
Balance at 31 December 2014	**-**
Non-controlling interests arising in business combinations of Testa Inmuebles en Renta, S.A. (Note 3)	1,217
Profit/(loss) attributable to non-controlling interests	(125)
Balance at 31 December 2015	**1,092**

At 31 December 2015, the entire balance under "Non-controlling interests" in the accompanying consolidated statement of financial position related to minority shareholders (0.071%) of Testa Inmuebles en Renta, S.A.

As indicated in Note 3, the sale and purchase agreement entered into with Sacyr, S.A. in relation to Testa Inmuebles en Renta, SOCIMI, S.A. requires the parties to sell (Sacyr) and to acquire (Merlin), prior to the end of 2016, all of Sacyr, S.A.'s remaining ownership interest in the share capital of Testa Inmuebles en Renta, SOCIMI, S.A. Accordingly, 34.8 million shares representing 22.61% of Testa's share capital had yet to be purchased at 31 December 2015 at the purchase price established in the aforementioned agreement of EUR 9.1 per share.

Given that the Group assumes all the risks and rewards associated with the shares yet to be acquired and since the purchase price is fixed, Sacyr, S.A.'s shareholding in the equity of Testa at 31 December 2015 was considered to be a liability assumed by the Parent. Accordingly, "Current liabilities – Trade and other payables" in the consolidated statement of financial position at 31 December 2015 includes EUR 316,840 thousand in this connection. Since this obligation is expected to be settled in the short term, the Group does not consider it necessary to review this liability.

16.5 Capital management

The Group's capital management objectives are to safeguard its capacity to continue operating as a going concern so that it can continue to provide returns to shareholders and to benefit interest groups, and to maintain an optimum financial structure to reduce the cost of capital.

In line with the practices of other groups present in the sector, the Group controls its capital structure through the leverage ratio, calculated as net debt divided by total capital. Net debt is determined as the sum of financial liabilities less cash and cash equivalents. Total capital is calculated as the sum of equity plus net debt.

	Thousands of euros	
	2015	2014
Total financial debt (a)	3,269,270	1,063,574
Less - Cash and cash equivalents and Other current financial assets	(243,900)	(151,841)
Net debt	3,025,370	911,733
Equity	2,926,431	1,308,673
Total capital	**5,951,801**	**2,220,406**
Debt-to-equity ratio	50.83%	41.06%

(a) It includes the financial debt of the residential assets classified under "Non-current assets held for sale" in the amount of EUR 119,414 thousand (stripping out loan arrangement expenses).

(b) The balance was reduced by the outstanding payment for the purchase of Testa Inmuebles en Renta, SOCIMI, S.A. shares in the amount of EUR 316,840 thousand.

16.6 Earnings per share

Basic

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

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

	2015	2014
Profit for the year attributable to equity holders of the Parent (thousands of euros)	49,078	49,670
Weighted average number of shares outstanding (thousands)	223,377	85,564
Basic earnings per share (euros)	**0.22**	**0.58**

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

	Number of shares	
	2015	2014
Ordinary shares at beginning of period	129,212,001	60,000
Capital increases	193,817,999	129,152,001
Average effect of outstanding shares	(99,652,542)	(43,648,340)
Weighted average number of ordinary shares outstanding at 31 December 2014 (thousands of shares)	**223,377,458**	**85,563,661**

Diluted

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

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

16.7 Valuation adjustments

This heading of the consolidated statement of financial position includes changes in the value of financial derivatives designated as cash flow hedges. The changes in the balance of this heading in 2015 and 2014 are as follows:

	Thousands of euros
Changes in the fair value of hedges in the year	(2,636)
Balance at 31 December 2014	**(2,636)**
Changes in the fair value of hedges in the year (Note 17)	(3,470)
Balance at 31 December 2015	**(6,106)**

17. Current and non-current financial liabilities

The detail of current and non-current liabilities at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Non-current:		
Measured at amortised cost		
Senior syndicated mortgage loan	920,961	930,358
Syndicated loan arrangement expenses	(21,697)	(24,323)
Total, syndicated mortgage loan	**899,264**	**906,035**
Mortgage loans	358,408	69,000
Leases, credit facilities and loans	163,850	-
Syndicated loan arrangement expenses	(8,485)	(1,100)
Total, mortgage loans	**513,773**	**67,900**
Total amortised cost	**1,413,037**	**973,935**
Measured at fair value		
Derivative financial instruments	42,440	53,407
Total at fair value	**42,440**	**53.407**
Total non-current	**1,455,477**	**1,027,342**
Current:		
Measured at amortised cost		
Senior syndicated mortgage loan	10,755	9,491
Mortgage loans	1,333,309	1,318
Leases, credit facilities and loans	11,705	-
Bridge loan	350,868	-
Bridge loan arrangement expenses	(2,921)	
Total amortised cost	**1,703,716**	**10,809**
Measured at fair value		
Derivative financial instruments	6,309	-
Total at fair value	**6,309**	**-**
Total current	**1,710,025**	**10,809**

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

17.1 Loans

The detail of loans at 31 December 2015 and 2014 is as follows:

2015

	Thousands of euros				
	Bank borrowings				
	Limit	Debt arrangement expenses	31/12/2015		Short-term interest
			Long term	Short term	
Senior syndicated mortgage loan	939,756	(21,697)	920,961	9,397	1,358
Active mortgage loans - Merlin	360,845	(7,706)	358,408	1,351	1,453
Mortgage loans - Testa Group	1,322,250	-	-	1,322,250	8,255
Leases (Note 10)	175,555	(779)	163,850	11,705	-
Bridge loan - Merlin	350,000	(2,921)	-	350,000	868
Total	**3,148,406**	**(33,103)**	**1,443,219**	**1.694.703**	**11,934**

2014

	Thousands of euros				
	Bank borrowings				
	Limit	Debt arrangement expenses	31/12/2014		Short-term interest
			Long term	Short term	
Senior syndicated mortgage loan	939,756	(24,323)	930,358	9,398	93
Mortgage loan	70,000	(1,100)	69,000	1,000	318
Total payables	**1,009,756**	**(25,423)**	**999,358**	**10,398**	**411**

<u>*Senior syndicated mortgage loan*</u>

On 30 December 2014, the Group entered into a novation agreement to amend the senior syndicated loan taken out on 29 July 2010 by Inversiones Inmobiliarias SOCIMI, S.A., the agent bank of which is Deutsche Bank.

Pursuant to this agreement, the senior syndicated loan, which at the novation date totalled EUR 776,547 thousand, was increased to EUR 939,756 thousand. Similarly, the 2017 maturity date was extended to 24 September 2024. The loan bears interest at 3M Euribor plus a spread of 1.75%.

Pursuant to IAS 39, the Group assessed whether the novation of the original loan agreement (senior syndicated mortgage loan) involved a substantial change requiring it to be treated as a cancellation of the original loan and the refinancing recognised as new debt. In this regard, and according to the aforementioned accounting standard, the Group concluded that there had not been a substantial change since the 10% threshold had not been reached.

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 of BBVA from ratings agencies. The Parent's directors have confirmed that these ratios were met at 31 December 2015 and do not expect that they will not be fulfilled in the coming years.

Mortgage loans - Merlin

At 31 December 2015, the Group's subsidiaries (not including those from Testa Inmuebles en Renta, SOCIMI, S.A.) had taken out the following mortgage loans:

	Thousands of euros				
Financial institution	Original loan	Long Term	Short Term	Interest	Collateral
Santander	70,000	68,000	1,000	206	Mortgage
Allianz Real Estate	133,600	133,600	-	888	Mortgage
Deutsche Pfandbriefbank	22,845	22,645	114	27	Mortgage
Caixabank	21,000	21,000	-	159	Mortgage
Caixabank	45,500	45,263	237	173	Mortgage
ING	56,670	56,670	-	-	Mortgage
ING	11,230	11,230	-	-	Mortgage
	360.845	358.408	1,351	1,453	
Loan arrangement expenses		(7,706)			
Total	**360,845**	**350,702**	**1,351**	**1,453**	

On 2 October 2014, the Group obtained a EUR 70,000 thousand mortgage loan from Banco Santander, secured by the office buildings in Madrid (Edificio Sanchinarro T2, T4 and T7). The loan bears interest at Euribor, plus a spread of 185 pp. The loan matures on 7 October 2021 and will be repaid in fixed quarterly instalments of EUR 250 thousand. At year-end 2015, the Group was fully compliant with the covenants established in the aforementioned agreement and the Directors consider that they will also be fulfilled in 2016.

On 19 February 2015, the Group obtained a mortgage loan from Allianz Real Estate secured by the Marineda shopping centre. The loan entered into has a principal of EUR 133,600 thousand, a 10-year term, a fixed interest rate of 2.66% and repayment must be made in full at maturity. At year-end 2015, the Group was fully compliant with the covenants established in the aforementioned agreement and the Directors consider that they will also be fulfilled in 2016.

On 13 March 2015, the Group obtained a mortgage loan from Deutsche Pfandbriefbank secured by the World Trade Center Almeda Park 6 offices. The loan entered into has a principal of EUR 22,845 thousand, a 9-year term, a fixed interest rate of 2.41% and repayment must be made at a rate of 0.5% annually and 95.5% at maturity. At year-end 2015, the Group was fully compliant with the covenants established in the aforementioned agreement and the Directors consider that they will also be fulfilled in 2016.

On 26 March 2015, the group was subrogated in a loan from Caixabank, S.A. secured by the Alcalá 38-40 office building. The loan has a principle of EUR 21,000 thousand, a 15-year term, an interest-rate of 3-month Euribor +150 basis points, a grace period for repayment of the principal of 4 years and must be repaid in full over the remaining 11 years by the French method.

On 2 October 2015, the Group obtained a senior mortgage loan with a floating interest rate from Caixabank, S.A. secured by a portfolio comprised of 33 real estate assets in Catalonia. The loan has a principal of EUR 45,500 thousand which will be used to refinance a portion of the acquisition price of the asset portfolio, it matures in October 2025, accrues daily interest at 3-month Euribor plus a spread of 1.5% until the end of the loan term and is payable quarterly. Over the term of the loan, at year end, certain ratios related to debt service coverage and net debt levels in relation to the GAV of the real estate assets must be met. At year-end 2015, the Group was fully compliant with the covenants established in the aforementioned agreement and the Directors consider that they will also be fulfilled in 2016.

On 4 December 2015, the Group, through its subsidiaries Merlin Logística and Merlin Logística II obtained two senior mortgage loans from ING Bank N.V. secured by a portfolio comprised of 7 logistics assets. It also entered into a senior pledge over the collection rights arising from the loan accounts, for the leases and the insurance policies. At the same time as this agreement was signed, it formalised an interest rate hedge, a second mortgage over the properties and a second pledge over the collection rights arising from the leases and the insurance policies to secure the obligations arising from the hedge.

The loans have a principal of EUR 56,670 thousand and EUR 11,230 thousand, respectively, they mature on 4 December 2020, accrue interest at 3-month Euribor plus a spread of 1.5% until the end of the loan terms and are payable quarterly. Over the term of the loan, twice-yearly and annually, certain ratios related to debt service coverage and net debt levels in relation to the GAV of the real estate assets must be met. At year-end 2015, the Group was fully compliant with the covenants established in the aforementioned agreement and the Directors consider that they will also be fulfilled in 2016.

Bridge loan to Merlin

On 23 July 2015, the Parent signed a bridge loan of up to EUR 500 million with Morgan Stanley Bank International Limited, J.P. Morgan Limited and Goldman Sachs International to partially finance the acquisition of Testa (see Note 3). At 31 December 2015, EUR 350,000 thousand had been drawn down on this loan and the debt arrangement expenses incurred amounted to EUR 7,007 thousand, of which EUR 4,086 thousand had been allocated to profit/(loss) in 2015. In accordance with the agreement signed between the parties, the loan was set to mature in April 2016, however, as indicated below, in the section "Mortgage loans - Testa Group" on 8 January 2016, the loan was cancelled early upon formalisation of new financing which includes Testa's mortgage debt, as well as the bridge loan (see Note 27).

The loan initially accrued interest at a rate of 1.65%, which dropped to 1.25% after the repayment of EUR 150 million on 11 August 2015 and increased to 2.15% after the "kick-off" which took place on 21 December 2015. Interest expenses for 2015 amounted to EUR 2,091 thousand and at 31 December 2015, interest accrued and payable amounted to EUR 868 thousand.

Mortgage loans - Testa Group

At 31 December 2015, Testa Inmuebles en Renta, SOCIMI, S.A. has several loans with various credit institutions which mature in 2016 and on which EUR 1,322,250 thousand have been drawn down. In 2015 these mortgage loans accrued annual interest at a rate of 1.55%. In relation to this debt, on 8 January 2016, the group cancelled a total of EUR 1,279 million.

For the early cancellation of the aforementioned financial debt, the Parent formalised an unsecured loan with 10 financial institutions for EUR 1,700 million. This debt is structured into two tranches:

- The first tranche consists of bank financing with a corporate guarantee of EUR 850 million maturing in June 2021 bearing interest at Euribor +160 basis points. The entire first tranche is due at maturity and has been allocated in full to cancelling the mortgage loans of the Testa Group.
- The second tranche consists of a bridge loan for EUR 850 million maturing in two years (December 2017) bearing interest at an initial rate of Euribor +100 basis points. Although the entire second tranche of the financing is due at maturity, the Parent's intention is to refinance this tranche through the issue of corporate bonds in the next two years. From the second tranche, the Parent has allocated EUR 339 million to cancelling the mortgage loans of the Testa Group.

At 31 December 2015 and 2014, the Group has undrawn credit facilities and loans with various financial institutions amounting to EUR 1,883 and EUR 0 thousand, respectively.

At 31 December 2015 and 2014, the Group has no debt in currencies other than the euro.

There are no significant differences between the fair value and the carrying amount of the Group's financial liabilities.

The finance cost of the (senior and mortgage) loans totalled EUR 36,584 thousand and EUR 13,395 thousand at 31 December 2015 and 2014, respectively, and is recognised in the accompanying 2015 consolidated income statement.

At 31 December 2015 and 2014, the debt arrangement expenses had been deducted from the balance of "Bank borrowings". In 2015 and 2014, the Group recognised EUR 13,410 thousand and EUR 2,966 thousand, respectively, associated with this debt under “Finance costs” in the accompanying consolidated income statement (see Note 21.d).

The breakdown by maturity of these loans is as follows:

2015

	Thousands of euros			
	Senior syndicated mortgage loan	Mortgage loans and bridge loan	Mortgage loans - Testa Group, leasing, credit facilities and loans	Total
2016	9,398	351,351	1,333,955	1,694,704
2017	9,398	1,351	11,920	22,669
2018	9,398	1,460	125,995	136,853
2019	11,747	4,617	1,099	17,463
2020	11,747	72,948	1,115	85,810
Over 5 years	878,670	278,032	23,721	1,180,423
	930,358	**709,759**	**1.497.805**	**3.137.922**

2014

Maturity	Thousands of euros	
	Senior syndicated mortgage loan	Mortgage loan
2015	9,398	1,000
2016	9,398	1,000
2017	9,398	1,000
2018	9,985	1,000
2019	11,747	1,000
Over 5 years	889,830	65,000
	939,756	**70,000**

17.2 Derivatives

Details at 31 December 2015 and 2014 of derivative financial instruments are as follows:

	Thousands of euros	
	2015	2014
Non-current		
Interest rate derivatives	50,836	62,546
Inflation derivatives	(8,396)	(9,139)
Total, non-current	**42,440**	**53,407**
Current		
Interest rate derivatives	6,309	-
Total, current	**6,309**	**-**

To measure the fair value of the interest rate and inflation derivatives, the Company discounts cash flows based on the underlyings determined by the euro interest rate curve as per market conditions on the measurement date.

These financial instruments are classified as Level 2 as per IFRS 7.

Details of the derivative financial instruments in the consolidated statement of financial position at 31 December 2015 and 2014 are as follows:

2015

	Thousands of euros	
	assets Financial	liabilities Financial
Non-current		
Interest rate derivatives	-	57,145
Inflation derivatives	-	(8,396)
Derivative embedded in BBVA lease (Note 13)	194,767	-
Total derivatives recognised	**194,767**	**48,749**

2014

	Thousands of euros	
	assets Financial	liabilities Financial
Non-current		
Interest rate derivatives	-	62,546
Inflation derivatives	-	(9,139)
Derivative embedded in BBVA lease (Note 13)	261,689	-
Total derivatives recognised	**261,689**	**53,407**

The interest rate and inflation derivative financial instruments are primarily from the business combination in 2014 through which Tree Inversiones Inmobiliarias SOCIMI, S.A. joined the Merlin Group (see Note 3).

Likewise, in the business combination carried out in 2015 with Testa Inmuebles en Renta, SOCIMI, S.A. (see Note 3) interest rate hedges were added to the Group. The instruments used are collars, interest rate swaps and caps.

At 31 December 2015 and 2014, changes in the fair value of financial instruments recognised in equity as valuation adjustments amounted to EUR 3,470 thousand and EUR 2,636 thousand, respectively. To obtain these amounts, the fluctuations in value not attributable to the Group – those having arisen from valuation adjustments included in the equity acquired in the business combinations – are eliminated.

At 31 December 2015, EUR 6,033 thousand was recognised in the consolidated income statement, of which EUR 5,017 thousand are included as finance cost and EUR 1,016 thousand correspond to inefficiencies recognised under "Changes in fair value of financial instruments - others".

The derivatives held by the Group at 31 December 2015 and 2014 and the fair values thereof at that date are as follows (in thousands of euros):

2015

			Thousands of euros				
			Notional amount each year				
	Interest rate	Fair value At 31/12/2015	2016	2017	2018	2019	Subsequent years
Interest rate derivatives	3.46%-0.65%	(47,812)	1,106,758	1,094,775	1,085,140	1,074,222	1,060,200
Inflation derivative	3.14%	8,396	82,500	-	-	-	-
Interest rate derivatives-Testa	3.98%-0.30%	(9,333)	145,940	130,040	120,740	37,240	37,240
		(48,749)	**1,335,198**	**1,224,815**	**1,205,880**	**1,111,462**	**1,097,440**

2014

			Thousands of euros				
			Notional amount each year				
	Interest rate	Fair value At 31/12/2014	2015	2016	2017	2018	Subsequent Subsequent
Interest rate derivatives	3.46%-0.65%	(62,546)	1,002,406	991,009	63,000	63,000	63,000
Inflation derivative	3.14%	9,139	79,834	82,500	-	-	-
		(53,407)	**1,082,240**	**1,073,509**	**63,000**	**63,000**	**63,000**

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

The Group requested to file tax under the special regime for listed real estate investment companies (SOCIMI tax regime) pursuant to Law 11/2009, of 26 October, on public listed real estate investment companies (SOCIMI Law), applicable to the Parent and its subsidiaries from 1 January 2014, with the exception of the subsidiary Tree Inversiones Inmobiliarias, SOCIMI, S.A., to which it will be applicable from 1 January 2013, and the subsidiary Testa Inmuebles en Renta, SOCIMI, S.A. applicable from 1 January 2015. As a result of this, the Group recognised a total of EUR 6,106 thousand and EUR 2,636 thousand under equity at 31 December 2015 and 2014, respectively, corresponding to the fair value of the derivatives fulfilling the requirements thereof, without considering any tax effect. It also recognised EUR 1,016 thousand and EUR 187 thousand under “Change in fair value of financial instruments” in the consolidated income statement as a result of the derivative financial instruments not meeting the requirements to be treated as hedges due to ineffectiveness.

On adopting IFRS 13, the Group adjusted the measurement techniques for calculating the fair value of its derivatives. The Group includes a bilateral credit risk adjustment to reflect both the own credit risk and the counterpart party risk in the measurement of the fair value of the derivatives. The Group applied the discounted cash flow method, considering a discount rate affected by its own credit risk.

In order to calculate the fair value of the financial derivatives, the Group used generally accepted measurement techniques in the market, which account for current and future expected exposure, adjusted by the probability of default and the potential loss given default affecting the contract. The CVA (Credit Value Adjustment) or counterparty credit risk and DVA (Debt Value Adjustment) or own credit risk were therefore estimated.

Current and expected exposure in the future is estimated using simulations of scenarios of fluctuations in market variables, such as interest rate curves, exchange rates and volatilities as per market conditions at the measurement date.

Furthermore, for the credit risk adjustment, the Group's net exposure has been taken into account with regards to each of the counterparties, if the financial derivatives arranged with them are within a financial transaction framework agreement which provides for netting positions. For counterparties for whom credit information is available, the credit spreads have been obtained from the CDS (Credit Default Swaps) quoted in the market; whereas for those with no available information, references from peers have been used. The Group hired Chatham Financial Europe Ltd. to measure the fair value of the derivatives.

At 31 December 2015 and 2014, the impact on liabilities and on the income statement before tax of the 50 basis point fluctuation in the estimated credit risk rate would be as follows:

2015

Scenario	Thousands of euros		
	Liabilities	Equity	Consolidated profit/(loss) before tax
5% rise in credit risk rate	(47,256)	(45,253)	(2,003)
5% reduction in credit risk rate	49,437	49,232	205

2014

Scenario	Thousands of euros		
	Liabilities	Equity	Consolidated profit/(loss) before tax
5% rise in credit risk rate	(10,813)	(10,813)	-
5% reduction in credit risk rate	3,088	3,088	-

18 Other current and non-current liabilities

The detail of other current and non-current liabilities at 31 December 2015 and 2014 is as follows:

	Thousands of euros			
	2015		2014	
	Non-current	Current	Non-current	Current
Other provisions	16,573	274	476	-
Guarantees and deposits received	49,392	-	21,498	-
Deferred tax liabilities	223,088	-	24,432	-
Other payables	16,073	1,961	-	190
Payable to associates	-	408	-	-
Other current liabilities	-	1,224	-	38
Total	**305,126**	**3,867**	**46.406**	**228**

"Other provisions" includes provisions for the risk associated with a series of lawsuits and third-party claims arising from performance of the Group's activity and have been recognised in accordance with the best estimates at that date.

Likewise, the aforementioned heading includes liabilities for tax charges which are uncertain as to their amount or timing, but in relation to which it is probable that an outflow of resources from the Group will be required to settle the obligations as a result of a current obligation. These provisions have been recognised mainly due to the business combinations with Testa Inmuebles en Renta, SOCIMI, S.A. and amount to EUR 11,397 thousand at 31 December 2015.

It also includes the provision corresponding to the variable remuneration indicated in Note 23 amounting to EUR 4,857 thousand, payment of which will be made at long term.

“Guarantees and deposits received” primarily comprise the amounts deposited by lessees to secure leases, which will be reimbursed at the end of the lease term.

The Parent and its subsidiaries are subject to the SOCIMI tax regime. Under this regime, gains from the sale of assets are taxed at 0%, provided that certain requirements are met (basically, the assets must have been held by the SOCIMI for at least three years). Any gains from the sale of assets acquired prior to joining the SOCIMI tax regime will be distributed on a straight-line basis (unless proven to be distributed otherwise) over the period during which the SOCIMI owned them. Any gains generated prior to joining the SOCIMI tax regime will be taxed at the general rate, while a rate of 0% will be applied for the other years. In this regard, the Parent's directors performed an estimate regarding the tax rate applicable to the tax gain on the assets acquired prior to its incorporation into the SOCIMI tax regime (calculated based on the assets' fair value obtained from appraisals at the date of the business combination and at 31 December 2015), and recognised the corresponding deferred tax liability. The change in the balance of "Deferred tax liabilities" is mainly due to the business combinations carried out in 2015 and the increase arising from the asset revaluations (see Note 20).

The Parent's directors do not envisage disposing of any of the investment property acquired after the Parent and its subsidiaries joined the SOCIMI tax 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%.

19 Trade and other payables

The detail of “Trade and other payables” at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Current		
Payable to suppliers	18,283	19,058
Sundry accounts payable	3,377	-
Remuneration payable	5,738	1,869
Current tax liabilities (Note 20)	898	75
Other payables to public authorities (Note 20)	8,176	1,740
Other payables (Note 3)	316,840	-
Advances from customers	775	635
Total	**354,087**	**23,377**

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

Disclosures on the average payment period to suppliers Final provision two of Law 31/2014, of 3 December:

The information required by Additional Provision Three of Law 15/2010, of 5 July (modified by Final Provision Two of Law 31/2014, of 3 December) prepared in accordance with the Spanish Institute of Accountants and Auditors' Resolution of 29 January 2016 on information to be included in the notes to the financial statements with regard to the average supplier payment period for commercial transactions is detailed below.

In accordance with that permitted under the Sole Additional Provision to the aforementioned Resolution, for this first period of application no comparative information is required.

	2015 **Days**
Average payment period to suppliers	29.84
Ratio of transactions paid	29.34
Ratio of transactions payable	35.40
	Thousands of euros
Total payments made	75,854
Total payments pending	8,602

The information set forth in the above table regarding payments to suppliers refers to those which, by nature, are trade payables to suppliers of goods and services, such that they include the information related to "Trade and other payables" under current liabilities in the accompanying consolidated statement of financial position. Further, in accordance with Transitional Provision One of the draft Spanish Institute of Accountants and Auditors' Resolution, for this first period of application no comparative information is required, as these consolidated financial statements are classified as first-time statements for the sole purposes of applying the principle of consistency and meeting the requirement of comparability.

The average supplier payment period is understood to be an expression of the time taken or delay incurred in the payment of the trade payable. The average supplier payment period is calculated as the ratio in which the numerator is the sum of the ratio of transactions paid multiplied by the total amount of the payments made plus the ratio of transactions pending payment multiplied by the total amounts of payments pending, and the denominator is the total amount of payments made and pending.

The ratio of transactions paid is calculated as the ratio in which the numerator is the sum of the products corresponding to the amounts paid multiplied by the number of payment days (the difference between the number of calendar days transpiring from the end of the statutory payment period until the payment is made) and the denominator is the total amount of payments made.

Also, the ratio of transactions pending payment is the ratio in which the numerator is the sum of the products corresponding to the amounts pending payment multiplied by the number of days in which payment is pending (the difference between the number of calendar days transpiring from the end of the statutory payment period until the day the consolidated financial statements are closed) and the denominator is the total amount of payments pending.

The statutory maximum payment period applicable to the Group in 2104/2015, pursuant to Law 3/2004, of 29 December, establishing measures to combat late payment in commercial transactions, and in accordance with the transitory provisions established in Law 15/2010, of 5 July, was 60 days until the publication of Law 11/2013 of 26 July, and 30 days following the publication of said Law to date (unless certain conditions mentioned in this law are met, in which case the maximum payment period may be increased to 60 days).

20. Tax situation

a) Tax receivables and payables

At 31 December 2015 and 2014, the main taxes receivable and payable are as follows:

2015

	Thousands of euros			
	Tax assets		Tax liabilities	
	Non-current	Current	Non-current	Current
Accounts payable to the Treasury for withholdings	-	106	-	5,475
VAT	-	2,363	-	2,575
Tax assets	23,140	-	-	-
Corporate income tax	-	-	-	898
Payable to the Social Security	-	-	-	126
Deferred tax liabilities	-	-	223,088	-
	23,140	**2,469**	**223.088**	**9,074**

2014

	Thousands of euros			
	Tax assets		Tax liabilities	
	Non-current	Current	Non-current	Current
Accounts payable to the Treasury for withholdings	-	-	-	305
VAT	-	592	-	1,413
Tax assets	9,369	-	-	-
Corporate income tax	-	116	-	75
Payable to the Social Security	-	-	-	22
Deferred tax liabilities	-	-	24,432	-
	9,369	**708**	**24.432**	**1,815**

b) Reconciliation of accounting profit/(loss) and tax base

At 31 December 2015, the tax loss was calculated as the accounting profit/(loss) for the period plus the costs of increasing the capital of the Parent company, recognised directly in equity, the effect of changes in the fair value of investment property, and temporary differences for the existing limitations. At the reporting date for these financial statements, the Group has not recognised a deferred tax asset in relation hereto since, in general, it is subject to a tax rate of 0% as the Parent and the majority of subsidiaries avail themselves of the SOCIMI tax regime.

The reconciliation of the accounting profit/(loss) to the consolidated income tax expense at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Profit/(loss) before tax	57,276	50,706
Permanent differences:		
- Capital increase expenses	(51,559)	(30,475)
Impairment of goodwill	302,188	-
Temporary differences:		
- Changes in the value of investment property		
a) acquired after joining the SOCIMI tax regime	(134,698)	(10,719)
b) acquired prior to joining the SOCIMI tax regime	(179,888)	(38,752)
	(314,586)	(49,471)
Adjusted tax base	**(6,681)**	**(29,240)**

Capital increase expenses are treated as a permanent difference because the applicable tax rate is 0%.

Temporary differences arose from the change in value of investment property (IAS 40 - Fair value model). As the Parent's Directors plan and state that investment property acquired by subsidiaries already subject to the SOCIMI tax regime will not be sold within three years, the fair value adjustment in 2015 and 2014 is taxed at 0% and, therefore, the deferred tax liability is also zero.

c) Reconciliation of accounting profit/(loss) and tax expense

	Thousands of euros	
	2015	2014
Expense for increase in value of investment property (a)	(2,859)	(3,562)
Expense for adjustment of tax assets based on tax rates applicable in 2015 and 2016	-	(1,615)
Income from adjusting deferred tax liabilities based on tax rates applicable in 2015 and 2016	-	4,221
Expense for property replacements outside of the SOCIMI tax regime (b)	(7,488)	-
Expense for adjustment to SOCIMI tax regime bases (b)	(642)	-
Income from reinvestment of gains on sales (b)	2,827	-
Other	(161)	(86)
Total corporate income tax expense	**(8,323)**	**(1,042)**

(a) Corresponds to the increase in the value of the investment property acquired prior to availing itself of the SOCIMI tax regime. The resulting amount is the product of applying the tax rate that the Directors consider will be applicable to the gain.

(b) Adjustments to corporate income tax expense arising from the profit recognised in the separate financial statements of the subsidiary Tree Inversiones Inmobiliarias, SOCIMI, S.A. as a result of the replacement of real estate assets in accordance with the agreement entered into with BBVA.

d) Deferred tax assets recognised

At 31 December 2015 and 2014, the detail of tax credits for tax loss carryforwards are as follows (in thousands of euros):

2015

	Thousands of euros	
	Tax base	Tax credit
Tax loss carryforwards:		
2010	18,384	4,589
2011	11,010	2,748
Total tax loss carryforwards	**29,394**	**7,337**
Other deferred taxes recognised	**-**	**15,803**
Total capitalised deferred tax assets		**23,140**

“Other deferred taxes recognised” includes mainly the temporary differences arising from the valuation of derivative instruments for 2015, together with the temporary differences arising from the limitations to which Spanish companies are subject with regard to the deductibility of the amortisation and depreciation charge for assets, resulting from the acquisition of the subgroup Testa Inmuebles en Renta SOCIMI SA and its subsidiaries.

The changes in 2015 in deferred tax assets is due mainly to the offsetting of tax losses by the subsidiary Tree Inversiones Inmobiliarias, SOCIMI, S.A. due to the results obtained in the replacement of real estate assets.

2014

	Thousands of euros	
	Tax base	Tax credit
Tax loss carryforwards:		
2009	3,945	1,183
2010	21,659	6,498
2011	11,010	3,303
Total tax loss carryforwards	**36,615**	**10,984**
Adjustment for change in tax rate		**(1,615)**
Total capitalised deferred tax assets		**9,369**

The change in deferred tax assets during 2014 was primarily due to the addition of EUR 11,125 thousand from the business combination with Tree Inversiones Inmobiliarias, SOCIMI, S.A. described in Note 3 and the adjustment to the tax rate. As a result of the enactment of Corporate Income Tax Law 27/2014, of 27 November, amending, inter alia, the tax rates applicable as from 1 January 2015, the Group recalculated deferred tax assets and liabilities using the new tax rates introduced by said law. As a result, deferred tax assets were decreased by EUR 1,615 thousand, primarily because of the tax rate cut.

The Group has no tax credits that had not been used or recognised at 31 December 2015.

The aforesaid deferred tax assets were recognised in the consolidated statement of financial position since the Group's Directors consider that, based on the best estimates of the Group's future results, including certain tax planning measures, it is likely that these assets will be recovered.

e) Deferred tax liabilities

As indicated above, the deferred tax liabilities arise mainly from the business combinations carried out in 2015 and 2014 and the increase in value of the assets of Tree Inversiones Inmobiliarias, SOCIMI, S.A. (assets acquired prior to its adherence to the SOCIMI tax regime).

The changes at 31 December 2015 and 2014 are as follows:

	Thousands of euros
Business combination additions	25,091
Increase in value of investment property	3,562
Adjustment to general tax rate	(4,221)
Total deferred tax liabilities at 31 December 2014	**24,432**
Business combination additions	235,562
Increase in value of investment property	2,859
Temporary differences	(545)
Transfer of deferred tax liabilities to "Non-current assets held for sale"	(39,220)
Total deferred tax liabilities at 31 December 2015	**223,088**

As stipulated in Note 20.b, the increase in value of investment property acquired by subsidiaries subject to the SOCIMI tax regime generate temporary differences at a tax rate of 0%, whereby no deferred tax liability has been recognised.

f) Years open to review and tax inspections

Under current legislation, taxes cannot be deemed to have been definitively settled until the tax returns filed have been reviewed by the tax authorities or until the four-year statute of limitations has expired. At year-end 2015, the Parent and a portion of its subsidiaries have all taxes since incorporation open for review by the tax authorities. The other subsidiaries have 2011 to 2014 open for review by the tax authorities for income tax and 2012 to 2015 for the other taxes applicable to it. The Parent's Directors consider that the tax returns for the aforementioned taxes have been filed correctly and, therefore, even in the event of discrepancies in the interpretation of current tax legislation in relation to the tax treatment afforded to certain transactions, such liabilities as might arise would not have a material effect on the accompanying consolidated financial statements. In addition, Law 34/2015, of 21 September, partially modifying the General Taxation Law 58/2003, of 17 December, establishes that the tax authority's right to commence proceedings to verify the offsetting of tax losses or tax loss carryforwards or tax credits used or pending use will expire ten years from the day after the legally established period to file the tax return or self-assessment corresponding to the tax year or period in which the right to carry forward said tax losses or use said tax credits comes to a close.

21. Revenue and expenses

a) Revenues

Details of ordinary revenues are provided in Note 6 alongside the segment information.

b) ***Other operating expenses***

At 31 December 2015 and 2014, the breakdown of this heading in the consolidated income statement is as follows:

	Thousands of euros	
	2015	2014
Non-recoverable expenses of leased properties	10,236	2,585
Overheads	3,808	986
Independent professional services	2,923	557
Travel expenses	290	146
Office rental	209	63
Insurance	226	41
Other	160	179
Costs associated with asset acquisitions and refinancing	25,046	11,766
Costs associated with flotation	-	73
Acquisition of Tree Inversiones Inmobiliarias	-	603
Losses on, impairment of and changes in provisions	336	-
Extraordinary expenses	69	-
Services activity expenses	324	-
Total	**39,819**	**16,013**

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

The breakdown of staff costs at 31 December 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Wages, salaries and similar expenses	14,491	2,968
Termination benefits	433	
Social security costs	786	111
Total	**15,710**	**3,079**

In 2015 and 2014 the average headcount at Group companies was 115 and 20, respectively, of which 19 people were employed by the Parent.

At 31 December 2015 and 2014, the breakdown by category is as follows:

2015

	2015		
	Women	Men	Total
General managers and chairmen	-	4.7	4.7
Other executives and managers	0.6	10.0	10.6
Technicians and support staff	25.0	35.0	60.0
Accountants, clerical staff and office employees	27.8	15.0	42.8
Total	53.4	64.6	118.0

2014

	2014		
	Women	Men	Total
Directors	-	2	2
Senior management	-	7	7
Managers and line personnel	2	7	9
Clerical staff	2	-	2
Total	**4**	**16**	**20**

d) *Finance income and costs*

The breakdown of these headings in the consolidated income statement is as follows:

	Thousands of euros	
	2015	2014
Finance income:		
Interest on deposits and current accounts	1,970	473
	1,970	473
Finance costs:		
Interest from loans and other borrowings	(55,566)	(18,555)
	(55,566)	(18,555)
Net finance expense	**(53,596)**	**(18,082)**

"Interest on loans and other borrowings" includes the charge for the amortisation of debt arrangement expenses of EUR 13,410 thousand and EUR 2,966 thousand at 31 December 2015 and 2014, respectively, applying the effective interest method to financial debt.

e) *Contribution to consolidated profit/(loss)*

The contribution to consolidated profit/(loss) for 2015 and 2014 by each subsidiary included in the scope of consolidation is as follows:

Company	Thousands of euros 2015	2014
Full consolidation:		
Merlin Properties SOCIMI, S.A.	(39,604)	(3,974)
Tree Inversiones Inmobiliarias, SOCIMI, S.A.	167,453	32,767
Merlin Logística, S.L.	16,721	158
Merlin Retail, S.L.	48,052	20,575
Merlin Oficinas, S.L.	34,357	127
Bosque Portfolio Management, S.L.	-	17
Merlin Logística II, S.L.	2,591	-
Obraser, S.A.	(5,912)	-
Testa Inmuebles en Renta, S.A.	(176,678)	-
MPCVI - Compra e Venda Imobiliária, S.A.	1,295	-
MPEP - Properties Escritórios Portugal, S.A	(2)	-
Equity method:		-
Centro Intermodal de Logística, S.L.	1,825	-
Bardiomar, S.L.	1,301	-
Provitae, S.L.	(1,898)	-
Other investees	(423)	-
Total	**49,078**	**49,670**

22. Related party transactions

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

Details of transactions considered material given their value or relevant due to their substance between the Parent or its Group companies and the Company's Directors or key management personnel are as follows:

2015

Name or company name of director or executive	Name or company name of related party	Nature of relationship	Expense (thousands of euros)
Magic Real Estate, S.L.	Merlin Properties Socimi, S.A.	Magic Real Estate S.L. sublets half a floor of office space to Merlin Properties Socimi, S.A. This sublease was entered into in 2013 by Magic Real Estate, S.L., Tree Inversiones Inmobiliarias S.A. and Bosque Portfolio Management, S.L.	62

Name or company name of director or executive	Name or company name of related party	Nature of relationship	Income (thousands of euros)
Magic Real Estate, S.L.	Merlin Properties Socimi, S.A.	Merlin Properties, Socimi, S.A. sublets 125 metres squared of office space to Magic Real Estate S.L. The parties entered into this sublease in December 2015.	5

2014

Name or company name of director or executive	Name or company name of related party	Nature of relationship	Amount (thousands of euros)
Magic Real Estate, S.L.	Merlin Properties Socimi, S.A.	Magic Real Estate S.L. sublets half a floor of office space to Merlin Properties Socimi, S.A. This sublease was entered into in 2013 by Magic Real Estate, S.L., Tree Inversiones Inmobiliarias S.A. and Bosque Portfolio Management, S.L.	43

23. Stakes held by Directors and their affiliates in other companies

The Directors of the Parent and their affiliates have not been in a position involving a conflict of interests that required reporting under Article 229 of the Consolidated Text of the Spanish Limited Liability Companies Law, except where indicated below:

Remuneration and other benefits of directors

At 31 December 2015 and 2014 salaries, per diem attendance fees and remuneration of other kinds earned by members of the Parent's governing bodies totalled EUR 4,324 thousand and EUR 1,030 thousand, as detailed below:

	Thousands of euros	
	2015	2014
Fixed and variable remuneration	4,314	1,030
Statutory compensation	-	-
Termination benefits	-	-
Per diem allowances	-	-
Life and health insurance	10	-
Total	**4,324**	**1,030**

At 31 December 2015, executive directors had earned variable remuneration amounting to EUR 3,330 thousand (EUR 581 thousand in 2014). 50% of these amounts will be paid 10 days after the Board of Directors authorises the Group's financial statements for issue. The other 50% will be paid five years after the Company's financial statements are authorised for issue. In this connection, in 2015 EUR 290 thousand were paid corresponding to the bonus earned in 2014.

At 31 December 2015, the variable remuneration to be paid at long-term stood at EUR 1,955 thousand and is recognised under "Long-term provisions" in the accompanying balance sheet.

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

Board member	Type	Thousands of euros	
		2015	2014
Remuneration of board members			
Ismael Clemente Orrego	Executive Chairman	1,990	442
Miguel Ollero Barrera	Executive director	1,940	438
Donald Johnston	Independent director	62	30
Maria Luisa Jordá Castro	Independent director	65	30
Ana García Fau	Independent director	65	30
Alfredo Fernandez Agras	Independent director	67	30
Fernando Ortiz Vaamonde	Independent director	63	30
Ana de Pro	Independent director	45	-
John Gomez Hall	Independent director	17	-
Matthew Globawsky	Proprietary Director	-	-
Jose Maria Cedrún	Proprietary Director	-	-
Hammad Khan	Proprietary Director	-	-
Total		**4.314**	**1,030**

The Parent has no pension obligations with members of the Board of Directors beyond those applicable to other employees.

The Company has granted no advances, loans or guarantees to any of its directors.

Remuneration and other benefits of senior executives

The remuneration of the Parents senior executives and persons discharging similar duties, excluding those who are simultaneously members of the Board of Directors (whose remuneration is disclosed above), in 2015 and 2014 is summarised as follows:

2015

Thousands of euros			
Number of employees	Fixed and variable remuneration	Other remuneration	Total
8	5,880	24	5,904

2014

Thousands of euros			
Number of employees	Fixed and variable remuneration	Other remuneration	Total
7	1,671	-	1,671

At 31 December 2015, senior management had earned variable remuneration amounting to EUR 4,700 thousand (EUR 1,102 thousand in 2014). 50% of these amounts will be paid 10 days after the Board of Directors authorises the Group's financial statements for issue. The other 50% will be paid five years after the Company's financial statements are authorised for issue. In this connection, in 2015 EUR 552 thousand were paid corresponding to the bonus earned in 2014. At 31 December 2015, the variable remuneration to be paid at long-term stood at EUR 2,902 thousand and is recognised under "Long-term provisions" in the accompanying balance sheet at 31 December 2015.

At 31 December 2014, the Parent had a commitment to award an additional bonus to the management team as determined by the Appointments and Remuneration Committee, linked to the Company's shares, since the Company's Senior Management is remunerated based on the returns obtained by the Company's shareholders (the “Management Stock Plan”).

The Company must exceed the following thresholds before members of Senior Management are entitled to shares under the Management Stock Plan:

- Total shareholder return per annum must be over 8%. The annual shareholder return is calculated as the sum of any fluctuation in the Company's EPRA NAV over the year minus the net funds obtained from shares issued during the year, plus the dividends distributed during the year. Following the management team's proposal, at year end, EPRA NAV will be adjusted by the goodwill arising on the acquisition of Testa, equal to the market value premium paid for Testa's assets.

- The sum of (i) MERLIN’s EPRA NAV at 31 December of said year, and (ii) the total value of the dividends (or any other form of shareholders remuneration or pay-out) distributed during said year or any prior year since the last year when they were entitled to receive shares under the Management Stock Plan, must exceed the greater of the following amounts: (a) the opening EPRA NAV (opening EPRA NAV being the net funds obtained by the Company on offering and trading its shares) and (b) the EPRA NAV at 31 December (plus any adjustments resulting from excluding the net funds of any issuance of ordinary shares in said year) of the last year when they were entitled to receive shares under the Management Stock Plan. This excess is referred to as the High Watermark Outperformance and represents the amount over and above the last EPRA NAV that gave rise to entitlement to shares under the Management Stock Plan.

Once both thresholds are reached, the amount to be allocated to the Management Stock Plan for the year (bonus) will be the lower of the following:

(x) 8% of the annual shareholder return once this exceeds 8%, and 12% of the shareholder return if the annual shareholder return is over 12%; or

(y) 16% of the High Watermark Outperformance.

(*Thousands of euros*)	
EPRA NAV 31 December 2015	**3,181,246**
Net funds capital increase May 2015	(596,235)
Net funds capital increase July 2015	(999,747)
Goodwill on acquisition of Testa	(199,699)
Adjusted EPRA NAV 31 December 2015	**1,385,565**
EPRA NAV start of period	1,354,970
Adjusted EPRA NAV end of period	1,385,565
Change in adjusted EPRA NAV	**30,595**
Dividends distributed during the period	**25,035**
Shareholder return	**55,630**
Shareholder return required to exceed annualised profitability threshold of 8%	171,319
High watermark, start of period	1,354,970
Period end EPRA NAV + dividends paid	1,410,600
Return over and above applicable High Watermark	**55,630**
Testing of conditions for entitlement to bonus	
Shareholder return above 8%	NO
Return over and above applicable High Watermark	**YES**
Calculation of bonus. The lower of:	
8% of annual shareholder return for management team	-
16% return over and above applicable high watermark	8,901
Bonus applicable	-

Lastly, as regards “golden parachute” clauses for executive directors and other members of senior management of the Parent or Group in the event of dismissal or takeover, the contracts provide for compensation. At 31 December 2015, these clauses entailed a total commitment of EUR 38,650 thousand (EUR 25,520 thousand in 2014).

24. Auditors' remuneration

Fees for audit services in 2015 and 2014 for the different companies in the Merlin Group and subsidiaries, provided by the statutory auditor Deloitte, S.L. and companies related thereto and by other auditors, are as follows:

Description	Thousands of euros	
	2015	2014
Audit services	91	95
Other audit-related services:		
Other attest services	446.8	305
Total audit and related services	**537.8**	**400**
Other services	577.7	7.5
Tax advisory services	-	-
Total other services	**577.7**	**7.5**
Total	**1,115.5**	**407.5**

"Other audit-related services" includes the attest services performed as part of the capital increases of the Parent.

The fees for services provided by other auditors to the companies composing the Group in 2015 amounted to EUR 80.5 thousand and EUR 375 thousand for other work.

25. Environmental information

Given the activity in which the Group engages, it has no environmental liabilities, expenses, assets, provisions or contingencies that could have a material impact on its equity, financial position and results of its operations.

Therefore, no specific environmental disclosures have been included in these notes to the consolidated financial statements.

26. Risk exposure

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk, credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme is based on the uncertainty of financial markets and aims to minimise the adverse effects of such risks on the financial profitability of the Group.

Risk management is undertaken by the Group's Senior Management in accordance with the policies approved by the Board of Directors. Senior Management identifies, evaluates and mitigates financial risks in close collaboration with the Group's operating units. The Board of Directors issues the written global risk management policies and the policies for specific areas, including those for covering market risk, interest rate risk and liquidity risk and investing cash surpluses.

Market risk

Given the current status of the real-estate sector and in order to mitigate the effects thereof, the Group has specific measures in place to minimise said impact on its financial position.

These measures are applied pursuant to the results of sensitivity analyses carried out by the Group on a regular basis. These analyses involve:

- Economic environment in which the Group operates: Designing different economic scenarios and modifying the key variables potentially affecting the Group (interest rates, share prices, % occupancy of property investments, etc.). Identifying interdependent variables and the extent of their relationship; and

- Time frame in which it is making the assessment: Consideration is given to the periods over which analyses are performed and any possible deviations thereof.

Credit risk

Credit risk is defined as the potential risk of loss in earnings to which the Group is exposed if a customer or counterparty breaches its contractual obligations.

As a general rule, the Group places cash and cash equivalents with financial institutions with high credit ratings.

Except in the case of the BBVA branch leases, the Group is not exposed to significant concentration of credit risk with one customer or counterparty. The Group regularly reviews the credit rating and, thus, the creditworthiness of BBVA vis-à-vis the segment of bank branches leased to this bank. The Group also pays close attention to this situation, since the finance held is dependent on credit quality being maintained. The Parent's directors do not consider that there is any material credit risk regarding receivables due from this lessee.

With respect to other customers, the Group has policies in place to limit the volume of risks posed by customers. Exposure to the risk of being unable to recover receivables is mitigated in the normal course of business through funds or guarantees deposited as collateral.

The Group has formal procedures to identify any impairment of trade receivables. Delays in payment are detected through these procedures and individual analysis by business area and methods are established to estimate impairment loss.

Details of the estimated maturities of the Group's financial assets in the consolidated statement of financial position at 31 December 2015 and 2014 are as follows. The tables below reflect the aforementioned maturities of the financial assets at 31 December 2015 and 2014:

2015

	Thousands of euros				
	Less than 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Total
Loans to third parties	-	-	-	3,076	3,076
Guarantees and deposits	-	-	-	40,197	40,197
Trade and other receivables	17,544	-	6,840	-	24,384
Other current financial assets	6,995	-	-	-	6,995
Cash and cash equivalents	560,740	-	-	-	560,740
Total	**585,279**	**-**	**6,840**	**43,273**	**635,392**

2014

	Thousands of euros				
	Less than 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Total
Trade and other receivables	3,340	-	-	-	3,340
Other current financial assets	791	-	125,000	-	125,791
Cash and cash equivalents	24,012	-	-	2,038	26,050
Total	**28,143**	**-**	**125,000**	**2,038**	**155,181**

Cash and cash equivalents

The Group has cash and cash equivalents of EUR 560,740 thousand, representing its maximum exposure to the risk posed by these assets.

Cash and cash equivalents are deposited with banks and financial institutions.

Liquidity risk

Liquidity risk is defined as the risk of the Group encountering difficulties meeting its obligations regarding financial liabilities settled in cash or with other financial assets.

At 31 December 2015, the Group had a working capital deficiency of EUR 1,345 million as a result of the financial debt maturing at short term. As indicated in Notes 17 and 27, on 8 January 2015, the Group formalised a loan for EUR 1,700 million cancelling the majority (EUR 1,629 million) of current financial debt at 31 December 2015, extending repayment periods beyond 12 months. In this respect, once the effect of the aforementioned refinancing is taken into consideration, the Group's working capital improves to EUR 283,984 thousand.

The Group conducts prudent management of liquidity risk by maintaining sufficient cash to meet its payment obligations when they fall due, both in normal and stressed conditions, without incurring unacceptable losses or risking the Group's reputation.

The Group’s exposure to liquidity risk at 31 December 2015 and 2014 is detailed below. The tables present the results of the analysis of financial liabilities by remaining contractual maturity date:

2015

	Thousands of euros				
	Less than 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Total
Bank borrowings	1,692,289	11,848	7,849	-	1,711,986
Other non-current liabilities - Guarantees	-	-	-	49,392	49,392
Trade and other payables (excluding payables to public authorities)	18,283	9,890	316,840	-	345,013
Total	**1,710,572**	**21,738**	**324,689**	**49,392**	**2,106,391**

2014

	Thousands of euros				
	Less than 3 months	3 to 6 months	6 months to 1 year	Over 1 year	Total
Bank borrowings	568	2,693	7,548		10,809
Other non-current liabilities - Guarantees				21,498	21,498
Trade and other payables (excluding payables to public authorities)	19,733	1,875	-	-	21,608
Total	**20,301**	**4,568**	**7,548**	**21,498**	**53,915**

Cash flow interest rate risk and fair value risk

At 31 December 2015 and 2014, the Group had current financial assets earning a fixed rate of interest (deposits) to extract value from the surplus cash not invested in investment properties.

The Group manages its interest rate risk by borrowing at fixed and floating rates of interest. The Group's policy is to ensure non-current net financing from third parties is at a fixed rate. To manage this, the Group enters into interest rate swaps which are designated as hedges of the respective loans. The impact of interest rate fluctuations is explained in Note 17.2.

Exchange rate risk

The Group is not exposed to exchange rate fluctuations as all its operations are in its functional currency.

Price risk

The Group has inflation hedges to protect rental income from risks of fluctuations in the inflation rate (CPI) (see Note 17.2).

Tax risk

As mentioned in Note 1, the Parent and its subsidiaries are subject to the special tax regime for SOCIMIs. As established in Article 6 of Law 11/2009, of 26 October, amended by Law 16/2012, of 27 December, the SOCIMIs opting to pay tax under the special tax regime are required to distribute the profit generated during the year to shareholders as dividends. Once the corresponding commercial obligations have been fulfilled, said distribution must be agreed within six months from year end, and the dividends paid within 30 days from the date on which the pay-out is agreed (Note 5.7).

Should the shareholders of these companies at their respective general meetings not approve the distribution of dividends proposed by their board of directors calculated pursuant to the requirements of the aforementioned law they will be in breach of the law and will therefore have to pay tax under the general tax regime not the one applicable to SOCIMIs.

27. Events after the reporting period

On 8 January 2016, the Parent and a group of financial institutions executed a syndicated loan for EUR 1,700 million in a deed. The purpose of this financing is to cancel the mortgage debt of Testa Inmuebles en Renta SOCIMI, S.A. amounting to EUR 1,279 million, as well as the bridge loan signed by the Parent to finance a portion of the purchase of the aforementioned company for EUR 350 million.
The unsecured syndicated loan is divided into two tranches.

1. EUR 850 million maturing in June 2021 bearing interest at Euribor +160 basis points. This entire tranche is due at maturity.

2. EUR 850 million maturing in two years (December 2017) bearing interest at Euribor +100 basis points. The Parent's intention is to refinance this tranche through the issue of corporate bonds.

An interest rate swap was also entered into in relation to this tranche with the same maturity as Tranche A, for 70% of the notional amount, i.e., EUR 595 million and with a derivative cost of 0.0981%.

Appendix I
2015 Subsidiaries and associates

Company	Line of Business / Address	Ownership interest	Thousands of euros Share capital	Profit/(Loss) From operations	Profit/(Loss) Net	Other equity	Total equity
Tree Inversiones Inmobiliarias, SOCIMI, S.A.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 42, Madrid	100%	9,323	98,705	51,167	(17,561)	42,929
Merlin Logística, S.L.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 42, Madrid	100%	6,453	5,902	5,803	53,739	65,995
Merlin Retail, S.L.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 42, Madrid	100%	13,093	14,288	10,719	110,381	134,193
Merlin Oficinas, S.L.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 42, Madrid	100%	14,828	20,846	18,224	115,131	148,183
MPEP – Properties Escritórios Portugal, S.A.	Acquisition and development of property assets for lease / Rua Eça de Queirós 20, Lisbon	100%	50	(2)	(2)	-	48
MPCVI – Compra e Venda Imobiliária, S.A.	Acquisition and development of property assets for lease / Rua Eça de Queirós 20, Lisbon	100%	1,050	668	158	5,275	6,483
Merlin Logística II, S.L.U.	Acquisition and development of property assets for lease / Paseo de la Castellana 42, Madrid	100%	300	405	(284)	4,332	4,348
Testa Inmuebles en Renta SOCIMI, S.A.	Acquisition and development of property assets for lease / Paseo de la Castellana 83-85, Madrid	77.32%	30,794	16,248	(12,291)	594,485	612,988
Obraser, S.A.	Acquisition and development of property assets for lease / Paseo de la Castellana 42, Madrid	100%	601	1,377	1,430	4,725	6,756
Centro Intermodal de Logística S.A. (CILSA)	Development, management and performance of logistics activities in the port system / Avenida Ports d'Europa 100, Barcelona	32%	15,467	12,289	5,939	53,252	74,658
Trade Center Hotel, S.L.U.	Property rental / Avda. Diagonal, 490, Barcelona	100%	12,020	4,243	3,174	22,365	37,559
Testa Residencial, S.L.U.	Property rental / Paseo de la Castellana, 83-85, Madrid	100%	102,696	5,031	7,155	39,201	149,052
Testa American Real Estate Corporation (b)	Property rental / 1111 Brikell Avenue, Miami, US	100%	73,000	(267)	1,339	105,091	179,430

Company	Line of Business / Address	Ownership interest	Share capital	Profit/(Loss) From operations	Profit/(Loss) Net	Other equity	Total equity	D r
			Thousands of euros					
Gesfontesta, S.L.U.	Rendering of services / Paseo de la Castellana, 83-85, Madrid	100%	571	410	313	143	1,027	
Gescentesta, S.L.U.	Rendering of services / Paseo de la Castellana, 83-85, Madrid	100%	3	258	187	1	191	
Gesfitesta, S.L. (formerly, Itaceco, S.L.U.)	Inactive / Paseo de la Castellana, 83-85, Madrid	100%	6	(231)	(172)	311	145	
Prosacyr Hoteles, S.A.	Inactive / Paseo de la Castellana, 83-85, Madrid	100%	180	(1)	-	4,103	4,283	
Bardiomar, S.L.	Property rental / Ctra. Las Rozas-El Escorial km 0.3, Madrid	50%	7,631	2,565	3,874	4,787	16,292	
Provitae Centros Asistenciales, S.L.	Property rental / C. Fuencarral, 123, Madrid	50%	6,314	(22)	(58)	151	6,407	
PK. Inversiones 22, S.L.	Rendering of services / C. Príncipe de Vergara, 15, Madrid	50%	60	-	-	(24)	36	
Pazo de Congresos de Vigo, S.A.	Execution, construction and operation of the Vigo Convention Centre / Avda. García Barbón, I, Vigo	44.44%	11,100	(266)	(1,426)	(570)	9,104	
PK. Hoteles 22, S.L.	Property rental / C. Príncipe de Vergara, 15, Madrid	32.50%	5,801	242	337	(1,339)	4,799	
Parking del Palau, S.A.	Property rental / Paseo de la Alameda, s/n, Valencia	33%	1,998	61	136	330	2,464	

(a) In 2015 the Parent received a dividend of EUR 5,774 thousand, in accordance with the dividend payout approved by the shareholders of Testa at the Annual General Meeting. To the extent that the aforementioned dividend corresponds to results obtained prior to the Parent's acquiring an ownership interest in Testa, it was recognised less the cost of said acquisition.

(b) Amounts expressed in USD

2014 Subsidiaries and associates

Company	Registered office	Activity	% interest 2014	Net cost at 31/12/2014	Share capital	Profit/(Loss)	Other equity	Auditor
				Thousands of euros				
Tree Inversiones Inmobiliarias SOCIMI, S.A.U.	Castellana 42, Madrid	Acquisition and development of property assets for	100%	657,984	9,323	(27,169)	36,144	Deloitte

		lease						
Bosque Portfolio Management, S.L.	Castellana 42, Madrid	Acquisition and development of property assets for lease	100%	-	3	(288)	311	Deloitte
Merlin Logística, S.L.U.	Castellana 42, Madrid	Acquisition and development of property assets for lease	100%	3	3	158	(1)	Deloitte
Merlin Retail, S.L.U.	Castellana 42, Madrid	Acquisition and development of property assets for lease	100%	3	3	1,880	(1)	Deloitte
Merlin Oficinas, S.L.U.	Castellana 42, Madrid	Acquisition and development of property assets for lease	100%	3	3	(5,365)	(1,182)	Deloitte

MERLIN PROPERTIES, SOCIMI, S.A.

Authorisation for Issue of Financial Statements and Directors' Report for 2015

On 26 February 2016, the Directors of MERLIN PROPERTIES, SOCIMI, S.A. in compliance with the provisions of Article 253.2 of the Consolidated Text of the Spanish Companies Law and Article 37 of the Spanish Commercial Code, have authorised for issue the financial statements and directors' report for the year ended 31 December 2015. The financial statements consist of the attached documents preceding this page.

Signed:

Ismael Clemente Orrego (Chairman)	Miguel Ollero Barrera
Fernando Ortiz Vaamonde	Ana García Fau
Alfredo Fernández Agras	George Donald Johnston
Maria Luisa Jordá Castro	Ana de Pro Gonzalo
John Gomez Hall	Hammad Waqar Sajjad Khan
Mónica Martín de Vidales Godino Non-director secretary	Ildefonso Polo del Mármol Non-Director deputy secretary

Madrid, on 26 February 2016