



METROVACESA, S.A.

Report on Limited Review of Condensed Interim
Consolidated Financial Statements



REPORT ON LIMITED REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To the shareholders of Metrovacesa, S.A. at the request of the Management:

Introduction

We have performed a limited review of the accompanying condensed interim consolidated financial statements (hereinafter, the interim financial statements) of Metrovacesa, S.A. (hereinafter, “the parent company”) and its subsidiaries (hereinafter, “the group”), which comprise the statement of financial position as at June 30, 2018, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all condensed and consolidated, for the six months period then ended. The parent company’s directors are responsible for the preparation of these interim financial statements in accordance with the requirements of International Accounting Standard (IAS) 34, “Interim Financial Reporting”, as adopted by the European Union, for the preparation of condensed interim financial information, as provided in Article 12 of Royal Decree 1362/2007. Our responsibility is to express a conclusion on these interim financial statements based on our limited review.

Scope of Review

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

Conclusion

Based on our limited review, that cannot be considered as an audit, nothing has come to our attention that causes us to believe that the accompanying interim financial statements for the six months period ended June 30, 2018 have not been prepared, in all material respects, in accordance with the requirements of International Accounting Standard (IAS) 34, “Interim Financial Reporting”, as adopted by the European Union, for the preparation of condensed interim financial statements, as provided in Article 12 of Royal Decree 1362/2007.

Emphasis of Matter

We draw attention to Note 2, in which it is mentioned that these interim financial statements do not include all the information required of complete consolidated financial statements prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, therefore the accompanying interim financial statements should be read together with the consolidated annual accounts of the group for the year ended December 31, 2017. Our conclusion is not modified in respect of this matter.

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Other Matters

Interim consolidated directors' Report

The accompanying interim consolidated directors' Report for the six months period ended June 30, 2018 contains the explanations which the parent company's directors consider appropriate regarding the principal events of this period and their impact on the interim financial statements presented, of which it does not form part, as well as the information required under the provisions of Article 15 of Royal Decree 1362/2007. We have verified that the accounting information contained in this directors' Report is in agreement with that of the interim financial statements for the six months period ended June 30, 2018. Our work is limited to checking the interim consolidated directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Metrovacesa, S.A. and its subsidiaries' accounting records.

Preparation of this review report

This report has been prepared at the request of Management in relation to the publication of the half-yearly financial report required by Article 119 of Royal Legislative Decree 4/2015 of 23 October, approving the revised text of the Securities Market Law developed by the Royal Decree 1362/2007, of 19 October.

PricewaterhouseCoopers Auditores, S.L.

Original in Spanish signed by Gonzalo Sanjurjo Pose

July 24, 2018

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

METROVACESA, S.A. AND SUBSIDIARIES

Condensed Interim Consolidated Financial Statements
and interim consolidated Director's Report for
the six-month period ended 30 June 2018

CONDENSED INTERIM CONSOLIDATED BALANCE SHEET
(Expressed in thousand euro)

ASSETS	<u>Note</u>	<u>30/06/2018</u>	<u>31/12/2017</u>
Non-current assets			
Property, plant, equipment and intangible assets		770	571
Investment property	6	357,485	370,577
Investments accounted for using the equity method	7	-	-
Non-current financial assets	8,10	78,152	78,153
Derivative financial instruments		416	-
Deferred tax assets	13	111,087	98,594
Total non-current assets		547,910	547,895
Current assets			
Inventories	9	1,927,700	1,906,030
Trade and other receivables	8,10	8,468	30,473
Taxation authorities, receivables	10	6,802	10,835
Other current financial assets		454	1,472
Cash and cash equivalents	11	77,706	50,332
Total current assets		2,021,130	1,999,142
Total assets		2,569,040	2,547,037

The accompanying notes 1 to 20 are an integral part of the condensed consolidated interim financial statements.

CONDENSED INTERIM CONSOLIDATED BALANCE SHEET
(Expressed in thousand euro)

	<u>Note</u>	<u>30/06/2018</u>	<u>31/12/2017</u>
EQUITY			
Equity attributable to the Company's shareholders			
	12		
Share capital		1,092,070	1,092,017
Share premium		1,378,297	1,378,214
Retained earnings		(78,592)	(69,807)
Reserves at companies accounted for using equity method		(2,675)	(3,275)
Treasury shares		(1,955)	-
Other equity holder contributions		9,109	-
Other equity instruments		575	-
Valuation adjustments		(369)	-
Non-controlling interest		93	227
Total equity		2,396,553	2,397,376
LIABILITIES			
Non- current liabilities			
Provisions	13	7,835	16,594
Borrowings	14	50,033	52
Trade and other payables	14	7,083	6,312
Deferred tax liabilities		6,994	5,442
Total non- current liabilities		71,945	28,400
Current liabilities			
Provisions	13	23,131	13,545
Borrowings	14	16,108	47,509
Trade and other payables	14	54,545	45,762
Taxation authorities, taxes payable	14	6,758	5,687
Deferred income	17	-	8,758
Total current liabilities		100,542	121,261
Total liabilities		172,487	149,661
Total equity and liabilities		2,569,040	2,547,037

The accompanying notes 1 to 20 are an integral part of the condensed consolidated interim financial statements

CONDENSED INTERIM CONSOLIDATED INCOME STATEMENT

(Expressed in thousand euro)

	<u>Note</u>	6 month period ended 30 June 2018	6 month period ended 30 June 2017
CONTINUING OPERATIONS			
Sales	16.a	48,644	7,032
Cost of sales	16.b	(44,424)	(5,486)
Employee benefits expense	16.c	(5,972)	(2,618)
Depreciation/amortization		(77)	-
External services		(8,232)	(1,364)
Changes in trade provisions	16.d	5,909	(15,749)
Result on investment property disposals	6	(84)	
Changes in value of investments properties	6	1,676	1,712
Other gain and losses	1.b	(1,222)	197
OPERATING RESULTS		(3,782)	(16,276)
Financial income		1,487	24
Financial cost		(4,429)	(1)
Capitalised finance cost		(428)	-
Results of companies accounted using the equity method		-	221
FINANCIAL INCOME / (EXPENSE)		(3,370)	244
PROFIT / (LOSS) BEFORE INCOME TAX		(7,152)	(16,032)
Income tax		(1,116)	27
PROFIT / (LOSS) FOR THE PERIOD		(8,268)	(16,005)
Attributable to:			
Owners of the parent		(8,268)	(16,005)
Non-controlling interests		-	-
Earnings / (losses) per share (Euro)	4		
- Basic		(0.0545)	(0.2342)
- Diluted		(0.0545)	(0.2342)

The accompanying notes 1 to 20 are an integral part of the condensed consolidated interim financial statements

CONDENSED INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Expressed in thousand euro)

	6 month period ended 30 June 2018	6 month period ended 30 June 2017
Profit(Loss) for the period	(8,268)	(16,005)
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges	(369)	-
Other results	(369)	-
Items that will not be reclassified subsequently to profit or loss		
Other results	-	-
Total comprehensive income for the period	(8,637)	(16,005)

The accompanying notes 1 to 20 are an integral part of the condensed consolidated interim financial statements

CONDENSED INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX - MONTH PERIODS ENDED 30 JUNE 2018 AND 2017

(Expressed in thousand euro)

	Share capital (Note 12)	Share premium (Note 12)	Retained earnings (Note 12)	Total equity
Balance at 1 January 2017	492,045	541,077	(33,947)	999,175
Net profit/ (loss) for the period	-	-	(16,005)	(16,005)
Total income and expense recognised in the period	-	-	(16,005)	(16,005)
Balances at 30 June 2017	492,045	541,077	(49,952)	983,170

	Share capital (Note 12)	Share premium (Note 12)	Retained earnings (Note 12)	Reserves at companies accounted for using the equity method (Note 12)	Treasury shares (Note 12)	Other equity holder contributions (Note 12)	Other equity instruments (Note 12)	Valuation adjustments (Note 12)	Non-Controlling interest (Note 12)	Total equity
Balance 1 January 2018	1,092,017	1,378,214	(69,807)	(3,275)	-	-	-	-	227	2,397,376
Share capital increase			(8,268)							(8,268)
Cash flow hedges								(369)		(369)
Other comprehensive income			(8,268)					(369)		(8,637)
Share capital increase	53	83							(136)	-
Movements in equity – accounted associated			(600)	600						-
Transaction with shares or treasury shares			94		(1,955)					(1,861)
Equity holder contributions						9,109				9,109
Other movements			(11)				575		2	566
Balance 30 June 2018	1,092,070	1,378,297	(78,592)	(2,675)	(1,955)	9,109	575	(369)	93	2,396.553

The accompanying notes 1 to 20 are an integral part of the condensed interim consolidated financial statement

CONSOLIDATED INTERIM CASH-FLOW STATEMENTS FOR THE SIX-MONTH PERIODS ENDED 30 JUNE 2018 AND 2017

(Expressed in thousand euro)

	6 month period ended 30 June 2018	6 month period ended 30 June 2017
CASH FLOW FROM CONTINUING OPERATIONS		
1. CASH FLOW FORM OPERATING ACTIVITIES		
Profit/ (loss) for the period before tax	(7,152)	(16,032)
Adjustments for:		
Amortisation and depreciation	77	-
Valuation allowances for impairment losses	(5,909)	15,749
Changes in value of investment properties	(1,676)	(1,712)
Financial income	(1,488)	(24)
Financial cost	4,857	1
Other income and expenses	1,222	-
Other adjustments	(8,130)	-
Adjusted profit/ (loss)	(18,199)	(2,018)
Changes in working capital:		
- Inventories	(10,309)	(10,663)
- Trade and other receivables	3,698	4,563
- Other financial current assets	952	(463)
- Trade and other payables	19,474s	(7,561)
- Other current liabilities	1,440	(1,738)
- Other non-current liabilities	(4,943)	(149)
Other cash flows from operating activities		
- Interest paid (-)	(2,702)	(1)
- Interest collected	170	24
Total net cash flows from operating activities	(10,419)	(18,006)
2. CASH FLOWS FORM INVESTING ACTIVITIES		
Payments for Investments in:		
Group companies and associates	(12)	-
Intangible assets	(223)	-
Property, plant equipment	(54)	-
Investments properties	(385)	(188)
Financial non-current assets	(1,268)	-
Derivative financial instruments	(785)	-
	(2,727)	(188)
Proceeds from sale of investments:		
Investments properties	14,084	-
Total net cash flows from investing activities	11,357	(188)
3. CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of treasury shares	(6,957)	-
Disposal of own equity instruments	5,097	-
Equity holder contributions	10,199	-
Proceeds from borrowings	74,551	6,091
Repayment of borrowings	(56,454)	-
Total net cash flows from financing activities	26,436	6,091
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	27,374	(12,103)
Cash and cash equivalents at beginning of the period	50,332	32,464
Cash and cash at end of the period	77,706	20,361

The accompanying notes 1 to 20 are an integral part of the condensed interim consolidated financial statements

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2018

(Expressed in Euro Thousand)

Free translation of the condensed consolidated interim financial statements for the six month period ended June 30, 2018 originally issued in Spanish. In the event of a discrepancy, the Spanish language version prevails.

1. GENERAL INFORMATION

a) General information:

Metrovacesa Suelo y Promoción, S.A. was incorporated for an open-ended period as a result of the partial split of Metrovacesa, S.A. (hereinafter "old Metrovacesa") on 18 February 2016.

On 11 January 2016 the General Shareholders' Meeting approved the partial split, without extinction, of Metrovacesa, S.A. consisting of the spin-off of the assets and liabilities pertaining to its land and property development business and constituting an independent economic unit, in favour of a new company "Metrovacesa Suelo y Promoción, S.A.", owned by the shareholders of old Metrovacesa, S.A., in the same proportion they held at the time the split was completed.

As a result of that split, Metrovacesa Suelo y Promoción, S.A. and subsidiaries form a group which acquired through universal succession the assets and liabilities pertaining to the land and development business of old Metrovacesa, S.A. As a result of this capital restructuring, Metrovacesa, S.A. contributed assets amounting to €1,149,635 thousand and liabilities amounting to €109,780 thousand to the new company (section b).

On 30 June 2017, the General Shareholder's meeting of the Parent Company agreed to change its corporate name to Metrovacesa, S.A. subject to compliance with certain suspensory conditions. This change has been registered in the Mercantile Registry of Madrid on 29 November 2017.

Metrovacesa S.A. (before Metrovacesa Suelo y Promoción, S.A.) is the parent of the Metrovacesa Group (the Group), comprising the subsidiaries detailed in Appendix 1.

Its registered office is currently located at calle Quintanavides, number 13, Parque Empresarial Vía Norte, Madrid.

The corporate purpose of Metrovacesa, S.A., as the parent, and subsidiaries are mainly as indicated in Article 2 of the Bylaws:

- The acquisition or building of all kinds of properties and structures for building or improvement for subsequent sale.
- The promotion, development and segmentation of buildings in general.
- The acquisition of land, land for development or any kind of real property rights for sale. The performance of actions, directly or through subsidiaries, related to:
 - i. Property management on its own behalf or in favour of third parties.
 - ii. Promotion and management of homeowners associations.
- The performance of renovation, refurbishment or positioning work on complete buildings or part of them.
- The creation, formation and exploitation and development of all kinds of estates.
- Technical advice and the performance of studies and projects related to real estate activities, and in particular, the promotion and performance of the necessary technical development, legal and commercial actions to start up, build or in any other way exploit Residential areas, Car Parks, Residential facilities for seniors and students, hotels and any other type of community or social facilities.
- Participate, as determined by the Board of Directors, in the capital of other companies with analogous objects to those described above.

b) Financial information concerning the assets and liabilities contributed to the Company on its incorporation

The Company acquired the obligations of old Metrovacesa, SA which formed part of the assets and liabilities split. Therefore the Company continues to be party to all the relations, rights and obligations which might pertain to old Metrovacesa, S.A.

Ownership of the assets and liabilities split pertains to Metrovacesa, S.A. (before Metrovacesa Suelo y Promoción, S.A) that is automatically authorised without interruption to carry out all kinds of acts, of disposals, control and encumbrances in respect of such assets and liabilities. The delivery of the assets and liabilities split was formalised on 18 February 2016 through the deed registering the capital increase with the monetary contributions of the three majority shareholders. However, as this operation was defined as one under common control with the contribution of a line of activity qualifying as a business, all transactions were recognised as from 1 January 2016 which is therefore the date taken into account for accounting purposes. In this case, the values recognised were the predecessor values at which the assets and liabilities were carried in the contributing party.

The main assets and liabilities set out in such deeds were as follows:

ASSETS	<u>18/02/2016</u>
Investments in group companies and associates	122,868
Inventories	775,819
Receivables with group companies and associates	148,143
Other current financial assets	102,805
Total assets	1,149,635
LIABILITIES	
Payables with group companies and associates	43,699
Other liabilities	66,081
Total liabilities	109,780
Net assets and liabilities	1,039,855

c) Significant operations during the year 2017

c.1) Non-monetary capital increase.

On 30 June 2017 the Company's General Shareholders' Meeting passed a motion to carry out a non-monetary capital increase through the contribution of real estate assets by the majority shareholders. On 6, 10 and 11 July 2017 the majority shareholders (Banco Bilbao Vizcaya Argentaria Group, Banco Popular Group and Banco Santander Group) subscribed and paid through a public document a total of 2,928.896,379 shares through a contribution of property with a market value of €1,107,783 thousand.

As envisaged in the public documents registering the non-monetary capital increase described above, the deed for the final execution of the agreement was formalised on 15 September 2017, and the status of certain assets associated with the suspensive clauses was updated, thereby modifying the transaction amount. The final share issue connected with the non-monetary capital increase amounted to 2,901,243,704 shares through a contribution of properties (land and leased property) amounting to €1,097,324 thousand.

By nature, the assets contributed were land and lots amounting to €941,222 thousand, buildings under construction amounting to €115,061 thousand and leased assets amounting to €41,014 thousand. As there is a contribution of assets not qualifying as a business, the assets were contributed at their fair value. IFRS 3 has not been applied as the assets in question are individual plots of land without own management which cannot generate value unless they are managed by the recipient. Therefore, the definition of a business contained in paragraph B7 of the guidance on the application of IFRS 3 is not met.

Details by company are as follows:

Contributing shareholder	Shares assigned (thousand euro)	Par value (thousand euro)	Share premium (thousand euro)	Total contribution (thousand euro)
Banco Santander Group	1,491,050	238,568	325,385	563,953
Banco Bilbao Vizcaya Argentaria Group	1,140,619	182,499	248,912	431,411
Banco Popular Español Group	269,575	43,132	58,828	101,960
Total	2,901,244	464,199	633,125	1,097,324

The shares of Banco Santander Group do not include the shares that this group has in the Company through its participation in Banco Popular Spanish Group. The Directors of the Company have considered appropriate to detail both groups separately in order to be comparable with the data for the year 2016.

c.2) Monetary capital increase

In addition, during the same General Meeting the Shareholders approved a monetary capital increase of €834 thousand. The majority shareholders waived all preferential subscription rights, the minority shareholders thus retaining their ownership interest in the parent company. 224,059 shares were subscribed in the increase, amounting to a total of €84 thousand. (€36 thousand in capital and €48 thousand in respect of the share premium).

c.3) Non-monetary capital increase

On 24 November 2017 the Group's parent company passed the motion through its Board of Directors to submit a proposal to the Extraordinary General Shareholders' Meeting to increase capital at a premium by charge to the non-monetary contribution. This capital increase will be subscribed by the shareholders of Metrovacesa Promoción y Arrendamiento, S.A. (MPYA), and the parent company will acquire at least 99.926% of the share capital of MPYA. It will be completed via two successive capital increases as detailed below:

- An initial capital increase through non-monetary contributions consisting of shares contributed by the Company's majority shareholders (Santander Group and BBVA Group), owing 99.926% of the company's share capital. The shares were subscribed as soon as the pertinent motion was approved by the Extraordinary General Shareholders' Meeting. The overall amount of the capital increase was €316,728,724 (par value €135,737,331, share premium €180,991,393). The issue rate was calculated based on existing valuations based on Net Net Asset Value (NNAV) at 30 June 2017, so the initial value of the investment in MPYA is higher than the one that appears in the deed for the increase in value of the assets in said period, reflecting said difference against the share premium (22,972 thousand euros). The book value of MPYA's owned assets amounted to 323,878 thousand euros. As of November 2017, the value of MPYA's owned net assets amounted to 339,700 thousand euros.
- A second capital increase through non-monetary contributions consisting of shares making up the share capital of MPYA, aimed exclusively at MPYA's minority shareholders. The minority shareholders of MPYA are a heterogeneous group and their interest in its share capital stands at 0.074%. In this case, a one month subscription period was established in order to enable MPYA's minority shareholders to make known the agreement proposed.

The overall non-monetary capital increase (that aimed at the majority shareholders as well as that aimed the minority shareholders) was classed as an acquisition of a group of assets in accordance with IFRS-EU and is

recognised on the acquirer's balance sheet at fair value, on the understanding that MPYA does not meet the definition of a business set out in the Guidance of the Application of IFRS 3 (paragraph B7), the assets contributed being land not part of an integrated set of actively managed activities until its future integration in the Group's activities.

The transaction falls into the category of operations under common control and has been classified as an asset contribution as the assets contributed cannot be individually considered a business. The impact on the consolidated income statement relates only to those impacts generated from the date of the contribution, amounting to 1,572 thousand euro.

The assets and liabilities recognised at fair value that have impacted the value of the interest are as follows:

ASSETS	<u>24/11/2017</u>
Investment properties assets	305,358
Other assets	41,880
Total assets	347,238
LIABILITIES	
Other liabilities	(7,538)
Total liabilities	(7,538)
Net assets	339,700
Positive impact due to integration of MPyA (net assets and liabilities – Capital increase amount)	22,972

d) Relevant operations during the period 1 January to 30 June 2018

- Non-cash capital increase

On 8 January 2018, 331,206 shares in Metrovacesa, S.A. with a par value of €0.16 each and a total share premium of €83 thousand were issued, having been fully subscribed and paid up through the contribution of 1,200,191 shares in MPYA with a par value of €0.10 each.

Metrovacesa, S.A. thereby obtained an additional 0.039% stake in MPYA that was held by non-controlling shareholders.

- Countersplit

On 19 December 2017, Metrovacesa's Extraordinary General Shareholders' Meeting resolved to carry out a countersplit, grouping together and redeeming the 6,825,435,539 shares forming the Company's share capital at a rate of one new share for every forty-five former shares, so that share capital currently consists of 151,676,341 newly issued shares. Consequently, the unit par value of the shares has risen from €0.16 to €7.20000001476829, while share capital remains at €1,092,069,657.44. The resolution was executed in a public deed on 11 January 2018.

The General Meeting authorised the acquisition of treasury shares as necessary due to the countersplit, among other reasons.

- Shareholder contributions

On 29 January 2018, the majority shareholders made a contribution of €9,050 thousand to shareholders' funds to cover the tax impact of the non-cash contribution of the shares in Metrovacesa Promoción y Arrendamiento, S.A. (see Note 1.c3).

Additionally, on 5 February 2018, the majority shareholders contributed €1,150 thousand to shareholders' funds to cover the costs of the Management Incentive Plan ("MIP") (Note 12).

- Flotation

On 6 February 2018, the Company's shares were listed on the Madrid, Barcelona, Valencia and Bilbao stock exchanges with an admission price of €16.50 per share.

The majority shareholders listed 39,130,435 shares at a unit value of €16.50 per share.

- Long-term Incentive Plan

On 19 December 2017, the Extraordinary General Shareholders' Meeting approved the launch of a Long-Term Incentive Plan ("LTIP") targeting current and future Executive Directors, members of the Management Committee, Department Directors, Territorial Directors and key employees. The maximum amount approved is €6,080 thousand and will be settled in shares at the end of each of the three plan cycles. The main features of the plan are set out in the admission to listing prospectus, which is available in the parent company's website and at the Spanish National Securities Market Commission (CNMV).

The first LTIP cycle has an approved maximum amount of €3,040 thousand, of which €869 thousand is pending allocation to the beneficiaries. Fulfilment is subject to metrics referenced i) 50% to the Company's share price and ii) 50% to operating results. The vesting period ends on 31 December 2020.

On the basis of Company management's best estimates, the amount recognised in the interim financial statements is €389 thousand, in the item "Other equity instruments" (Note 12).

- e) Consolidation perimeter changes

During 2018, the company "Valdicsa, S.A.", which was carried as an equity investment having a net value of €0 thousand at year-end 2017, was liquidated as agreed by its respective shareholders.

The Group held a 33.33% interest in the company, a loss of €1,222 thousand having been recognised in the consolidated income statement item "Other profit/(loss)".

On 24 November 2017, Metrovacesa, S.A.'s Board approved the vertical merger of the companies Metrovacesa S.A. (acquiring company), Atlantys Espacios Comerciales, S.L.U. (target) and Habitatrix, S.L. (target). Following the creditor objection period and the filing of the merger plan at the Commercial Registry, the merger was executed in a public deed on 31 January 2018. As a result of this operation, the companies Atlantys Espacios Comerciales, S.L.U. and Habitatrix, S.L. were absorbed and extinguished at 1 January 2017 for accounting purposes.

Additionally, on 24 November 2017, as a result of the acquisition of a 99.926% stake in Metrovacesa Promoción y Arrendamiento S.A., the company was included in the consolidation scope together with its subsidiaries (Vailen Management S.L., Global Carihuella Patrimonio no Estratégico, S.L.U. and Desarrollo de infraestructuras de Castilla, S.A.) and its associate (Valdicsa, S.A.)

The consolidation perimeter at 30 June 2018 and 31 December 2017 is detailed in Appendix I to these condensed interim consolidated financial statements.

The annual accounts of Metrovacesa, S.A. (parent company) and the consolidated annual accounts of Metrovacesa, S.A. and subsidiaries for 2017 were approved by the Annual General Meeting on 19 June 2018.

These condensed interim consolidated financial statements ("interim financial statements") were drawn up and approved by the Board of Directors on 23 July 2018. These condensed interim consolidated financial statements have undergone a limited review but have not been audited.

2. BASIS OF PRESENTATION

These interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) adopted by the European Union (referred to together as IFRS-EU), in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council and successive amendments.

The condensed interim consolidated financial statements for the six-month period ended 30 June 2018, which have been obtained from the accounting records of the parent company and the other companies forming the Group at 30 June 2018, have been drawn up in compliance with IAS 34 "Interim financial reporting" and must be read together with the consolidated annual financial statements for the year ended 31 December 2017, prepared under the International Financial Reporting Standards adopted by the European Union (IFRS-EU).

The preparation of these interim consolidated financial statements under IFRS-EU requires the use of certain critical accounting estimates. Management must also exercise judgement in the process of applying the Group's accounting policies. Note 2.2 discloses the areas that require a higher level of judgement or entail greater complexity, and areas where assumptions and estimates have a significant effect on the interim consolidated financial statements.

The figures contained in these condensed interim consolidated financial statements are expressed in thousands of euros, unless otherwise indicated.

The Group's accounting policies are consistent with those applied in the annual financial year and the relevant interim reporting period, except for the estimation of income tax (Note 2.8.e) and the adoption of new and amended standards as indicated below.

2.1 Entry into force of new accounting standards

When preparing the condensed interim consolidated financial statements, the Group has applied the new standards applicable for the first time this year, which did not entail any impact on the opening balances of reserves or restatement of prior-year comparative figures.

- **IFRS 9 - Financial instruments:** IFRS 9 supersedes IAS 39 as from the financial year commencing on 1 January 2018 and affects both financial asset and financial liability instruments. The new asset classification approach is based on the contractual features of the asset cash flows and the entity's business model, entailing a name change but not having any impacts on the values of the Group's financial assets and liabilities.

Additionally, as regards contract modifications to financial liability instruments which, under IAS 39, did not give rise to a write-off since they were classed as non-substantial changes, the new standard states that they must be recognised as a change in the estimate of contractual flows from the liability, maintaining the original effective interest rate and adjusting the carrying amount at the modification date, the difference being taken to the income statement. As all the Group's borrowings are new, this change has had no impact.

The new standard provides a financial asset impairment model based on expected losses, as compared with the former incurred loss model. The Company has analysed credit risk affecting financial assets as from initial recognition, concluding that there is no accounting impact on its model since financial assets, mainly accounts receivable from property sales, and related collections are settled at the same time as the income is recognised, so there is no credit risk. Advance payments from customers are collected before the income is recognised and a liability is simultaneously recorded in the same amount. The Group therefore considers that credit risk relating to advance payments is covered by the liabilities recognised, so the new standard has no impact. Additionally, the Group records a significant debt the recoverability of which has been analysed individually taking into account the expected loss and counterparty credit risk, so the application of the new standard has had no additional impacts.

- **IFRS 15 – Revenue recognition:** IFRS 15 is the new standard for recognising revenue from customers and is applicable as from 1 January 2018. The new five-step revenue recognition model has had no impact on either the measurement of revenue or the timing of recognition, so no adjustments to the initial reserve balance have been recognised on the first-time adoption of this standard.

Metrovacesa recognises revenue when ownership of the property is transferred, as was the case under IAS 18. This coincides with the date the sale and purchase agreement is executed in a public deed. Revenue is carried at the property transfer price and no significant financial impact has been identified in respect of advance payments from customers, which are recognised at the collection date together with a liability reflecting the obligation to hand over the property.

Incremental costs of obtaining a contract, specifically sale commissions, are recorded in balance sheet assets as prepaid expenses to the effective transfer of ownership of the property and recognition of the revenue, as in the past. The expense is capitalised provided that the entity expects to recover the costs through the sale of the assets.

Standards issued but not in force

The Group intends to adopt the standards, interpretations and amendments to the standards issued by the IASB that are not mandatory in the European Union at the date of these condensed interim consolidated financial statements, when they come into effect, if they are applicable.

- **IFRS 16 – Leases:** This will supersede IAS 17 – Leases in periods commencing on or after 1 January 2019. This new standard proposes a single model for the lessee in which all leases (immaterial leases and leases having a term of less than 12 months may be excluded) will be carried in the balance sheet in a similar way to the current finance leases and maintains a dual model for the lessor based on the current IAS 17, distinguishing between finance and operating leases.

The Group records operating leases for its representative offices and the Madrid headquarters, which will cause an increase in financial assets and liabilities in respect of future payment obligations, although the impact on the consolidated annual accounts will not be material.

2.2 Changes to accounting policies and estimates made

The preparation of condensed interim consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the amounts presented in assets, liabilities, income and expenses. Actual results may differ from these estimates. During the preparation of these interim financial statements, significant judgements made by Management when applying the Group's accounting policies and the key sources of uncertainty in estimates are the same as for the consolidated annual accounts for the year ended 31 December 2017, except for the changes made to estimates when calculating the income tax provision.

As part of Management's estimates, a sensitivity analysis was performed on the main assumptions included in the valuations of real estate assets (Notes 6 and 9).

This sensitivity analysis was carried out on the portfolio of residential land, treating as key assumptions the selling prices and internal rates of return, which implicitly include the time variable. In the case of the internal rates of return, sensitivity was set at +/- 100 basis points. Selling price sensitivities were estimated at +/- 100, 500 and 1,000 basis points.

Assumptions	Internal rates of return		Selling prices					
	1%	-1%	+1%	+5%	+10%	-1%	-5%	-10%
Market value	1,899,396	2,112,583	2,057,874	2,253,221	2,500,242	1,953,011	1,755,719	1,488,698
Change in market value	(104,542)	108,646	53,937	249,283	496,304	(50,927)	(248,219)	(515,240)

Management also performed sensitivity work on the tertiary land portfolio, using as key assumptions the internal rates of return, which implicitly include the time variable. In the case of the internal rates of return, sensitivity was set at +/- 100 basis points.

Assumptions	Internal rates of return	
	1%	-1%
Market value	599,120	771,895
Change in market value	(83,283)	89,493

In any event, the current and future situation in the property market could give rise to differences between the market value of the Group's real estate assets and their actual realisable value, which will be addressed prospectively.

2.3 Seasonality of the Group's transactions

Because of the type of work the Group companies do, there are no significant cyclical or seasonal transactions. No specific disclosures are therefore provided in these Notes to the consolidated interim financial statements at 30 June 2018.

2.4 Materiality

When determining which information from the different captions of the financial statements should be itemised, the Group has considered the materiality of such information in relation to the consolidated interim financial statements.

2.5 Going concern

At 30 June 2018, the Group records positive working capital of €1,920,588 thousand. As a result, the parent company's directors have drawn up these condensed half-yearly consolidated financial statements on a going concern basis.

2.6 Condensed consolidated cash flow statements

The terms employed in the condensed interim consolidated cash flow statement have the following meanings:

- Cash flows are inflows and outflows of cash and cash equivalents.
- Operating activities are the entity's main sources of ordinary revenue and other activities that may not be classed as investing or financing activities.
- Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities are those that bring about changes in the size and composition of shareholders' funds and of loans obtained by the entity.

For the purposes of preparing the condensed consolidated cash flow statement, "cash and cash equivalents" are deemed to include cash on hand and demand bank deposits, as well as highly-liquid short-term investments that may be easily converted into specific amounts of cash and are subject to immaterial risk of value changes.

The item "Other adjustments to profit/(loss)" relating to "cash flows from operating activities" mainly reflects the impact of advance payments from customers associated with land and developments entailing collections in prior periods but handed over in the current period.

2.7 Functional currency

The euro is the presentation currency of the consolidated interim financial statements as this is the functional currency of the environment in which the Group operates.

2.8 Accounting principles

The accounting principles adopted by the Group are the same as in the consolidated annual accounts for the year ended 31 December 2017, except for the aspects described below:

a) Income tax

Taxes accrued on the results posted in interim periods are calculated based on the tax rate that would be applicable to the forecast total annual profit/(loss).

b) Financial derivatives and hedge accounting

Financial derivatives are measured at fair value at both initial recognition and subsequent measurement. Resulting gains or losses are recognised depending on whether or not the derivative has been designated as a hedging instrument and, if so, on the type of hedge.

Hedging instruments are measured and accounted for by nature insofar as they are not or are no longer effective hedges.

As regards derivatives not qualifying for hedge accounting, fair value gains or losses are recognised immediately in the consolidated income statement.

The Group designates certain derivatives as hedges of a specific interest rate risk associated with recognised liabilities (cash flow hedge).

The Group documents at inception the relationship between the hedging instruments and hedged items, its risk management objectives and its strategy when arranging a number of hedging transactions. The Group also documents its assessment, at both inception and on an ongoing basis, of whether the derivatives used in hedging transactions are highly effective in offsetting changes in the cash flows of the items hedged.

The total fair value of a hedging derivative is classified as a non-current asset or liability if the time remaining to maturity of the hedged item is more than 12 months and as a current asset or liability if the time remaining to maturity of the hedged item is less than 12 months.

Cash flow hedge

The effective portion of changes in the fair value of the derivatives that are designated and qualify as cash flow hedges is recognised in consolidated other comprehensive income. The loss or gain relating to the ineffective portion is immediately recognised in financial income in the interim consolidated income statement.

Amounts accumulated in equity are recycled in the consolidated income statement in the periods in which the hedged item affects profit or loss. Gains or losses on the effective part of interest rate swaps covering floating rate loans are recognised as "Financial income/(expense)" in the income statement.

When a hedging instrument matures or is sold or when the requirements for hedge accounting are no longer fulfilled, any accumulated gain or loss in equity until that time continues to be accounted for in equity and is recognised when the forecast transaction is finally recognised in the income statement. When the forecast transaction is finally not expected to take place, the accumulated gain or loss in equity is transferred immediately to the consolidated income statement item "Financial income/(expense)".

c) Share capital

In the event that the Group's parent company's treasury shares are acquired, the consideration paid, including any directly attributable incremental cost, is deducted from equity until the shares are redeemed, reissued or sold. When treasury shares are subsequently sold or reissued, any amount received is taken to equity net of directly attributable incremental costs.

3. RISK EXPOSURE

The Group manages capital to ensure that the Group companies are able to continue as profitable businesses while maintaining the return for shareholders through the optimum debt/ equity balance.

In the first six months of 2018 the Group's overall strategy was marked by prudence, the focus being on managing the generation of cash by retaining its recurring business.

The Group's capital structure comprises debt, cash and equivalents and shareholders' funds, which include capital, reserves and retained earnings.

The Finance Department, that is responsible for financial risk management, reviews the capital structure and the ratio of net debt (defined as cash less third-party debt classified as bank borrowings) to gross asset value (GAV). In this respect, according to the Group's long-term forecast, the level of borrowings for this ratio does not exceed 25%.

At 30 June 2018 the ratio is 0.35%.

Net financial debt (thousand of euro)	30/06/2018
(+) Bank borrowings	72,120
(-) Available cash (Note 11)	(62,503)
(-) Other financial assets	(454)
	9,163
Market value of assets (GAV)	2,641,187

The Group basically differentiates between two types of financial risk:

Liquidity risk: this relates to the Group's possible inability to cover the payments it has already committed to make and/or commitments deriving from new investments.

Market risk:

1. Interest rate risks: this relates to the potential impact of an increase in interest rates on financial expenses in the consolidated interim income statement.
2. Credit risk: this relates to the impact of the non-payment of receivables on the consolidated interim income statement.
3. Exchange rate risk: this relates to the impact of variations in the exchange rate on the interim consolidated income statement.

Set out below are the control systems in place to mitigate these risks:

Liquidity risk

The Group determines its cash needs using basic tools:

1. Cash budgets with a 12 month timeline, with a monthly breakdown, updated monthly, prepared based on each area's cash budgets.
2. Cash budgets with a 30 day timeline, with a daily breakdown, updated daily, prepared based on payment commitments included in the Financial Reporting System.

These tools enable treasury needs to be identified in terms of amount and time, while planning for new financing needs.

The Group's liquidity policy consists of arranging committed credit facilities and temporary investments for an amount sufficient to cover forecast needs for a period based on the situation and expectations of debt and capital markets.

The Group's available cash position at 30 June 2018 amounts to €62,503 thousand (€38,307 thousand in 21/12/2017).

The Group has committed financing not used at 30 June 2018 amounting to €312,568 thousand (€349,154 thousand at 31 December 2017).

In light of the review of the 12 month cash budget and the sensitivity analyses performed by the Group, it may be concluded that in the following first semester of 2018 the parent company will be able to reasonably finance its operations, even in the event of tougher conditions on the property and lending markets.

Market risk

Interest rate risk

Interest rate fluctuations affect the fair value of assets and liabilities that bear a fixed rate of interest and future flows of assets and liabilities that bear a floating rate of interest. The risk resulting from shifts in interest rates is managed by arranging derivatives, the aim of which is to cover the Group's exposure to such risks

On 22 February 2018, the Company contracted a hedging instrument (CAP) as stipulated in the corporate finance agreement.

The Directors of the Company consider that a variation in the EURIBOR to which the bank debt currently disposed is referenced would not have a significant impact on the consolidated interim income statement.

Credit risk

The Group's credit risk arises basically from trade receivables. The estimated recoverable amounts of those that are regarded as doubtful are revised periodically through write-downs of results for the year.

A high proportion of debtors are national public entities with which the Group considers credit risk to be very limited.

With respect to private customers, management believes that credit risk is very limited because advance payments are requested from customers before any sale is made.

Transactions with financial institutions included in cash and cash equivalents and other financial assets consisting of short-term bank deposits are contracted with reputable banks.

Foreign exchange risk

At 30 June 2018 the Group has no exposure to the foreign exchange risk.

Fair value estimation

As regards assets and liabilities measured at fair value, the Group has followed the classification hierarchy defined in IFRS 13 based on the input data used to measure them and on market observability.

- Level 1: Quoted prices (unadjusted) in active markets for assets or liabilities identical to those that the entity may access at the measurement date.
- Level 2: Data distinguished from the quoted prices included in Level 1 that are observable for the assets or liabilities, directly or indirectly by means of valuation techniques employing observable market data.
- Level 3: Inputs not observable in the market for the asset or liability.

In accordance with the new IFRS 13, the hierarchical level at which an entire asset or liability is classified (Level 1, Level 2 or Level 3) is determined based on the lowest level input data used in the measurement, within the fair value hierarchy. Should it be possible to classify the input data used to measure the fair value of an asset or liability in different levels, the fair value measurement is entirely classified at the same fair value hierarchy level as the lowest level input data that is relevant to the measurement.

- Calculation of fair values, values in use and present values

Calculations of fair value, value in use and present value involve the determination of future cash flows and the use of assumptions related to the future values of the flows and to applicable discount rates. The estimates and assumptions made are based on past experience and on various other factors that are deemed reasonable in the circumstances.

The only assets carried at fair value by the Group are investment properties (Note 4).

4. EARNINGS/(LOSS) PER SHARE

- a) Diluted earnings/(loss) per share

Basic earnings or loss per share are calculated by dividing the net results attributed to the Group (after tax and minority interests) by the average weighted number of shares during that year.

	30/06/2018	30/06/2017
Profit/(loss) for the period	(8,268)	(16,005)
Weighted average number of shares outstanding	151,676	3,075,278
Basic earnings/(loss) per share (thousand euro)	(0.0545)	(0.0052)

On 19 December 2017, Metrovacesa's General Meeting resolved to carry out a countersplit which was executed in a public deed on 11 January 2018, grouping together and redeeming the 6,825,435,539 shares that formed the parent company's capital at a rate of one new share for every forty-five old shares.

Taking into consideration the countersplit, there would be an average number of 68,340 thousand shares and a basic loss per share of €0.2342 for the period 1 January 2017 to 30 June 2017.

- b) Diluted earnings/(loss) per share

Diluted earnings or loss per share are calculated in a similar manner to basic earnings or loss per share. However, the weighted average number of shares is adjusted to take into account the potentially dilutive effect of share options, warrants and convertible debt in effect at the end of each reporting period.

During the periods 1 January to 30 June 2018 and 2017 diluted earnings and loss per share of the Group agree with basic earnings and loss per share.

5. SEGMENT REPORTING

a) Segment criteria

The Company structures information by segment based on the Group's different lines of business.

The lines of business which are described below have been established based on the Group's organisational structure in place at 30 June 2018 and taking into account the nature of the products (residential, commercial and other) and the customers involved.

The Group's operations mainly focus on the development and sale of residential property on land classified as suitable for development (results are included in "Residential property development"). These are distinguished from profit or loss generated by the line of business not considered strategic such as commercial land promotion, the results of which are recognised under "Commercial property development".

Income and expenses which cannot be specifically assigned to any operational line or which result from decisions affecting the Group overall - including, expenses relating to activities affecting several lines of business- are allocated to a Corporate unit / other to which reconciling items will also be assigned and which will be included in Other.

When carrying out its operations in Spain, the Group does not regard geography as a segment for reporting purposes.

b) Basis and methodology used in compiling segment reporting

Segment reporting is based on the monthly reports prepared by Group management which are generated by the same IT application used to obtain all the Group's accounting data (SAP). It is reviewed by the management committee (comprising representatives of Management and the Board of Directors through the CEO) in order to take decisions on the assignment of resources and assess performance.

Segment revenue relates to revenue directly attributable to the segment. A segment's revenue includes sales resulting from promotions and developments of land and the profit / loss on sales of land made in the ordinary course of business. It does not include gains on the sale of investment property.

Segment expenses are the amounts arising from operating activities and directly attributable to the segment (such as costs to sell, external services and changes in trade provisions).

The information used by the management committee to take decisions includes the consolidated income statement (before tax).

Segment assets and liabilities are those directly related to the segment's exploitation, together with those assets and liabilities which may be directly allocated in accordance with the aforementioned distribution criteria. Nonetheless, Public administrations - payables and Cash and equivalents, are assigned to the line Corporate unit /Other, irrespective of their origin. The liabilities assigned to the segment do not include income tax payable.

	30/06/2018			
	Residential	Commercial	Other	Total
Non-current assets	338,726	200,698	8,486	547,910
Current assets	1,490,077	446,101	84,952	2,021,130
Non-current liabilities	(18,407)	(3,505)	(50,033)	(71,945)
Current liabilities	(76,275)	(11,273)	(12,994)	(100,542)
Net assets	1,734,121	632,021	30,411	2,396,553

	31/12/2017			
	Residential	Commercial	Other	Total
Non-current assets	337,996	200,841	9,058	547,895
Current assets	1,479,277	457,223	62,642	1,999,142
Non-current liabilities	(22,665)	(5,735)	-	(28,400)
Current liabilities	(62,244)	(7,503)	(51,514)	(121,261)
Net assets	1,732,364	644,826	20,186	2,397,376

There were no significant additions during the first six months of 2018. The main additions recognised in 2017 are as follows:

	01/01/2017 - 31/12/2017			
	Residential	Commercial	Other	Total
Investment properties				
Additions due to non- monetary contribution (Note 1.c1)	197,337	-	-	197,337
Additions due to non- monetary contribution (Note 1.c3)	-	68,586	-	68,586
Inventories				
Additions due to non- monetary contribution (Note 1.c1)	837,127	62,860	-	899,987
Additions due to non- monetary contribution (Note 1.c3)	-	255,292	-	255,292

Thousand of euro	01/01/2018 - 30/06/2018			
	Residential	Commercial	Other	Total
CONTINUING OPERATIONS				
Sales	26,248	22,141	255	48,644
- Sales of developments	26,036	120	-	26,156
- Sale of land	212	21,975	-	22,187
- Other	-	46	255	301
Cost of sales	(22,864)	(21,560)	-	(44,424)
Employee benefits expense	(3,285)	(537)	(2,150)	(5,972)
Fixed asset amortisation/ depreciation	-	-	(77)	(77)
External services	(2,557)	(3)	(5,672)	(8,232)
Changes in trade provisions	3,625	(349)	2,633	5,909
- Change in inventory provision	(166)	(116)	-	(282)
- Reversal of loans with related parties	-	-	2,633	2,633
- Reversal of receivables	-	-	-	-
- Other	3,791	(233)	-	3,558
Loss on sales of investment properties	(84)	-	-	(84)
Changes in value of investment properties	4,272	(2,596)	-	1,676
Other gains or losses	-	-	(1,222)	(1,222)
OPERATING PROFIT/ (LOSS)	5,355	(2,904)	(6,233)	(3,782)
Financial income	-	-	1,487	1,487
Financial cost	-	-	(4,429)	(4,429)
Capitalised financial expenses	-	-	(428)	(428)
Results of companies accounted using the equity method	-	-	-	-
FINANCIAL INCOME/ EXPENSE	-	-	(3,370)	(3,370)
PROFIT/ (LOSS) BEFORE TAX	5,355	(2,904)	(9,603)	(7,152)

Thousandf of Euro	01/01/2017 - 30/06/2017			
	Residential	Commercial	Others	Total
CONTINUING OPERATIONS				
Sales	4,268	327	2,437	7,032
- Sales of developments	4,243	327	-	4,570
- Sales of land	-	-	-	-
- Other	25	-	2,437	2,462
Cost of sales	(4,432)	(203)	(851)	(5,486)
Employee benefits expense	(1,440)	(236)	(942)	(2,618)
Fixed asset amortisation7 depreciation	-	-	-	-
External services	(95)	(2)	(1,267)	(1,364)
Changes in trade provisions	(24,528)	9,000	(221)	(15,749)
- Change in inventory provision	(36,313)	9,000	-	(27,313)
- Reversal of loans with related parties	-	-	-	-
- Reversal of receivables	11,785	-	-	11,785
- Other	-	-	(221)	(221)
Changes in value of investment properties	-	1,712	-	1,712
Other gains or losses	-	-	197	197
OPERATING PROFIT/ (LOSS)	(26,227)	10,598	(647)	(16,276)
Financial income	-	-	24	24
Financial cost	-	-	(1)	(1)
Capitalised financial expenses	-	-	-	-
Results of companies accounted using the equity method	-	-	221	221
FINANCIAL INCOME/ EXPENSE	-	-	244	244
PROFIT/ (LOSS) BEFORE TAX	(26,227)	10,598	(403)	(16,032)

Other information

During the first six months of 2018 and the year end of 2017 no transactions took place between the Group's different segments.

No one customer accounts for 10% of the Group's revenues.

Non-current assets include an amount of €75,605 thousand relating to loans with joint ventures assigned to the residential segment.

6. INVESTMENT PROPERTIES

Details are as follows:

	Thousand euro
Balance at 1 January 2017	109,600
Additions due to non- monetary contribution (Note 1.c1)	197,337
Additions due to non- monetary contribution MPYA (Note 1.c3)	68,586
Other additions	584
Transfers to inventories	(6,919)
Gain /(loss) net of fair value adjustments	1,389
Balance at 31 December 2017	370,577

	Thousand euro
Balance at 1 January 2018	370,577
Additions	470
Disposals	(14,084)
Transfers to inventories	(1,154)
Gain /(loss) net of fair value adjustments	1,676
Balance at 30 June 2018	357,485

a) Income and expenses on investment properties:

At 30 June 2018 the Group recognised investment properties amounting to €277 thousand.

b) Assets under operating leases:

In the first half of 2018, the Group incurred expense totalling €231 thousand (€295 thousand in 2017) in respect of leases and service charges for buildings and other equipment related to its activities.

c) Charges and guarantees

The Group has no usufructs, attachments or similar with respect to investment property.

d) Disposals

The disposal relates to the sale of plots numbers 1A.04 and 1B.04 of the Land Readjustment Project to modify the Palma de Mallorca Municipal Zoning Plan for “Fachada Marítima Sector de Levante”.

The selling price was €14,000 thousand and a loss of €84 thousand was made.

7. INVESTMENTS IN OTHER COMPANIES

Gross movements in this consolidated balance sheet caption in the first six months of 2018 are as follows:

	Thousand euro
Opening balance 1 January 2017	117
Share in results for the period	-
Disposals	(117)
Closing balance 31 December 2017	-

	Thousand euro
Opening balance 1 January 2018	-
Share in results for the period	-
Other changes	-
Closing balance 30 June 2018	-

The investments in the companies Urbanizadora Valdepolo I, II, III, IV were fully provisioned at 30 June 2018 and 31 December 2017.

On 31 January 2018, Valdicsa's Extraordinary General Meeting resolved to simultaneously wind up and liquidate the company.

At 30 June 2018, the parent company's directors consider that the recoverable amount of investments in associates does not differ significantly from the carrying amount.

8. FINANCIAL ASSETS

a) Analysis by category

The balance under this heading on the accompanying consolidated interim balance sheet, taking into account the nature of the transactions, is as follows:

	Thousand of euro			
	30/06/2018		31/12/2017	
	Non- current	Current	Non- current	Current
Loans and receivables (Note 9)(*)	92,961	12,488	95,180	35,513
Available-for-sale financial assets(**)	1,784	-	1,784	-
Cash and cash equivalents	-	77,706	-	50,332
Gross total	94,745	90,194	96,964	85,845
Provision for impairment of loans and receivables (Note 9)	(14,395)	(3,566)	(17,029)	(3,568)
Provision for impairment of assets available for sale (**)	(1,782)	-	(1,782)	-
Net total	78,568	86,628	78,153	82,277

(*) Excluding €6,802 thousand with public administrations 30 June 2018 (€10,835 thousand 2017)

(**) The cost of shareholdings in companies that are not consolidated because the interest in capital is below 20% and no significant influence is exercised is recognised in the item "Available-for-sale financial assets". A breakdown of available-for-sale investments is as follows at 30 June 2018 and 31 December 2017:

	Thousand of euro		
	Initial investment	Registered Profit/(loss)	Value at 30/06/2018
Urb. Fuente San Luis, S.A.	1,784	(1,782)	2

	1,784	(1,782)	2
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9. INVENTORIES

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

	Thousand of euro	
	30/06/2018	31/12/2017
Land	1,906,044	1,971,388
Construction work in progress	307,084	230,367
Finished structures	56,877	47,077
Advanced payments to suppliers	5,021	4,383
Other	184	44
Impairment losses on land	(309,435)	(308,240)
Impairment losses construction work in progress	(23,575)	(22,791)
Impairment losses on finished structures	(14,500)	(16,198)
	1,927,700	1,906,030

At 30 June 2018 and 31 December 2017, the Group companies' inventories of finished buildings consist basically of housing to be used as habitual abodes and second homes, together with related properties such as parking spaces and commercial premises, where applicable. The Company also has an office development in Madrid.

In the first six months of 2018 and 2017, the Group capitalised interest on inventories in the amount of €402 thousand and €52 thousand, respectively.

At 30 June 2018 and 31 December 2017, assets included in "Inventories" for a total gross cost of €99,810 thousand and €32,527 thousand, respectively, are subject to a number of mortgage loans (able to be subrogated or not) linked to certain developments and land, the amounts of €10,802 thousand and €1,366 thousand having been utilised at 30 June 2018 and 31 December 2017, respectively (Note 12).

Inventories include no assets securing loans other than those indicated above.

At 30 June 2018 and 31 December 2017 there are no commitments to sell plots of land owned by the Group.

Commitments for sales of developments entered into with costumers at 30 June 2018 and 31 December 2017 amount to €178,133 thousand and €135,096 thousand, respectively, of which €28,354 thousand and €25,834 thousand, respectively, have given rise to collections and bills receivable, recognised under Customer advances under current liabilities 30 June 2018 and 31 December 2017 (Note 14).

Practically all presales are subject to late-delivery indemnity clauses as they are formalised through contracts having similar characteristics. These late-delivery indemnity clauses consist mostly of interest at the legal rate on the amounts handed over during the period between the envisaged delivery date and the effective delivery date. The Group does not expect this to have an impact largely because the delivery date envisaged in contracts allows for a safety margin of a certain number of months with respect to the forecast delivery date. Therefore and drawing on historical experience in the last few years, the Group considers that this will not have any impact on these consolidated interim financial statements for the period. Similarly, presales generally include indemnities in favour of the Group in the event of cancellation by customers although no amount is recognised until it is collected.

At 30 June 2018 and 31 December 2017 there are no firm commitments for the purchase of land.

In November 2017, the Company entered into a private agreement with a Socimi engaged in investing in rented assets, in order to transfer the offices under development on the Josefa Valcárcel plot for the amount of €29,700 thousand. The finished property is expected to be handed over in the final quarter of 2018.

In 2017 the Company received advance payments on land sale commitments amounting to €5,204 thousand of which €5,000 thousand relates to Plot FR-05 of the Urban Planning Project of Pla de Millora Urbana de L'Illa delimitada pels Carrers Sancho D'Àvila, Àlaba, Almogàvers i Pamplona, in Activity Sector 22@bcn (La Galeta); €138 thousand relates to land of the resulting Plot PI 3.3 of sector I-8 entered in the Property Register of Brihuegaas, Property number 9288 of Torija; €45 thousand relates to the land of the resulting Plot PI-63, entered

in the Property Register of Sigüenza as Property number 12.208 of Sigüenza y Barbatona; and €21 thousand relates to the land of Plot A deriving from plot IN-1-8 of Sector S-10 "MOHEDANO II" De Yunquera de Henares, entered in Property Register 3 of Guadalajara.

The Company sold the La Galeta plot to the real estate company Inmobiliaria Mar on 24 April, applying the above-mentioned advance payment of €5,000 thousand.

The market value of the Group's land, developments in progress and finished structures at 30 June 2018, calculated based on the valuations performed by independent experts (Note 2.8b), in accordance with the Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors (RICS) of Great Britain and in accordance with the International Valuation Standards (IVS) published by the International Valuation Standards Committee (IVSC), amounts to €2,283,702 thousand (€2,210,178 thousand at December 2017).

The market value of assets in inventories at 30 June 2018 reflects capital gains although for some assets, there is a capital loss on their valuation compared with acquisition cost. In this respect, and as a result of the above, the Group records provisions for impairment for a net amount of €281 thousand for the first semester of 2018 (€27,533 thousand in the first semester of 2017) which is included in Changes in trade provisions on the accompanying consolidated interim income statement.

In any event, the situation of the residential market in 2018 could trigger differences between the fair value of the Group's inventories and their effective realisable value. Any such differences will be treated prospectively.

10. LOANS AND RECEIVABLES

Loans and receivables include the following:

	Thousand of euro	
	30/06/2018	31/12/2017
Non – current	78,566	78,151
Loans to associates (a)	90,000	93,902
Provisions for credit impairment (a)	(14,395)	(17,029)
Other financial assets	2,961	1,278
Current	15,724	42,780
Trade and bills receivable (b)	12,026	34,009
Impairment of trade receivables (b)	(3,566)	(3,568)
Other debtors	6,810	10,868
Other financial assets	454	1,471
Total	94,290	120,931

- a) Loans to associates include a loan granted by the parent company to the investees Urbanizadora Valdepolo I to IV, S.L for an overall amount of €90,000 thousand. This loan, which is set to mature in 2021, was granted on 13 May 2011 in order to provide these investees' with a long-term capital structure in keeping with their business plan. These loans accrue interest at a fixed rate of 5% provided that there is cash available in these companies of more than zero. No interest accrued during the first six months of 2018 or 2017. Of the €90,000 thousand, €2,978 thousand was transformed into a participating loan in order to restore the investees' share capital / equity ratio.

During 2015 the Group recognised a value correction amounting to €27,417 thousand as a result of the development problems in the area in question and delays in obtaining planning approval, deriving from the fair value measurement of the loan granted. As a result of the progress made in the negotiations with the regional authorities of Madrid, the expected approval of the general plan has reduced the risk related to the land, leading to the reversal of the provision amounting to €13,022 thousand.

At year-end 2017, this item also included loans of €3,902 thousand (€19 thousand in participating loans) granted to the company Valdicsa, S.A. from 2011 to 2016. The loans were provisioned in the amount of €2,633 thousand on the basis of reasonable doubts as to their recoverability, reducing their fair value to an amount equal to the appraised value of the land in Jávea owned by the company at the year end.

In January 2018, as part of the liquidation of Valdicsa, Metrovacesa Promoción y Arrendamiento S.A. granted a new loan of €12 thousand to cover liquidation expenses.

The loan, together with accrued, unpaid interest, amounted to €3,782 thousand which, following the contribution from the shareholder MPyA of €2,509 thousand against the debt, resulted in a balance of €1,273 thousand. As a consequence of this contribution and as MPyA owned 33.33% of Valdicsa, the Group recorded a financial expense of €1,673 thousand and applied the depreciation provision posted in 2017, recognising the income (€2,633 thousand) in changes in trade provisions in the income statement.

On 31 January 2018, Valdicsa's General Meeting resolved to transfer the property until the repayment of the loan payable to Metrovacesa Promoción y Arrendamiento S.A.

- b) The heading "Trade and bills receivable" mainly include €22,947 associated with the sale of certain plots of land named "Palmas Altas". This sale will be collected as and when the development work on this land is completed. The profit on that operation has been deferred.
- c) On 31 October 2017, for public interest reasons and pursuant to Articles 223.c) and 224.4 of the Law on Public Sector Contracts, the Group's parent company and Seville City Council mutually agreed to terminate their 2010 agreement on the urban development of "Palmas Altas", as follows:
- 11 of the 12 plots transferred to Seville City Council in 2011 under the agreement now terminated were handed over to the Group's parent company.
 - The parent company's obligations relating to the execution of urban infrastructure work remain in force.
 - The Group withdrew the legal actions instigated in the past.

On 7 June 2018, the City Council and the Group's parent company entered into an agreement specifying the parties' obligations in relation to the execution of the urban infrastructure work, access roads and the future construction of general systems. A deed was signed in which the plots were handed over to the parent company pursuant to the agreement reached.

The effect on the Group's balance sheet accounts is as follows:

Balance impact	2018
Addition of land	9,050
Derecognition of account receivable	(22,316)
Derecognition of deferred income	8,758
Derecognition of provision for termination of work	4,508

Impairment adjustments

No impairment adjustments were recognised during the period 1 January to 30 June 2018.

11. CASH AND CASH EQUIVALENTS

Cash and equivalents include the Group's cash and banks. The carrying amount of these assets approximates their fair value.

	Thousand euro	
	30/06/2018	31/12/2017

Cash on hand	5	28
Current accounts	77,701	50,304
Total	77,706	50,332

At 30 June 2018, the amount of €15,198 thousand is restricted (€12,025 thousand at 31 December 2017). Unrestricted cash balances total €62,503 thousand (Note 3) and €38,279 thousand at 30 June 2018 and 31 December 2017, respectively.

12. CAPITAL AND RESERVES

As mentioned in note 1, the incorporation of the parent company of the Metrovacesa Suelo y Promoción Group results from the decision of the shareholders' of Metrovacesa, S.A to restructure the Group and its business and the agreement to carry out the partial split of Metrovacesa, S.A under which another two new groups were incorporated, Metrovacesa Suelo y Promoción, S.A, handling the real estate development business, whose properties constitute an independent economic unit.

Capital and share premium

On 8 January 2018, 331,206 shares in Metrovacesa S.A. with a par value of €0.16 each and a total share premium of €83 thousand were issued, having been fully subscribed and paid up through the contribution of 1,200,191 shares in MPYA with a par value of €0.10 each (see Note 1).

On 11 January 2018, the resolution adopted by Metrovacesa's General Meeting of 19 December 2017 to carry out a countersplit was executed in a public deed, grouping together and redeeming the 6,825,435,539 shares forming the parent company's share capital at a rate of one new share for every forty-five former shares, bringing share capital to 151,676,341 newly issued shares with a unit par value of €7.20000001476829 each (€0.16 before the countersplit), while share capital remained at €1,092,069,657.44.

The General Meeting authorised the acquisition of treasury shares as necessary due to the countersplit, among other reasons.

The share premium at 30 June 2018 is the result of the following operations:

- Difference between Metrovacesa, S.A.'s share capital (€492,045 thousand) and the value attributed to the equity spun off as per the deed (€1,039,855 thousand), as explained in Note 1.c1, taking into consideration various adjustments amounting to €(6,733) thousand, entailing a total of €541,077 thousand.
- Difference between Metrovacesa, S.A.'s subscribed capital (€464,198 thousand) and the value attributed to the assets contributed in the non-cash capital increase (€1,097,324 thousand) described in Note 1.c1, totalling €633,124 thousand.
- Difference between Metrovacesa, S.A.'s subscribed capital (€36 thousand) and the total value of the contribution to the cash capital increase (€84 thousand) described in Note 1.c2, totalling €48 thousand.
- Difference between Metrovacesa, S.A.'s subscribed capital (€135,737 thousand) and the value attributed to the shares in Metrovacesa Promoción y Arrendamiento, S.A. contributed as per the deed (€316,728 thousand), adjusted for underlying gains on the Metrovacesa Promoción y Arrendamiento Group's assets described in Note 1.c3, amounting to €22,972 thousand.
- Difference between Metrovacesa, S.A.'s subscribed capital (€53 thousand) and the value attributed to the shares in Metrovacesa Promoción y Arrendamiento, S.A. (€136 thousand) in the acquisition from non-controlling shareholders described in Note 1d.

At 30 June 2018, the share premium stands at €1,378,297 thousand (€1,378,214 thousand at year-end 2017).

The share premium account is freely available.

On 2 February 2018, a stock lending agreement for 3,913,043 shares in Metrovacesa, S.A. was concluded, Morgan Stanley & Co. International plc acting as the stabilising agent, so as to be able to dispose of the shares for subsequent transfer in the framework of the stabilization process permitted by capital market regulations and to be able to cover surplus demand (overallotment).

On 6 February 2018, the parent company's shares were listed on the Madrid, Barcelona, Valencia and Bilbao stock exchanges with an admission price of €16.50 per share.

During the stabilisation period (30 days as from admission to listing), the stabilising agent operated with the shares assigned to it under the above-mentioned agreement. At the end of the stabilisation period, the agent returned the shares to their initial owners.

The shareholders with a significant direct or indirect interest in the share capital of Metrovacesa Suelo y Promoción, S.A., of more than 3% of the share capital at 30 June 2018 are as follows:

	Shares			% of capital
	Direct	Indirect	Total	
Banco Santander Group	40,472,576	26,426,709	66,899,285	44.11%
Banco Bilbao Vizcaya Argentaria Group	14,321,573	17,301,265	31,622,838	20.85%
Banco Popular Español Group*	7,970,551	-	7,970,551	5.25%
Schroders, PLC	-	7,835,594	7,835,594	5.17%
Project Quasar Holdco**	217,389	5,773,159	5,990,548	3.95%
Treasury shares***	124,311	-	124,311	0.08%
Other shareholders	31,233,214	-	31,233,214	20.59%
Total	94,339,614	57,336,727	151,676,341	100.00%

(*) Grupo Banco Popular Español forms part of the Banco Santander Group

(**) Banco Popular indirectly owns 49% of Grupo Quasar Holdco.

(***) Treasury shares as part of the liquidity agreement.

The movement in treasury shares during the reporting period is as follows

	January- June 2018		January- June 2017	
	Number of own shares	Thousand of euro	Number of own shares	Thousand of euro
1 January	-	-	-	-
Increase	467,280	6,957	-	-
Decrease	(342,969)	(5,002)	-	-
31 December	124,311	1,955	-	-

On 23 March 2018, Metrovacesa, S.A. entered into a liquidity agreement with Banco Sabadell, S.A. to increase liquidity and favour the regularity of the Company's share price. The agreement came into force on the same day.

The parent company's treasury shares account for 0.08% of the Group's share capital at 30 June 2018 (0.00% at 31 December 2017) and total 124,311 shares (0 shares at 31 December 2017). The average acquisition price was €14.85 per share (€0.00 per share at 31 December 2017).

These shares are recognised as a reduction of €1,955 thousand in the value of the Company's shareholders' funds at 30 June 2018 (€0 thousand at 31 December 2017).

The parent company has fulfilled its obligations under Article 509 of the Spanish Companies Act, which stipulates, in connection with shares listed in an official secondary market, that the par value of treasury shares acquired, added to those already held by the parent company and its subsidiaries, must not exceed 10% of share capital. The subsidiaries do not hold any treasury shares or parent company shares.

Retained earnings and other reserves

The most significant variations in the consolidated interim statement of changes in equity for the six-month period ended 30 June 2018 and at 31 December 2017, apart from the distribution of the parent company's losses, are as follows:

	Reserves in consolidated companies	Profit/ (loss) for the period	Minority interests	Retained earnings	Reserves at companies accounted for using the equity method
Balance at 30 June 2018	(70,419)	(8,268)	93	(78,592)	(2,675)
Balance at 31 December 2017	(30,775)	(38,908)	227	(69,807)	(3,275)

Other shareholder contributions

On 29 January 2018, the majority shareholders made a contribution of €9,050 thousand to cover the tax impact of the non-cash contribution of the shares in Metrovacesa Promoción y Arrendamiento, S.A.

Of that contribution, €7,959 thousand has been treated as shareholders' funds and €1,090 thousand as financial income, since the contribution from Banco Santander exceeded its percentage shareholding in the Group's parent company.

Additionally, on 5 February 2018, the majority shareholders contributed €1,150 thousand to shareholders' funds to cover the costs of the Management Incentive Plan ("MIP").

Other equity instruments

As a result of the admission to listing, an extraordinary bonus of €1,150 thousand was approved, payable at different times.

Fifty percent of that amount has been paid in cash this year and the remainder will be paid in 2019 and 2020 in the form of shares free of charge.

13. PROVISIONS

The disclosure regarding the balance of this heading of the condensed interim consolidated financial statements, attending to the nature of operations are as follows:

a) Non-current provisions

Details at 30 June 2018 and at 31 December 2017 are as follows:

	Thousand of euro	
	30/06/2018	31/12/2017
Provisions for guarantees (*)	-	8,150
Litigation and other provisions	7,835	8,444
Provisions for guarantees and risks	7,835	16,594

(*) Amount relating to provisions for guarantees relating to certain resources connected with the financial debt in non-consolidated investees with third parties given the probable risk of delivery of such resources.

Litigations and other provisions relate to the following:

- a) Court claims amounting to €7,835 thousand at 30 June 2018, of which €5,905 thousand relates to claims for construction defects, €1,193 thousand to contentious administrative claims and €737 thousand to money claims.

Although the amount could seem significant, these claims are immaterial on a standalone basis. In this respect, the Group provides for probable litigation risks in accordance with the assessment performed by its legal department, mainly, with respect to claims for latent defects in completed developments.

The directors of several group companies consider that the provisions established are adequate to cover the probable risks that could result from the outcome of the litigations underway and that if the risks that crystallise exceed the provision, any additional liabilities should not significantly affect the Group's financial statements.

In the first six months of 2018, the provision for guarantees was applied due to the cancellation of the Group's guarantee relating to the investee Urbanizadora Fuente de San Luis, S.L.

Metrovacesa S.A. paid €4,250 thousand to be fully released from the obligations arising from that guarantee.

Income of €3,900 thousand was recognised in the item "Changes in trade provisions" in the accompanying interim consolidated income statement.

b) Current provisions

Details at 30 June 2018 and 31 December 2016 are as follows::

	Thousand of euro	
	30/06/2018	31/12/2017
Current provisions	23,131	13,545
Current provisions	23,131	13,545

This heading records the provisions established to cover contractor settlement costs and warranty costs, mainly after-sales service costs and other construction costs not yet incurred and committed under agreements. They are recognised at the date of sale of the relevant products, according to the best estimate of the expense calculated by the parent company and for the necessary amount to settle the Group's liabilities.

The main movements during the first six months of 2018 relate to appropriations to provisions in the amount of €3,902 thousand in respect of developments that have entered the handover phase (including €2,005 thousand for Pulpí, for which marketing commenced last year), application of the provision of €4,508 thousand that had been recorded for the 2008 sale of the Palmas Altas development land to Seville City Council (Note 10) following termination of the agreement, and application of a further €2,438 thousand in respect of developments in the marketing phase.

Additionally, at 30 June 2018 the Group records provisions for taxes amounting to €12,057 thousand (€0 thousand in 2017) to reflect the advance payment that will take place at the end of 2018 based on the appraised values of real estate assets at 30 June 2018, pursuant to Article 11.6 of the Corporate Income Tax Act. This has caused deferred tax assets to increase by the same amount at 30 June 2018.

14. OTHER CURRENT AND NON-CURRENT LIABILITIES

Trade and other payables mainly include the following::

	Thousand of euro			
	30/06/2018		31/12/2017	
	Non- current	Current	Non- current	Current
Trade and other payables (a)	6,919	61,269	6,154	51,416
Deposits and guarantee deposits received	164	-	158	-
Bank borrowings	50,033	16,108	52	47,509
Other financial liabilities	-	34	-	33
Total	57,116	77,411	6,364	98,958

a) Current trade and other payables mainly include the following:

	Thousand of euro	
	30/06/2018	31/12/2017
Trade payables	25,177	18,969
Customer advances	28,354	25,834
Accrued wages and salaries	980	926
Payables with public administrations	6,758	5,687
Total	61,269	51,416

This item relates mainly to amounts pending payment on trade purchases and related costs, payments on account from customers received before recognition of the sale of developments and land, and balances payable to public administrations (€6,758 thousand), the most significant being 2017 corporate income tax pending settlement (€3,771 thousand) and deferred output VAT (€2,538 thousand at June 2018 and €1,576 thousand at 31 December 2017).

The directors consider that the carrying amount of trade payables approximates their fair value.

b) Bank borrowings

On 1 December the Company entered into a corporate loan agreement for €275,000 thousand with a number of national and international financial institutions. The financing matures after five years and bears variable interest at three-month Euribor plus a market spread. The funds have been used, among other purposes, to repay the corporate tranche of the current bridge loan granted by the shareholders to the Company in July 2017, which stood at €40,091 thousand.

In the first half, €65,000 thousand was drawn down and €8,933 thousand was repaid under the loan agreement clause stating that 25% of land sale proceedings must be used for this purpose.

On 15 January 2018, the parent company repaid the entire syndicated loan which was signed on 11 July 2017 from the majority shareholders (€40,091 thousand).

In the first half of 2018, the Group utilised €4,750 thousand of the mortgage loan obtained to fund an office project in calle Josefa Valcárcel, Madrid.

Developer loans obtained in 2018 have been drawn down in the amount of €1,952 thousand and prior-year developer loans have been utilised in the amount of €2,850 thousand to fund real estate projects. Additionally, developer loans totalling €1,394 thousand have been repaid and subrogated.

These loans are carried in the Company's current liabilities due to the nature of the mortgaged assets, although they mature after more than 12 months.

Accrued unpaid interest has been recognised in the balance sheet on the undrawn tranche of the corporate loan (€607 thousand).

15. INCOME TAX

Corporate income tax is recognised based on management's estimate of the weighted average tax rate for the full financial year. The estimated annual average tax rate for the period ended 30 June 2018 is 0% as a result of the losses posted by the Company.

16. INCOME AND EXPENSES

a) Revenue

Revenues from the Company's ordinary activities may be analysed as follows:

	30/06/2018	30/06/2017
Sale of inventories	48,193	4,570
Services provided	69	2,433
Rental income	302	25
Other	80	4
	48,644	7,032

All sales during the period were made in Spain.

At 30 June 2018, the item "Sale of inventories" reflects revenue from the sale of developments (€26,118 thousand) and land (€22,098 thousand), less after-sale costs borne by the Company (€23 thousand) on the land sales.

At 30 June 2017, the item "Sale of inventories" relates entirely to development revenue.

Plots in "Sector Levante" that were carried in "Investment property" in the accompanying interim balance sheet were also sold for €14,000 thousand, so they are not included in revenue (Note 6).

b) Cost of sales

	30/06/2018	30/06/2017
Change in inventory and related costs	(42,811)	(4,631)
Services provided	(100)	(851)
Lease costs	(1,078)	(4)
Other	(435)	-
	(44,424)	(5,486)

At 30 June 2018, the item "Difference between opening and closing inventories and related costs" relates mainly to inventories of developments in progress (€21,525 thousand) and of land (€21,286 thousand).

At 30 June 2017, the item "Difference between opening and closing inventories and related costs" relates mainly to inventories of developments in progress (€4,513 thousand) and of land (€118 thousand).

At 30 June 2018, the item "Costs associated with leases" reflects, among other items, expenses arising from several early lease terminations at the property complex located at Calle Mesena in Madrid (€260 thousand) and related security costs (€271 thousand).

c) Employee benefits expense

	30/06/2018	30/06/2017
Wages, salaries and similar	(5,300)	(2,194)
Staff welfare expenses		
Social Security payable by the Company	(638)	(349)
Contributions and transfers to pension schemes	(45)	(43)
Other employee welfare expenses	11	(32)
	(5,972)	(2,618)

d) Changes in trade provisions

	30/06/2018	30/06/2017
Reversal of provisions for liabilities and charges (Note 13)	4,123	-
Additions to the provision for liabilities and charges (Note 13)	(320)	-
Additions to the provision for inventories (Note 9)	(13,253)	(43,619)
Reversal provision for inventories (Note 9)	12,726	16,306
Reversal trade provisions (Note 10)	-	11,785
Reversal of provision for long-term loans with associates (Note 10)	2,633	-
Appropriation to provision long-term interests in capital other companies	-	(221)
	5,909	(15,749)

The item "Appropriations to provision for liabilities and charges" relates to court claims (see Note 13).

The items "Appropriation to inventory provision" and "Reversal of inventory provision" have been recognised based on independent expert valuations (Note 9).

In 2017, the item "Reversal of bad debt provision" includes the reversal of the impairment loss of €11,875 thousand recognised as a result of the agreement with Seville City Council to terminate the urban development agreement entered into on 24 November 2010 for the zone SUS-DBP-02 "Palmas Altas Sur" (see note 10 b).

The item "Reversal of provision for long-term loans to associates" relates to the application, following the contributions made by the shareholder and the debt repayment and dissolution agreements, of the provision posted in 2017 for loans granted to the company Valdicsa, S.A. due to reasonable doubts as to recoverability (see Note 10 a).

The average number of employees by category during the period was as follows:

	2018		
	Men	Women	Total
Executives	13	4	17
Supervisors and technicians	38	16	54
Administration and sales staff	11	23	34
Sundry professionals and junior employees	4	0	4
	66	43	109

	2017		
	Men	Women	Total
Executives	9	1	10
Supervisors and technicians	23	9	32
Administrations and sales staff	9	10	19
	41	20	61

17. DEFERRED INCOME

This heading recorded the margin obtained on the sale in 2011 of the Palmas Altas plot (Nota 8), located in Seville, amounting to €8,758 thousand in both years. The Group deferred this margin which it would take to results as and when the amount of the sale was collected as the development land on the land was completed.

As a result of the termination of the agreement with Seville City Council (Note 10) on 7 June 2018, the associated deferred income has been regularised (Note 10).

18. TRANSACTIONS WITH RELATED PARTIES

The related-party transactions carried out by the Group during the first six months of 2018, differentiating between significant shareholders, Board members and other related parties, are set out below. All related-party transactions are carried out under market conditions and all benefits in kind have been recognised.

	Thousand of euro			
	30 June 2018			
Expense and income	Significant shareholders	Directors and management personnel	People, companies, Group entities	Total
Expenses				
Financial cost	1,398	-	1,673	3,071
Other costs	152	-	-	152
Income:				
Financial income	1,100	-	228	1,328
Other income	62	-	28	90

The item "Financial expenses" relating to significant shareholders includes interest and fees on the corporate finance in force, based on the share of the loan from the significant shareholders (18.18% Banco Santander and BBVA), amounting to €1,134 thousand, and interest on the previous corporate loan obtained by the Company entirely from Banco Santander, totalling €40 thousand. It also includes other bank fees (€224 thousand).

"Financial expenses" relating to Group persons, companies or entities reflects the amounts arising from the contribution made to Valdicsa, S.A. to repay debt prior to its liquidation (see Note 10).

The item "Other expenses" relates entirely to administrative services provided by Banco Santander (€126 thousand) and BBVA (€26 thousand).

"Financial income" relating to significant shareholders consists of income from contributions by the Santander Group in connection with the tax impact of Article 11.6 of the Corporate Income Tax Act (€1,090 thousand) (Note 12), as well as interest on credit lines (€9 thousand)

"Financial income" relating to Group persons, companies or entities reflects the interest pending accrual on the loan to Valdicsa, S.A. prior to repayment (see Note 10).

The item "Other income" reflects lease income from Banco Santander (€51 thousand), BBVA (€11 thousand) and Merlin Properties Socimi (€28 thousand).

	Thousand of euro			
	30 June 2017			
Expense and income	Significant shareholders	Directors and management personnel	People, companies, Group entities	Total
Expenses: Financial costs	32	-	-	32
Income Other income (a)	-	-	463	463

a) This relates to the management fee for the transfer of land owned by a related company, under the agreement between the parties.

	Thousand of euro			
	30 June 2018			
	Significant shareholders	Directors and management personnel	People, companies, Group entities	Total
<u>ASSETS</u>				
Non-current				
Loans granted	-	-	75,605	75,605
Current				
Loans granted	-	-	8	8
Other financial assets	-	-	-	-
Equivalent liquid assets	71,304	-	-	71,304

	Thousand of euro			
	31 December 2017			
	Significant shareholders	Directors and management personnel	People, companies, Group entities	Total
<u>ASSETS</u>				
Non- current				
Loans granted	-	-	76,874	76,874
Current				
Loans granted	-	-	33	33
Other financial assets	-	-	-	-
Equivalent liquid assets	47,497	-	-	47,497

At 30 June 2018, the item "Loans granted" reflects loans granted to the urban development companies Urbanizadoras Valdepolo (€90,000 thousand), netted for impairment based on estimated recoverability (Note 10).

At 31 December 2017, it also included the loan granted to the company Valdicsa, S.A., which was liquidated in the period 1 January to 30 June 2018 (Note 10)

	Thousand of euro			
	30 June 2018			
	Significant shareholders	Directors and management personnel	People, companies, Group entities	Total
<u>LIABILITIES</u>				
Non- current				
Bank borrowings	20,388	-	-	20,388
Current				
Bank borrowings	8,672	-	-	8,672
Other payables	-	-	-	-

Bank borrowings include corporate finance balances (€10,194 thousand Banco Santander and €10,194 thousand BBVA) and developer loans (€897 thousand Banco Santander and €3,130 thousand BBVA). There is also a working capital loan of €4,645 thousand from Banco Santander.

In the first half of 2018, the following developer loans were obtained from significant shareholders:

	Thousand of euro
Banco Bilbao Vizcaya Argentaria, S.A.	20,030
Banco Santander, S.A.	5,280
TOTAL	25,310

	Thousand of euro			
	31 December 2017			
	Significant shareholders	Directors and management personnel	People, companies, Group entities	Total
LIABILITIES				
Non- current				
Bank borrowings	4,645	-	-	4,645
Current				
Bank borrowings	40,219	-	-	40,219
Other payables	-	-	-	-

Other transactions with related parties

The Group has given the following bank guarantees issued by its significant shareholders:

- Financial guarantees given to customers: €18,362 thousand, of which €9,550 thousand relates to Banco Santander, €7,705 thousand to BBVA and €1,106 thousand to Banco Popular.
- Technical guarantees: €335 thousand from Banco Santander.
- There are also bank guarantees totalling €7,768 thousand in the name of Merlin Properties Socimi whereby recourse may be had to the Group.

19. REMUNERATION AND OTHER BENEFITS OF THE PARENT COMPANY'S BOARD OF DIRECTORS AND SENIOR MANAGEMENT

There follows a summary of the most significant data on remuneration and benefits for the six-month periods ended 30 June 2018 and 2017:

	Thousand euro	
	30/06/2018	30/06/2017
Members of the Board of Directors:		
Remuneration item		
Fixed and variable	975	367
Benefits in kind	20	-
Per diems	-	-
Indemnities	-	-
Bonuses per Articles of Association	487	-
Other Board benefits		
Life insurance premiums	-	-
Pension funds and plans	4	4
Executives:		
Total remuneration received by the directors*	704	270

*Not including pension plan or life insurance:

- Pension plan: €8 thousand and €12 thousand at 30 June 2018 and 31 December 2017, respectively.
- Life insurance premiums: €0 thousand and €7 thousand at 30 June 2018 and 31 December 2017, respectively.

An additional €599 thousand is attributable to members of the Board of Directors under the incentive plans described in Note 2 and €342 thousand to senior management on the same basis.

The Group's parent company has not undertaken pension obligations in connection with senior management other than those acquired with all the employees.

20. SUBSEQUENT EVENTS

On 12 July 2018, the Group entered into a joint venture with Tishman Speyer to develop tertiary land in the north of Madrid.

CONSOLIDATED INTERIM DIRECTOR'S REPORT FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2018

1. Significant aspects

The following may be observed from the results for the six-month period ended 30 June 2018:

- In the first half of 2018, sales totalled €62 million, mainly due to the revenue from property development sales (€48 million), as well as the sale of certain real estate assets carried in the balance sheet item "Investment property" (€14 million).
- Losses for the period totalled €8.3 million. This is explained mainly by the low volume of handovers in relation to the Group's organisational structure.
- The gross margin on residential handovers, that is the difference between revenue and directly attributable costs (net of impairment), amounted to €6.7 million.
- Structural costs totalled €15 million, including staff costs of €6 million.

2. Risk factors

Note 3 in the accompanying explanatory notes reflects that the Group's activities give rise to inherent risks regarding the environment, regulatory framework and transactions that must be identified and controlled using the risk management systems established by the Group.

The Group has a Risk Control and Management Policy that establishes principles for taking action so that the important risks faced by Metrovacesa, S.A. and its Group are always identified, measured, reported and to the extent possible, controlled.

3. Information regarding related parties

Note 18 in the accompanying explanatory notes provides details of the transactions carried out with related parties.

A large part of those transactions originate from financing agreements and the corresponding financial expenses charged by financial institutions that are shareholders of the Parent Company, as well as financial transactions with other group companies.

4. Subsequent events

On 12 July 2018, the Group signed a Joint Venture agreement with Tishman Speyer for the development of a plot of land located in the north of Madrid.

5. Outlook

Demand for residential housing will continue to grow, driven by the improvement in employment, low financing costs and the higher attractiveness of homes as investments. We are currently in a scenario of growth for home sales, which will be driven by the following factors:

- 1) Expansion cycle and improvement in employment
- 2) Low financing costs
- 3) Profitability compared to alternative investments
- 4) Cultural preference for purchases

The cash available to the Group at 30 June 2018 totals €78 million euros. Together with the cost controls that the Group is implementing and the generation of cash from the development and sale of housing by the Group, this liquidity means that the management of the Parent Company has confidence that sufficient resources will be available to cover cash needs.

6. Acquisition of treasury shares

The parent company has not had any direct dealings in treasury shares, although a liquidity agreement has been concluded with Banco Sabadell, S.A. as a result of which there are 124,311 treasury shares at the end of the six-month period ended 30 June 2018.

7. Research and development

The company has not realised research and development investments in the first six month period end, due to the specifications of the Group activity.

8. Alternative Performance Measures

As is indicated in Notes 1 and 2 of the interim consolidated financial statements, the Group prepares its financial statements in accordance with the International Financial Reporting Standards adopted by the European Union (IFRS-EU). It also presents some Alternative Performance Measures (APMs) to provide additional information to facilitate the comparison and understanding of its financial information, as well as the taking of decisions and the evaluation of the Group's performance. Users of the financial information should consider the APMs to supplement the figures provided in accordance with the basis of presentation of the consolidated annual accounts, but never as a replacement of those figures.

The most significant APMs are as follows:

Gross Development Margin

Definition: Sales – Change in inventories – Supplies (excluding losses due to the impairment of inventories).

Reconciliation: the reconciliation of this APM against the interim consolidated financial statements is as follows:

	30/06/2018	30/06/2017
Sale of inventories (Note 16)	48,193	4,570
Changes in inventories and related costs (Note 16)	(42,811)	(4,631)
Gross Development Margin	5,382	(61)

Use explanation: The result from, or the gross margin on, developments is considered by Parent Company management to be a business performance measurement since it provides information regarding the profit or gross margin obtained on development projects based on external sales, less the costs incurred to obtain those sales. That calculation also takes into account the impairment of property assets that were sold during the period. Gross development margin does not include the yields arising as a result of the sale of land.

Comparative figures: The Group records a gross profit on developments of €5,382 thousand at 30 June 2018, as compared with a gross loss on developments of €61 thousand at 30 June 2017, entailing an increase of €5,443 thousand due to the growth in profitability and in units handed over to customers during the period 1 January to 30 June 2018.

Net Development Margin

Definition: Gross development margin less costs of sales and marketing included under the heading Other operating expenses.

Reconciliation: the reconciliation of this APM against the interim consolidated financial statements is as follows:

	30/06/2018	30/06/2017
Gross Development Margin	5,382	(61)
Costs of sales and marketing (1)	(2,559)	(137)
Net Development Margin	2,823	(198)

(1) Marketing costs directly allocable to property developments. According to accounting legislation, they are not capitalisable. They are recognised under external services on the consolidated income statement.

Use explanation: the net development margin is considered by Parent Company management to be business performance measurement since it provides information regarding the net margin obtained on developments that generated income during the period. The net development margin is calculated based on the profit or gross development margin, net of certain costs associated with marketing and selling the relevant developments. Net development margin does not include the yields arising as a result of the sale of land.

Comparative figures: The Group records a net profit on development of €2,823 thousand at 30 June 2018, as compared with a net loss of €198 thousand at 30 June 2017, entailing an increase of €3,021 thousand due to the growth in profitability and in units handed over to customers during the period.

EBITDA

Definition: Net Development Margin – Impairment of inventories + Services rendered + Other operating income – Personnel costs – Other operating expenses excluding costs of sales and marketing.

Reconciliation: the reconciliation of this APM against the interim consolidated financial statements is as follows:

	30/06/2018	30/06/2017
Net Development Margin	2,823	(198)
Services provided (Note 16.a)	69	2,433
Lease income (Note 16.a)	302	25
Other (Note 16.a)	80	4
Services provided (Note 16.b)	(100)	(851)
Lease costs (Note 16.b)	(1,078)	(4)
Other (Note 16.b)	(435)	-
Employee benefits expense (Note 16.c)	(5,972)	(2,618)
External services less marketing costs	(5,673)	(1,228)
Other gain and losses	(1,222)	197
EBITDA	(11,206)	(2,240)

Use explanation: EBITDA is considered by Parent Company management to be a business performance measurement since it provides an analysis of the results obtained during the year (excluding interest and taxes, depreciation and impairment) as an approximation of the operating cash flows that reflect the generation of cash. It is also a figure widely used by investors when valuing companies, as well as by rating agencies and creditors to evaluate debt levels by comparing EBITDA against net debt and also comparing EBITDA against debt service.

Comparative figures: The Group records negative EBITDA of €11,206 thousand at 30 June 2018, as compared with negative EBITDA of €2,240 thousand at 30 June 2017, entailing a change of €8,966 thousand due to the growth in the Company's business, expenses associated with the admission to listing and the inclusion of new employees during the second half of 2017, as well as during the period 1 January to 30 June 2018.

Net financial debt

Definition: Financial debt – available cash +/- other financial assets and liabilities.

Reconciliation: the reconciliation of this APM against the interim consolidated financial statements is as follows:

	30/06/2018	31/12/2017
Bank borrowings	72,120	47,561
Available cash (Note 11)	(62,503)	(38,307)
Other financial assets/liabilities	(454)	(1,472)
Net financial debt	9,163	7,782

Use explanation: net financial debt is a financial figure that measures the net debt held by a Company. It is also a figure widely used by investors when determining the net financial leveraging of companies, as well as by rating agencies and creditors to evaluate the net debt level.

Comparative figures: At 30 June 2018, the Group records total net borrowings of €9,163 thousand as compared with €7,782 thousand at 31 December 2017.

Leveraging

Definition: Net financial debt / Total assets

Reconciliation: the reconciliation of this APM against the interim consolidated financial statements is as follows:

	30/06/2018	31/12/2017
Net financial debt (a)	9,163	7,782
Total assets (b)	2,559,040	2,547,037
Leveraging (a) / (b)	0.36%	0.31%

Use explanation: Leveraging is an indicator that measures the Company's debt position. It is widely used by investors when determining the financial leveraging of real estate companies, as well as by rating agencies and creditors to evaluate debt levels.

Comparative figures: At 30 June 2018, the Group has a leverage ratio of 0.36% as compared with 0.31% at 31 December 2017.

Return on capital employed (ROCE)

Definition: Adjusted EBITDA / (sum of the average balances between 30 June 2018 2017 and 31 December 2017 for Equity and Net financial debt, respectively).

Reconciliation: the reconciliation of this APM against the interim consolidated financial statements is as follows:

	30/06/2018	31/12/2017
EBITDA	(11,206)	(8,455)
Equity*	2,396,965	1,698,275
Net financial debt **	8,500	(10,359)
ROCE	(0.46%)	(0.50%)

(*) Equity at 31 December 2017 amounts to €2,397,376 and € 999,175 thousand at 31 December 2016, the average balance therefore being the average of both amounts.

(**) Average net financial debt for the year ended 31 December 2017 amounts to € 7,782 thousand and €-28,499 thousand at 31 December 2016, the average balance therefore being the average of both amounts.

Use explanation: the return on capital employed (ROCE) is considered by Parent Company management to be a business performance measurement, since it measures the profitability of a company taking into consideration a particularly important matter such as the efficiency with which capital is employed. It is widely used by investors to determine the actual profitability of a company.

Comparative figures: At 30 June 2018, the Group records negative ROCE of 0.46% as compared with a negative ratio of 0.36% at 31 December 2017, due mainly to changes in equity during 2017.

Loan to Value (LTV)

Definition: Net financial debt / (Market value of the property assets recognised under investment property + market value of the property assets recognised under inventories.)

Reconciliation: the reconciliation of this APM against the interim consolidated financial statements is as follows:

	30/06/2018	31/12/2017
Net financial debt	9,163	7,782
Market value of the portfolio recognised under investment properties (Note 6)	357,485	370,577
Market value of the portfolio recognised under inventories (Note 9)	2,283,702	2,210,178
LTV	0.35%	0.30%

Use explanation: the LTV is an indicator that measures a Company's debt position compared with the market value of its property assets. It is widely used by investors when determining the financial leveraging of real estate companies, as well as by rating agencies and creditors to evaluate debt levels.

Comparative figures: At 30 June 2018, the Group has a loan-to-value ratio of 0.35% as compared with -0.30% at 31 December 2017, due mainly to the increase in the market value of the Group's real estate assets.

Loan to Cost (LTC)

Definition: Net financial debt / (Inventories - Prepayments to suppliers + Investment properties)

Use explanation: the LTC is an indicator that measures the Company's debt position. It is widely used by investors when determining the financial leveraging of real estate companies, as well as by rating agencies and creditors to evaluate debt levels.

Reconciliation: the reconciliation of this APM against the interim consolidated financial statements is as follows:

	30/06/2018	31/12/2017
Net financial debt	9,218	7,781
Inventories (Note 9)	1,927,700	1,906,030
Prepayments to suppliers (Note 9)	(5,021)	(4,383)
Investment property (Note 6)	357,485	370,577
LTC	0.40%	0.34%

Comparative figures: At 30 June 2018, the Group records an LTC ratio of 0.40% as compared with 0.34% at 31 December 2017, which is explained mainly by the fact that net borrowings have grown faster than inventories due to the use of the cash resources generated by the Company to invest in inventories.

9. Other information

As a result of the admission to listing on 6 February 2018, the parent company has implemented the standards, governing bodies and procedures required of listed companies, which will be further developed in the current year and duly reported when legally necessary.

ANNEX I

SUBSIDIARIES

Name	Registered address	Activity	Net interest in owner company				Owner Group company
			2018 (%)	2017 (%)	30.06.2018 (thousand €)	31.12.2017 (thousand €)	
Inmobiliaria Das Avenidas Novas, S.A,	Portugal	Prop. promotion and development	100%	100%	6	2,996	Metrovacesa, S.A,
Promociones Vallebramen, S.L.	Spain	Prop. promotion and development	100%	100%	-	-	Metrovacesa, S.A.
Fuencarral Agrupanorte, S.L (ANTES ALQ.13)	Spain	Prop. promotion and development	100%	100%	100,691	100,691	Metrovacesa, S.A.
Metrovacesa Inmuebles y Promociones, SL	Spain	Prop. promotion and development	100%	100%	24,454	24,454	Metrovacesa, S.A.
Metrovacesa Promoción Y Arrendamiento. S.A.	Spain	Prop. promotion and development	99.97%	99.93%	339,834	339,701	Metrovacesa, S.A.
Desarrollo de Infraestructuras de Castilla, S.A.	Spain	Prop. promotion and development	99.97%	99.93%	72	72	Metrovacesa Promoción y Arrendamiento, S.A.
Vailen Management, S.L	Spain	Prop. promotion and development	99.97%	99.93%	-	-	Metrovacesa Promoción y Arrendamiento, S.A.
Global Carihuela Patrimonio No Estratégico, S.L.	Spain	Prop. promotion and development	99.97%	99.93%	16,230	16,230	Metrovacesa Promoción y Arrendamiento, S.A.

ASSOCIATES (*) AND JOINT VENTURES (**)

(*) The financial information included in this appendix has not been audited

(**) Company wound up

Name	Registered address	Activity	Net interest in owner company				Owner Group company
			2018 (%)	2017 (%)	30.06.2018 (thousand €)	31.12.2017 (thousand €)	
Urbanizadora Valdepolo I, S.A. (*)	Spain	Prop. promotion and development	50%	50%	-	-	Metrovacesa, S.A.
Urbanizadora Valdepolo II, S.A. (*)	Spain	Prop. promotion and development	50%	50%	-	-	Metrovacesa, S.A.
Urbanizadora Valdepolo III, S.A. (*)	Spain	Prop. promotion and development	50%	50%	-	-	Metrovacesa, S.A.
Urbanizadora Valdepolo IV, S.A. (*)	Spain	Prop. promotion and development	50%	50%	-	-	Metrovacesa, S.A.
Valdicsa, S.A. (**)	Spain	Prop. promotion and development	-	33.31%	-	-	Metrovacesa Promoción y Arrendamiento, S.A.

OTHER INVESTMENTS NOT CONSOLIDATED

Name	Registered address	Activity	Net interest in owner company				Owner Group company
			2018 (%)	2017 (%)	30.06.2018 (thousand €)	31.12.2017 (thousand €)	
Urbanizadora Fuente San Luis, S.L.	Spain	Construction and sale	10%	10%	2	2	Metrovacesa, S.A.

METROVACESA, S.A. AND SUBSIDIARIES

The condensed interim consolidated financial statements and directors' report for the six month period ended 30 June 2018 of Metrovacesa, S.A. and Subsidiaries, consisting of the balance sheet at 30 June 2018, the income statement, the statement of changes in equity and the cash flow statement and the related notes, all on a summarised and consolidated basis, for the six month period then ended, were prepared by the Board of Directors of Metrovacesa, S.A. during its meeting of 23 July 2018. The condensed interim consolidated financial statements are for the six month period ended 30 June 2018, all the directors signing this last page.

Madrid, July 23, 2018

V.B. D. Ignacio Moreno Martínez

Mr. Lucas Osorio Iturmendi

Chairman of the Board of Directors

Secretary of the Board Directors

Mr. Mariano Olmeda Sarrión

Vicepresident of the Board Directors

Signed. Mr. Ignacio Moreno Martínez

Member

Signed. Mr. Mariano Olmeda Sarrión

Member

Signed. Mr. Jorge Pérez de Leza Eguiguren

Member

Signed. Mr. Javier García-Carranza Benjumea

Member

Signed. Mr. Cesáreo Rey-Baltar Oramas

Member

Signed. Ms. Beatriz Puente Ferreras

Member

Signed. Mr. Jose Ferris Monera

Member

Signed. Ms. Emma Fernández Alonso

Member

Signed. Ms. Ana Lucrecia Bolado Valle

Member

Signed. Mr. Juan Béjar Ochoa

Member

Signed. Mr. Vicente Moreno García-Mansilla

Member

Signed. Mr. Carlos Manzano Cuesta

Member