Inmobiliaria Colonial, S.A.

Financial Statements
for the year ended
31 December 2015 and
Management Report, together with the
Auditors' Report

Deloitte.

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

To the Shareholders of
Inmobiliaria Colonial, S.A.,

Report on the Financial Statements

We have audited the accompanying financial statements of Inmobiliaria Colonial, S.A. ("the Company"), which comprise the balance sheet as at 31 December 2015, and the statement of profit or loss, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

Directors' Responsibility for the Financial Statements

The directors are responsible for preparing the accompanying financial statements so that they present fairly the equity, financial position and results of Inmobiliaria Colonial, S.A. in accordance with the regulatory financial reporting framework applicable to the Company in Spain (identified in Note 2-a to the accompanying financial statements) and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of Inmobiliaria Colonial, S.A. as at 31 December 2015, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein.

Report on Other Legal and Regulatory Requirements

The accompanying directors' report for 2015 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the financial statements for 2015. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Inmobiliaria Colonial, S.A.

DELOITTE, S.L.
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Francesc Ganyet

19 February 2016

Col·legi
de Censors Jurats
de Comptes
de Catalunya

DELOITTE, S.L.

Any 2016 Núm. 20/16/02553
CÒPIA GRATUÏTA

Informe subjecte a la normativa reguladora de l'activitat d'auditoria de comptes a Espanya

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

INMOBILIARIA COLONIAL, S.A.

BALANCE SHEET AT 31 DECEMBER 2015
(Thousands of Euros)

ASSETS	Notes to the financial statements	31/12/15	31/12/14	LIABILITIES	Notes to the financial statements	31/12/15	31/12/14
NON-CURRENT ASSETS:				**EQUITY:**			
Intangible assets-		**578**	**208**	**CAPITAL AND RESERVES-**		**1,655,327**	**1,376,223**
Patents, licences, trademarks and similar		44	-	**Share capital-**		**797,214**	**797,214**
Computer software		534	208	Registered capital		797,214	797,214
Property, plant and equipment-	**Note 6**	**10,923**	**10,301**	**Share premium-**		**560,606**	**560,606**
Land and buildings		17,828	17,876	**Reserves-**		**1,163,954**	**1,165,187**
Plant and other items of property, plant and equipment		895	1,033	Legal and statutory reserves		5,080	5,080
Impairment of property, plant and equipment		(7,800)	(8,608)	Other reserves		1,158,874	1,160,107
Investment property-	**Note 7**	**1,389,481**	**1,142,432**	**Own shares and equity holdings-**		**(5,013)**	**-**
Land		1,101,919	1,031,955	**Prior years' losses-**		**(1,147,975)**	**(944,584)**
Buildings and installations		371,498	355,704	**Profit/(loss) for the year-**		**285,350**	**(203,391)**
Investment property in progress and prepayments		69,002	38,184	**Other equity instruments-**		**1,191**	**1,191**
Impairment of investment property		(152,938)	(283,411)	**Total equity**	**Note 13**	**1,655,327**	**1,376,223**
Non-current investments in Group companies and associates-	**Note 9**	**1,427,199**	**1,245,203**				
Equity instruments of the Group		1,427,209	1,397,171	**NON-CURRENT LIABILITIES:**			
Impairment of investments in Group companies and associates		(10)	(151,968)	**Non-current provisions-**	**Note 14**	**11,508**	**12,499**
Non-current financial investments-	**Note 9**	**7,299**	**8,064**	Debt instruments and other marketable securities		108	121
Other non-current financial assets		7,299	8,064	Other provisions		11,400	12,378
Total non-current assets		**2,835,480**	**2,406,208**	**Non-current payables-**		**1,319,240**	**1,049,712**
				Debt instruments and other marketable securities	**Note 15**	1,243,960	-
				Bank borrowings	**Note 15**	65,371	1,040,177
				Derivatives	**Note 10**	616	1,657
				Other non-current financial liabilities	**Note 16**	9,293	7,878
				Deferred tax liabilities and other payables to public entities-	**Note 17**	**29,658**	**34,913**
CURRENT ASSETS:				**Total non-current liabilities**		**1,360,406**	**1,097,124**
Non-current assets held for sale-	**Note 11**	**12,607**	**16,420**				
Trade and other receivables-		**26,938**	**3,083**	**CURRENT LIABILITIES:**			
Trade receivables from sales and services		1,564	2,155	**Current provisions-**	**Note 14**	**9,104**	**5,737**
Trade receivables from Group companies and associates	**Note 19**	16	16	**Current payables-**		**15,930**	**8,445**
Other receivables	**Note 12**	-	-	Debt instruments and other marketable securities	**Note 15**	14,132	-
Advances to suppliers		155	186	Bank borrowings	**Note 15**	(381)	4,229
Employee receivables		4	9	Derivatives	**Note 10**	2,162	4,195
Other accounts receivable from public authorities	**Note 17**	25,199	717	Other current financial liabilities		17	21
Current investments in Group companies and associates-		**420**	**-**	**Trade and other payables-**		**36,405**	**43,521**
Loans to companies	**Note 19**	420	-	Payable to suppliers	**Note 7**	29,430	33,381
Current investments-	**Note 12**	**9**	**21**	Other payables		5,017	2,592
Equity instruments		9	21	Other accounts payable to public authorities	**Note 17**	1,958	7,534
Current accrued expenses and deferred income-		**92**	**16**	Advances from customers		-	14
Cash and cash equivalents-	**Note 15**	**201,632**	**105,308**	**Current accrued expenses and deferred income-**		**6**	**6**
Total current assets		**241,698**	**124,848**	**Total current liabilities**		**61,445**	**57,709**
TOTAL ASSETS		**3,077,178**	**2,531,056**	**TOTAL EQUITY AND LIABILITIES**		**3,077,178**	**2,531,056**

The accompanying Notes 1 to 24 and the Appendix to the financial statements are an integral part of the balance sheet at 31 December 2015.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

INMOBILIARIA COLONIAL, S.A.

INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2015

(Thousands of Euros)

	Notes to the financial statements	2015	2014
CONTINUING OPERATIONS:			
Revenue-	**Note 18**	**117,731**	**107,427**
Sales		56,475	54,166
Services		183	795
Income from investments in Group companies and associates		61,073	52,466
Other operating income-		**751**	**11**
Non-core and other current operating income		751	11
Staff costs-	**Note 18**	**(9,068)**	**(11,941)**
Wages, salaries and similar expenses		(7,418)	(10,258)
Employee benefits expense		(1,650)	(1,683)
Other operating expenses-		**(19,915)**	**(54,666)**
External services		(13,682)	(19,003)
Taxes other than income tax		(2,553)	(17,609)
Losses on, impairment of and changes in allowances for trade receivables	**Note 14**	(3,830)	(18,052)
Other current operating expenses		150	(2)
Amortisation and depreciation-	**Notes 6 and 7**	**(25,664)**	**(24,774)**
Impairment and gains/(losses) on disposal of fixed assets-		**125,478**	**94,342**
Impairment and losses	**Notes 6, 7, 11 and 18**	125,942	94,945
Gains/(losses) on disposals and other	**Notes 7 and 18**	(464)	(603)
Profit from operations-		**189,313**	**110,399**
Finance income-	**Note 18**	**1,113**	**698**
Marketable securities and other financial instruments-		**1,113**	**698**
Group companies and associates		-	8
Third parties		1,113	690
Finance costs-	**Note 18**	**(63,548)**	**(132,758)**
On debts to Group companies and associates		-	(20,594)
On debts to third parties		(63,548)	(112,164)
Change in fair value of financial instruments-	**Note 18**	**(192)**	**(1,093)**
Trading portfolio and other		(192)	(1,093)
Impairment and gains/(losses) on disposal of financial instruments-	**Notas 9, 12, 14 y 18**	**154,984**	**75,534**
Impairment and losses		154,992	75,534
Gains/(losses) on disposals and other		(8)	-
Net finance income/(expense)-		**92,357**	**(57,619)**
Profit before tax-		**281,670**	**52,780**
Income tax expense	**Note 17**	3,680	(256,171)
Profit/(loss) for the year from continuing operations-		**285,350**	**(203,391)**
Profit/(loss) for the year-		**285,350**	**(203,391)**

The accompanying Notes 1 to 24 and the Appendix to the financial statements are an integral part of the 2015 income statement.

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INMOBILIARIA COLONIAL, S.A.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

A) STATEMENTS OF RECOGNISED INCOME AND EXPENSE

(Thousands of Euros)

	2015	2014
PROFIT/(LOSS) FOR THE YEAR (I)	**285,350**	**(203,391)**
Income and expense recognised directly in equity:		
Cash flow hedges	-	(92)
Total income and expense recognised directly in equity (II)	**-**	**(92)**
Amounts transferred to income statement		
Cash flow hedges	-	5,517
Total amounts transferred to income statement (III)	**-**	**5,517**
Total recognised income and expense (I+II+III)	**285,350**	**(197,966)**

The accompanying Notes 1 to 24 and the Appendix to the financial statements are an integral part of the 2015 statement of recognised income and expense5.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

INMOBILIARIA COLONIAL, S.A.

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

B) STATEMENT OF TOTAL CHANGES IN EQUITY

(Thousands of Euros)

	Capital	Share premium	Reserves	Treasury shares	Prior years' profit and loss	Profit/(loss) for the year	Other equity instruments	Valuation adjustments	Total
Balance at 31 December 2013	**225,919**	**109**	**1,083,485**	**(38,280)**	**(837,243)**	**(107,341)**	**2,010**	**(5,425)**	**323,234**
Total recognised income and expense	-	-	-	-	-	(203,391)	-	5,425	**(197,966)**
Transactions with shareholders:									
Capital reductions	(169,439)		169,439	-	-	-		-	**-**
Capital increases	740,714	558,492	(49,860)	-	-	-	-	-	**1,249,346**
Conversion of other equity instruments	20	2,005	(117)	-	-	-	(2,025)	-	**(117)**
Distribution of profit/(loss)	-	-	-	-	(107,341)	107,341	-	-	**-**
Transactions with own shares and equity holdings (net)	-	-	(35,267)	38,280	-	-	-	-	**3,013**
Increase in equity as a result of the transfer en bloc of assets and liabilities (Note 5)	-	-	(2,478)	-	-	-	-	-	**(2,478)**
Share-based payment transactions (Note 18)	-	-	-	-	-	-	1,191	-	**1,191**
Borrowing cost of equity instruments	-	-	(15)	-	-	-	15	-	**-**
Balance at 31 December 2014	**797,214**	**560,606**	**1,165,187**	**-**	**(944,584)**	**(203,391)**	**1,191**	**-**	**1,376,223**
Total recognised income and expense	-	-	-	-	-	285,350	-	-	**285,350**
Transactions with shareholders:									
Capital increases	-	-	(51)	-	-	-	-	-	**(51)**
Distribution of profit/(loss)	-	-	-	-	(203,391)	203,391	-	-	**-**
Transactions with own shares and equity holdings (net)	-	-	(4)	(7,396)	-	-	-	-	**(7,400)**
Share-based payment transactions (Note 18):									
Accrual long-term remuneration plan 2015	-	-	-	-	-	-	1,191	-	**1,191**
Delivery long-term remuneration plan 2014	-	-	(1,178)	2,383	-	-	(1,191)	-	**14**
Balance at 31 December 2015	**797,214**	**560,606**	**1,163,954**	**(5,013)**	**(1,147,975)**	**285,350**	**1,191**	**-**	**1,655,327**

The accompanying Notes 1 to 24 and the Appendix to the financial statements are an integral part of the statement of total changes in equity for 2015.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

INMOBILIARIA COLONIAL, S.A.

2015 STATEMENT OF CASH FLOWS
(Thousands of Euros)

	Notes to the financial statements	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES (I):		**12,520**	**(97,635)**
Profit/(loss) for the year before tax from continuing operations-		**281,670**	**52,780**
Profit/(loss) for the year before tax from discontinued operations-		**-**	**-**
Adjustments for-		**(248,407)**	**(96,340)**
Amortisation and depreciation	**Notes 6 and 7**	25,664	24,774
Valuation allowances for impairment losses	**Notes 6, 7, 11 and 18**	(125,942)	(94,945)
Changes in provisions	**Note 14**	3,830	18,052
Proceeds from disposals of fixed assets	**Note 7**	464	603
Impairment and gains/(losses) on disposal of financial instruments	**Notes 9, 12, 14 and 18**	(154,984)	(75,534)
Finance income	**Note 18**	(62,186)	(53,164)
Finance costs	**Note 18**	63,548	132,758
Change in fair value of financial instruments	**Notes 10 and 18**	192	1,093
Capital increase costs		(51)	(49,977)
Income and expenses		1,058	-
Changes in working capital-		**2,509**	**(10,577)**
Trade and other receivables		173	(2,443)
Other current assets		711	(1,040)
Trade and other payables		(2,030)	180
Other current liabilities		(4)	(4,391)
Other non-current assets and liabilities		3,659	(2,883)
Other cash flows from operating activities-		**(23,252)**	**(43,498)**
Interest payments and fees		(49,739)	(73,503)
Dividends received	**Note 18**	61,073	52,466
Interest received		1,113	591
Income tax received (paid)		(32,433)	(10,593)
Proceeds from and payments for cancellation of derivatives		(3,266)	(12,459)
CASH FLOWS FROM INVESTING ACTIVITIES (II)		**(174,449)**	**(28,335)**
Payments for investments-		**(174,453)**	**(28,428)**
Group companies and associates	**Note 9**	(30,038)	(816)
Intangible assets		(552)	(150)
Property, plant and equipment	**Note 6**	(165)	(87)
Investment property	**Note 7**	(142,378)	(27,187)
Non-current assets held for sale	**Note 11**	(1,320)	(188)
Proceeds from sale of investments-		**4**	**93**
Investment property		-	93
Other current financial assets		4	-
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**258,253**	**211,165**
Proceeds from and payments for equity instruments-		**(6,195)**	**1,266,351**
Issue of equity instruments		-	1,263,338
Acquisition/Disposal of own equity instruments		(6,195)	3,013
Proceeds from and payments for financial liability instruments-		**264,448**	**(1,055,186)**
Issue of bank borrowings	**Note 15**	64,411	706,248
Bonds and similar marketable securities issued	**Note 15**	1,241,266	-
Debt issues with Group companies and associates		(420)	-
Redemption and repayment of bank borrowings	**Note 15**	(1,040,809)	(1,761,434)
EFFECT OF EXCHANGE RATE FLUCTUATIONS (IV)		-	**-**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III+IV)		**96,324**	**85,195**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS FROM NON-MONETARY CONTRIBUTIONS		**-**	**-**
Cash and cash equivalents at start of year		105,308	20,113
Cash and cash equivalents at end of year		201,632	105,308

The accompanying Notes 1 to 24 and the Appendix to the financial statements are an integral part of the statement of cash flows for 2015.

Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

Inmobiliaria Colonial, S.A.

Notes to financial statements
for the year ended
31 December 2015

1. Company Activity

Inmobiliaria Colonial, S.A. (formerly, Grupo Inmocaral, S.A.), hereinafter, "the Company, is a limited liability company incorporated in Spain (for an indefinite period on 8 November 1956 as Grupo Fosforera, S.A.).

On 19 April 2007, the Board of Directors of the Company agreed to rename the Company Inmobiliaria Colonial, S.A., additionally changing its registered office to Avenida Diagonal, 532, Barcelona.

The Company's main business is the lease, acquisition, development and sale of real estate, in addition to the management of financial holdings. The Company leases office space in Spain (mainly in Barcelona and Madrid) and in France (Paris) through the Group headed by Société Foncière Lyonnaise, S.A. (hereinafter, “SFL”).

On 16 June 2002 and 29 June 2006, the Company issued equity, some of which in exchange for non-monetary contributions. In addition, in 2007, Inmobiliaria Colonial, S.A. (merged company) merged into Inmobiliaria Colonial, S.A. (then Grupo Inmocaral, S.A.). Lastly, in 2008, Subirats-Coslada Logística, S.L.U., Diagonal Les Punxes 2002, S.L.U., Dehesa de Valme, S.L., Urbaplan 2001, S.A.U., Entrenúcleos Desarrollo Inmobiliario, S.L., Inversiones Tres Cantos, S.L. and Inversiones Notenth, S.L. (merged companies) were merged into Inmobiliaria Colonial, S.A. (surviving company).

In 2010, the spin-off and contribution to the subsidiary Asentia Project, S.L., hereinafter “Asentia” of the land and development business took place, including shares in the subsidiary Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U., hereinafter “DUE”, to which a project in Seville was transferred. In addition, the non-monetary contribution of the Llacuna property development in Barcelona to the subsidiary Abix Service, S.L.U., hereinafter “Abix”, was carried out. These transactions took place under the scope of the agreements reached by virtue of the “Framework Refinancing Agreement” signed between the Company and the banks on 19 February 2010.

The aforementioned mergers, spin-offs and non-monetary contributions were filed under the tax regime provided for in Title VII, Chapter VIII, of the Spanish Corporate Income Tax Law. In accordance with legal requirements, all relevant information regarding these corporate transactions is detailed in the financial statements for the years concerned.

In 2014, the assets and liabilities of Abix, a wholly-owned company until this date, were transferred en bloc to Inmobiliaria Colonial, S.A. (Note 5). The aforementioned transaction entailed the transfer en bloc by universal succession of all of Abix's assets and liabilities to the Company, and the subsequent dissolution of the investee, all in accordance with Article 87.1 of Law 3/2009, of 3 April, on structural changes to trading companies.

On 5 June 2015 the Company obtained a “BBB-” long-term credit rating and an “A-3” short-term credit rating from Standard & Poor’s Rating Credit Market Services Europe Limited.

Inmobiliaria Colonial, S.A. is listed on the Madrid, Barcelona, Valencia and Bilbao stock exchanges.

In view of the business activity carried on by the Company, it does not have any environmental liability, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position or results. Therefore, no specific disclosures relating to environmental issues are included in these notes to the financial statements. However, the Company does apply an active environmental policy in relation to urban development, construction, maintenance and the preservation of its property portfolio.

The Company is the head of a group of subsidiaries and is obliged under current legislation to prepare consolidated financial statements separately. The consolidated financial statements for 2014 were approved at the General Shareholders' Meeting of Inmobiliaria Colonial, S.A. held on 24 April 2015, and were filed in the Barcelona Mercantile Register.

2. Basis of presentation of the financial statements

a) Regulatory financial reporting framework applicable to the Company

These financial statements have been authorised for issue by the directors in accordance with the regulatory financial reporting framework applicable to the Company, as set out in:

a) The Spanish Commercial Code and other company law.

b) The Spanish National Chart of Accounts approved by Royal Decree 1514/2007, along with Royal Decree 1159/2010, amending certain aspects of the Chart of Accounts and its sectorial adaptations and, in particular, the Sectorial Adaptation of the National Chart of Accounts of Property Companies approved by the Order of 28 December 1994, and the provisions approved by the Spanish National Securities Market Commission.

c) Mandatory standards approved by the Institute of Accounting and Account Auditing in implementing the National Chart of Accounts and its supplementary regulations, the Securities Market Act and other regulations issued by the Spanish National Securities Market Commission.

d) All other applicable Spanish accounting law.

b) True and fair view

The accompanying financial statements were prepared on the basis of the accounting records kept by the Company and are presented in accordance with the applicable regulatory financial reporting framework and, in particular, the accounting principles and rules contained therein, to present a true and fair view of the Company's equity, financial position, income, and cash flows for the year then ended. These financial statements, which have been authorised for issue by the Company's directors, shall be submitted for approval at the General Shareholders' Meeting, and are expected to be approved without any changes.

The 2014 financial statements were approved by the shareholders at the Annual General Meeting held on 24 April 2015.

c) Non-mandatory accounting principles applied

No non-mandatory accounting principles have been applied. Accordingly, the directors have authorised these financial statements for issue on the basis of all mandatory accounting principles and standards that have a material effect on such statements. All mandatory accounting principles have been applied.

d) Critical aspects of measurement and estimate of uncertainty

In preparing the accompanying financial statements, estimates were made by the Company's directors in order to measure certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates and criteria relate to the following:

- Impairment losses or reversals of impairment losses recognised in previous years on property, plant and equipment for own use and investment property as a result of lower or higher property appraisals carried out by independent experts vis-à-vis the carrying amount recognised for these assets (Notes 6 and 7).

The market value of the property, plant and equipment for own use and of the investment properties was obtained from the appraisals periodically made by independent experts. Such appraisals were made on 30 June 2015 and 31 December 2015 in accordance with the methods described in Notes 4-b and 4-c.

- Measurement and impairment of financial investments (Note 4-e).

- Measurement of non-current assets held for sale (Note 4-f).

- The useful life of property, plant and equipment for own use and investment property (Notes 4-b and 4-c).

- Estimation of the appropriate provisions for default of accounts receivable (Note 4-g).

- The recoverability of tax credits in respect of tax loss carryforwards and deferred tax assets recognised in the balance sheet (Note 17).

- The market value of certain financial assets, including derivative financial instruments (Note 10).

- Evaluation of lawsuits, obligations, and contingent assets and liabilities at year-end (Note 14).

Although these estimates were made on the basis of the best available information at year-end 2015, events that take place in the future might make it necessary to modify these amounts (upwards or downwards) in coming years, which would mean, except for goodwill impairment tests, which cannot be reversed in the future, prospectively recognising the effects of said changes in the corresponding income statement.

e) Basis of comparison

The information included in these notes to the financial statements for 2015 is presented, for comparison purposes, with the information relating to 2014.

f) Grouping of items

Certain items in the balance sheet, income statement, statement of changes in equity and statement of cash flows are grouped together in order to facilitate comprehension. However, whenever the amounts involved are material, the information is broken down in the related notes to the financial statements.

g) Corrections

No significant errors have been found in the preparation of the accompanying financial statements that would require a restatement of the amounts included in the financial statements of 2014.

3. Distribution of profit

The distribution of 2015 profit proposed by the Company's Board of Directors for approval at the General Shareholders' Meeting is as follows:

	Thousands of euros
Profit for the year of the Company	**285,350**
To the legal reserve	28,535
To dividends	47,833
To offset prior years' losses	208,982
Total distributed	**285,350**

4. Accounting policies and measurement bases

The main accounting policies and measurement bases used by the Company to prepare its financial statements, in accordance with the General Chart of Accounts, were as follows:

a) Intangible assets

As a general rule, intangible assets are initially measured at their purchase price or their production cost. They are then measured at their cost less the corresponding accumulated amortisation and, where applicable, less any impairment losses suffered. These assets are amortised over their useful life.

Computer software-

"Computer software" includes mainly the cost of acquiring and implementing an integrated IT system, in addition to subsequent extensions or upgrades of such system. The cost is amortised on a straight-line basis at a rate of 25% per year.

b) Property, plant and equipment

Property for own use-

Properties for own use, including office furniture and equipment, are recognised at acquisition cost less any accumulated depreciation and any impairment, based on the same measurement assumptions explained in Note 4-c.

Historical cost includes expenses directly attributable to the acquisition of the properties.

Subsequent costs are capitalised or recognised as a separate asset only when it is probable that the future benefits associated with ownership of the asset will flow to the Company and its cost can be determined reliably. Other upkeep and maintenance expenses are charged to the income statement in the year in which they are incurred.

Other property, plant and equipment-

The assets included under "Other property, plant and equipment" are measured at acquisition cost less the corresponding accumulated depreciation and impairment, and restated pursuant to the applicable enabling legislation. Subsequent additions were measured at cost.

The costs of expansion, modernisation or improvement leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of assets are capitalised as an increase in the cost of the related assets, while upkeep and maintenance costs are expensed currently.

The Company depreciates its property, plant and equipment for own use and other items of property, plant and equipment using the straight-line method at annual rates based on the years of estimated useful life, as follows:

	Years of estimated useful life
Properties:	
Buildings	50
Fixtures	10 to 15
Other fixtures, tools and furniture	3 to 10
Other property, plant and equipment	3 to 10

Gains or losses recognised on the sale or retirement of an asset are stated at the difference between the sale price and the carrying amount, and are taken to the income statement under "Impairment and gains/(losses) on disposal of fixed assets".

c) *Investment property*

"Investment property" in the balance sheet reflects the values of the land, buildings and other constructions held to earn rents or for capital appreciation upon disposal due to future increases in their respective market prices.

Investment properties are recognised at their acquisition cost, plus gains allocated as a result of the merger described in Note 1 between Grupo Inmocaral, S.A. (absorbing company) and Inmobiliaria Colonial, S.A. (absorbed company), less accumulated depreciation and impairment losses.

The costs of expansion, modernisation or improvement leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of assets are capitalised as an increase in the cost of the related assets, while upkeep and maintenance costs are expensed currently.

For developments in progress, the only costs capitalised are execution and borrowing costs, provided such expenses were accrued before the asset was put to use and the construction work lasted over one year.

No borrowing costs were capitalised in 2015 and 2014.

Investment property in progress is transferred to investment property in operation when the assets are ready to be put in use.

The Company depreciates its investment properties by the straight-line method at annual rates based on the years of estimated useful life, as follows:

	Years of estimated useful life
Properties:	
Buildings	50
Fixtures	10 to 15
Other fixtures, tools and furniture	3 to 10
Other property, plant and equipment	3 to 10

The Company periodically compares the carrying amount of its investment property with the market value based on valuations made by independent experts for each one of them. The appropriate impairment losses are recognised on investment property when the market value of an item is lower than the carrying amount. The market value is determined on a half-yearly basis, i.e., at 30 June and at 31 December of each year, based on the valuations made by an independent expert (Jones Lang LaSalle in both 2015 and 2014), so that the year-end market values for investment property items reflect prevailing market conditions. The valuation reports prepared by independent experts contain only the standard warnings and/or disclaimers concerning the scope of the findings of the appraisals carried out, referring basically to the comprehensiveness and accuracy of the information provided by the Company.

The Discounted Cash Flow (hereinafter, "DCF") method was primarily used to determine the market value of the Company's property investments in 2015 and 2014.

The DCF method applied over a 10-year horizon is used, in accordance with current market practices, unless the specific characteristics suggest another course of action. The cash flow is considered throughout the period on a monthly basis to reflect increases in the CPI, the timetable for future rent reviews, the maturity of operating leases, etc.

With regard the increases in the CPI, the generally accepted forecasts are normally adopted.

Given that the appraiser does not know with certainty whether there will be periods of vacancy in the future, nor their duration, these forecasts are prepared based on the quality and location of the building, and generally use an average lease period if there is no information on the future intentions of each tenant. The assumptions determined in relation to the periods of vacancy and other factors are explained in each valuation.

The resulting profitability or Terminal Capitalisation Rate (hereinafter, "TCR") adopted in each case refers not only to the forecast market conditions at the end of each cash flow period, but also to the rental conditions which are expected to be maintained and the physical location of the property, taking into account any possible improvements planned for the property and included in the analysis.

With regard to acceptable discount rates, conversations are regularly held with various institutions to assess their attitude towards different investment rates. This general consensus, together with the data on any sales made and market forecasts relating to variations in the discount rates, serve as starting points for the appraisers to determine the appropriate discount rate in each case.

The properties were assessed individually, considering each of the lease agreements in force at the end of the year. Buildings with unlet floor space were valued on the basis of future estimated rental income, less a period for the marketing thereof.

The key inputs in this valuation method are the determination of net income, the period of time over which they are discounted, the estimated realisable value at the end of each period and the target internal rate of return used to discount the cash flows.

The estimated yields are mainly determined by the type, age and location of the properties, by the technical quality of the asset, as well as the type of tenant and occupancy rate, etc.

The yields and other assumptions used in determining future cash flows in 2015 and 2014 are set out in the tables below:

	Gross	
Exit yields (%) - Offices	31 December 2015	31 December 2014
Barcelona – Prime Yield		
Leased out	5.52	6.32
Total portfolio	5.55	6.34
Madrid – Prime Yield		
Leased out	4.92	5.80
Total portfolio	4.91	5.80

Assumptions made at 31 December 2015					
Rental increases (%) - Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Leased out	0.50	0.75	1.25	2.00	2.00
Total portfolio	0.50	0.75	1.25	2.00	2.00
Madrid –					
Leased out	0.50	0.75	1.25	2.00	2.00
Total portfolio	0.50	0.75	1.25	2.00	2.00

Assumptions made at 31 December 2014					
Rental increases (%) - Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Leased out	2.50	2.50	2.50	2.50	2.50
Total portfolio	2.50	2.50	2.50	2.50	2.50
Madrid –					
Leased out	2.50	2.50	2.50	2.50	2.50
Total portfolio	2.50	2.50	2.50	2.50	2.50

Developments in progress were valued using the residual method, which was deemed the best approach. This method begins with an estimate of the income yielded by the developed and fully leased property; from this value, development, urban planning, construction and demolition costs, professional fees, permit and marketing costs, borrowing costs and development profit, among other items, are then deducted, in order to arrive at a price which a developer might pay for the asset under development.

A change of one-quarter of one point in yields would have the following impact on the valuations used by the Company to determine the value of its assets recognised under "Investment property", "Property, plant and equipment", and "Non-current assets held for sale" in the balance sheet:

Sensitivity of valuations to a change of one quarter of a point in yields	Thousands of euros		
	Valuation	Decrease of one quarter of a point	Increase of one quarter of a point
December 2015	1,535,736	80,452	(72,615)
December 2014	1,202,612	51,220	(49,660)

The rental income earned in the years ended 31 December 2015 and 2014 from the lease of these investment properties amounted to approximately 56,475 thousand euros and 54,166 thousand euros, respectively (Note 18), and is recognised under “Revenue” in the income statement.

Gains or losses recognised on the sale or retirement of an asset are stated at the difference between their sale price and the carrying amount, and are taken to the income statement under “Impairment and gains/(losses) on disposal of fixed assets”.

d) Leases

Finance leases-

Leases are classified as finance leases whenever their terms imply that substantially all the risks and rewards incidental to ownership of the leased asset have been transferred. All other leases are classified as operating leases. At 31 December 2015 and 2014, all of the Company’s leases qualified as operating leases.

Operating leases-

Income and expenses deriving from operating leases are recognised in the income statement in the year in which they accrue.

The acquisition cost of the leased assets is presented in the balance sheet in accordance with the nature of the asset, plus the costs directly attributable to the lease, which are expensed over the term of the lease on the same basis as lease income.

Any collection or payment that might be made when arranging an operating lease will be treated as a prepaid lease collection or payment, which will be allocated to the income statement over the lease term as the benefits of the leased asset are received or given.

e) Financial instruments

Financial assets-

Classification-

The financial assets held by the Company are classified in the following categories:

- Loans and receivables: financial assets arising from the sale of goods or the rendering of services in the ordinary course of the Company's business, or those which, not arising from trade, are not equity instruments or derivatives, have fixed or determinable payments and are not traded in an active market.

- Held-to-maturity investments: debt securities with fixed maturity and determinable payments that are traded in an active market and which the Company has expressed its intent and capacity to hold until their maturity date.

- Equity investments in Group companies, associates and jointly controlled entities: Group companies are those linked to the Company by a relationship of control, and associates are companies over which the Company exercises a significant influence. In addition, the category of jointly controlled entity includes companies that, by virtue of an arrangement, exercise joint control with one or more partners.

Initial measurement-

Financial assets are initially recognised at the fair value of the consideration given, plus any directly attributable transaction costs.

In the case of equity investments in Group companies that exercise control over subsidiaries, from 1 January 2010 onwards, the fees paid to legal advisors and other professionals related to the acquisition of the investment are recognised directly in profit or loss.

Subsequent measurement-

Loans, receivables and investments held to maturity are measured at their amortised cost.

Investments in Group companies, associates and jointly controlled entities are measured at cost minus, if applicable, any accumulated impairment losses. Such losses are calculated as the difference between the carrying amount and the recoverable amount, where the latter is the higher of fair value less costs to sell and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, it is based on the value of the equity of the investee, adjusted by the unrealised gains existing at the valuation date (including any goodwill).

The Company tests its financial assets that are not carried at fair value for impairment at least at the end of each reporting period. If the recoverable value of the financial asset is lower than its carrying amount, objective evidence of impairment is deemed to exist, in which case, it is recognised in the income statement

In particular, the Company calculates valuation adjustments relating to trade and other receivables by carrying out a case-by-case analysis of the solvency of the debtor.

The Company derecognises financial assets when they expire or when the rights to the cash flows of the financial asset have been assigned and a substantial transfer has occurred of the risks and benefits of ownership.

In contrast, the Company does not derecognise financial assets, and it recognises a financial liability for the same amount as the consideration received in assignments of financial assets in which the risks and benefits of ownership are substantially retained.

Financial liabilities-

Financial liabilities our accounts payable by the Company that have arisen from the purchase of goods and services in the course of the Company's business and those which, not arising from trade, cannot be considered derivative financial instruments.

Accounts payable are initially recognised at the fair value of the consideration received, adjusted for directly attributable transaction costs, and subsequently measured at amortised cost.

Liability derivative financial instruments are measured at fair value, using the same criteria as those applied to financial assets held for trading described in the preceding section.

The Company derecognises financial liabilities when the obligations giving rise to them cease to exist. When a debt instrument swap takes place between the Company and a third party, as long as these instruments have substantially different conditions, the Company derecognises the original financial liability and recognises the new financial liability. The difference between the carrying amount of the original liability and the payment received, including any transaction costs attributable, is recognised in the income statement for the year.

If debt instruments that do not have substantially different terms are exchanged, the original financial liability is not derecognised and the amount of the fees paid are recognised as an adjustment to its carrying amount. The amortised cost of the financial liability is determined by applying the effective interest rate, which is equal to the carrying amount of the financial liability on the date of modification with the cash flows to be paid according to the new conditions.

The Company considers that the conditions of the financial liabilities are substantially different if the present value of the discounted cash flows under the new conditions, including any fees paid net of any fees received and discounted using the original effective interest rate, differs by at least 10% from the present value of the discounted cash flows still remaining from the original financial liability.

Own equity instruments-

An own equity instrument represents a residual interest in the assets of the Company after deducting all of its liabilities.

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

Treasury shares acquired by the Company during the year are recognised at the value of the consideration delivered in exchange and are deducted directly from equity. Any gains or losses on the purchase, sale, issue or cancellation of own equity instruments are recognised directly in equity and never in the income statement.

Derivative financial instruments-

The Company uses financial derivatives to manage its exposure to variations in interest rates. All derivative financial instruments, whether or not they are designated as hedging instruments, are carried at fair value: market value in the case of listed securities, or using option valuation methods or discounted cash flow analysis for non-listed securities. The following valuation criteria have been applied:

- Cash flow hedges: fair value gains or losses arising on the effective portion of transactions which classify for hedge accounting are recorded, net of taxes, directly in equity until the underlying or expected transaction occurs, at which point gains and losses are restated in the income statement. Any valuation gains and losses on the ineffective portion of the hedge are recognised directly in the income statement.

- Treatment of financial instruments which are not allocated to a specific liability and do not qualify for hedge accounting: fair value changes in these financial instruments are recognised directly in the income statement.

The Company's directors have considered the credit risk in the measurement of the derivatives portfolios, with no significant impact seen at 31 December 2015.

Hedge accounting is discontinued when a hedging instrument expires or is sold or exercised, or when the hedge no longer qualifies for hedge accounting. Gains or losses on hedging instruments accumulated directly in equity remain in equity until the related transaction materialises. Once the related cash flow occurs, any gain or loss accumulated in Company equity is released to the income statement for the period.

Prospective and retrospective testing for hedge effectiveness is carried out on a monthly basis:

- Retrospective tests measure how effectively the instrument would have hedged the liability over its life, using historical interest rates to date.

- Prospective tests measure the instrument’s expected effectiveness on the basis of forward interest rates as published by Bloomberg at the measurement date. This is adjusted monthly from the inception of the hedge on the basis of the actual interest rates already established.

The method consists of calculating the statistical correlation between the benchmark interest rates at each measurement date for the derivative and the hedged liability. This is applicable for the portion of the underlying liability hedged by the derivative, irrespective of the nominal amount covered, which in any case, must be adjusted to reflect the nominal amount of the hedge.

A hedging instrument is considered effective if this statistical correlation is between 0.8 and 1.

The Company's use of financial derivatives is governed by a set of approved risk management policies and hedges.

f) *Non-current assets and disposal groups classified as held for sale and discontinued operations*

Non-current assets and disposal groups classified as held for sale-

Non-current assets held for sale are measured at cost or at the fair value less costs to sell, whichever is lower.

Non-current assets are classified as held for sale if it is estimated that their carrying amounts will be recovered through a sale rather than through continuing use. This condition is met when the sale of the asset is considered highly probable, the asset is in a condition to be immediately sold and the sale is expected to be fully realised within a period of no more than twelve months from its classification as a held-for-sale asset.

The Company classifies non-current assets as assets held for sale when the Board of Directors or Executive Committee has officially approved the disposal and the sale is considered highly probable within a period of twelve months.

Discontinued operations-

A discontinued operation is a component of the Company that has been sold or disposed of in any other way or has been classified as held for sale and, among other conditions, represents a line of business or significant area that can be considered to be separate from the rest.

For such transactions, the Company includes the profit or loss after tax of this discontinued operation under a single heading called "Profit/(loss) for the year from discontinued operations after tax" in the income statement, together with the gain or loss after tax from its recognition at fair value less costs to sell or from the sale or disposal of the items constituting the discontinued operation.

In addition, when operations are classified as discontinued, the Company recognises under the aforementioned heading the amount of the previous year relating to operations that have been discontinued at the reporting date of the financial statements.

g) *Accounts receivable*

Trade receivables are carried at recoverable value, i.e., net, where applicable, of the allowances recognised to cover past-due balances where circumstances reasonably warrant their consideration as bad debts. At 31 December 2015 and 2014, there were no unprovisioned at-risk accounts receivable

In 2015, impairment losses of 988 thousand euros relating to accounts receivable were charged to "Losses, impairment and change of trade provisions" in the income statement for the period.

h) *Functional currency*

These financial statements are presented in euros as this is the currency of the main economic area in which the Company operates.

i) *Cash and cash equivalents*

This heading includes bank deposits carried at the lower of cost or market value.

j) *Current / non-current*

The normal operating cycle is understood to be the period of time between the acquisition of assets that form part the Company's various business activities and the realisation of the finished assets in the form of cash or cash equivalents.

The Company's main activity is the rental business, the normal cycle of which is considered to correspond to the calendar year; consequently, assets and liabilities maturing in one year or less are classified as current and those maturing thereafter as non-current.

Bank borrowings are classified as non-current if the Company has the irrevocable right to make payments after twelve months from the end of the reporting period.

k) Provisions and contingent liabilities

In preparing the financial statements, the Company's directors distinguish between:

- Provisions: credit balances covering present obligations arising from past events, the settlement of which is likely to give rise to an outflow of resources, but that which are uncertain with regard to their amount and/or timing of cancellation.

- Contingent liabilities: possible obligations that arise from past events, depending on the occurrence of one or more future events over which the Company does not have control.

The financial statements include all provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the financial statements, rather they are reported in the notes to the financial statements, in so far as they are not considered remote (Note 14).

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

The receivable from a third party upon settlement of the obligation, when the reimbursement is virtually certain, is recognised as an asset, except where there is a legal obligation to outsource part of the risk discharging the Company of this obligation. In this case, benefits are used to estimate any amount to be recognised as the provision.

l) Employee benefits

Termination benefits-

Under current legislation, the Company is required to pay severance to employees terminated under certain conditions. Severance payments which can be reasonably quantified are recorded as an expense in the year in which the decision to terminate the contract is taken and a valid expectation regarding termination is transmitted to third parties. At 31 December 2015, the Company recorded a provision for this item under “Other payables” on the balance sheet for the amount of 752 thousand euros.

m) Share-based payment transactions

The Company recognises the goods and services received as an asset or an expense, depending on their nature, when they are received, along with an increase in equity if the transaction is settled using equity instruments or the corresponding liability if the transaction is settled at an amount based on the value of the equity instruments.

In the case of transactions settled with equity instruments, both the services rendered and the increase in equity are measured at the grant-date fair value of the equity instruments delivered. If, on the other hand, they are settled in cash, the goods and services received and the corresponding liability are recognised at the fair value of such goods and services received as of the date on which the recognition requirements are met.

On 21 January 2014, the Company's General Shareholders' Meeting established a long-term bonus scheme for the Company's Chairman and Chief Executive Officer and for members of the Executive Committee, the conditions of which are detailed in Note 20. Services received are measured at the fair value of the instruments delivered, equivalent to the quoted price of the Company's shares when the bonus scheme was approved.

n) *Income tax expense*

Income tax expense (income) includes the amount of current tax payable (receivable) and the amount of the deferred tax liability (asset).

Current tax is the amount of income taxes payable (recoverable) as a result of the income tax settlements for a period. Tax credits and other tax benefits, excluding tax withholdings and payments on account, and tax loss carryforwards effectively utilised in the current period reduce the current income tax expense.

Deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include the temporary differences, measured at the amount expected to be payable or recoverable, between the carrying amounts of assets and liabilities and their tax bases, as well as the carryforwards of unused tax losses and unused tax credits. These amounts are recognised by applying to the temporary difference or tax credit the tax rate that is expected to apply when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, except for those arising from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and neither affects accounting profit (loss) or taxable profit (tax loss). Deferred tax assets and liabilities arising from transactions charged or credited directly to equity are also recognised with a balancing entry in equity.

In accordance with the regulations in effect, the measurement of the Company's deferred tax liabilities reflects the tax consequences that would follow from the manner in which the carrying amount of its assets is expected to be recovered or settled. In this regard, for deferred tax liabilities that arise from investment properties, it is considered that there is a rebuttable presumption that their carrying amount will be recovered through their sale. Thus, the deferred tax attributable to the gains assigned in the business combination detailed in Note 1, for which a part of the cost was not fiscally deductible, was calculated by applying a tax rate of 25% less the existing tax credits at 31 December 2015. Therefore, the effective rate considered has been set at 7.5%.

The balance sheet includes those tax credits which it is estimated will probably be recovered within a reasonable timeframe, either because of the performance of the property market itself, or through taxable profits generated by the activities carried out by the Company's management (Note 17).

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

The Company heads a Group of companies filing consolidated tax returns under tax group no. 6/08 (Note 17).

o) *Income and expenses*

General criteria-

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

Revenue from sales is recognised when the significant risks and rewards inherent in ownership of the sold asset have been transferred to the buyer, where daily management of the asset is not exercised and effective control is not held.

Interest received-

Interest received on financial assets is recognised using the effective interest rate method, and dividends are recognised when the shareholder's right to receive them is declared. Interest and dividends from financial assets accrued subsequent to acquisition are recognised as income in the income statement.

The Company, in accordance with the query of BOICAC 79 related to the recognition of certain income (dividends, income from loans to related parties, etc.) for companies whose corporate purpose is the holding of financial assets, reflects dividend income from holdings in SFL and Torre Marenostrum, S.L. as the larger amount under “Revenue” in the income statement.

p) Related party transactions

The Company's transactions with related parties are all carried out at market value. Furthermore, the transfer prices applied are fully documented and supported. Therefore, Company directors do not consider that there is a significant risk that could give rise to a material liability in the future.

q) Costs passed on to lessees

The bulk of repair and maintenance expenses incurred by the Company in connection with the operation of its assets are passed on to the respective lessees of the properties. The Company does not consider the costs incurred by lessees from their property investments to be income, and they are recognised as a reduction of the corresponding costs in the income statement. In 2015 and 2014, the Company invoiced these items at 15,019 thousand euros and 13,270 thousand euros, respectively.

Direct operating expenses associated with rented investment properties during the 2015 and 2014, included under “Profit/(loss) from operations” in the income statement, amounted to 8,167 thousand euros and 8,828 thousand euros, respectively. Expenses incurred in connection with investment properties that did not generate rental income were not material.

r) Statement of cash flows (indirect method)

The terms used in the statement of cash flows are defined as follows:

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

- Operating activities: principal revenue-producing activities and other activities that are not investing or financing activities.

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

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

5. Business combinations

As mentioned in Note 1 to the accompanying financial statements, on 30 July 2014, the Company, as the Sole Shareholder of Abix, a company that was wholly owned until this date, approved the transfer en bloc of the assets and liabilities of Abix (assignor) to the Company (assignee), which was prepared, drafted and subscribed by the Sole Director of the assignor on 16 July 2014. The aforementioned transaction entailed the transfer en bloc by universal succession of all of Abix's assets and liabilities, for a negative 2,478 thousand euros, to the Company, and the subsequent dissolution of the investee, all in accordance with that established in article 87.1 of Law 3/2009, of 3 April, on structural changes to trading companies.

For accounting purposes, all transactions of the assignor are considered to have been performed for the account of the assignee as of 1 January 2014.

Prior to the aforementioned corporate transaction, the Company had acquired the assets owned by the investee Abix located in Barcelona for 51,970 thousand euros, by means of a public deed of sale executed before a notary public on 6 May 2014 (Note 7). Subsequently, as a result of the transfer en bloc of the assets and liabilities between Abix and Colonial, the loan granted by the Company to Abix amounting to 6,553 thousand euros on the date of the operation, was cancelled.

6. Property, plant and equipment

The movement in this heading of the balance sheet in 2015 and 2014, and the most significant information affecting this heading, was as follows:

	Thousands of euros								
	Land and buildings			Plant and other items of property, plant and equipment		Total			
	Cost	Accumulated depreciation	Impairment	Cost	Accumulated depreciation	Cost	Accumulated depreciation	Impairment	**Total**
Balance at 31 December 2013	**19,220**	**(1,297)**	**(8,949)**	**9,635**	**(8,396)**	**28,855**	**(9,693)**	**(8,949)**	**10,213**
Additions/charges	-	(47)	-	87	(293)	87	(340)	-	(253)
Decreases/reversion	-	-	341	(4)	4	(4)	4	341	341
Balance at 31 December 2014	**19,220**	**(1,344)**	**(8,608)**	**9,718**	**(8,685)**	**28,938**	**(10,029)**	**(8,608)**	**10,301**
Additions/charges	-	(48)	-	165	(303)	165	(351)	-	(186)
Decreases/reversion	-	-	808	(47)	47	(47)	47	808	808
Balance at 31 December 2015	**19,220**	**(1,392)**	**(7,800)**	**9,836**	**(8,941)**	**29,056**	**(10,333)**	**(7,800)**	**10,923**

The Company uses two floors of the building located at Avenida Diagonal, 532, in Barcelona and one floor of the building located at Paseo de la Castellana, 52, in Madrid.

At 31 December 2015, the need to recognise an impairment loss reversal in the amount of 808 thousand euros on properties for own use was evidenced by the appraisals performed by independent experts (Note 4-b). The amount was recognised under “Impairment and gains/(losses) on disposal of fixed assets - Impairment and losses” in the income statement (Note 18). In the year ended 31 December 2014, a reversal of the impairment of the value of the property for own use amounting to 341 thousand euros was recognised.

At year-end 2015 and 2014, the Company had fully depreciated property, plant and equipment still in use amounting to 7,163 thousand euros and 7,021 thousand euros, respectively.

The Company has no property, plant and equipment outside of Spanish territory, and it has no purchase commitments.

The Company's policy is to contract insurance policies to cover any risks affecting items of property, plant and equipment. At 31 December 2015 and 2014, these items had been fully insured.

7. Investment property

The movement in this balance sheet heading in 2015 and 2014, and the most significant information therein, was as follows:

	Thousands of euros							
	Land	Buildings and installations		Investment property in progress	Total			
	Cost	Cost	Accumulated depreciation	Cost	Cost	Accumulated depreciation	Impairment	**Total**
Balance at 31 December 2013	**872,914**	**543,686**	**(251,974)**	**144,399**	**1,560,999**	**(251,974)**	**(353,193)**	**955,832**
Additions/charges	31,228	40,720	(24,342)	7,209	79,157	(24,342)	-	54,815
Decreases/reversion	(56)	(5,011)	3,903	-	(5,067)	3,903	98,281	97,117
Transfers	127,869	75,455	(26,733)	(113,424)	89,900	(26,733)	(28,499)	34,668
Balance at 31 December 2014	**1,031,955**	**654,850**	**(299,146)**	**38,184**	**1,724,989**	**(299,146)**	**(283,411)**	**1,142,432**
Additions/charges	69,482	42,078	(25,132)	30,818	142,378	(25,132)	(92)	117,154
Decreases/reversion	-	(3,270)	2,600	-	(3,270)	2,600	130,565	129,895
Transfers	482	(482)	-	-	-	-	-	-
Balance at 31 December 2015	**1,101,919**	**693,176**	**(321,678)**	**69,002**	**1,864,097**	**(321,678)**	**(152,938)**	**1,389,481**

Changes in 2015

The additions for the year ending 31 December 2015 mainly relate to the acquisition of three properties located in Madrid (Príncipe de Vergara, 112; Génova, 17 and Santa Engracia, 120), for a total amount of 134,871 thousand euros, including acquisition costs.

In addition to these acquisitions, investments were made in various properties, both under development and in operation, all of which are located in Barcelona and Madrid, for a total amount of 7,507 thousand euros.

During 2015, the Company derecognised certain assets under “Property investments” due to obsolescence, the carrying amount of which totalled 464 thousand euros, which was recognised in “Impairment and gains/(losses) on disposal of fixed assets - Gains/(losses) on disposals and others” on the income statement.

Changes in 2014

The additions for the year ending 31 December 2014 relate mainly to the acquisition of two properties in Barcelona: the property located in “Eix Llacuna” in Distrito 22@, Barcelona for 51,970 thousand euros (Note 5) and the property in Plaza Europa in L’Hospitalet de Llobregat (Barcelona), for the amount of 10,587 thousand euros.

In addition to these acquisitions, investments were made in various properties, both under development and in operation, all of which are located in Barcelona and Madrid, for a total amount of 16,600 thousand euros.

In 2014 and as a result of the review carried out by the directors of the Company's asset sale plan, two properties located in Madrid were transferred from "Non-current assets held for sale" to "Investment property", the total of which amounted to 34,668 thousand euros, once it was expected that these properties would be operated under a lease in the coming years. In 2014, three properties with a joint value of 113,424 thousand euros were reclassified from “Investment property in progress” to “Land” and “Buildings and Installations”.

Impairment

At 31 December 2015, the need to recognise an impairment loss reversal for the amount of 130,267 thousand euros on investment properties was evidenced by the appraisals performed by independent experts. The amount was recognised under “Impairment and gains/(losses) on disposal of fixed assets - Impairment and losses” in the income statement (Note 18). In the year ended 31 December 2014, an impairment loss reversal of 98,281 thousand euros was recognised on property investments.

Other disclosures

The total surface area (above and under-ground) of investment property for rental and projects under development at 31 December 2015 and 2014, by location and use, is as follows:

Location	Total surface area (m²)					
	For rental		Projects under development		Total	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Barcelona	243,815	241,875	31,520	33,227	275,335	275,102
Madrid	256,105	229,579	16,360	1,499	272,465	231,078
Rest of Spain	458	458	-	-	458	458
	500,378	**471,912**	**47,880**	**34,726**	**548,258**	**506,638**

Uses	Total surface area (m²)					
	For rental		Projects under development		Total	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Offices	321,498	300,953	27,250	18,380	348,748	319,333
Parking	164,303	156,382	20,630	16,346	184,933	172,728
Other	14,577	14,577	-	-	14,577	14,577
	500,378	**471,912**	**47,880**	**34,726**	**548,258**	**506,638**

The Company has no contractual obligations for the acquisition, construction or development of investment properties or for repairs and maintenance.

At 31 December 2014, the Company had properties with a carrying amount of 1,113,074 thousand euros included under "Investment property" on the balance sheet, which were secured by a new syndicated mortgage loan which was cancelled during 2015 (Note 15). Subsequently, all the guarantees previously mentioned have been cancelled, therefore, at 31 December 2015, the Company did not have any property pledged as collateral for mortgage loans included under "Property Investments" on the balance sheet.

At year-end 2015 and 2014, the Company had fully depreciated investment property still in use amounting to 128,702 thousand euros and 92,136 thousand euros, respectively.

The Company has no property, plant and equipment outside of Spanish territory, and it has no purchase commitments.

The Company's policy is to contract insurance policies to cover any risks affecting investment properties. At 31 December 2015 and 2014, these items had been fully insured.

Since February 1999, the Company has been awaiting a ruling on various suits brought in connection with a purchase agreement signed for the acquisition of the building located at Francisco Silvela, 42 in Madrid for 21,799 thousand euros, which are recognised under "Trade and other payables". Inmobiliaria Colonial S.A. has deposited a bank guarantee in court for the amount on which payment is pending. On 19 March 2014, the Company and the sellers signed an agreement setting out the formalisation of the purchase of the asset by the Company and the related payment of the outstanding amount, less the 432 thousand euros in legal costs borne by the Company, putting an end to the legal proceedings. This agreement was approved by the Court on 4 November 2015. At 31 December 2015, the building had already been included in the Property Register in the Company's name. The legal execution of the guarantee covering the price outstanding is pending, with the Company having sufficient cash funds to satisfy said amount (Note 15).

8. Leases

At year-end 2015 and 2014, the Company had contracted with tenants the following minimum irrevocable lease payments under the leases currently in force, without taking into account the impact of common expenses, future increases in the CPI or future contractual lease payment revisions:

Operating leases lease payments	Thousands of euros Nominal amount 31 December 2015	31 December 2014
Within one year	58,665	52,418
1 to 5 years	82,284	84,608
More than 5 years	12,515	26,551
Total	**153,464**	**163,577**

9. Non-current investments in Group companies and associates and non-current financial investments

The balance of the accounts in "Non-current investments in Group companies and associates" and "Non-current financial investments" on the balance sheet at year-end 2015 and 2014 is as follows:

	Thousands of euros 31 December 2015	31 December 2014
Non-current investments in Group companies and associates:		
Equity instruments in Group companies and associates	1,427,199	1,245,203
Total	**1,427,199**	**1,245,203**
Non-current financial investments:		
Deposits	7,299	8,064
Total	**7,299**	**8,064**

Non-current equity instruments in Group companies and associates–

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

31 December 2015

	Thousands of euros			
	Opening balance	Additions or charges	Disposals or decreases	Closing balance
Cost:				
Société Foncière Lyonnaise, S.A.	1,370,746	-	-	1,370,746
Torre Marenostrum, S.L.	26,399	-	-	26,399
Colonial Tramit, S.L.U.	13	-	-	13
Colonial Invest, S.L.U.	13	-	-	13
Danieltown Spain, S.L.U.	-	30,038	-	30,038
Total cost	**1,397,171**	**30,038**	**-**	**1,427,209**
Impairment:				
Société Foncière Lyonnaise, S.A.	(150,235)	-	150,235	-
Torre Marenostrum, S.L.	(1,724)	-	1,724	-
Colonial Tramit, S.L.U.	(5)	-	-	(5)
Colonial Invest, S.L.U.	(4)	(1)	-	(5)
Total impairment	**(151,968)**	**(1)**	**151,959**	**(10)**
Net total	**1,245,203**	**30,037**	**151,959**	**1,427,199**

31 December 2014

	Thousands of euros				
	Opening balance	Additions or charges	Derecognitions due to transfers en bloc of assets and liabilities (Note 5)	Disposals or decreases	Closing balance
Cost:					
Société Foncière Lyonnaise, S.A.	1,370,746	-	-	-	1,370,746
Torre Marenostrum, S.L.	26,399	-	-	-	26,399
Colonial Tramit, S.L.U.	13	-	-	-	13
Abix Service, S.L.U.	8,663	-	(8,663)	-	-
Colonial Invest, S.L.U.	3	10	-	-	13
Total cost	**1,405,824**	**10**	**(8,663)**	**-**	**1,397,171**
Impairment:					
Société Foncière Lyonnaise, S.A.	(216,270)	-	-	66,035	(150,235)
Torre Marenostrum, S.L.	(4,201)	-	-	2,477	(1,724)
Colonial Tramit, S.L.U.	(4)	(1)	-	-	(5)
Abix Service, S.L.U.	(8,663)	-	8,663	-	-
Colonial Invest, S.L.U.	(2)	(2)	-	-	(4)
Total impairment	**(229,140)**	**(3)**	**8,663**	**68,512**	**(151,968)**
Net total	**1,176,684**	**7**	**-**	**68,512**	**1,245,203**

Information related to Group companies and associates at 31 December 2015 and 2014 is disclosed in the Appendix to these notes.

All Group companies and associates engage in the acquisition, construction, sale, disposal and leasing of properties and their operation, and in any other form allowed by law, including garages and car parks, as well as the administration and management of all manner of property assets, except for Segpim, S.A. and Locaparis, S.A.S. (both companies belong to the SFL Group), which engage in marketing properties and providing services.

On 28 May 2015, the Company acquired 100% of the share capital of the Spanish company Danieltown Spain, S.L.U. (hereinafter “Danieltown”), the owner of a building on calle Estébanez Calderón, Madrid. The acquisition price was 30,038 thousand euros, plus acquisition costs.

On 1 October 2014, the agreement for the transfer en bloc of assets and liabilities entered into between Abix (assignor) and the Company (assignee) described in Note 5, was executed in a public deed. This agreement caused the subsequent dissolution of Abix.

In 2015, the Company recognised the reversal of the full amount of the impairment of the value of the financial holding in SFL for 150,235 thousand euros, given that the fair value of the holding determined on the basis of the triple net asset value (NNNAV) of SFL at year end, amounting to 58.48 euros per share, was above the acquisition cost of the shareholding. The average price of SFL shares in December 2015 was 43.82 euros per share. In 2014, the Company recognised the reversal of the impairment of this financial holding, amounting to 66,035 thousand euros.

At 31 December 2014, the holdings in SFL and Torre Marenostrum, S.L. were pledged to secure the former syndicated loan of the Company, which at 31 December 2015, had been cancelled leaving the previous holdings free of encumbrances.

Non-current financial investments–

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

	Thousands of euros	
	31 December 2015	31 December 2014
Cost:		
Loans to companies		
Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U.	73,219	72,451
Other non-current financial assets		
Other loans	7,751	61,001
Guarantees and deposits	7,299	8,064
Total cost	**88,269**	**141,516**
Impairment:		
Loans to companies		
Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U.	(73,219)	(72,451)
Other non-current financial assets		
Other loans	(7,751)	(61,001)
Total impairment	**(80,970)**	**(133,452)**
Net total	**7,299**	**8,064**

Loan to Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. –

As a result of restructuring the financial debt of the then investee DUE, the Company granted a loan for a maximum of 85,000 thousand euros, the purpose of which, among others, was to finance the development of the project implemented by DUE and to cover the costs related to the work yet to be carried out on the UE-1. In this regard, the amount yet to be drawn down by DUE at 31 December 2015 totalled 11,232 thousand euros, and for such purpose, in accordance with the obligations assumed, the Company recognises the appropriate provision under “Other non-current provisions” on the balance sheet.

In accordance with the provisions of the agreement between both companies, the loan granted by the Company is convertible into a participating loan provided that DUE is the process of dissolution. In this regard, on 25 June 2015, in response to the request by DUE, 72,451 thousand euros were converted into a participating loan.

Lastly, the previously mentioned credit facility accrues a contingent interest rate, conditioned to the fulfilment of certain conditions. At 31 December 2015 and 2014, no finance income was accrued for this item.

Loan to Asentia Project, S.L. –

As a result of enforcing the guarantees delivered to the creditor financial institutions of Asentia by the creditors of the aforementioned company, the Company also received as consideration a collection right for an initial nominal value of 275,000 thousand euros, the value of which was set at 0 euros (Notes 11 and 13).

On 28 May 2015, the aforementioned collection right was contributed to Asentia within the framework of an operation to increase its share capital (Note 11).

Account receivable held with former shareholders–

This heading includes the account receivable held with companies of a former shareholder of the Company relating to the tax effect of the difference between the tax and accounting bases of the assets contributed in the capital increase of 29 June 2006. The aforementioned account receivable is secured by means of a first demand guarantee.

In 2015, the Company returned the guarantees corresponding to the amounts deemed unrecoverable, thus recognising on the balance sheet only those amounts considered to be recoverable, totalling 7,751 thousand euros. This amount was fully impaired at 31 December 2015 and 2014.

Non-current deposits and guarantees–

This heading includes the amount of non-current deposits and guarantees granted, primarily in relation to deposits provided at official entities in connection with security deposits collected from tenants, in accordance with prevailing legislation.

10. Derivative financial instruments

Risk management policy objectives–

The Company's risk management policy aims to safeguard its solvency by taking action concerning the following types of risks:

- Liquidity risk: In June 2015, the Company had carried out an issue of straight bonds for a nominal amount of 1,250,000 thousand euros divided into two tranches: one of 750,000 thousand euros, (Bonds at four years) and another of 500,000 thousand euros (Bonds at eight years) respectively. The funds obtained from said issue have been used to fully cancel the syndicated loan for the amount of 1,040,000 thousand euros arranged in April 2014. Furthermore, in November 2015, the Company arranged a syndicated loan for 350,000 thousand euros. These transactions allowed the Company to strengthen its long-term financial structure, reduce the financial cost of its debt and diversify the due dates. It has also obtained additional liquidity to execute its investment plans.

- Interest rate risk: At 31 December 2015, 95% of debt drawn down bears fixed interest. The Group's risk management policy is designed to limit and control the effect of interest rate fluctuations on profit and cash flow, and to keep overall borrowing costs at reasonable levels. In order to attain these objectives, the Group enters into interest rate hedges to protect against potential fluctuations in finance costs if necessary. Colonial's policy is to arrange instruments that comply with the National Chart of Accounts to be considered to be effective hedges, and thus to recognise the variations in the market value of such instruments directly in Colonial's "Equity" (Note 4-e).

- Counterparty risk: the Company mitigates this risk by using top-tier financial institutions to underwrite and arrange its financing.

- Credit risk: the Company analyses the exposure implied by at-risk accounts receivable on an ongoing basis, monitoring their settlements and recognising charges whenever its at-risk receivables are deemed to be impaired.

- Refinancing risk: the Company's financial structure warrants diversification of its sources of financing by entity, product and maturity. In this regard, in 2015, Colonial turned to the capital markets through the issue of bonds at 4 and 8 years, as well as to bank financing with the arrangement of a 4-year syndicated loan, to cover its investments plan.

Derivative financial instruments –

The derivative financial instruments held by the Company at 31 December 2015 and 2014 are as follows:

31 December 2015

				Thousands of euros	
Financial instrument	Counterparty	Interest rate	Maturity	Nominal amount	Fair value – Asset / (Liability)
Redeemed step-up swap	BBVA	4.40%	2018	60,118	(2,778)
Cap	CA-CIB	1.25%	2018	350,000	-
Cap	ING	1.25%	2018	300,000	-
Cap	Morgan Stanley	1.25%	2018	130,000	-
Total at 31 December 2015				**840,118**	**(2,778)**

31 December 2014

				Thousands of euros	
Financial instrument	Counterparty	Interest rate	Maturity	Nominal amount	Fair value – Asset / (Liability)
Redeemed step-up swap	BBVA	3.50%	2018	91,339	(5,852)
Cap	CA-CIB	1.25%	2018	350,000	-
Cap	ING	1.25%	2018	300,000	-
Cap	Morgan Stanley	1.25%	2018	130,000	-
Total at 31 December 2014				**871,339**	**(5,852)**

In 2014, within the refinancing framework of its former syndicated debt, Colonial arranged 3 CAPs totalling 780,000 thousand euros with a strike price of 1.25%, maturing at 31 December 2018, to cover 75% of the nominal of the syndicated loan which was ultimately cancelled on 5 June 2015 (Note 15). The premiums paid amounted to 8,580 thousand euros and were recognised as hedge expenses in the income statement for 2014 (Note 18). At 31 December 2015 and 2014, the associated CAPs were valued at 0 thousand euros on the Company's balance sheet and under no circumstances can they result in losses or negative cash flows.

As a result of cancelling the Company's previous syndicated loan during 2014, the amount recognised in the reserve relating to the hedging instruments associated with this loan was transferred to the income statement, amounting to 5,425 thousand euros.

At 31 December 2015, the market value of financial hedging instruments gave rise to a financial liability of 2,778 thousand euros. At 31 December 2014, the market value of financial hedging instruments gave rise to a financial liability of 5,852 thousand euros.

At 31 December 2015 and 2014, the hedge ratio (floating rate gross debt hedge nominal) was 89% and 84%, respectively, and the percentage of debt covered or at a fixed rate as a percentage of total debt stood at 99% and 84%, respectively. The average life of the Company's hedge portfolio at 31 December 2015 and 2014 was 3 and 3.9 years, respectively.

At 31 December 2015 and 2014, 93% and 90%, respectively, of the nominal amount of the Company's derivatives portfolio was compliant with the requirements to apply hedge accounting (Note 4-e).

At 31 December 2015 and 2014, the recognition of derivative financial instruments classified as hedges in the income statement generated finance costs of 192 thousand euros and 1,093 thousand euros, respectively (Note 18). This impact is recognised in “Change in fair value of financial instruments – Trading portfolio and others” in the income statement.

The fair value of the derivatives was calculated by discounting estimated future cash flows based on a forward interest rate curve and on assigned volatility at each calculation date.

At year-end 2015, only the CAPs associated with the syndicated loan, cancelled on 5 June 2015, were considered to be cash flow hedges.

11. Non-current assets held for sale

The breakdown of the balances included in this heading is as follows:

	Thousands of euros							
	Investment properties held for sale				Financial investments held for sale			Total
	Cost	Accumulated depreciation	Impairment	**Total**	Cost	Impairment	**Total**	
Balance at 31 December 2013	**117,460**	**(11,516)**	**(51,827)**	**54,117**	**3**	**(3)**	**-**	**54,117**
Additions/charges	188	-	(3,217)	**(3,029)**	-	-	**-**	**(3,029)**
Decreases/applications	-	-	-	**-**	-	-	**-**	**-**
Transfers	(74,654)	11,487	28,499	**(34,668)**	-	-	**-**	**(34,668)**
Balance at 31 December 2014	**42,994**	**(29)**	**(26,545)**	**16,420**	**3**	**(3)**	**-**	**16,420**
Additions/charges	1,320	-	(5,133)	**(3,813)**	-	-	**-**	**(3,813)**
Decreases/applications	-	-	-	**-**	(3)	3	**-**	**-**
Balance at 31 December 2015	**44,314**	**(29)**	**(31,678)**	**12,607**	**-**	**-**	**-**	**12,607**

Investment properties held for sale

Changes in 2015

There were no significant changes in 2015.

Changes in 2014

In accordance with that mentioned in Note 7, in 2014 and as a result of the review carried out by the directors on the Company's asset sale plan, two properties located in Madrid with a combined value of 34,668 thousand euros were transferred from "Non-current assets held for sale" to "Investment property” on the balance sheet once it was expected that these properties would be operated under a lease in the coming years.

Other disclosures

Based on the appraisals performed by an independent expert on the Company's assets at 31 December 2015 (Note 4-c), the Company recognised an impairment loss of 5,133 thousand euros on the value of the investment property held for sale (Note 18). In the year ended 31 December 2014, an impairment loss of 3,217 thousand euros was recognised on the value of such assets.

The Company had recognised properties under “Non-current assets held for sale” with a carrying amount at 31 December 2015 and 2014 of 6,942 thousand euros and 6,994 thousand euros, respectively, which are secured through the bilateral mortgage loans described in Note 15.

In accordance with the business plan approved by the directors, in 2015, the Company maintained its commitment to sell the aforementioned assets and it is continuing its efforts to dispose of them within one year.

Financial investments held for sale

This includes the cost of the financial investment held in Asentia, parent of the group through which the Company operated the land and development business of the Colonial Group (Note 1).

On 25 February 2014, Asentia increased its share capital, which was subscribed in full through the capitalisation of loans by three of its credit entities. As a result of this capital increase, the Company's equity interest which, to date, had been 100%, was reduced to 18.99% of the share capital. On 31 December 2014, and after capital increases due to the capitalisation of loans on 28 April and 13 October 2014, respectively, the Company's equity interest in Asentia's capital was reduced to 3.79%.

On 28 May 2015, Asentia increased its share capital, partially subscribed by the Company through the non-monetary contribution of the collection right detailed in Note 9. After this increase, the Company's equity interest in Asentia rose to 0.069%.

On 10 December 2015, this equity interest was sold for 4 thousand euros, resulting in revenue of 4 thousand euros, which was recognised in “Impairment and gains/(losses) on disposal of financial instruments – Gains/(losses) on disposals and others” in the income statement.

12. Current financial investments and other receivables

Current investments-

The breakdown of the balances in this heading at 31 December 2015 and 2014 was as follows:

	Thousands of euros	
	31 December 2015	31 December 2014
Current financial investments:		
Current equity instruments	9	21
Others:		
Cost	-	3,118
Impairment	-	(3,118)
Other receivables:		
Cost	85,472	152,189
Impairment	(85,472)	(152,189)
Total	**9**	**21**

Others-

At 31 December 2014, this heading mainly included the balances owed by Riofisa S.A.U., hereinafter “Riofisa”, (wholly owned by Asentia) with respect to which, in light of the equity position of Riofisa at 31 December 2014, the Company decided to recognise an impairment loss for the entire amount under “Impairment and gains/(losses) on disposal of financial instruments - Impairment and losses” in the income statement.

In 2015, after the refinancing undertaken by Asentia and Riofisa, the Company reversed the full amount of the impairment recognised. At 31 December 2015, these balances had been settled by Riofisa.

Other receivables-

At 31 December 2014, the amounts owed by Nozar, S.A. and NZ Patrimonio, S.L.U., totalling 152,189 thousand euros, including accrued interest, resulting from the cancellation of the purchase contracts signed in July 2007 due to breach of compliance with the conditions precedent, are recognised under “Other receivables” in the balance sheet.

At 31 December 2015, the Company derecognised from the balance sheet the amount receivable from NZ Patrimonio, together with the corresponding impairment loss of 66,717 thousand euros, as soon as the insolvency manager disposed of all of its assets, without the amounts obtained being sufficient to pay that owed to the Company.

Nozar, S.A. is currently involved in bankruptcy proceedings; consequently, at 31 December 2015, the balance sheet includes an impairment loss for the entire amount of this company’s trade receivables.

13. Equity

Share capital–

At 31 December 2013, the Company’s share capital was represented by 225,918,690 fully subscribed and paid shares with a par value of 1 euro each, all of which are represented by book entries.

The following changes in the Company’s share capital occurred in 2014:

- On 17 February 2014, a capital reduction of 169,439 thousand euros was registered in the Barcelona Mercantile Register in order to increase restricted voluntary reserves by decreasing the par value of all shares from 1 euro to 0.25 euros per share.

- On 17 February 2014, the capital increase required to meet the conversion of bonds convertible into shares of the Company was registered in the Barcelona Mercantile Register, increasing the share capital by 0.5 thousand euros through the issue of 1,890 new shares with a par value of 0.25 euros each.

- On 31 March 2014, the capital increase required to meet the ordinary redemption of all the outstanding bonds convertible into shares of the Company was registered in the Barcelona Mercantile Register, increasing the share capital by 20 thousand euros through the issue of 79,101 new shares with a par value of 0.25 euros per share.

- On 6 May 2014, a share capital increase of 734,499 thousand euros was registered in the Barcelona Mercantile Register through the issue of 2,937,995,853 new shares with a par value of 0.25 euros each.

- On 8 May 2014, within the framework of the refinancing process, a capital increase for 486 thousand euros through the issuance of 1,944,444 new shares with a par value of 0.25 euros each was registered in the Barcelona Mercantile Register, as a result of the exercise by the credit institution ING of the warrants convertible into shares of the Company, and which were delivered to guarantee the debt held by the subsidiary Abix.

- On 30 December 2014, a capital increase for 5,729 thousand euros through the issuance of 22,916,662 new shares with a par value of 0.25 euros each, was registered in the Barcelona Mercantile Register, as a result of the exercise by the holding companies of the warrants convertible into shares of the Company, and which were delivered to guarantee the debt held by the subsidiary Asentia.

In 2015, there were no changes in the Company's share capital which, at 31 December 2015 and 2014, was represented by 3,188,856,640 fully subscribed and paid up shares with a par value of 0.25 euros each.

Based on the pertinent notifications regarding the number of company shares to the Spanish National Securities Market Commission (CNMV), the shareholders owning significant direct or indirect interests in the Company at 31 December 2015 and 2014 are as follows:

31 December 2015

	% shareholding
Name or corporate name of the shareholder:	
Inmobiliaria Espacio, S.A.	14.567%
Qatar Investment Authority	13.138%
SICAV Amura Capital (Mora Banc Grup, S.A.)	7.050%
Aguila Ltd	6.886%
Joseph Charles Lewis	5.085%
Third Avenue Management LLC	3.065%
Fidelity International Limited	1.974%
Invesco Limited	1.110%
Deutsche Bank A.G.	0.917%

(*) Information dated 31 December 2015.

On 8 December 2015, Deutsche Bank AG reported that it had directly obtained a 0.917% interest in the share capital of the Company. It also notified the existence of financial instruments linked to shares of the Company, which could give rise, if exercised, to an additional interest of 4.104% in Colonial's share capital.

On 1 January 2016, Orbis Allan Gray Limited indirectly acquired an interest of 1.211% in the Company's share capital. Joseph Charles Lewis reduced his shareholding to 5.075% on the same date.

On 15 January 2016, Polygon European Equity Opportunity Master Fund reported the existence of financial instruments linked to shares of the Company, which could give rise, if exercised, to an interest of 1.035% in Colonial's share capital.

31 December 2014

	% shareholding
Name or corporate name of the shareholder:	
Inmobiliaria Espacio, S.A.	24.442%
Qatar Investment Authority	13.138%
SICAV Amura Capital (Mora Banc Grup, S.A.)	7.050%
Aguila Ltd	6.886%
T. Rowe Price Associates, INC	3.092%
Third Avenue Management LLC	3.065%
Fidelity International Limited	1.974%

(*) Information dated 31 December 2014.

The Company has no knowledge of other significant equity interests.

On 30 June 2014, authorisation was given at the Company's General Shareholders' Meeting for the Board of Directors to increase share capital, if it deems it necessary, through monetary contributions, by up to half the existing amount, in one or several issues, within a maximum period of five years, at the time and for the amount deemed appropriate.

On 24 April 2015, the General Shareholders' Meeting authorised the Board of Directors to issue, on behalf of the Company and in one or several issues, debentures, bonds and other fixed-income securities or debt instruments of a similar nature, both straight and convertible, into outstanding shares or other pre-existing securities of other entities, as well as promissory notes and preference shares; all with express powers of substitution and for a maximum term of five years. The total maximum amount of the issue or issues of the securities that may be performed under this authorisation may not exceed a combined amount of 2,000,000 thousand euros or its equivalent in any other currency.

Likewise, at the General Shareholders' Meeting held on 24 April 2015, the Board of Directors was authorised to issue, on behalf of the Company, on one or several occasions, and for a period of five years, debentures and/or bonds convertible into new shares of the Company and/or exchangeable for shares of the Company or any other third-party entity, expressly providing for, in the case of convertible debentures and/or bonds, the power to exclude the pre-emptive subscription right of the shareholders and to increase the share capital by the amount necessary to meet the conversion. The total maximum amount of the issue or issues of the securities that may be performed under this authorisation may not exceed a combined amount of 350,000 thousand euros or its equivalent in any other currency.

Share premium–

As a result of the capital increases described above, the following changes took place in the share premium in 2014:

- Increase in the share premium as a result of the capital increases through the redemption of convertible bonds, filed in the Barcelona Mercantile Registry on 17 February 2014 and 31 March 2014, respectively, for a total amount of 2,005 thousand euros.

- Increase in the share premium as a result of the capital increase of 2,937,995,853 new shares, filed in the Barcelona Mercantile Registry on 6 May 2014, for a total of 528,839 thousand euros.

- On 8 May 2014, a capital increase was registered in the Barcelona Mercantile Register relating to the exercise of the Abix warrants by ING, through the issue of 1,944,444 new shares with a premium per share of 11.75 euros, thereby increasing the share premium by 22,847 thousand euros.

- On 30 December 2014, a capital increase was registered in the Barcelona Mercantile Register relating to the exercise of the Asentia warrants, through the issue of 22,916,662 new shares with a premium per share of 11.75 euros, thereby increasing the share premium by 269,271 thousand euros. With regard to the exercise of the Asentia warrants, the Company received a collection right vis-à-vis Asentia for a nominal value of 275,000 thousand euros as consideration for the shares issued (Notes 9 and 11). The valuation carried out by a third party independent expert (BDO Auditores, S.L.), appointed by the Barcelona Mercantile Registry, placed the value of the collection right at 384 thousand euros. Therefore, the Company recognised this collection right at 0 euros, reducing the amount of the share premium by 262,465 thousand euros. The net changes in the share premium therefore amounted to 6,806 thousand euros.

There were no changes in the share premium in 2015.

Legal reserve–

Under the Spanish Limited Liability Companies Law, 10% of profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

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

At 31 December 2015, this reserve had not reached the required level.

Voluntary reserves–

On 17 February 2014, a share capital reduction was registered in the Barcelona Mercantile Register to reduce share capital by 169,439 thousand euros and to increase restricted voluntary reserves by decreasing the par value of all shares from 1 euro to 0.25 euros per share.

The Company has set aside voluntary reserves of 1,160,107 thousand euros, of which 217,387 thousand euros are not freely available according to the shareholders' resolutions of the General Meeting held on 21 January 2014. This amount includes 47,948 thousand euros in restricted reserves for goodwill, which became available after the approval of the 2014 financial statements by the shareholders at the General Meeting.

Likewise, the capital increases and reductions in 2014 entailed costs of 50,028 thousand euros, which were recognised under “Reserves – Other reserves” in equity.

Treasury shares–

In the first half of 2014, the Company sold all its treasury shares, totalling 1,710,000 shares, generating a total income of 3,013 thousand euros. The carrying amount of these shares at 31 December 2013 was 38,280 thousand euros.

In 2015, the Company acquired 12,257,013 treasury shares for 7,396 thousand euros. With the aim of complying with the obligations stemming from the long-term Remuneration Plan detailed in Note 20, the Company has liquidated the outstanding obligations through the delivery of the corresponding shares, delivering 3,766,173 shares to the beneficiaries of the Remuneration Plan.

At 31 December 2015, the number of treasury shares and their acquisition cost were as follows:

	31 December 2015
Liquidity contract (*)-	
No. of shares	1,487,013
Carrying amount (in thousands of euros)	945
Treasury share contract-	
No. of shares	7,003,827
Carrying amount (in thousands of euros)	4,068

(*) Liquidity contract pursuant to the provisions of Regulation Three of CNMV [Spanish National Securities Market Commission] Circular 3/2007, of 19 December, on liquidity contracts for the purposes of acceptance as a market practice.

14. Provisions and contingencies

Provisions–

The breakdown of current and non-current provisions in the balance sheet at year-end 2015, as well as the main changes recognised, are as follows:

	Thousands of euros			
	Current	Non-current		
	Provision for contingencies and charges	Provisions for personnel	Provision for contingencies and charges	Total non-current
Balance at 31 December 2014	**5,737**	**121**	**12,378**	**12,499**
Charges	3,375	-	9	9
Decreases	(8)	(13)	-	(13)
Transfers	-	-	(987)	(987)
Balance at 31 December 2015	**9,104**	**108**	**11,400**	**11,508**

Provision for contingencies and charges- Current

At 31 December 2014, "Current provisions" included 5,737 thousand euros, corresponding to an estimate of the Company's various future risks, which increased by 3,375 thousand euros in 2015.

Provision for contingencies and charges- Non-current

At 31 December 2015 and 2014, this heading included the development costs of the UE-1, which are to be financed by the Company through loans granted to DUE, up to a maximum amount of 20,000 thousand euros (Note 9). The Company has a restricted cash line of credit with BBVA to cover these items, which may be drawn down when DUE accredits the execution of the urban development work. At 31 December 2015, 8,768 thousand euros had been drawn down (7,935 thousand euros at 31 December 2014).

Lastly, and in accordance with that detailed in Note 9, the Company reclassified 768 thousand euros in 2015 (1,624 thousand euros in 2014) in 2015, which at 31 December 2014, had been recognised as a provision for contingencies and charges under "Impairment of non-current financial investments" to adjust the value of the credit facility granted to its recoverable value, in view of the equity position of this company.

Contingent assets–

The Company has brought the following corporate actions against certain former directors:

- A corporate action against certain former directors in relation to the purchase of assets by the Company for reinvestment of the proceeds by the sellers in shares of the Company, as part of the 29 June 2006 capital increase or otherwise.

- A corporate action against certain former directors in connection with the losses caused by the acquisition of shares of Riofisa in 2007.

- A corporate action against certain former directors in connection with the purchase of treasury shares between March and December 2007, both months inclusive. In February 2015, a ruling was handed down by the Supreme Court dismissing the claims filed by the Company, which was ordered to pay costs. However, the court upheld the grounds relating to the validity of the resolution for filing a corporate action for liability. The Company's directors do not expect this ruling to have a significant impact on the financial statements, given that at 31 December 2015, the appropriate provision had been recognised to meet any possible costs.

15. Bank borrowings, bonds and other marketable securities

At 31 December 2015 and 2014, the breakdown, by maturity, of “Bank borrowings” was as follows:

31 December 2015

	Thousands of euros							
	Current	Non-current						
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total non-current	Total
Bank borrowings:								
Loans	124	53	-	-	-	-	53	177
Syndicated loans	-	-	-	67,250	-	-	67,250	67,250
Fees and interest	294	-	-	-	-	-	-	294
Arrangement expenses	(799)	(796)	(796)	(340)	-	-	(1,932)	(2,731)
Total bank borrowings	**(381)**	**(743)**	**(796)**	**66,910**	**-**	**-**	**65,371**	**64,990**
Debt instruments and other marketable securities:								
Bonds issues	-	-	-	750,000	-	500,000	1,250,000	1,250,000
Fees and interest	15,843	-	-	-	-	-	-	15,843
Arrangement expenses	(1,711)	(1,708)	(1,708)	(998)	(475)	(1,151)	(6,040)	(7,751)
Total bonds and other marketable securities	**14,132**	**(1,708)**	**(1,708)**	**749,002**	**(475)**	**498,849**	**1,243,960**	**1,258,092**
Total at 31 December 2015	**13,751**	**(2,451)**	**(2,504)**	**815,912**	**(475)**	**498,849**	**1,309,331**	**1,323,082**

31 December 2014

	Thousands of euros							
	Current	Non-current						
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total non-current	Total
Bank borrowings:								
Loans	809	125	52	-	-	-	177	986
Syndicated loans	-	-	-	1,040,000	-	-	1,040,000	1,040,000
Fees and interest	3,420	-	-	-	-	-	-	3,420
Total at 31 December 2014	**4,229**	**125**	**52**	**1,040,000**	**-**	**-**	**1,040,177**	**1,044,406**

The financial debt taken out by the Company was arranged at arm’s length, so its carrying amount substantially approximates its fair value. At 31 December 2015, the bonds issued by the Company, which are traded on a regulated market, have a value of 1,253,045 thousand euros (a nominal value of 1,250,000 thousand euros).

Issue of straight bonds of the Company and cancellation of the syndicated loan–

The issue of two series of straight bonds by the Company was subscribed and fully paid up on 5 June 2015:

- A series of 7,500 bonds in the amount of 750,000 thousand euros, maturing on 5 June 2019 and with an issue price equivalent to 100% of the nominal value. The bonds will carry an annual coupon of 1.863%, payable yearly in arrears.

- A series of 5,000 bonds in the amount of 500,000 thousand euros, maturing on 5 June 2023 and with an issue price equivalent to 100% of the nominal value. The bonds will carry an annual coupon of 2.728%, payable yearly in arrears.

The bonds were admitted for trading on the Irish Stock Exchange's Main Securities Market.

Following the disbursement of the amount of this bond issue, the syndicated loan of 1,040,000 thousand euros arranged by the Company in 2014 was cancelled in full. Early cancellation of the loan entailed payment of a fee of 28,039 thousand euros, recognised under “Finance costs” in the income statement (Note 18).

These straight bonds establish the obligation, at 30 June and 31 December of each year, to meet a financial ratio whereby the value of the non-guaranteed asset in the income statement at each of these dates must at least be equal to the financial debt not guaranteed. This ratio was met at 31 December 2015.

New Syndicated Loan–

On 12 November 2015, the Company entered into a syndicated loan with a group of seven financial institutions, including *Natixis, S.A. Sucursal en España*, acting as the agent bank, for 350,000 thousand euros, initially maturing in June 2019, but which may be extended until November 2020. The main purpose of this syndicated loan is to finance possible acquisitions, as well as renovations and other investment requirements (CAPEX) involving the property assets of the Company. At 31 December 2015, 67,250 thousand euros had been drawn down.

The main terms and conditions of the syndicated loan are:

- Maturity on 5 June 2019, extendible until 12 November 2020 provided certain conditions are met.

- A fixed interest rate of EURIBOR plus 160 basis points paid quarterly.

- Compliance with the following financial ratios:

    - The Interest Cover Ratio must be equal to or greater than 2.00x as of 30 June 2016.

    - The Loan to Value Ratio: must be equal to or lower than 55%.

    - Secured Mortgage Debt Ratio (Debts guaranteed by property mortgages / Value of property assets) must be equal to or lower than 15%.

    - Secured Other Debt Ratio (Debts guaranteed by pledges or other secured guarantees on non-property assets / Value of non-property assets and rights) must be equal to or lower than 15%.

    - Value of the consolidated assets equal to or greater than 4,500 thousand euros.

At 31 December 2015, the Company complied with all the financial ratios.

Mortgage loans–

At 31 December 2015, the Company had a loan for 177 thousand euros secured by mortgages on certain investment properties held for sale (Note 11), with a market value of 6,942 thousand euros. At 31 December 2014, the amount of the loan and the market value of the investment properties amounted to 986 thousand euros and 6,994 thousand euros, respectively.

Other guarantees delivered–

At 31 December 2015, the Company had granted guarantees in the amount of 33,111 thousand euros to government bodies, customers and suppliers, of which 21,799 thousand euros related to the bank guarantee provided in connection with the purchase of the building located at Francisco Silvela, 42 in Madrid (Note 7). This amount is recognised in “Suppliers” on the balance sheet. Other than this, the main guarantees were:

- 5,097 thousand euros granted to secure obligations acquired by Asentia. The Company and Asentia have an agreement in place whereby if any of the guarantees is enforced, Asentia must compensate the Company for any losses incurred within a maximum of 15 days.

- 5,000 thousand euros granted to secure obligations acquired by DUE. In this regard, the Company has a cash line of credit with BBVA to cover the obligations acquired with DUE (Note 14). The liabilities covered by these guarantees are fully provisioned for under "Other provisions" of the balance sheet.

Fees and interest-

The average interest rate for financing of the Company for 2015 and 2014 was 3.49% and 3.54%, with an average credit spread of 265 and 296 basis points over the EURIBOR, respectively. The interest rate on the debt at 31 December 2015 is 2.18% and the spread over EURIBOR is 165 basis points.

At 31 December 2015 and 2014, accrued unpaid interest amounts to 16,137 thousand euros and 3,420 thousand euros, respectively.

Debt arrangement expenses-

At 31 December 2015, the debt arrangement expenses assumed by the Company and not yet accrued amounted to 10,482 thousand euros. These costs are taken to the income statement during the term of the debt generating them, by the interest method. In this regard, in 2015, the Company recognised 1,092 thousand euros in the income statement corresponding to the costs amortised during the year.

Cash and cash equivalents-

At 31 December 2015 and 2014, 201,632 thousand euros and 105,308 thousand euros, respectively, were recognised under "Cash and cash equivalents", of which 11,482 thousand euros and 12,065 thousand euros, respectively, were of restricted use as of the same dates (Note 14).

The Company is obliged to make a payment for a maximum amount of 21,367 thousand euros in relation to the execution of the guarantee for the purchase of the building located at calle Francisco Silvela 42, Madrid (Note 7).

16. Other non-current financial liabilities

This heading, which at 31 December 2015 and 2014, amounted to 9,293 thousand euros and 7,878 thousand euros, respectively, mainly recognises the amount corresponding to the guarantees received from the lessees and other deposits received (Note 9).

17. Public Authorities and tax situation

The detail of current balances with the tax authorities at 31 December 2015 and 2014 is as follows:

	Thousands of euros			
	Receivable		Payable	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Tax receivables and payables	1,831	717	1,656	2,516
Current taxes	23,368	-	-	-
Deferrals with tax authorities (*)	-	-	-	4,933
Other deferred taxes	-	-	219	-
Social Security payables	-	-	83	85
Total current balances	**25,199**	**717**	**1,958**	**7,534**
Deferrals with tax authorities (*)	-	-	-	1,356
Deferred tax due to the merger (Note 1)	-	-	22,964	26,592
Other deferred taxes	-	-	6,694	6,965
Total non-current balances	**-**	**-**	**29,658**	**34,913**

(*) At 31 December 2014, current and non-current accrued interest amounted to 1,274 thousand euros and 372 thousand euros, respectively.

The Company is the parent of a group of companies that has filed consolidated tax returns since 1 January 2008. This consolidated tax group includes only subsidiaries incorporated in Spain in which the Parent either directly or indirectly owns at least 75% (this threshold falls to 70% in the case of listed subsidiaries) and has the majority of the voting rights. Following the reduction of the interest held by the Company in Asentia, both Asentia and all the subsidiaries forming the tax group left the group, effective as of 1 January 2014; that is, all companies of the Asentia group that formed part of the tax group in 2013 went on to file individual tax returns as of 1 January 2014.

The composition of the consolidated tax group for 2015 and 2014 includes the Company, Abix, Colonial Invest, S.L.U. and Colonial Tramit, S.L.U.

The exclusion from the tax group of the Asentia Group companies meant that the taxable profit of the 2013 tax group included the amount of all internal operation adjustments arising from these companies, and the distribution of tax losses and the tax credits and relief generated by the tax group in proportion to the extent to which these companies had contributed to their generation.

The reconciliation of the accounting profit/(loss) and the taxable profit for Income Tax purposes at 31 December 2015 and 2014 is as follows:

31 December 2015

	Thousands of euros		
	Increase	Decrease	Amount
Accounting profit/(loss) for the period (before tax)			**281,670**
Permanent differences:			
Dividends SFL (Note 19)	6,696	60,580	(53,884)
Dividends Torre Marenostrum, S.L. (Note 19)	-	493	(493)
Cancellation due to disposal of shareholding Asentia Project S.L.U.	-	954,961	(954,961)
Capital increase costs	-	51	(51)
Other	26	10	16
Temporary differences:			
Carried over from previous years-			
Deferral for reinvestment	859	-	859
Arising in the year-			
Impairment of SFL portfolio (Note 9)	-	150,235	(150,235)
Impairment of Colonial Tramit and Colonial Invest portfolio (Note 9)	1	-	1
Impairment of Torre Marenostrum, S.L. portfolio (Note 9)	6	1,724	(1,718)
Cancellation due to disposal of shareholding Asentia Project S.L.U.	-	630,690	(630,690)
Amortisation of SFL financial goodwill	-	57	(57)
Non-deductible provisions	6,178	16,386	(10,208)
Retirements from deferred tax on asset gains	673	76,966	(76,293)
Non-deductible financial expense	35,777	-	35,777
Non-deductible amortisation	-	1,859	(1,859)
Non-deductible impairment	5,383	-	5,383
Other	11	473	(462)
Taxable income (taxable profit)	**55,610**	**1,894,485**	**(1,557,205)**

31 December 2014

	Thousands of euros		
	Increase	Decrease	Amount
Accounting profit/(loss) for the period (before tax)			**52,780**
Permanent differences:			
Dividends SFL (Note 19)	2,481	51,925	(49,444)
Capital increase costs	-	49,977	(49,977)
Other	1,818	19	1,799
Temporary differences:			
Carried over from previous years-			
Deferral for reinvestment	860	-	860
Arising in the year-			
Impairment of SFL portfolio (Note 9)	-	66,035	(66,035)
Portfolio impairment Abix Service, S.L.U. (Note 9)	4,752	8,663	(3,911)
Impairment of Colonial Tramit and Colonial Invest portfolio (Note 9)	3	-	3
Impairment of Torre Marenostrum, S.L. portfolio (Note 9)	-	2,477	(2,477)
Amortisation of SFL financial goodwill	-	57	(57)
Non-deductible provisions	67,018	61,811	5,207
Retirements from deferred tax on asset gains	614	26,325	(25,711)
Non-deductible financial expense	120,905	-	120,905
Non-deductible amortisation	7,315	184	7,131
Other	482	5,111	(4,629)
Taxable income (taxable profit)	**206,248**	**272,584**	**(13,556)**

The taxable income for 2014 has been adjusted as a result of the definitive presentation of the Corporate Income Tax return for 2014 in July 2015.

The difference between the accounting profit/(loss) and the taxable income for 2015 and 2014 corresponds to the following:

- Dividends received from the French subsidiary SFL in application of the exemption on dividends from non-resident companies, amounting to 60,580 thousand euros and 51,925 thousand euros. SFL files income tax under the special SIIC regime which, inter alia, provides that shareholders with more than 10% of the share capital of a SIIC and which are exempt from taxation or subject to a tax that is two thirds lower than the standard income tax rate for French companies (33.33%) shall be subject to a 20% withholding at the SIIC source. To this end, and to guarantee the minimum taxation of Colonial at the source of the income distributed through dividends, the Company partially waives the above exemption, amounting to 6,696 thousand euros and 2,481 thousand euros in 2015 and 2014, thus meeting the requirement of minimum taxation of the shareholder at the source, as per the SIIC regime.

  The Company has notified the Board of Directors of SFL that it has partially paid tax on such dividends and, consequently, SFL need not make any withholding at source. The Company has also assured SFL that it would cover any amounts that were to be settled in France as a result of this interpretation.

- The recovery of the adjustments associated with the equity interests in Asentia were recovered at the time of their disposal. Among these adjustments is the deferred revenue due to the application of the tax regime provided for in Chapter VIII, Title VII, of the Spanish Corporate Income Tax Law deriving from the contribution of the financial interest in Riofisa to Asentia.

- Impairment of financial holdings and of loans with Group companies, not considered to be deductible for tax purposes

- In accordance with the resolution in Royal Decree-Law 12/2012, of 30 March, amending article 20 of the Corporate Income Tax Law, the Company has temporarily adjusted the finance cost that exceeds 30% of the yearly profit.

- In accordance with Law 16/2012 of 27 December, adopting various tax measures aimed at consolidating public finance and promoting economic activity, it is established that the amortisation and depreciation for accounting purposes on property, plant and equipment, intangible assets and investment property for the tax periods beginning in 2013 and 2014, can be deducted only up to 70% of the taxable income which would have been tax deductible. In this regard, the Company carried out the corresponding adjustments to its taxable income. In 2015, and according to the provisions of the Law, the Company has recovered a tenth part of the allocations made to depreciation in 2013 and 2014, which were considered non-deductible.

- Non-deductible provisions (Notes 9 and 14).

The breakdown of tax not recognised for accounting purposes that would have been directly recognised in the Company's equity at 31 December 2015 and 2014 is as follows:

31 December 2015

	Thousands of euros			
		Tax base		Tax
	Increases	Decreases	Total	Total
In current tax:				
Capital increase costs	-	51	(51)	(14)
Total current tax	**-**	**51**	**(51)**	**(14)**
Total tax directly recognised in equity	**-**	**51**	**(51)**	**(14)**

31 December 2014

	Thousands of euros			
		Tax base		Tax
	Increases	Decreases	Total	Total
In current tax:				
Capital increase costs	-	49,977	(49,977)	(14,993)
Total current tax	**-**	**49,977**	**(49,977)**	**(14,993)**
In deferred tax:				
From current year-				
Valuation of derivative financial instruments	5,425	-	5,425	1,627
Total deferred tax	**5,425**	**-**	**5,425**	**1,627**
Total tax directly recognised in equity	**5,425**	**49,977**	**(44,552)**	**(13,366)**

The reconciliation between the accounting profit/(loss) and the income tax expense recognised in the income statement for 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Total before-tax accounting profit/(loss)	281,670	52,780
Permanent differences (*)	(1,009,322)	(47,645)
Adjusted accounting profit/(loss)	**(727,652)**	**(5,135)**
Taxable profit not recognised for accounting purposes	727,652	5,135
Effect of the temporary differences activated	-	(3,898)
Adjustment due to change in rate	3,680	(39,876)
Cancellation of deferred tax liabilities	-	(3,475)
Decapitalisation of tax credits	-	(211,367)
Adjustment of income tax from previous years	-	2,445
Total tax expense recognised in the income statement	**3,680**	**(256,171)**
- Current tax	-	-
- Deferred tax:	3,680	(256,171)

(*) Does not include capital increase costs of 51 thousand euros and 49,977 thousand euros in 2015 and 2014, respectively, the tax effect of which was taken directly to equity.

Income tax payable–

At 31 December 2015, the Company held a balance in its favour of 23,368 thousand euros deriving from income tax prepayments made during 2015. The amount of these prepayments corresponds to the minimum payment of 12% of the accounting result on the date of the prepayment, through the application of the temporary measures in effect for 2015.

Deferrals with tax authorities-

At 31 December 2014, the Company received several tax extensions that were cancelled at 31 December 2015, mainly via the offsetting of other tax refunds.

Deferred tax assets and liabilities –

Article 29 of Corporate Income Tax Law 27/2014, of 27 November, which enters into force on 1 January 2015, establishes a standard tax rate of 25% for taxpayers liable for this tax.

However, a standard tax rate of 25% will be applicable for tax periods beginning on or after 1 January 2016, due to the temporary measures applicable in the 2015 tax period set forth in Transitional Provision Thirty-One of Law 27/2014, which establishes a standard tax rate of 28% for the 2015 tax period.

The breakdown of deferred tax assets and liabilities at 31 December 2015 and 2014, by item, is as follows:

31 December 2015

Deferred tax assets	Thousands of euros	
	Amount	Tax effect
Tax loss carryforwards	5,399,917	1,349,979
Non-deductible impairment	5,384	1,346
Non-deductible financial expense	372,192	93,048
Non-deductible amortisation	13,476	3,369
Non-deductible provisions	145,920	36,480
Other	1,024	256
Total tax credits and deferred tax assets	**5,937,913**	**1,484,478**
By transactions in tax group	2,611	653
Total transactions with tax group companies	**2,611**	**653**
Unused tax credits for deductions for dividends receivable	-	1,362
Unused tax credits for deductions for reinvestment	-	16,141
Unused tax credits for deductions for training	-	1
Total unused tax credits	**-**	**17,504**
Total deferred tax assets	**5,940,524**	**1,502,635**
Balance recognised for accounting purposes (*)	-	-

(*) In accordance with the above, when determining the deferred tax liability at 31 December 2015, the Company has considered the application of tax credits totalling 28,453 thousand euros, with these being calculated at the effective settlement rate, estimated at 7.5% (Note 4-n).

Deferred tax liabilities	Thousands of euros	
	Amount	Tax effect
Deferral for reinvestment	22,452	5,613
Deferred liability for financial goodwill	1,608	402
Deferred liability from gains allocated to investment properties and financial assets	95,448	23,862
Total deferred tax liabilities	**119,508**	**29,877**
Balance recognised for accounting purposes	**119,508**	**29,877**

31 December 2014

Deferred tax assets	Thousands of euros	
	Amount	Tax effect
Tax loss carryforwards	3,315,491	928,337
Impairment of SFL portfolio (Note 9)	150,235	42,066
Impairment of Asentia Project, S.L. portfolio	1,567,193	438,814
Impairment of Torre Marenostrum, S.L. portfolio (Note 9)	1,718	481
Non-deductible financial expense	336,414	94,196
Non-deductible amortisation	13,893	3,890
Non-deductible provisions	157,057	43,976
Other	4,075	1,141
Total tax credits and deferred tax assets	**5,546,076**	**1,552,901**
By transactions in tax group	550,073	154,020
Total transactions with tax group companies	**550,073**	**154,020**
Unused tax credits for deductions for dividends receivable	-	21,706
Unused tax credits for deductions for reinvestment	-	16,141
Unused tax credits for deductions for training	-	1
Total unused tax credits	**-**	**37,848**
Total deferred tax assets	**6,096,149**	**1,706,921**
Balance recognised for accounting purposes	-	-

Deferred tax liabilities	Thousands of euros	
	Amount	Tax effect
Deferral for reinvestment	23,311	6,527
Deferred liability for financial goodwill	1,564	438
Deferred liability from gains allocated to investment properties and financial assets	94,971	26,592
Total deferred tax liabilities	**119,846**	**33,557**
Balance recognised for accounting purposes	**119,846**	**33,557**

"Deferred liability for gains allocated to investment properties", as detailed in Note 4-n, includes the amount of deferred taxes associated with the Company's investment properties that would be accrued if these assets were transferred, using the effective rate that would be applicable, taking into account applicable legislation and any unrecognised tax credits. Accordingly, the deferred taxes associated with the Company's investment property were recognised at an effective rate of 7.5% (tax rate of 25% with a limit on tax loss carryforwards of 70%). Consequently, in calculating its deferred tax liabilities, the Company is considering applying the tax credit of 28,453 thousand euros (the difference between the 25% tax rate and the effective settlement rate applied of 7.5%).

At 31 December 2013, the Company had recognised deferred tax assets in the amount of 253,639 thousand euros in the balance sheet.

At 31 December 2014, all of these deferred tax assets were retired after reassessing the assumptions considered in the impairment test, in which the changes introduced by the new Corporate Income Tax Law approved on 27 November 2014, which permanently limit tax loss carryforwards, the approved tax rate reduction and the time limit of ten years used in the impairment test calculation at 31 December 2014, had a significant impact. Although current tax legislation does not set a maximum limit for tax offsetting, the directors have chosen to set a finite period of 10 years for offsetting these tax credits, whereas at 31 December 2013, the period for offsetting was 18 years.

Deferred tax assets relating to tax loss carryforwards-

The Corporate Income Tax Law in force as of 1 January 2015 stipulates that previous years' tax loss carryforwards may be offset in future years without any time limit and, until the entry into force of the new income tax law, this offset is limited to the 18 years immediately after that in which the tax loss to be offset was generated.

The following tables detail the carryforward of losses generated by the Company at 31 December 2015.

Year of origin	Thousands of euros
	Tax base
2000	12,979
2001	5,468
2003	140
2004	38,516
2005	36
2006	25,053
2007	321,571
2008	1,211,855
2009	871,505
2010	590,385
2011	270,630
2012	394,062
2013	96,602
2014	13,556
2015	1,557,205
Total	**5,409,563**

As indicated above, the Company is the head of the consolidated tax group 6/08, which means that certain transactions with companies included in the tax group are eliminated from the tax base; they are not included in taxable profit until the gain or loss on the respective transaction is realised with third parties. In addition, the consolidated tax regime allows companies with taxable profit to make use of the tax losses generated by other companies within the same consolidated tax group. The following table presents a reconciliation at 31 December 2015 between the Company's tax losses and the tax loss arising from applying tax consolidation adjustments to the Company:

	Thousands of euros
Aggregate of the individual tax loss carryforwards:	**5,409,563**
Adjustments for transactions among companies that make up the consolidated tax group	(4)
Adjustments for the offset of taxable income and and tax loss carryforwards among companies that make up the consolidated tax group	(9,642)
Total tax loss carryforwards	**5,399,917**
- Recognised for accounting purposes	-
- Not recognised for accounting purposes	5,399,917

Deferred tax assets relating to tax credits for deductions for reinvestment–

Prevailing legislation provides for a 12% deduction on gains obtained on the sale of certain items of property, plant and equipment, intangible assets and investments of 5% or more in the share capital of companies outside the tax group, so long as the gains are reinvested in full in assets of the same characteristics. Qualifying reinvestments must take place within the three years following the sale or in the year preceding the transaction.

Also under prevailing legislation, for the deduction for reinvestment of extraordinary gains to be applicable, the asset acquired with the proceeds must be held for a five-year period (three years, in the case of financial investments), unless the assets failing to comply with the deadline are reinvested within the prevailing timeframe. The terms for holding the amounts reinvested by the Company are as follows:

	Thousands of euros			
	2016	2017	2018	2019
Reinvested by the Company	5,642	27,614	8,786	18,701
Associated profit	220	1,009	946	188

The Company's directors believe that the Company or the tax group of which it is the head, as appropriate, will comply with the stipulated timeframes.

At 31 December 2015, the unused tax credits for reinvestment due to insufficient taxable profit and the corresponding last year for use are as follows:

Year of origin	Thousands of euros	
	Unrecognised	Last year for use
2002	458	2017
2003	3,316	2018
2004	1,056	2019
2005	92	2020
2006	1,314	2021
2007	7,275	2022
2008	1,185	2023
2009	434	2024
2010	713	2025
2011	39	2026
2012	123	2027
2013	112	2028
2014	24	2029
	16,141	

Deferred tax assets relating to tax credits for other deductions-

The nature and amount of the unused tax credits at 31 December 2015 due to insufficient taxable profit in prior years, and the corresponding last year for use, are as follows:

Nature of the tax credit	Thousands of euros		
	Year of origin	Unrecognised	Last year for use
Double taxation tax credit	2009	286	2016
	2010	274	2017
	2011	355	2018
	2012	202	2019
	2013	83	2020
	2014	162	2021
Tax credit for training	2008	1	2018
	2009	1	2019
	2010	1	2020
		1,365	

Deferred tax liabilities - Deferred liability from non-monetary contribution-

The deferred tax liability attributable to the gains allocated to investment properties and financial assets (holding in the subsidiary Torre Marenostrum, S.L.) in the merger of Grupo Inmocaral, S.A. with Inmobiliaria Colonial, S.A., was calculated by applying the tax rate of 25% over 31.422% of the total allocation to the aforementioned assets.

This percentage is based on the estimate made by the Company's management of the gains generated on the sale of shares by the former shareholders of Inmobiliaria Colonial, S.A. (absorbed company (Note 1)) that were not effectively taxed.

In 2015, the Company proceeded with the documentation and support of the taxation of the takeover bid by the Inmocaral Group over Inmobiliaria Colonial. The definitive calculation performed by an independent third party (Loan Agency Services) has placed the previous percentage at 41.077%, resulting in the need to file the corresponding complementary settlements for the periods not expired to date.

Years open to inspection and tax audits–

In 2013, the Company was notified of the start of a partial income tax audit for 2008, restricted to certain corporate transactions performed in said year. In 2014, uncontested assessments on the partial tax audits were handed down in reference to Corporate Income Tax for 2008, without any adjustment to the taxable income being made or penalty being imposed.

The Company has the last four years open for review by the tax inspection authorities for all applicable taxes. As previously mentioned, the Company has filed complementary settlements for Corporate Income Tax for the periods 2011 to 2014, breaking the statute of limitations for those periods.

No additional material liability for the Company is expected to arise in the event of a new inspection.

Adherence to the Code of Best Tax Practices–

On 10 December 2015, the Company's Board of Directors agreed to adhere to the Code of Best Tax Practices. This resolution was reported to the tax authorities on 8 January 2016.

18. Income and expenses

Revenue-

The Company's ordinary revenue relates basically to sales in Barcelona, Madrid and Paris. The detail, by type of business activity, is as follows:

Activity	Thousands of euros	
	2015	2014
Building leases	56,475	54,166
Services	183	795
Income from holdings in Group companies and associates (Note 4-o)	61,073	52,466
Total	**117,731**	**107,427**

Geographic markets	Thousands of euros	
	2015	2014
Barcelona	21,172	21,594
Madrid	35,303	32,572
France (*)	60,580	51,925
Others (**)	676	1,336
Total	**117,731**	**107,427**

(*) The total amount corresponds to finance income from dividends of SFL.
(**) Includes 493 thousand euros and 541 thousand euros in 2015 and 2014, respectively, relating to dividends from the shareholding in Torre Marenostrum, S.L. whose only asset is in Barcelona (Note 19).

Staff costs

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

	Thousands of euros	
	2015	2014
Wages and salaries	6,358	5,483
Social security costs	837	853
Other employee benefit expenses	1,372	1,344
Extraordinary remuneration	-	4,247
Termination benefits	1,060	528
Internal reallocation	(559)	(514)
Total	**9,068**	**11,941**

At 31 December 2015 and 2014, "Other employee benefit expenses" included 1,205 thousand euros and 1,191 thousand euros, respectively, relating to the amount accrued in the year from the long-term remuneration plan described in Note 20.

"Extraordinary remuneration" includes mainly the extraordinary bonus and contingent remuneration associated with the restructuring of the syndicated financial debt paid once the process for restructuring the financial debt and the capitalisation of the Company was successfully completed in 2014.

Losses on, impairment of and changes in allowances for trade receivables

The breakdown of "Losses on, impairment of and changes in allowances for trade receivables" in the income statement is as follows:

	Thousands of euros	
	2015	2014
Allocations of provision for insolvency (Note 4-g)	1,091	236
Reversal of provision for insolvency (Note 4-g)	(103)	(16)
Allocation/Application of provision for contingencies and charges (Note 14)	3,376	(14,380)
Allocation of provision for other long-term borrowings (Note 9)	-	30,501
Allocation/Application of provision for other trade balances	(534)	1,711
Total impairment/applications	**3,830**	**18,052**

Impairment of property assets

The changes in impairment due to variations in the value of various headings in the balance sheet at 31 December 2015 and 2014 are as follows:

	Thousands of euros			
	Property, plant and equipment (Note 6)	Investment property (Note 7)	Non-current assets held for sale (Note 11)	Total
Balance at 31 December 2013	**(8,949)**	**(353,193)**	**(51,827)**	**(413,969)**
Charge	-	-	(3,217)	(3,217)
Applications	341	97,821	-	98,162
Transfers	-	(28,499)	28,499	-
Decreases	-	460	-	460
Balance at 31 December 2014	**(8,608)**	**(283,411)**	**(26,545)**	**(318,564)**
Charge	-	(92)	(5,133)	(5,225)
Applications	808	130,359	-	131,167
Decreases	-	206	-	206
Balance at 31 December 2015	**(7,800)**	**(152,938)**	**(31,678)**	**(192,416)**

The reconciliation with the income statement is as follows:

	Thousands of euros	
	2015	2014
Provisions for non-current assets	(5,225)	(3,217)
Applications of non-current assets	131,167	98,162
Total impairment/applications	**125,942**	**94,945**

Finance income and expenses

The breakdown of net finance expense in 2015 and 2014 is as follows:

	Thousands of euros	
	2015	2014
Finance income:		
Finance income	728	533
Other finance income	385	165
Total finance income	**1,113**	**698**
Finance costs:		
Loan arrangement expenses	-	(31,235)
Loan cancellation expenses	(28,039)	-
Debt interest	(35,509)	(87,422)
Hedge expenses	-	(14,101)
Total finance expense	**(63,548)**	**(132,758)**
Change in derivative instruments (Note 10)	(192)	(1,093)
Change in fair value of financial instruments	**(192)**	**(1,093)**
Impairment recognised on the SFL financial holding (Note 9)	150,235	66,035
Impairment recognised on the Torre Marenostrum, S.L. financial holding (Note 9)	1,724	2,477
Impairment of Colonial Tramit, S.L.U. financial holding (Note 9)	-	(1)
Impairment of Colonial Invest, S.L.U. financial holding (Note 9)	(1)	(2)
Application of provision for contingencies and charges (Note 14)	768	12,382
Impairment of credit facilities with investee DUE (Note 9)	(768)	(1,624)
Allocation/Application of provision for other loans (Note 12)	3,022	(3,733)
Disposal of Asentia Project S.L. shareholding (Note 11)	4	-
Impairment and gains/(losses) on disposal of financial instruments	**154,984**	**75,534**
Total financial profit (loss)	**92,357**	**(57,619)**

At 31 December 2015, “Finance costs – Loan cancellation expenses” included 28,039 thousand euros as the charge for the early cancellation of the Company's syndicated loan on 5 June 2015 (Note 15).

At 31 December 2014, “Financing costs – Debt interest” included 41,030 thousand euros in interest accrued through the additional margin applied to the drawdowns on the Company’s previous syndicated loan, which was cancelled in 2014. In addition, the financial debt restructuring carried out in 2014 entailed the recognition of 42,202 thousand euros in costs associated with this restructuring.

19. Related party transactions and balances

Related party transactions -

The breakdown of transactions with related parties in 2015 and 2014 is as follows:

2015

	Thousands of euros	
	Services rendered	Dividends received
Torre Marenostrum, S.L.	160	493
Société Foncière Lyonnaise, S.A.	-	60,580
Total	**160**	**61,073**

2014

	Thousands of euros			
	Services rendered	Interest income (cost)	Building leases and other income	Dividends received
Torre Marenostrum, S.L.	161	-	-	541
Asentia Project, S.L. (*)	53	-	42	-
Société Foncière Lyonnaise, S.A.	-	-	-	51,925
Riofisa, S.A.U. (*)	79	-	32	-
HM Treasury (**)	-	(78)	-	-
Crédit Agricole – CIB (***)	-	(10,087)	-	-
CaixaBank, S.A. (**)	-	(43)	-	-
Coral Partners (Lux), S.A.R.L. (***)	-	(10,374)	-	-
Banco Popular Español, S.A. (**)	-	(4)	-	-
Total	**293**	**(20,586)**	**74**	**52,466**

(*) Includes transactions carried out with the Asentia Group until 25 February 2014, the date on which the Company reduced its ownership interest in the share capital of Asentia Project, S L. from 100% to 18.99%. At 31 December 2015, the Company no longer had any shareholding interests in Asentia (Note 11).

(**) Includes transactions with CaixaBank, S.A., Banco Popular Español, S.A. and Royal Bank of Scotland Group, PLC (represented in the Company's shareholder structure through HM Treasury (Note 13)) up until January 2014, when their shares were disposed of, as per notifications to the CNMV.

(**) Includes transactions with Crédit Agricole – CIB and Coral Partners (Lux), S.A.R.L. up until April 2014, when their shares were disposed of, as per notifications to the CNMV.

Balances with related parties-

2015

At 31 December 2015, the Company had an account receivable for 16 thousand euros with the investee Torre Marenostrum, S.L. relating to the fees billed for December 2015 by virtue of the equity and corporate management agreement entered into by both companies. At the date of preparation of these financial statements, Torre Marenostrum, S.L. had paid this amount to the Company.

The Company also had an account receivable for 420 thousand euros with the investee Danieltown, relating to the balance at 31 December 2015 of the current account maintained between both companies.

2014

At 31 December 2014, the Company had an account receivable for 16 thousand euros with the investee Torre Marenostrum, S.L. relating to the fees billed for December 2014 by virtue of the equity and corporate management agreement entered into by both companies.

20. Director and senior management remuneration and other benefits

Remuneration received in 2015 and 2014 by members of the Board of Directors of the Company, by item, is as follows:

	Thousands of euros	
	2015	2014
Remuneration paid to executive directors (*) (**):	**1,215**	**3,561**
Attendance fees:	**457**	**518**
Directors' attendance fees	428	460
Additional attendance fees for the Chairman and Deputy Chairman	29	58
Fixed remuneration:	**1,100**	**880**
Directors' remuneration	600	470
Additional remuneration for the Executive Committee	200	172
Additional remuneration for the Audit and Control Committee	150	114
Additional remuneration of the Nomination and Remuneration Committee	150	124
Total	**2,772**	**4,959**
Remuneration earned by executive directors(**):	**1,460**	**3,876**

(*) Includes the remuneration earned by the directors in carrying out senior management functions.
It also includes the amount received for extraordinary and contingent remuneration for restructuring for 2014, which amounts to 2,520 thousand euros.

(**) Does not include the amount corresponding to expenses accrued in relation to the long-term incentive plan described above.

At 31 December 2015 and 2014, the Company had taken out a civil liability insurance policy covering all of its directors, executives and employees for a total of 322 thousand euros and 420 thousand euros, respectively.

The Company has not granted any loans and has not taken out any pension plans or life insurance for the former or serving members of the Board of Directors.

At 31 December 2015 and 2014, two members of the Board of Directors had signed golden parachute clauses in the event of certain cases of termination or change of control, all of which were approved at the General Shareholders' Meeting.

The Board of Directors was made up of 10 men and 1 woman at 31 December 2015, and of 9 men and 2 women at 31 December 2014.

The composition of the Board of Directors at 31 December 2015 was as follows:

Director	Position	Type
Juan José Brugera Clavero	Executive	Chairman
Villar Mir, S.A.U. Group represented by Juan-Miguel Villar Mir	Deputy Chairman	Proprietary
Pedro Viñolas Serra	Chief Executive Officer	Executive
Carlos Fernández-Lerga Garralda	Lead Director	Independent
Juan Villar-Mir de Fuentes	Proprietary	Director
Sheikh Ali Jassim M. J. Al-Thani	Proprietary	Director
Juan Carlos García Cañizares	Proprietary	Director
Francesc Mora Sagués	Proprietary	Director
Ana Sainz de Vicuña	Independent	Director
Javier Iglesias de Ussel Ordís	Independent	Director
Luis Maluquer Trepat	Director	Other director

In 2015, Silvia Villar-Mir de Fuentes resigned from her position as director.

Pursuant to Article 229 of the Spanish Limited Liability Companies Law, the directors have reported that neither they nor any parties related thereto have any direct or indirect conflict with the interests of the Company.

Long-term bonus scheme linked to delivery of several management indicators–

On 21 January 2014, the shareholders at the Company's General Shareholders' Meeting set up a long-term bonus scheme for the Chairman and Chief Executive Officer of Inmobiliaria Colonial, S.A. and for members of the Company's Executive Committee that will apply from 2014 to 2018.

After the proposal submitted by the Nomination and Remuneration Committee, between 1 to 15 April of each of the following periods, the Board of Directors must determine the number of shares to be allocated to each beneficiary under the plan based on fulfilment of the indicators for the previous year. The shares will be delivered to the beneficiaries between 15 and 30 April each year.

Shares received under this plan may not be sold or transferred by beneficiaries within the first three years after the date of receipt except as necessary to pay any taxes chargeable as a result of receiving them.

The determination of shares to be allocated will be subject to a final adjustment to ensure that the cash value of the shares does not exceed the average Colonial share price for November 2013 by more than 150%.

The plan includes the customary clauses for adapting the number of shares to be received by the beneficiaries in cases of dilution.

In 2015 and 2014, the Company recognised 1,205 thousand euros and 1,191 thousand euros, respectively, under “Staff costs” in the income statement to cover the incentive plan.

On 24 April 2015, the Company’s Board of Directors determined that the number of shares to be delivered to beneficiaries of the Plan in accordance with the level of fulfilment of indicators for 2014 would be 3,766,173 shares. The shares were delivered to the beneficiaries on 30 April 2015. Of these shares, 1,813,521 were delivered to members of the Board of Directors and 1,424,908 to members of senior management, with a market value upon delivery of 1,088 thousand euros and 855 thousand euros, respectively.

Remuneration of senior management–

The Company's senior management team is formed by senior executives and other persons responsible for the management of the Company, reporting to the CEO, as per the definition given in the Good Governance Code for listed companies. Remuneration earned by senior management for the periods ending 31 December 2015 and 2014 amounted to 860 thousand euros (not including the amount corresponding to the expenses accrued in relation to the long-term incentive plan described in this note) and 2,127 thousand euros relating to wages and salaries and attendance fees, and in 2014, it included the extraordinary and contingent remuneration of 1,220 thousand euros for the restructuring of the Company's financial debt.

The Company's senior management team was made up of two men and two women at 31 December 2015 and 2014.

At 31 December 2015 and 2014, one member of the senior management team had signed a guarantee or "golden parachute" clause in the event of certain cases of termination or change of control.

Extraordinary and contingent remuneration pursuant to 'Debt restructuring agreement' –

On 27 June 2013, at the proposal of the Nomination and Remuneration Committee, the Board of Directors resolved to pay extraordinary and contingent remuneration of up to 4,000 thousand euros to members of the Executive Committee of Colonial. Receipt of such remuneration was subject to Colonial carrying out the restructuring of its previous syndicated debt, which fell due on 31 December 2014.

In 2014, after its financial debt was considered to have been successfully restructured following a report by the Nomination and Remuneration Committee, the Board set the exact amounts and procedures for distribution and proceeded with the payment.

21. Other disclosures

Employee receivables

The number of workers employed by the Company at 31 December 2015 and 2014, as well as the average headcount for 2015 and 2014, by professional category and gender, is as follows:

Professional category	Employees at 31 December				Average no. of employees 2015		Average no. of employees 2014	
	2015		2014					
	Men	Women	Men	Women	Men	Women	Men	Women
General and area managers	5	3	6	3	6	3	5	4
Technical graduates and middle managers	9	7	10	8	9	7	10	8
Clerical staff	13	30	12	32	13	30	11	32
Total	**27**	**40**	**28**	**43**	**28**	**40**	**26**	**44**

Audit fees

In 2015 and 2014, fees for auditing and other services provided by the Company auditor, Deloitte, S.L. or by a company in the same group or related to the auditor, were as follows:

Description	Thousands of euros Service rendered by Deloitte, S.L. and related companies 2015	 2014
Audit services	310	310
Other verification services	207	507
Total auditing and related services	**517**	**817**
Tax advisory services	-	-
Other services	143	71
Total professional services	**143**	**71**

Capital management: Policies and objectives

As indicated in Note 1, the Company is the Parent of the Colonial Group.

The Company manages its capital and financial structure, as well as that of the investees Torre Marenostrum, S.L., Danieltown, Colonial Invest and Colonial Tramit, in order to ensure their continuity as profitable businesses, taking into account the financial restrictions of the markets, and to maximise returns for shareholders.

The Company strategy, and that of its investees, is to focus on markets and products that add value to the Colonial Group.

The Company draws up annual cash budgets and monthly forecasts (with breakdowns and weekly updates) to manage its liquidity risk and meet its financing needs. The liquidity risk is mitigated by the following factors: (i) recurring cash flow generation by the Company's core activities; and (ii) its ability to renegotiate and obtain new financing on the basis of long-term business plans and (iii) the quality of the Company's assets.

The financing of the Company is entirely over the long term and structured in such a manner that it allows the development of its underlying business plan.

The Company, and its investees, review the capital structure, its leverage (net debt/equity) and LTV ratios on a regular basis.

The Company holds a majority stake in several companies (Note 9). The accompanying financial statements cover the Company individually and, therefore, do not reflect any changes in the components of equity that would be recognised if the aforementioned subsidiaries were to be consolidated. The Company prepares its consolidated financial statements on the basis of the International Financial Reporting Standards (IFRSs). According to the consolidated financial statements, the total reserves, together with the share premium, equity, other equity instruments and adjustments stemming from changes in value of derivative financial instruments at 31 December 2015 amounts to 624,792 thousand euros, the attributable consolidated profit amounts to 415,413 thousand euros, and assets and revenue amount to 7,129,526 thousand euros and 230,834 thousand euros, respectively.

22. Average supplier payment period

Below follows the information required by final provision two of Law 31/2014 of 3 December, which amends Spanish Limited Liability Companies Law with a view to improving corporate governance, and also amends additional provision three of Law 15/2010 of 5 July, modifying Law 3/2004 of 29 December establishing measures on combating late payment in commercial transactions, all in accordance with the provisions set forth in the resolution of 29 January 2016 of the Institute of Accounting and Account Auditing (ICAC) regarding the information to be included in the notes to the financial statements in relation to the average payment period to suppliers in commercial transactions.

	2015
	Days
Average payment period to suppliers	46
Ratio of operations paid	46
Ratio of operations outstanding	43
	Amount (in thousands of euros)
Total payments made	44,115
Total payments outstanding	1,667

The figures in the table above on payments to suppliers refer to suppliers which, by their nature, are trade creditors because they are suppliers of goods and services. Therefore, they include the figures for “Payables to suppliers” and “Other payables” on the balance sheet. In accordance with the aforementioned resolution of 29 January 2016, no comparative information is presented and the financial statements will be considered the initial statements for this exclusive purpose in terms of application of the principle of uniformity and the comparability requirement.

“Average payment period to suppliers” will be understood as the expression of the payment time or delay in the payment of the payable. This “Average payment period to suppliers” is calculated as the quotient formed in the numerator by the sum of the product of the ratio of operations paid by the total payments made and the product of the ratio of operations pending payment, multiplied by the total amount of payments outstanding at year-end, and in the denominator, the sum of the total amount of payments made and the total amount of payments outstanding at year-end.

The ratio of operations paid is calculated as the quotient formed in the numerator by the sum of the products corresponding to the amounts paid, multiplied by the number of payment days (difference between calendar days since the end of the maximum legal payment period until the payment of the operation), and in the denominator by the total amount of the payments made in the year.

The ratio of operations pending payment is calculated as the quotient formed in the numerator by the sum of the products corresponding to the amounts pending payment, multiplied by the number of payment days pending payment (difference between calendar days since the end of the maximum legal payment period until the close of the financial statements), and in the denominator by the total amount of the payments outstanding at year-end.

Law 11/2013 on measures to support entrepreneurs, stimulate growth and create employment, which amended the Law on late payments (Law 3/2004, of 29 December), entered into force on 26 July 2013. The new law stipulates that the maximum payment period to suppliers as of 29 July 2013 is 30 days, unless there is an agreement between the parties which increases the maximum period to 60 days.

As regards payments made by the Company after the legally permitted term, note that these are primarily payments relating to construction work and property refurbishment that are paid within the payment terms stipulated in the contracts signed with the various contractors. In this regard, at the date on which these financial statements were authorised for issue, the Company notified all suppliers with contracts in force, and whose payment conditions included in the contract were not in line with the maximum payment period of 60 days, that the contract conditions would be changed in order to bring them into line with Law 11/2013.

23. Events after the reporting period

From 31 December 2015 to the date on which these financial statements were authorised for issue, no significant events took place and there were no other matters worthy of mention.

24. Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Company in Spain (see Note 2). Certain accounting practices applied by the Company that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

APPENDIX

NON-CURRENT INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

		Thousands of euros								Thousands of euros
2015	Domicile	Capital	Reserves and share premium	Profit/(loss)	Valuation change in value	Dividend (Note 19)	Direct	Indirect	Shareholder	Cost (Note 9)
HOLDINGS IN GROUP COMPANIES AND ASSOCIATES:										
Torre Marenostrum, S.L.	Diagonal 532, 08006 Barcelona, Spain	5,334	12,088	1,181	2,160	493	55%	-	-	26,399
Colonial Tramit, S.L.U.	Diagonal 532, 08006 Barcelona, Spain	3	5	(1)	-	-	100%	-	-	13
Colonial Invest, S.L.U.	Diagonal 532, 08006 Barcelona, Spain	3	7	(2)	-	-	100%	-	-	13
Danieltown Spain, S.L.U.	Diagonal 532, 08006 Barcelona, Spain	541	23,269	(410)	-	-	100%	-	-	30,038
GROUP COMPANIES OF SOCIÉTÉ FONCIÈRE LYONNAISE, S.A.:										
Société Foncière Lyonnaise, S.A.	42, rue Washington 75008 Paris, France	93,058	789,712	(26,719)	-	60,580	53.14%	-	-	1,370,746
Segpim, S.A.	42, rue Washington 75008 Paris, France	39	165	960	-	-	-	100%	SFL	-
Locaparis, SAS	42, rue Washington 75008 Paris, France	153	15	725	-	-	-	100%	Segpim	-
MAUD SAS	42, rue Washington 75008 Paris, France	80	(610)	24	-	-	-	100%	SFL	-
SB2, SAS	42, rue Washington 75008 Paris, France	40	(17)	(2)	-	-	-	100%	SFL	-
SB3, SAS	42, rue Washington 75008 Paris, France	40	(18)	(2)	-	-	-	100%	SFL	-
SCI SB3	42, rue Washington 75008 Paris, France	2	(6)	-	-	-	-	100%	SFL	-
SCI Washington	42, rue Washington 75008 Paris, France	94,872	-	8,443	-	-	-	66%	SFL	-
SAS Parholding	42, rue Washington 75008 Paris, France	15,000	2,724	6,262	-	-	-	50%	SFL	-
SC Parchamps	42, rue Washington 75008 Paris, France	1,558	(6,576)	(250)	-	-	-	100%	SAS Parholding	-
SC Pargal	42, rue Washington 75008 Paris, France	9,120	16	3,357	-	-	-	100%	SAS Parholding	-
SC Parhaus	42, rue Washington 75008 Paris, France	1,500	-	1,997	-	-	-	100%	SAS Parholding	-
SCI 103 Grenelle	42, rue Washington 75008 Paris, France	-	1,143	4,903	-	-	-	100%	SFL	-
SC Paul Cézanne	42, rue Washington 75008 Paris, France	56,934	101,249	10,891	-	-	-	100%	SFL	-
Condorcet Holding SNC	42, rue Washington 75008 Paris, France	10	-	5,823				100%	SFL	
Condorcet PropCo SNC	42, rue Washington 75008 Paris, France	20,500	(10,017)	5,824	-	-	-	100%	Condorcet Holding SNC	-

NON-CURRENT INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

2014	Domicile	Thousands of euros					Direct	Indirect	Shareholder	Thousands of euros
		Capital	Reserves and share premium	Profit/(loss)	Valuation change in value	Dividend (Note 19)				Cost (Note 9)
HOLDINGS IN GROUP COMPANIES AND ASSOCIATES:										
Torre Marenostrum, S.L.	Diagonal 532, 08006 Barcelona, Spain	5,334	11,988	997	2.352	541	55%	-	-	26,399
Colonial Tramit, S.L.U. (formerly Asentia Gestión, S.L.U.)	Diagonal 532, 08006 Barcelona, Spain	3	6	(1)	-	-	100%	-	-	13
Colonial Invest, S.L.U. (formerly Asentia Invest, S.L.U.)	Diagonal 532, 08006 Barcelona, Spain	3	8	(1)	-	-	100%	-	-	13
GROUP COMPANIES OF SOCIÉTÉ FONCIÈRE LYONNAISE, S.A.:										
Société Foncière Lyonnaise, S.A.	42, rue Washington 75008 Paris, France	93,058	871,327	31,476	-	51,925	53.14%	-	-	1,370,746
Segpim, S.A.	42, rue Washington 75008 Paris, France	39	165	437	-	-	-	100%	SFL	-
Locaparis, SAS	42, rue Washington 75008 Paris, France	153	15	976	-	-	-	100%	Segpim	-
MAUD SAS	42, rue Washington 75008 Paris, France	80	(103)	(507)	-	-	-	100%	SFL	-
SB2, SAS	42, rue Washington 75008 Paris, France	40	(15)	(2)	-	-	-	100%	SFL	-
SB3, SAS	42, rue Washington 75008 Paris, France	40	(15)	(2)	-	-	-	100%	SFL	-
SCI SB3	42, rue Washington 75008 Paris, France	2	(5)	(1)	-	-	-	100%	SFL	-
SCI Washington	42, rue Washington 75008 Paris, France	94,872	-	11,500	-	-	-	66%	SFL	-
SAS Parholding	42, rue Washington 75008 Paris, France	15,000	2,859	(134)	-	-	-	50%	SFL	-
SC Parchamps	42, rue Washington 75008 Paris, France	1,558	(4,577)	(1,999)	-	-	-	100%	SAS Parholding	-
SC Pargal	42, rue Washington 75008 Paris, France	9,120	(714)	5,025	-	-	-	100%	SAS Parholding	-
SC Parhaus	42, rue Washington 75008 Paris, France	1,500	(1,143)	3,145	-	-	-	100%	SAS Parholding	-
SCI 103 Grenelle	42, rue Washington 75008 Paris, France	-	1,143	4,262	-	-	-	100%	SFL	-
SC Paul Cézanne	42, rue Washington 75008 Paris, France	56,934	101,249	10,649	-	-	-	100%	SFL	-
Condorcet Holding SNC	42, rue Washington 75008 Paris, France	10	-	(1)				100%	SFL	
Condorcet PropCo SNC	42, rue Washington 75008 Paris, France	20,500	(10,017)	400	-	-	-	100%	Condorcet Holding SNC	-

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

Inmobiliaria Colonial, S.A.

Management Report
for the year ended
31 December 2015

1. Company situation

Macroeconomic environment

In the last few months of 2015, international financial markets were faced with a highly volatile climate, which ended up making the already weak tone of the second half of the year look even worse. According to analysts, world growth will pick up in 2016 (3.6% compared to 3.1% in 2015), with advanced economies expecting to see moderate expansion and the growth of emerging economies gaining traction. This scenario may be affected by global and local factors, such as the increase in interest rates by the Federal Reserve, the drop in oil prices, and the deterioration of certain emerging economies (such as that of Brazil).

Recovery in the Eurozone continued at a moderate but steady pace. The economy's rate of expansion continued, underpinned by the solid performance of domestic demand. Although the ECB indicated an increase in external risks, the outlook for the European economy is positive and is continuing as expected. This has been indicated in the forecasts of the ECB itself, which barely changed its growth and inflation scenario in December. Economic growth is therefore expected to increase from 1.5% in 2015 to 1.9% in 2017. The weak inflation in 2015 is mostly due to the drop in energy prices, a factor that will no longer have an impact in the medium term. In the coming months, analysts expect that the economy will still benefit from the low oil prices, the flexible monetary policy, a favourable exchange rate for exports and less tax consolidation. However, these are circumstantial factors and, therefore, structural reforms still need to be carried out in order to ensure long-term sustained growth.

There was a significant increase in economic activity in Spain, which obtained a high growth rate in Q4 above the projections made a few months ago. In accordance with this upward trend, analysts have increased their forecast for GDP growth in Q4 by one tenth of a point to 0.8% quarter-on-quarter, with annual growth for 2015 standing at 3.2% (compared to the previous 3.1%). Despite the political uncertainty as a result of the general elections, in 2016 the economy is expected to grow by 2.7%, in particular as a result of the improvement in and consolidation of borrowing conditions, the fact that the real estate sector is once again a player and the positive effects of the structural reforms, especially in the labour market, where employment creation could exceed 400,000 jobs.

State of the Spanish rental market

<u>Barcelona</u>

The indicators for the office market in Barcelona show that the market is going through a period of expansion. The recovery of the economy and greater business activity and confidence are underpinning the growth in office space leased in Barcelona, thus confirming the upward trend that began last year. In 2015, 398,000m² were leased in the Barcelona office market, up 41% on the figure reached in 2014. Specifically, 83,000m² in office space was leased in the last quarter of 2015.

The shortage of office supply will be the most important factor over the coming two years. Accordingly, the average vacancy rate in Barcelona dropped from 14% to the current 11% over the last two years. The shortage of office space for large companies in the city centre is shifting part of the demand to new business districts. The developments expected to be delivered over the next two years will not be sufficient to change the future behaviour of availability which will continue to drop. The vacancy rate for the office market has continued to drop to reach 11.1%. In the CBD area, the vacancy rate dropped to 7.3%. According to analysts who have studied availability in terms of areas and office quality, less than half of the offices available relate to high-quality office space (class A and B+). In the Diagonal/Paseo de Gracia area and the city centre, the availability of Grade A space is almost non-existent.

Maximum prime rents have increased at an annual rate of 12%, reaching €20/m²/month in Q4 of 2015. The alarming lack of quality supply and the strength of leasing are causing office rental prices to increase both in the city centre and in new business districts in new lease agreements.

Madrid

Approximately 500,000m² of offices and high-tech spaces in the Madrid office market were leased in 2015, up more than 30% on 2014, and the largest increase in the last 8 years of the financial crisis. Almost 200,000m² were leased in the CBD area, 37% of the total take-up. Transactions involving more than 5,000m² played an important role this quarter. The largest take-up of the year was signed by the advertising company WPP, which will occupy 36,000m² on calle Ríos Rosas. The next two largest transactions were carried out by consulting companies in the CBD area: Ernst & Young signed 19,800m² in Torre Titania and KPMG 19,700m² in Torre Cristal.

The average vacancy rate in Madrid has continued to drop since the beginning of 2014, reaching 10.6% in the fourth quarter of 2015. This trend will continue in the medium term, and will be even more pronounced in the case of quality products.
In the CBD area, the vacancy rate dropped to 7%, with a clear shortage of Grade A quality products. The projections for generating new supply over the next three years continue to be very low in all areas, around 100,000m², and therefore there is great potential in the field of building renovation and repositioning. The lack of quality office space in the centre of Madrid is evident and was confirmed throughout 2015. At the end of the year, only 38% of the space available was grade A or B+.

The scarcity of products continues to drive rent prices up mainly for prime rentals in the best areas. Rent prices in the CBD area have therefore been gradually increasing since the second quarter of 2014 to €27.25/m²/month at the end of 2015, which represents a year-on-year increase of 12%.
However, as is commonplace, rent prices have even exceeded these levels for some of the best Grade A buildings in the CBD area. Maximum rent prices in secondary and peripheral areas, however, have risen more gradually to €15.8 and €13.5/m²/month, respectively, while the satellite area has not changed, holding steady at €10/m²/month.

Source: Reports by Jones Lang Lasalle, Cushman & Wakefield and CBRE

Organisational structure and functioning

Inmobiliaria Colonial, S.A. is a leading real estate company in the market of quality offices in the Spanish market. It is one of the leading office operators on the Spanish real estate market. The Company has a property portfolio valued at more than 1,700 million euros, with a clear rental commitment centred on the operation and development of buildings for rent and a prominent presence in the rental business of quality offices in the prime zones of the Madrid and Barcelona markets. It is also a leader on the Paris market through its controlling interest in SFL.

The Company's strategy involves locking in a position as the leading player in the prime offices segment.

In particular, its strategy comprises:

- A business model focused on the development, renovation and operation of high-quality offices in prime locations, mainly central business districts (CBD).

- Maximum commitment to the creation of high-quality offices, with a particular emphasis on efficiency and sustainability.

- A pan-European strategy that is diversified among the office markets of Barcelona, Madrid and Paris (through its controlling interest in SFL).

- An investment strategy that combines “Core” acquisitions with “Prime Factory” acquisitions, and projects with value added components.

- A clear industrial real estate approach to capture value creation that sets us apart on the market.

- A solid capital structure with a clear commitment to maintaining the highest credit rating standards – investment grade.

- Attractive returns for shareholders based on recurring return combined with the creation of real estate value based on value added initiatives.

2. Business performance and results

Introduction

Total income for rentals amounts to 56,475 thousand euros and profit from operations totals 189,313thousand euros.

The Company's net financial profit amounted to 97,357 thousand euros, which is due mainly to the reversal of the impairment on financial holdings, which amounted to 151,958 thousand euros.

Profit after tax from continuing operations amounted to 285,350 thousand euros.

Rental business

The above-ground surface area under operation at December 2015 amounted to 380,263m², with an occupancy rate of 91.4% (87.7% in Barcelona and 94.8% in Madrid).

In 2015, the Company reviewed/renewed leases representing a total above-ground surface area of 74,991m² (20% of the above-ground surface area in operation at December 2015).

3. Liquidity and capital resources

See Note 21 to the financial statements for the year ended 31 December 2015.

The Company's average payment period to its suppliers was around 46 days in 2015. As regards payments made after the legally established period, note that these are primarily payments relating to works contracted and property refurbishment, which are paid within the payment terms stipulated in the contracts signed with the various contractors. The Company has established two payment days per month to comply with the requirements set forth in Law 11/2014. Accordingly, invoices received are entered on the 5th and the 20th of each month and the related payments are made on the 5th and the 20th of the following month.

4. Risk management policies and objectives

Colonial is exposed to a variety of risk factors arising from the countries in which it operates and from the very nature of its activities. Colonial's Board of Directors is responsible for determining the risk management and control policy, identifying the Group's main risks, and implementing and supervising the Internal Control and Risk Management System (hereinafter, ICRMS) that Colonial has developed and which is the foundation for the efficient and effective management of risks throughout the organisation.

Section E of the Annual Corporate Governance Report sets out the main risks that arose during the year and the circumstances which prompted them. The risks associated with the Group's activities are described below.

<u>Strategic risks:</u>

The risks related to the sector and the environment in which the Company carries on its business, the markets in which it operates and the strategies adopted in order to carry out its activities are analysed.

- <u>Risks associated with the current climate of the sector</u>: Colonial pays special attention to the economic, political, legal and social risks related to the countries in which it operates (Spain and France). The real estate sector has become more dynamic as a result of the recovery and growth of the Spanish economy in 2015, and has reached very significant levels of investment. This situation, as well as the robust real estate market in Paris and the Spanish economy's growth forecast for 2016, will enable Colonial to have a more optimistic outlook over the coming years in terms of increased return from its investments and sustainable growth.

- Risks associated with a competitive sector: The real estate sector is a highly competitive industry. The strong reactivation of investment levels was led by international investment funds and by listed companies investing in the property market (socimis). Colonial has positioned itself as a benchmark in the European real estate sector, due to the high quality and value of its assets and its strategy of focusing mainly on office rental activities in central business district (CBD) areas, which was strengthened with the selective investment made in 2015 through the acquisition of new properties located in CBD areas.
- Risks related to the value of its assets: Every six months the Company carries out appraisals, through independent experts and by applying objective market criteria, on all of its property assets. Colonial allocates a significant portion of its resources to investing in and maintaining its property assets in order to enhance their value and position on the market, and to optimise income and returns.

Corporate risks:

Risks relating to the organisational structure, corporate culture, corporate policies and key decision-making processes of the governing bodies are analysed.

- Reputational risks and risks concerning social commitment: The purpose of the corporate social responsibility policy approved by the Board of Directors is to establish the principles and bases of the obligations that the Company has voluntarily assumed with its groups of interest. Management of these expectations forms part of the Company's objectives in terms of sustainability and creating value for such groups of interest.
- Medium- and long-term business plans: The lack of a business plan would increase uncertainty in terms of a company's viability and future. Colonial has a medium- and long-term business plan that is constantly being revised by its governing bodies and is continuously adjusted to take into account the economic, financial and social situation of the real estate market, which ensures the Company's viability, and aims to anticipate its financial needs and avoid any restrictions in its operating and investment capacity, while pursuing its sustainability and growth targets.
- Financial risks: The Company efficiently manages its financial risks with the aim of maintaining adequate liquidity and debt levels, minimising borrowing costs and ensuring compliance with its business plans:
  - Risk of exposure to interest rate fluctuations: The purpose of risk management is to reduce interest rate volatility to limit and control the impact of interest rate fluctuations on profit and cash flows and to keep overall borrowing costs at reasonable levels. Colonial arranges financial instruments to cover interest rate fluctuations. The Company maintains a high percentage of its gross financial debt tied to fixed rates.
  - Risks relating to financing and debt: Colonial’s financial structure warrants diversification of its sources of financing by entity, product and maturity. After obtaining a credit rating, issuing bonds, restructuring its financial debt and entering into a new syndicated loan, the borrowing costs of the Company's debt were reduced and the maturity dates were extended and diversified. Colonial's net financial debt, measured using the loan-to-value ratio, has remained stable, which provides the Company with sufficient funds to carry out its current projects, take on new projects and undertake significant growth costs over the coming years.
  - Liquidity risk: As mentioned in the preceding paragraph, the Company has the necessary sources of financing to undertake its current projects in addition to those laid down in its business plan. Following the process of restructuring the Company's financial debt, its liquidity rose and its ability to attract capital and obtain new financing increased.

Operational risks:

Operational risks refer to the risks arising from losses due to failures or flawed management of operations.

- Rental property management risks: Sustainable management of daily operations increasingly forms a key part of an owner's obligations, and has a direct effect on occupancy levels. Colonial allocates a significant portion of its investments to acquiring, constructing, renovating and maintaining the high quality of its property assets, well known for their energy efficiency. This property management strategy is a key part of the Company's organisation and business plan.
- Risk of damage and impairment of property assets: Colonial’s properties are exposed to general risks of damage as a result of fire, flooding or other events, regardless of whether or not they are attributable to natural causes.

Colonial has arranged hedges to cover the reconstruction costs of the properties it owns, as well as any damage caused by third parties.

<u>Compliance risks:</u>

Potential regulatory risks in relation to compliance with obligations arising from applicable legislation, agreements with third parties and obligations self-imposed by the Company, mainly through its Code of Ethics and Code of Conduct, are analysed.

- <u>Risks arising from failure to comply with contractual obligations</u>: In the course of its business, Colonial is exposed to risk arising from failure to comply with contractual obligations vis-à-vis customers, banks, suppliers, employees etc. The process allows any risks of contractual breach that may give rise to legal proceedings against the Group to be identified and assessed, thereby allowing the Company to take the appropriate corrective measures to mitigate these risks or, where applicable, any possible impact. The Company has also taken out insurance to cover any legal costs or possible damage against directors and executives.
- <u>Tax risks</u>: Colonial must adhere to the general tax legislation of the countries in which it operates, as well as any specific regulations for the real estate sector. Accordingly, Colonial has a tax policy, a tax strategy and a tax risk management system, approved by its governing bodies and within the framework of the ICRMS, establishing adequate measures to control and monitor the management of risks in this connection.

<u>Reporting risks:</u>

In order to cover any reporting risks that may arise from errors or failure to comply with requirements concerning the public information to be issued by the Company, and to ensure the reliability of this public information, Colonial has developed an Internal Control over Financial Reporting (ICFR) Organisational and Monitoring Model, which was approved by its governing bodies. The Internal Audit area is responsible for performing the tests necessary to verify compliance with ICFR policies, manuals and procedures, validating the effectiveness of the controls implemented to mitigate the risks related to these processes.

5. Events after the reporting date

No significant events warranting disclosure have taken place since the end of 2015.

6. Future outlook

The outlook for the Madrid, Barcelona and Paris office markets is as follows:

After several years of downturn, the rental markets in Barcelona and Madrid have begun to show signs of recovery.

In particular, prime rents have begun to increase, although only in CBD areas or new business districts. Peripheral markets continue to post very weak fundamentals.

Tenants tend to prefer central areas and, for the first time since the onset of the economic crisis, some tenants are even expanding their rented space.

With regard to supply, there is a clear shortage of prime rentals in central areas.

As the positive macroeconomic trends are consolidated, the demand for rentals will also take firm hold and, according to leading consultants, rents should begin to climb, especially for prime properties.

The investment market has clearly reached a turning point with the significant increase in volumes of transactions and a substantial compression in terms of return required. The changes in the investment market will clearly be influenced by the interest rate policy of the European Central Bank.

7. Research and development activities

As a result of the nature of the Group, its business activities and structure, Inmobiliaria Colonial S.A. does not habitually carry out any R&D activities.

8. Treasury shares

At the year-end of 2015, Inmobiliaria Colonial, S.A. had 8,490,840 treasury shares with a par value of 2,023 thousand euros, which represents 0.27% of the Company's share capital.

9. Other relevant information

There is no other relevant information.

10. Annual Corporate Governance Report

Pursuant to Article 538 of the Spanish Limited Liability Companies Law, it is hereby noted that the Annual Corporate Governance Report for 2015 is included in this Management Report in a separate section.

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

ANNUAL CORPORATE GOVERNANCE REPORT

FOR LISTED COMPANIES

ISSUER'S PARTICULARS

FINANCIAL YEAR 31 December 2015

Tax ID number: A-28.027.399

Corporate name: INMOBILIARIA COLONIAL, S.A.

Registered office: AVENIDA DIAGONAL, 532, 08006 BARCELONA

ANNUAL CORPORATE GOVERNANCE REPORT
FOR LISTED COMPANIES

A_OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital.

Date of last modification	Share capital (EUR)	Number of shares	Number of voting rights
30/12/2014	€797,214,160.00	3,188,856,640	3,188,856,640

Indicate whether different types of shares exist with different associated rights.

Yes ☐ No ■

Class	Number of shares	Nominal amount	Nominal amount of voting rights	Other rights

A.2 List the direct and indirect holders of significant ownership interests in your company at year-end, excluding directors.

<table>
<tr><th rowspan="2">Name or corporate name of shareholder</th><th rowspan="2">Number of direct voting rights</th><th colspan="2">Indirect voting rights</th><th rowspan="2">% of total voting rights</th></tr>
<tr><th>Direct shareholder</th><th>Number of voting rights</th></tr>
<tr><td>Aguila LTD.</td><td></td><td>SNI Luxembourg, S.A.R.L.</td><td>218,001,838</td><td>6.84</td></tr>
<tr><td>Deutsche Bank AG</td><td>29,235,244</td><td></td><td></td><td>0.92</td></tr>
<tr><td>Fidelity International Limited</td><td>62,484,713</td><td></td><td></td><td>1.96</td></tr>
<tr><td rowspan="2">Inmobiliaria Espacio, S.A.</td><td rowspan="2"></td><td>Grupo Villar Mir, S.A.U.</td><td rowspan="2">464,512,350</td><td rowspan="2">14.57</td></tr>
<tr><td>Espacio Activos Financieros, S.L.U.</td></tr>
<tr><td rowspan="4">Invesco Limited</td><td rowspan="4"></td><td>Invesco Advisers, INC</td><td rowspan="4">35,407,880</td><td rowspan="4">1.11</td></tr>
<tr><td>Invesco Global Asset Management, LTD</td></tr>
<tr><td>Invesco Australia</td></tr>
<tr><td>Invesco Canada</td></tr>
<tr><td>Joseph C. Lewis</td><td></td><td>Skyland Inc.</td><td>162,167,654</td><td>5.08</td></tr>
</table>

		Berkley Capital Management LTD.		
Mora Banc Grup, S.A.		SICAV Amura Capital	223,064,422	7.00
Qatar Investment Authority		Qatar holding Luxembourg II, S.A.R.L.	415,933,672	13.04
Third Avenue Management, LLC		AIC Corporate Fund Inc.	97,030,111	3.04
		Third Avenue Real Estate Value Fund		
		Third Avenue Real Estate Value Fund Ucits		

Indicate the most significant movements in the shareholder structure during the year.

Name or corporate name of shareholder	Date of the transaction	Description of the transaction
Joseph Charles Lewis	19/01/2015	Exceeded 3%
Invesco Limited	27/05/2015	Exceeded 1%
Invesco Limited	10/07/2015	1% decrease
Grupo Villar Mir, S.A.U.	28/07/2015	20% decrease
Espacio Activos Financieros, S.L.U.	28/07/2015	Exceeded 3%
Espacio Activos Financieros, S.L.U.	04/08/2015	Exceeded 5%
Joseph Charles Lewis	10/09/2015	Exceeded 5%
Inmobiliaria Espacio, S.A.	10/09/2015	15% decrease
Grupo Villar Mir, S.A.U.	10/09/2015	10% decrease
Invesco Limited	06/10/2015	Exceeded 1%
Espacio Activos Financieros, S.L.U.	23/10/2015	5% decrease
Inmobiliaria Espacio, S.A.	23/10/2015	15% decrease
Deutsche Bank AG	08/12/2015	Exceeded 0.5%

A.3 Complete the following tables on company directors holding voting rights through company shares.

Name or corporate name of director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct shareholder	Number of voting rights	
Juan José Brugera Clavero	503.756			0.02%
Pedro Viñolas Serra	983.048			0.03%
Grupo Villar Mir, S.A.U.	315,093,625	Espacio Activos Financieros, S.L.U.	149,418,725	14.57%
Luis Maluquer Trepat	200,000	Marta Maluquer Domingo	25,000	0.007%
Javier Iglesias de Ussel Ordís	18,201			0.00%
Carlos Fernández-Lerga Garralda	23,610	Eur Consultores, S.L.	21,700	0.00%
Ana Sainz de Vicuña	15,000			0.00%

% of total voting rights held by the Board of Directors	14.63

Complete the following tables on share options held by directors.

Name or corporate name of director	Number of direct options	Indirect options		Equivalent number of shares	% of total voting rights
		Direct shareholder	Number of voting rights		

A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities.

Related party name or corporate name	Type of relationship	Brief description

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities.

Related party name or corporate name	Type of relationship	Brief description

A.6 Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Spanish Limited Liability Companies Law ("LSC"). Provide a brief description and list the shareholders bound by the agreement, as applicable.

Yes ☐ **No** ■

Shareholders bound by agreement	% of share capital affected	Brief description of agreement

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable.

Yes ☐ **No** ■

Shareholders in concerted action	% of share capital affected	Brief description of concerted action

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year.

A.7 Indicate whether any individuals or bodies corporate currently exercise control or could exercise control over the company in accordance with article 5 of the Spanish Securities' Market Act. If so, identify.

Yes ☐ **No** ■

Name or corporate name

Remarks

A.8 Complete the following tables on the company's treasury shares.

At year-end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
8,490,840	-	0.27

(*) Through:

Name or corporate name of direct shareholder	Number of shares held directly
Total:	

Give details of any significant changes during the year, pursuant to Royal Decree 1362/2007.

Date of notification	Total number of direct shares acquired	Total number of indirect shares acquired	% of total share capital

A.9 Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders' Meeting to issue, buy back and/or transfer treasury shares.

On 30 June 2014, under item 8 of the agenda, the shareholders at the General Shareholders' Meeting of Inmobiliaria Colonial, S.A. authorised the Board of Directors of Inmobiliaria Colonial, S.A. to carry out the derivative acquisition of treasury shares, subject to the requirements established in article 146 of the Spanish Limited Liability Companies Law and related provisions, rendering null and void the authorisation granted through resolution 14 at the Extraordinary Annual General Shareholders' Meeting held on 20 April 2010. The minimum acquisition price or consideration shall equal the nominal value of the treasury shares purchased while the maximum acquisition price or consideration shall equal the market price of the treasury shares bought on an official secondary market at the time of purchase. At no time may the nominal value of the shares acquired, directly or indirectly, in addition to those already held by the Company and its subsidiaries, exceed ten (10) per cent of subscribed share capital or any other upper threshold established by law. The acquisition methods can include purchase-sale, swap or any other form of transaction for valuable consideration as circumstances advise. This authorisation was granted for five years. It is noted that the authorisation granted for the acquisition of treasury shares allows them to be used, in full or in part, for their delivery or transfer to directors, executives or employees of the Company or the companies in its Group, directly or as a result of them having exercised their option rights, within the framework of duly approved remuneration systems linked to the market value of the Company shares.

A.9.bis Estimated floating capital:

	%
Estimated floating capital	46.12%

A.10 Give details of any restriction on the transfer of securities or voting rights. Indicate, in particular, the existence of any restrictions on the takeover of the company by means of share purchases on the market.

Yes ☐ **No** ■

Description of restrictions

A.11 Indicate whether the General Shareholders' Meeting has agreed to take neutralisation measures to prevent a public takeover bid by virtue of the provisions of Act 6/2007.

Yes ☐ **No** ■

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted.

A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes ☐ **No** ■

B GENERAL SHAREHOLDERS' MEETING

B.1 Indicate the quorum required for constitution of the Annual General Meeting established in the company's Bylaws. Describe how it differs from the system of minimum quorums established in the LSC.

Yes ☐ **No** ■

	Quorum % other than that established in article 193 of the LSC for general cases	Quorum % other than that established in article 194 of the LSC for the special cases described in article 194
Quorum required for first call		
Quorum required for second call		

Description of differences

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework set forth in the LSC.

Yes ☐ **No** ■

Describe how they differ from the rules established under the LSC.

	Qualified majority other than that established in article 201.2 of the LSC for general cases described in 194.1 of the LSC	Other cases requiring a qualified majority
% set by company for adopting corporate resolutions		
Describe the differences		

B.3 Indicate the rules governing amendments to the company's Bylaws. In particular, indicate the majorities required to amend the Bylaws and, if applicable, the rules for protecting shareholders' rights when changing the Bylaws.

Article 22 of the Bylaws states that shareholders at the General Meeting can pass valid resolutions on increases or reductions in capital. For any amendments to the Bylaws, at a General Meeting held at first call, shareholders present or represented must hold at least fifty per cent of the subscribed share capital with voting rights. If held at second call, the attendance of shareholders holding twenty-five per cent of the capital shall be sufficient.

With regard to the adoption of resolutions, article 194 of the Bylaws states that the resolution may be adopted by absolute majority to amend the Bylaws if at least fifty per cent of the capital present or represented. However, the favourable vote of shareholders holding two-thirds of the share capital attending the meeting in person or by proxy will be required when, on second call, at least twenty five per cent but less than fifty per cent of the subscribed share capital with voting rights is in attendance. This same article stipulates that amendments to those articles or group of articles of the Bylaws that have their own autonomy will be put to a separate vote.

B.4 Indicate the attendance figures for the General Shareholders' Meetings held during the year.

	Attendance data				
Date of general meeting	**% attending in person**	**% by proxy**	**% remote voting**		**Total**
			Electronic means	**Others**	
21/01/2014	67.42%	3.87%	0.00%	0.00%	71.29%
08/04/2014	12.72%	43.72%	0.00%	0.00%	56.44%
30/06/2014	39.11%	28.33%	0.00%	0.00%	67.44%
24/04/2015	29.72%	40.27%	0.00%	0.00%	69.99%

B.5 Indicate whether the Bylaws impose any minimum requirement on the number of shares required to attend the General Shareholders' Meetings.

Yes ■ **No** ☐

Number of shares required to attend the General Meetings	500

B.6 Repealed

B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on General Meetings which must be made available to shareholders on the website.

Corporate website: www.inmocolonial.com

Information on corporate governance and General Shareholders' Meetings can be found on the corporate website from the "Information for shareholders and investors" tab. Full information on corporate governance issues pursuant to current legislation is available from the "Corporate Governance" tab on the left of the screen. The information relating to the General Shareholders' Meetings is included in the drop-down menu that opens after selecting the "Corporate governance" tab.

C COMPANY MANAGEMENT STRUCTURE

C.1 Board of Directors

C.1.1 List the maximum and minimum number of directors included in the Bylaws.

Maximum number of directors	15
Minimum number of directors	5

C.1.2 Complete the following table with board members' details.

Name or corporate name of director	Representative	Director category	Position on the board	Date of first appoin tment	Date of last appoin tment	Election procedure
Juan José Brugera Clavero		Executive	Chairman	19/06/2008	30/06/2014	General Shareholders' Meeting Resolution
Grupo Villar Mir, S.A.U.	Juan-Miguel Villar Mir	Proprietary	Deputy Chairman	13/05/2014	30/06/2014	General Shareholders' Meeting Resolution
Pedro Viñolas Serra		Executive	Chief Executive Officer	18/07/2008	30/06/2014	General Shareholders' Meeting Resolution

Name or corporate name of director	Representative	Director category	Position on the board	Date of first appointment	Date of last appointment	Election procedure
Juan Villar-Mir de Fuentes		Proprietary	Director	30/06/2014	30/06/2014	General Shareholders' Meeting Resolution
Juan Carlos García Cañizares		Proprietary	Director	30/06/2014	30/06/2014	General Shareholders' Meeting Resolution
Francesc Mora Sagués		Proprietary	Director	30/06/2014	30/06/2014	General Shareholders' Meeting Resolution
Ana Sainz de Vicuña Bemberg		Independent	Director	30/06/2014	30/06/2014	General Shareholders' Meeting Resolution
Carlos Fernández-Lerga Garralda		Independent	Lead Director	19/06/2008	30/06/2014	General Shareholders' Meeting Resolution
Javier Iglesias de Ussel Ordís		Independent	Director	19/06/2008	30/06/2014	General Shareholders' Meeting Resolution
Luis Maluquer Trepat		Other director	Director	31/07/2013	30/06/2014	General Shareholders' Meeting Resolution
Sheikh Ali Jassim M.J. Al-Thani		Proprietary	Director	12/11/2015	12/11/2015	Co-option

Total number of directors	11

Indicate any board members who left during this period.

Name or corporate name of director	Status of the director at the time	Leaving date
Silvia Villar-Mir de Fuentes	Proprietary	12/11/2015

C.1.3 Complete the following tables on board members and their respective categories.

EXECUTIVE DIRECTORS

Name or corporate name of director	Position held in the company
Juan José Brugera Clavero	Chairman
Pedro Viñolas Serra	Chief Executive Officer

Total number of executive directors	2
% of the board	18.18%

EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment
Grupo Villar Mir, S.A.U.	Inmobiliaria Espacio, S.A.
Juan Villar-Mir de Fuentes	Inmobiliaria Espacio, S.A.
Juan Carlos García Cañizares	Aguila, LTD.
Francesc Mora Sagués	Mora Banc Grup, S.A.
Sheikh Ali Jassim M.J. Al-Thani	Qatar Investment Authority

Total number of proprietary directors	5
% of the board	45.45%

INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of director	Profile
Carlos Fernández-Lerga Garralda	Law graduate of the University of Navarra. He also holds a Masters in European Studies from the University of Leuven (Belgium) and a Doctorate in Law from the Complutense University of Madrid. He has also participated in post-graduate courses specialising in Commercial Law at the Bank of Spain's Training Centre. He completed his international law studies at The Hague Academy of International Law and his comparative law and international organisations studies in Strasbourg and at the Collège Universitaire d´Etudes Fédéralistes in Nice, Val d'Aosta. He was an Advisory Member of the Ministry and Secretary of State for Relations with the European Communities between

Name or corporate name of director	Profile
	1978 and 1983, during which time he participated in negotiations for Spain's accession to the EU. He was also General Manager of the EU Advisory Service within the Banco Hispano Americano Group between 1984 and 1986. He has also been a director at Abantia Corporación and Gamesa Corporación Tecnológica, S.A. (Lead Independent Director) as well as a General Board Member of La Caixa. He has also been a member of the International Secretariat of the World Federalist Youth movement (Amsterdam); Secretary of the Madrid branch of the European League for Economic Cooperation; Secretary of the Foundation for Progress and Democracy; a representative (treasurer) of the Governing Board of the Madrid Bar Association, a member of the Executive Committee of the Elcano Royal Institute and a trustee of the Spain/US Board and Spain/China Board Foundations. He has also lectured at the School of Political Science at the Complutense University and at the Institute of European Studies at the University of Alcalá de Henares, and has written numerous publications. He is currently Chairman of Iberdrola Ingeniería y Construcción, S.A. and continues to practise law at his firm, Carlos Fernández-Lerga Abogados, mainly offering legal advice on civil and commercial law. He is currently a member of the Board of Directors of Société Foncière Lyonnaise ("SFL").
Javier Iglesias de Ussel Ordís	Javier Iglesias de Ussel y Ordis has had a long career in the financial world. In 1974 he joined Lloyds Bank International in London, where he held various positions of responsibility in corporate banking in Dubai, Sao Paulo, Asunción and Madrid over a period of 21 years. In 1995 he joined the Bank of New York and was appointed Country Manager for the Iberian Peninsula. In 2002 he moved to New York and was appointed General Manager for Latin America. He was head of the Representative Office of the Chilean bank Banco de Crédito e Inversiones from 2008 to December 2013. Mr. Iglesias de Ussel has been an independent director of Inmobiliaria Colonial since 2008 and has been an independent director of Aresbank since March 2015. Mr. Iglesias de Ussel has a degree in modern history from the University of Barcelona and throughout his professional career he has taken numerous courses in business management and administration, marketing, risk analysis and money-laundering prevention. He has lived 22 years abroad and speaks English, French and Portuguese.
Ana Sainz de Vicuña Bemberg	Graduate of the University of Reading in the UK with a degree in Agricultural Economics. She was a participant in the Management Development Program at Harvard University. She worked for Merrill Lynch in Spain for 18 years (1984-2003). She began her career in private banking, where she remained for 12 years. She then joined Sociedad de Valores y Bolsa, which was formed following the acquisition of FG and assisted in the merger. Later, she took charge of operations,

Name or corporate name of director	Profile
	systems, human resources and finance. Lastly, she was appointed General Manager of the Merrill Lynch International Bank branch in Spain. Since 2004, she has been a member of the Board and the Executive Committee of Corporación Financiera Guadalmar (CFG), a family office with assets in Spain and Latin America, mainly in Argentina and Chile. She supervises the Financial Assets Committee which manages securities portfolios as well as the family's investments in Grupo Security, of which she is also a director, and in the Awasi and W Santiago hotel groups. In May 2015 she was appointed director of Altamar Capital Partners, a financial services firm mainly dedicated to alternative management through international funds and managers. In July 2015 she was appointed director of Acciona, S.A. She forms part of the Foundation Board of the Foundation for Art Research Partnership and Education and the board of trustees of the Prójimo-Próximo Foundation.

Total number of independent directors	3
% of the board	27.27%

List any independent directors who receive from the company or group any amount or payment other than standard director remuneration or who maintain or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.

NO

If applicable, include a statement from the board detailing the reasons why the said director may carry on their duties as an independent director.

Name or corporate name of director	Description of the relationship	Reasons

OTHER EXTERNAL DIRECTORS

Identify all other external directors and explain why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders.

Name or corporate name of director	Reasons	Company, executive or shareholder with whom the relationship is maintained
Luis Maluquer Trepat	Luis Maluquer Trepat has provided legal services to the Colonial Group and is therefore considered as an "Other External Director".	Luis Maluquer Trepat

Total number of other external directors	1
% of the board	9.09%

List any changes in the category of each director which have occurred during the year.

There were none.

C.1.4 Complete the following table on the number of female directors at the end of the last four years and their category.

	Number of female directors				% of total directors of each category			
	Year t	Year t-1	Year t-2	Year t-3	Year t	Year t-1	Year t-2	Year t-3
Executive	0	0	0	0	0%	0%	0%	0%
Proprietary	0	1	0	0	0%	20%	0%	0%
Independent	1	1	0	0	33.33%	33.33%	0%	0%
Other external	0	0	0	0	0%	0%	0%	0%
Total:	1	2	0	0	9.09%	18.18%	0%	0%

C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.

Explanation of measures
In accordance with article 4 of the Regulations of the Board of Directors, the Board of Directors shall ensure the procedures for selecting its members favour diversity of gender, experience and knowledge, and are free from any implied bias entailing any kind of discrimination and, in particular, which facilitate the selection of female directors. Likewise, pursuant to article 33 of the Bylaws, the functions of the Nomination and Remuneration Committee include establishing a representation target for the less well-represented gender on the Board of Directors and drafting guidelines on how to reach this target.

C.1.6 Explain the measures taken, if applicable, by the Nomination Committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile.

Explanation of measures
Pursuant to that included in the Bylaws and in the Regulations of the Board of Directors, both the Board of Directors and the Nomination and Remuneration Committee ensured that the candidate put forward met the Board of Directors' requirements regarding experience, technical competence and suitability. The fact that female candidates were not appointed directors is not attributable to any bias inherent in the selection process. In this regard, it should be noted that the functions of the Nomination and Remuneration Committee, in accordance with article 33 of the Bylaws and the Regulations of the Board of Directors, include the following: i) evaluate the competencies, knowledge and experience required by the Board of Directors, defining the functions and abilities required by the candidates that should fill each vacancy, and evaluate the time and dedication required to enable them to effectively carry out their duties; ii) establish a representation target for the less well-represented gender on the Board of Directors; iii) submit to the Board proposals for appointment of independent directors to be appointed through co-option or to be submitted for approval at the General Shareholders' Meeting, as well as proposals for re-election or removal of such directors by the shareholders at the General Shareholders' Meeting; and iv) report on the proposals for appointment of the other directors to be appointed through co-option or to be submitted for approval at the General Shareholders' Meeting, as well as proposals for re-election or removal of such directors by the shareholders at the General Shareholders' Meeting.

When, despite the measures taken, there are few or no female directors, explain the reasons.

Explanation of the reasons
Pursuant to article 33 of the Bylaws and the Regulations of the Board of Directors mentioned above, the proposed candidate for director must have the competencies, knowledge and experience required to form part of the Board of Directors. The Nomination and Remuneration Committee also evaluates the abilities required by the candidates that should fill each vacancy and evaluates the time and dedication required to enable them to effectively carry out their duties. In this regard, and with respect to the appointment of proprietary directors made during the year set forth in this Annual Corporate Governance Report, the Nomination and Remuneration Committee reported on the proposals for appointment.

C.1.6.bis Explain the conclusions of the Nomination Committee on the verification of compliance with the director selection policy. Particularly whether the policy pursues the goal of having at least 30% of total board places occupied by women Directors before the year 2020.

At its meeting held on 19 February 2015, the Nomination and Remuneration Committee resolved to prepare a set of guidelines to reach the indicated target in relation to increasing the representation of the less well-represented gender on the Board of Directors. In relation to the director selection policy, the only appointment through co-option in 2015 was the appointment of Sheikh Ali Jassim M.J. Al-Thani as a new proprietary director of the Company, following a favourable report from the Nomination and Remuneration Committee.

C.1.7 Explain how shareholders with significant holdings are represented on the board.

Pursuant to article 4 of the Regulations of the Board of Directors of Inmobiliaria Colonial, S.A., the Board of Directors, in exercise of its powers to make proposals to the General Shareholders' Meeting and of co-option to cover vacancies, will seek to ensure that proprietary and independent directors form an ample majority of the Board, and that the number of executive directors is the minimum necessary, considering the Company's share structure and the capital represented on the Board.

In this regard, proprietary directors are considered to be:

a. Those who have shareholdings equal to or greater than the amount considered under law to be significant, or who have been appointed as such due to their capacity as shareholders, despite their shareholdings not reaching said amount.

b. Those who represent the shareholders indicated in the previous paragraph.

For the purposes of this definition, a director is deemed to represent a shareholder when:

- He/She has been appointed to exercise the right of proportional representation on the Board of Directors;

- He/She is a director, senior manager, employee or ongoing provider of significant services to said shareholder, or to companies in the shareholder's group;

- Company documents show that the shareholder considers that the director is his/her appointee or representative;

- He/She is a spouse, a person related by a similar personal relationship or a relative up to the second degree of kinship of a significant shareholder.

C.1.8 Explain, when applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the share capital.

There were none.

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained.

Yes ☐ **No**

Name or corporate name of shareholder	Explanation

C.1.9 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board their reasons and through which channel. If made in writing, list below the reasons given by that director.

Name of director	Reasons for resignation
Silvia Villar-Mir de Fuentes	By means of a letter sent to the Chairman of the Board of Directors, Silvia Villar-Mir de Fuentes tendered her resignation as a member of the Board of Directors, as a result of the decrease in the shareholding of Inmobiliaria Espacio, S.A. in Inmobiliaria Colonial, S.A.

C.1.10 Indicate what powers, if any, have been delegated to the chief executive officer(s).

Name or corporate name of director	Brief description
Pedro Viñolas Serra	The Chief Executive Officer has been delegated all powers that may be delegated by law and under the Company's Bylaws.

C.1.11 List the directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group.

Name or corporate name of director	Corporate name of the group entity	Position	Do they have executive duties?
Carlos Fernández-Lerga Garralda	Société Foncière Lyonnaise	Director	No
Pedro Viñolas Serra	Société Foncière Lyonnaise	Deputy Chairman and Director	No
Pedro Viñolas Serra	Danieltown Spain, S.L.U.	Representative of the Sole Director (Inmobiliaria Colonial, S.A.)	Yes
Pedro Viñolas Serra	Colonial Invest, S.L.U.	Representative of the Sole Director (Inmobiliaria Colonial, S.A.)	Yes
Pedro Viñolas Serra	Colonial Tramit, S.L.U.	Representative of the Sole Director (Inmobiliaria Colonial, S.A.)	Yes
Luis Maluquer Trepat	Société Foncière Lyonnaise	Director	No

Name or corporate name of director	Corporate name of the group entity	Position	Do they have executive duties?
Juan José Brugera Clavero	Société Foncière Lyonnaise	Chairman and Director	No
Sheikh Ali Jassim M.J. Al-Thani	Société Foncière Lyonnaise	Director	No

C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company.

Name or corporate name of director	Corporate name of the listed company	Position
Juan Carlos García Cañizares	Bavaria, S.A. (Colombia)	Director
Juan Carlos García Cañizares	Backus & Johnston (Perú)	Director
Juan Carlos García Cañizares	Valorem, S.A. (Colombia)	Director
Juan Carlos García Cañizares	Banco CorpBanca Colombia S.A. (Colombia)	Director
Grupo Villar Mir, S.A.U.	Abertis Infraestructuras, S.A.	Director
Juan Villar-Mir de Fuentes	Obrascon Huarte Lain (Ohl), S.A.	Director
Ana Sainz de Vicuña Bemberg	Acciona, S.A.	Director

C.1.13 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its directors may sit.

Yes☐ **No**■

C.1.14 Repealed

C.1.15 List the total remuneration paid to the Board of Directors in the year.

Board remuneration (thousands of euros)	4,236
Amount of accumulated pension rights of current directors (thousands of euros)	0
Amount of accumulated pension rights of former directors (thousands of euros)	0

C.1.16 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year.

Name or corporate name	Position(s)
CARMINA GANYET I CIRERA	CORPORATE MANAGING DIRECTOR
ALBERTO ALCOBER TEIXIDO	BUSINESS MANAGER
NURIA OFERIL COLL	SENIOR MANAGER OF LEGAL SERVICES
CARLOS ESCOSA FARGA	INTERNAL AUDITOR

Total remuneration received by senior management (thousands of euros)	1,741

C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies:

Name or corporate name of director	Name or corporate name of significant shareholder	Position
Juan Villar-Mir de Fuentes	Grupo Villar Mir, S.A.U.	Vice Charmain and Chief Executive Officer
Juan Villar-Mir de Fuentes	Inmobiliaria Espacio, S.A.	Vice Charmain and Chief Executive Officer
Juan Villar-Mir de Fuentes	Fertiberia, S.A.	Vice Charmain and Chief Executive Officer
Juan Villar-Mir de Fuentes	Promociones y Propiedades Inmobiliarias Espacio, S.L.U.	Chairman and Chief Executive Officer
Juan Villar-Mir de Fuentes	Centro Canalejas Madrid, S.L.	Chairman
Juan Villar-Mir de Fuentes	Obrascon Huarte Lain (Ohl), S.A.	Director
Francesc Mora Sagués	Mora Banc Grup, S.A.	Chairman
Juan Carlos García Cañizares	SNI Luxembourg Sarl	Director

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the Board of Directors with significant shareholders and/or their group companies.

Name or corporate name of director	Name or corporate name of significant shareholder	Relationship

C.1.18 Indicate whether any changes have been made to the board regulations during the year.

Yes ■ **No** □

Description of amendments
Certain articles of the Regulations of the Board of Directors were amended to i) bring the content of these articles into line with the Spanish Limited Liability Companies Law, as worded following the entry into force of Law 31/2014, ii) include improvements in corporate governance in addition to those required by law, and iii) include technical improvements in the wording of the text.

C.1.19 Indicate the procedures for selection, appointing, re-electing, evaluating and removing directors. List the competent bodies, procedures and criteria used for each of these procedures.

The procedures for selection, appointment and re-election of directors are set out in article 9 of the Regulations of the Board of Directors.

Without prejudice to the above, article 4.2.2 of the Regulations of the Board of Directors states that independent directors should not remain as such for a continuous period of more than 12 years.

With respect to the resignation and removal of directors, this issue is governed by article 11 of the Regulations of the Board of Directors.

C.1.20 Explain, if applicable, to what extent this evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities.

Description of amendments
There have been no changes, as the results of the evaluation were satisfactory.

C.1.20.bis Describe the evaluation process and the areas evaluated by the board, assisted, if applicable, by an external advisor, concerning diversity in its composition and skills, the functioning and composition of its committees, the performance of the Chairman of the board and the Chief Executive Officer and the performance and contribution of each director.

The Board of Directives evaluated its composition and skills, the functioning and composition of the committees, the performance of the Chairman and the Chief Executive Officer as well as that of each of the Company's directors. In this regard, all directors were sent the related questionnaires to evaluate the Board of Directors, the Nomination and Remuneration Committee and the Audit and Control Committee.

After the evaluation was carried out, the Board of Directors approved the evaluation reports relating to the Board, its committees and the Chairman and the Chief Executive Officer, reaching the conclusion that: (i) the Board of Directors has an adequate composition and assumes and efficiently exercises the powers and competences delegated thereto by the Bylaws and the Regulations of the Board of Directors, ensuring that the interests of the Company and the maximisation of the Company's economic value shall prevail in all its actions; (ii) the Executive Committee, the Nomination and Remuneration Committee and the Audit and Control Committee each have an adequate composition and assume and efficiently exercise the competences delegated thereto by applicable legislation and by the various corporate texts of the Company; and (iii) the Chairman and the Chief Executive Officer have effectively and diligently carried out their duties.

The Board of Directors also approved an action plan for improvements with regard to its composition, skills and functioning.

Lastly, the Nomination and Remuneration Committee engaged the services of Spencer Stuart as an external advisor in the process of evaluating the Board, its committees, its Chairman and the Chief Executive Officer. The firm issued a report on the procedure and methodology applied by Colonial in the process of evaluating the Board, its committees, its Chairman and the Chief Executive Officer, and conclusions on the evaluation carried out by the Board and its committees.

C.1.20.ter Explain, if applicable, the business relationship the advisor or any group company maintains with the company or any group company.

The business relationships with the advisor or any group company are only those disclosed in section C.1.20.bis above, that is, as an external advisor in the evaluation of the Board of Directors, its committees, the Chairman of the Board and the Chief Executive Officer.

C.1.21 Indicate the cases in which directors must resign.

Directors are required to place their post at the Board of Directors' disposal and tender, if the Board deems this appropriate following a report from the Nomination and Remuneration Committee, their resignation in the following cases:

1. When they are subject to any of the cases of incompatibility or prohibition provided by law.

2. When they cease to hold the executive positions with which their appointment as director was associated or when the reasons for their appointment disappear. In particular, proprietary directors shall resign when the shareholder they represent transfers its entire ownership interest in Inmobiliaria Colonial or reduces it to a level that requires a reduction of the number of its proprietary directors.

3. The provisions of the previous paragraph notwithstanding, in the event that circumstances arise that the Board of Directors consider justify the director remaining on the Board, the Board shall take into consideration the effect of these new circumstances on the director's status.

4. When they are seriously admonished by the Nomination and Remuneration Committee as a result of breaching their obligations as directors.

5. When their continuing as a member of the Board might adversely affect the functioning of the Board or harm the Company's name or reputation for any reason.

In particular, the directors must inform the Board of any criminal proceedings in which they are an accused party and of the subsequent progress of the proceedings. In any event, the moment a director is indicted or tried for any of the crimes stated in the LSC, the Board should examine the matter as soon as possible and, in view of the particular circumstances and potential harm to the Company's name and reputation, decide whether or not they should be called on to resign. All such determinations should be disclosed in the Annual Corporate Governance Report.

C.1.22 Repealed

C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?

Yes ☐ **No** ■

If applicable, describe the differences.

Description of differences

C.1.24 Indicate whether there are any specific requirements other than those relating to the directors, to be appointed Chairman.

Yes ☐ **No** ■

Description of requirements

C.1.25 Indicate whether the Chairman has the casting vote.

Yes ■ **No** ☐

Matters where the Chairman has the casting vote
There are no special matters where the Chairman of the Board of Directors has the casting vote. The Chairman will have the casting vote whenever there is a tie in the votes of the Board of Directors.

C.1.26 Indicate whether the Bylaws or the board regulations set any age limit for directors.

Yes ☐ **No** ■

Age limit for Chairman -

Age limit for CEO - Age limit for directors -

C.1.27 Indicate whether the Bylaws or the board regulations set a limited term of office for independent directors.

Yes ☐ **No** ■

Maximum number of years in office	

C.1.28 Indicate whether the Bylaws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether there are any restrictions as to what categories may be appointed as a proxy other than those stipulated by law. If so, give brief details.

In accordance with article 35 of the Regulations of the Board of Directors, proxies are granted in writing and specifically for each meeting and solely to other Board members. However, non-executive directors may only grant a proxy to another non-executive director. Article 13 of the Regulations of the Board of Directives stipulates that in cases of proxy delegation, directors must give specific instructions to the representative as to the vote to be cast on the matters to be debated.

C.1.29 Indicate the number of board meetings held during the year and how many times the board has met without the Chairman’s attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	9
Number of board meetings held without the Chairman’s attendance	0

If the Chairman is an executive director, indicate the number of meetings held without the attendance or representation of any executive director and under the chairmanship of the lead director.

Number of meetings	0

Indicate the number of meetings of the various board committees held during the year.

Number of meetings of the Executive or Delegate Committee	0
Number of meetings of the Audit Committee	8
Number of meetings of the Nomination and Remuneration Committee	4
Number of meetings of the Nomination Committee	
Number of meetings of the Remuneration Committee	
Number of meetings of the xxx Committee	

C.1.30 Indicate the number of board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions.

Directors' attendance	8
% of attendances of the total votes cast during the year	98.98%

C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously.

Yes■ **No**☐

Identify, where applicable, the person(s) who certified the company’s individual and consolidated financial statements prior for their authorisation for issue by the board.

Name	**Position**
Àngels Arderiu Ibars	Chief Financial Officer

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being laid before the General Shareholders' Meeting with a qualified audit report.

In accordance with article 8 of the Regulations of the Board of Directors, the Audit and Control Committee will strive to ensure that the Board of Directors submits the financial statements at the General Shareholders' Meeting without limitations or qualifications; in any exceptional cases where these exist, the Chairman of the Audit and Control Committee and the auditors will give a clear account to shareholders thereof.

C.1.33 Is the secretary of the Board also a director?

Yes☐ **No** ■

Complete if the secretary is not also a director:

Name or corporate name of secretary	**Representative**
FRANCISCO PALÁ LAGUNA	

C.1.34 Repealed

C.1.35 Indicate and explain, where applicable, the mechanisms implemented by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

Article 32 of the Bylaws stipulates that the Audit and Control Committee must:

i) Propose to the Board of Directors the selection, appointment, re-election and replacement of the external auditor, as well as the terms of its engagement, and regularly gather information therefrom regarding the audit plan and the implementation thereof, in addition to preserving its independence in the performance of its duties.

ii) Establish the appropriate relationships with the external auditor to receive information on any issues which may jeopardise its independence and which will be studied by the Committee, and any other information relating to the auditing procedure, as well as any other communications provided for in the legislation relating to auditing and the technical rules thereof. In any case, written confirmation must be received, on an annual basis, from the external auditor of its independence with respect to the Company or entities directly or indirectly connected thereto, as well as information on any type of additional services provided and the related fees received from these entities by the external auditor or by persons or entities related to the auditor pursuant to that provided in accounting legislation.

iii) Issue, on an annual basis and prior to the issuance of the auditor's report, a report expressing an opinion on the independence of the external auditor. Such report shall, in all cases, contain the evaluation of the provision of the additional services mentioned in the section above, considered individually and as a whole, other than legal audit services in relation to the rules on independence or in accordance with the audit regulations.

Likewise, these mechanisms are governed by article 32 of the Regulations of the Board of Directors.

C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor.

Yes ☐ **No** ■

C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of the fees invoiced to the company and/or its group.

Yes ■ **No** ☐

	Company	**Group**	**Total**
Amount of non-audit work (thousands of euros)	350	34	384
Amount of non-audit work as a % of the total amount billed by the audit firm	53.00%	13.54%	41.95%

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

Yes ☐ **No** ■

C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited.

	Company	**Group**
Number of consecutive years	9	9

	Company	**Group**
Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)	30%	30%

C.1.40 Indicate and give details of any procedures through which directors may receive external advice.

Yes ■ **No** ☐

Procedures
In accordance with article 20 of the Regulations of the Board of Directors, the Company shall provide suitable channels for directors to obtain the advice they need to carry out their duties, including, if necessary, external assistance at the Company's expense. The Board of Directors may oppose the hiring of external consultants when: 1. It is not necessary for the proper performance of the duties entrusted to the non-executive directors. 2. The cost thereof is not reasonable in view of the importance of the problem and of the assets and income of the Company. 3. The technical assistance to be received may be adequately provided by the Company's own experts and specialists.

C.1.41 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies.

Yes ■ **No** ☐

Procedures
In accordance with article 19 of the Regulations of the Board of Directors, in carrying out their duties, directors have the right to request and obtain from the Company any information they need to discharge their board responsibilities. In this regard, directors shall have the broadest authority to obtain information on any aspect of the Company, to examine its books, records, documents and other logs of company transactions, and to inspect all facilities. The exercise of the aforementioned right of information should be carried out through the Chairman, the Chief Executive Officer or the Secretary of the Board, who shall deal with requests from directors, providing them directly with information, offering them the appropriate points of contact or deciding on measures so they can carry out the examinations and inspections. Accordingly, unless the Board of Directors has been convened or called for reasons of urgency, the Chairman of the Board of Directors, in collaboration with the Secretary, will ensure that, prior to the meeting and sufficiently in advance, directors have the information necessary to deliberate on and adopt resolutions on the matters at hand.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be.

Yes ■ **No** ☐

Details of rules
In accordance with article 11 of the Regulations of the Board of Directors, directors must place their post at the disposal of the Board and tender, if the Board deems this appropriate and following a report from the Nomination and Remuneration Committee, their resignation when their continuing as a member of the Board might adversely affect the functioning of the Board or harm the Company's name or reputation for any reason. In particular, the directors must inform the Board of any criminal proceedings in which they are an accused party and of the subsequent progress of the proceedings. In any event, the moment a director is indicted or tried for any of the crimes stated in the LSC, the Board should examine the matter as soon as possible and, in view of the particular circumstances and potential harm to the Company's name and reputation, decide whether or not they should be called on to resign. All such determinations should be disclosed in the Annual Corporate Governance Report.

Details of rules

C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the LSC.

Yes☐ **No** ■

C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

Inmobiliaria Colonial, S.A. is party to a syndicated loan in the amount of 350 million euros. The loan provides for the early termination thereof in the event of a change of control, understood to be a takeover by one or several persons, either individually or acting in concert (other than those shareholders which, at the date on which this agreement was entered into, had declared their significant shareholdings to the CNMV). In turn, control is defined under the terms set forth in article 42 of the Spanish Commercial Code.

With regard to the debentures issued in the amount of 1,250 million euros, in the case of a change of control, as defined in article 42 of the Spanish Commercial Code, such amount must be repaid early for both the tranche maturing in June 2019 and the tranche maturing in June 2023, provided that this change of control involves the loss of its investment grade rating.

C.1.45 Identify, in aggregate form and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other.

Number of beneficiaries	3
Type of beneficiary	Chairman of the Board Chief Executive Officer Corporate Managing Director

Description of resolutions	The Chairman of the Board and Chief Executive Officer signed with the Company, on 28 June 2012, agreements relating to their remuneration, in accordance with the resolutions adopted by the internal governing bodies of Inmobiliaria Colonial, S.A. the agreements include, among other aspects relating to remuneration, additional contingent remuneration for the Chairman and the Chief Executive Officer of the Company in the case of their termination or resignation due to a change of control in Inmobiliaria Colonial, S.A. or a significant change in the composition of the Board of Directors, among other cases the established file Board of Directors. For the Chairman of the Board, this remuneration consists of an amount equal to three years of their annual fixed remuneration for carrying out their executive functions, with a minimum of 1,250,000 euros. For the Chief Executive Officer, this remuneration will consist of the equivalent of three years of total yearly remuneration (fixed remuneration and ordinary variable remuneration) for carrying out his executive functions, with a minimum of 1,500,000 euros. These amounts will be automatically updated each year in accordance with the Consumer Price Index. However, the events that would have accrued such remuneration for the Chairman and the Chief Executive Officer did not occur. In the case of the Corporate Managing Director, a golden parachute clause triggered in the event of termination under certain circumstances or change of control gives rise to compensation on termination of the functions thereof for an amount equal to three years' salary. There is also a long-term incentive plan approved by the shareholders at the General Shareholders' Meeting (last modified on 21 January 2014), which entails the delivery of ordinary shares contingent on the Company meeting certain targets each year. The beneficiaries of the plan are the Chairman of the Board, the Chief Executive Officer and all members of Colonial's Executive Committee, which includes the Corporate Managing Director. This plan stipulates that the Board of Directors shall wind up the plan early and deliver the maximum number of outstanding shares to each beneficiary if a “substantial liquidity event” occurs. A “substantial liquidity event” occurs if a takeover bid is authorised with the aim of acquiring all of Colonial's share capital, in the framework of which Colonial's creditors must waive any existing change of control clause, or if existing debt undergoes a significant refinancing. In the latter case, early settlement of the plan shall be subject to ratification by the Nomination and Remuneration Committee. If the aim of the bid is to remove Colonial shares from stock exchange listing, and no change of

	control occurs, no prior delivery of shares is carried out and an equivalent remuneration system must be established based on replacing the share distribution system with an equivalent distribution of cash. If, after the delisting of Colonial shares, a transaction occurs involving a change of control, as part of which Colonial's creditors must waive any existing change of control clause, or if existing debt undergoes a significant refinancing, the Board must wind up the plan early and pay out the maximum contemplated remuneration in cash, subject to the approval of the Nomination and Remuneration Committee. In the event that, during the term of this plan, the Chairman or the CEO were to be dismissed without just cause, the shareholders at the General Meeting were to not extend their term of office or they were removed from their posts without just cause, they will be entitled to early settlement of the plan and delivery would be made of the maximum number of undelivered shares during the years remaining until the end of the term of the plan, unless the unfair dismissal were to occur in 2014 or 2015, in which case they would be entitled to receive 50% of the maximum number of undelivered shares if the dismissal occurs in 2014 or 66% if the dismissal occurs in 2015. Beneficiaries will forfeit any entitlement to such shares in the event of fair dismissal, termination with just cause, or resignation on their own initiative, or in the event of contractual breach with regard to confidentiality, the prohibition to offer services or competition. In such cases, the beneficiaries will forfeit any entitlement to awarded shares.

Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group.

	Board of Directors	**Annual General Meeting**
Body authorising the clauses	**Yes**	**No**

	Yes	No
Is the General Shareholders' Meeting informed of such clauses?		**X**

C.2 Board committees

C.2.1 Give details of all the board committees, their members and the proportion of executive, proprietary, independent and other external directors.

EXECUTIVE OR DELEGATE COMMITTEE

Name	Position	Category
Juan José Brugera Clavero	Chairman	Executive
Pedro Viñolas Serra	Member	Executive
Grupo Villar Mir, S.A.U.	Deputy Chairman	Proprietary
Francesc Mora Sagués	Member	Proprietary
Juan Carlos García Cañizares	Member	Proprietary
Carlos Fernández-Lerga Garralda	Member	Independent

% of executive directors	33%
% of proprietary directors	50%
% of independent directors	17%
% of other external directors	0%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

By virtue of article 30 of the Regulations of the Board of Directors, the Board of Directors may establish an Executive Committee and permanently delegate thereto all or part of its powers, except for those that cannot be delegated.

The Executive Committee shall be formed by a minimum of three and a maximum of eight members, who must be directors, and its Chairman and Secretary will be those of the Board of Directors.

The Executive Committee shall appoint from among its members a Deputy Chairman, who shall carry out the Chairman's duties if the latter is absent.

The Board of Directors shall appoint the members of the Executive Committee, ensuring that the breakdown of its members by director category is similar to that of the Board itself

In order to be valid, the appointment of directors to the Executive Committee shall require the favourable vote of two thirds of the Board and may not take effect until registered with the Mercantile Registry.

The members of the Executive Committee shall be relieved of their duties once their tenure as a director ceases, or when agreed by the Board of Directors.

The Executive Committee shall be convened by its Chairman, either on his own initiative or when requested to do so by two of its members, by letter, telegram, e-mail or fax sent to each of its members at least 48 hours prior to the meeting date, although it may nevertheless be convened immediately if the matter is urgent. Meetings shall be held at the Company's registered office or any place designated by the Chairman and indicated in the call notice.

In order for Executive Committee meetings to be validly constituted, the majority of its members must be present or represented. Resolutions shall be adopted by absolute majority of the members of the Committee. In the event of a conflict of interest, the affected director shall refrain from participating in matters related to the conflict. Votes from directors affected by a conflict of interest and required to absent themselves from the meeting shall be deducted from the calculation of the majority of votes necessary. In the event of a tie, the matter shall be submitted to the Board of Directors, the convening of which shall be requested by the members of the Executive Committee pursuant to article 29 of the Bylaws, unless a meeting of said body has already been convened for within the next thirty calendar days, in which case the Committee shall ask the Chairman of the Board to include the points for which there was a tie on the agenda of said meeting.

The Executive Committee, through its Chairman, shall inform the Board of the matters dealt with and decisions adopted by the Committee. To this end, all Board members should receive a copy of the minutes of Executive Committee meetings.

Indicate whether the composition of the Executive Committee reflects the participation within the board of the different types of directors.

Yes ☐ **No** ■

If not, explain the composition of the Executive or Delegate Committee

Although the breakdown of the Executive Committee by category of director does not exactly match the current composition of the Board, the structure of the Executive Committee does reflect sufficient diversity of knowledge, experience and category of director to ensure that it can fulfil its mandate effectively, objectively and with independence of judgement.

AUDIT COMMITTEE

Name	Position	Category
Javier Iglesias de Ussel Ordís	Chairman	Independent
Carlos Fernández-Lerga Garralda	Member	Independent
Ana Sainz de Vicuña Bemberg	Member	Independent
Luis Maluquer Trepat	Member	Other external director
Juan Villar-Mir de Fuentes	Member	Proprietary

% of proprietary directors	20.00%
% of independent directors	60.00%
% of other external directors	20.00%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

In accordance with article 32 of the Bylaws, Committee shall comprise a minimum of three and a maximum of eight directors, all of which must be non-executive directors, appointed by the Board. The Committee will also include the number of independent directors stipulated by law and at least one of them will be appointed taking into account the director's knowledge and experience regarding accounting and/or auditing. The Committee will appoint a Chairman from among its members, who must be an independent director. The Chairman shall be replaced every four years, and may be re-elected after one year has elapsed from the date on which his/he term of office expired. The Committee will also appoint a Secretary from among its members, or may designate the Secretary of the Board to fill this position. If the Secretary of the Committee is absent, the Secretary of the Board or the Deputy Secretary thereof will carry out these duties. The Committee may appoint, where applicable, a Deputy Chairman who must also be an independent director. The Committee may avail itself of the technical assistance of the Secretary or the Deputy Secretary of the Board at its meetings, at the request of the Chairman of the Committee. The members of the Committee shall be relieved of their duties once their tenure as a director ceases, or when agreed by the Board. The Committee must at least carry out the following: 1. Report to the General Shareholders' Meeting on any questions posed in relation to those matters for which the Committee is responsible. 2. Monitor the effectiveness of internal control, internal audit and risk management systems, and discuss with the external auditors any significant weaknesses detected in the internal control system. 3. Supervise the drawing up and presenting of financial information. 4. Propose to the Board the selection, appointment, re-election and replacement of the external auditor, as well as the terms of its engagement, and gather information therefrom regarding the audit plan and the implementation thereof, and preserve its independence in the performance of its duties. 5. Establish relationships with the external auditor to receive information on any issues which may jeopardise its independence and which will be studied, and any other information relating to the audit, as well as any other communications provided for in the law. Written confirmation must be received, on an annual basis, from the external auditor of its independence with respect to the Company or entities directly or indirectly connected thereto, as well as information on any type of additional services provided and the related fees received by the external auditor or by persons or entities related to the auditor pursuant to that provided in the law. 6. Issue, on an annual basis and prior to the issuance of the auditor's report, a report expressing an opinion on the independence of the external auditor. 7. Inform the Board of all matters established by law, the Bylaws and the Regulations of the Board of Directors. 8. Prepare an annual report on the activities of the Committee, which must be included in the management report. 9. Propose to the Board of Directors any other matters that it deems relevant for which it is responsible. The Committee shall meet whenever requested to do so by at least two of its members, or at the behest of the Chairman, who is responsible for convening it. The call notice shall be valid provided it is sent by any means that allow acknowledgement of its receipt. The Committee shall be validly convened when the majority of its members are present or represented, adopting resolutions by majority of those present or represented. The member affected must abstain from participating in the deliberation and voting on resolutions in which such member or a person related thereto has a conflict of interest. Votes of those affected by a conflict of interest shall be deducted from the calculation of the majority of votes necessary. Proxies are granted in writing and specifically for each meeting and solely to other members. The Chairman has a casting vote in the event of a tie. Minutes are taken of all Committee meetings and are made available to the Board. Article 32 of the Regulations of the Board sets forth these rules, always favouring the independence of the Committee.

In 2015, the Committee carried out, among others, the following functions:

- Acted as a communication channel between the Board of Directors and the auditor, assessing the audit results.
- Reported on the re-election of Deloitte, S.L. as the auditor for the individual and consolidated financial statements for the year ended 31/12/2015.
- Analysed possible impacts of the new Audit Law and, in particular, oversaw the process of replacing the auditor as a result of such law.
- Approved the external and internal audit plan for 2015.
- Monitored the effectiveness of the internal control, internal audit and risk management systems, including tax risks, and discussed with the auditor any significant weaknesses detected in the internal control system.

▪ Approved the risk management and control policy, corporate governance and treasury share reports to be submitted to the Board. ▪ Supervised compliance with corporate governance rules and the internal codes of conduct. ▪ Preparation of the corporate social responsibility policy. ▪ Drawing up and presenting the required financial information. ▪ Reported on the Annual Corporate Governance Report. ▪ Analysed the amendments to the Bylaws and the Regulations of the General Shareholders' Meeting, following the reform of the law, duly submitted for approval at the General Shareholders' Meeting. ▪ Reported on the amendments to the Regulations of the Board, following the reform of the law, submitted for approval by the Board. ▪ Analysed and monitored the Company's tax strategy and policy, and ensured it adhered to the Code of Best Tax Practices. ▪ Evaluated its own functioning. ▪ Proposed to the Board the appointment of the new head of the internal audit function. ▪ Coordinated with the Committee of Société Foncière Lyonnaise (SFL) for the purpose of unifying criteria and improving efficiency in the audit process of the two companies.

Identify the director who has been appointed Chairman on the basis of knowledge and experience of accounting or auditing, or both and state the number of years they have been Chairman.

Name of director	Javier Iglesias de Ussel Ordís
Number of years as Chairman	3

NOMINATION AND REMUNERATION COMMITTEE

Name	Position	Category
Carlos Fernández-Lerga Garralda	Chairman	Independent
Juan Villar-Mir de Fuentes	Member	Proprietary
Juan Carlos García Cañizares	Member	Proprietary
Francesc Mora Sagués	Member	Proprietary
Javier Iglesias Ussel Ordís	Member	Independent

% of proprietary directors	60.00%
% of independent directors	40.00%
% of other external directors	0.00%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

In accordance with article 33 of the Bylaws, the Nomination and Remuneration Committee shall comprise a minimum of three and a maximum of eight directors, all of which must be non-executive directors, appointed by the Board. The Committee will include the number of independent directors stipulated by law. The Committee will appoint a Chairman from among its members, who in any case shall be an independent director. The Committee will appoint a Secretary from among its members, or may designate the Secretary of the Board to fill this position. If the Secretary of the Committee is absent, the Secretary of the Board or, where applicable, the Deputy Secretary thereof will carry out these duties. The Committee may appoint a Deputy Chairman who shall also be an independent director. In any case, the Committee may avail itself of the technical assistance of the Secretary or the Deputy Secretary of the Board at its meetings, at the request of the Chairman of the Committee. The members of the Committee shall be relieved of their duties once their tenure as a director ceases, or when agreed by the Board of Directors. The Committee must at least carry out the following: 1. Evaluate the competencies, knowledge and experience required on the Boar. Define the roles and capabilities required of the candidates, and decide the time and dedication necessary for them to effectively perform their duties. 2. Establish a representation target for the less well-represented gender on the Board and draft guidelines on how to reach this target. 3. Submit to the Board proposals for appointment of independent directors to be appointed through co-option or to be submitted for approval at the General Shareholders' Meeting, and proposals for re-election or removal of such directors by the shareholders at the General Shareholders' Meeting 4. Report on the proposals for appointment of the other directors to be appointed through co-option or to be submitted for approval at the General Shareholders' Meeting, as well as proposals for re-election or removal by the shareholders at the General Shareholders' Meeting. 5. Report on the proposals for appointment and removal of senior executives and the basic terms and conditions of their contracts. 6. Examine and organise the succession of the Chairman of the Board and the Company's Chief Executive Officer and, if appropriate, make proposals to the Board in order for such succession to occur in an orderly and planned manner. 7. Propose to the Board of Directors the remuneration policy for directors and general managers or whoever carries out senior executive functions and reports directly to the Board, the Executive Committee or the Chief Executive Officer, as well as the individual remuneration and other contractual conditions of the executive directors, and ensure the observance thereof. 8. Propose to the Board any other matters that it deems relevant for which it is responsible. 9. Any other functions that may be attributed thereto by the Bylaws or the Regulations of the Board. The Committee shall meet whenever requested to do so by at least two of its members, or at the behest of the Chairman, who is responsible for convening it. The call notice shall be valid provided it is sent by any means that allow acknowledgement of its receipt. The Committee shall be validly convened when the majority of its members are present or represented, adopting resolutions by majority of those present or represented. A Committee member must abstain from participating in the deliberation and voting on resolutions or decisions in which such member or a person related thereto has a direct or indirect conflict of interest. Votes of those affected by a conflict of interest shall be deducted from the calculation of the majority of votes necessary. Proxies are granted in writing and specifically for each meeting and solely to other Committee members. The Chairman shall have a casting vote in the event of a tie. Minutes are taken of all Committee meetings and are made available to all members of the Board. Article 33 of the Regulations of the Board sets forth these rules regarding the Committee, always favouring its independence.

In particular, in 2015 the Committee carried out, among others, the following functions:

- Ensured that the remuneration policy established by the Company was observed and, in particular, proposed to the Board the remuneration policy for directors and senior executives, the individual remuneration of the Chairman of the Board and the Chief Executive Officer and other conditions of their contracts in order to bring them into line with the new Spanish Limited Liability Companies Law, and reported to the Board on the remuneration proposed for senior executives.
- Proposed the number of shares that the beneficiaries of the share delivery plan approved at the General Shareholders' Meeting held on 21 January 2014 would receive.

- Began the analysis of the Company's remuneration policy for the next four years beginning in 2016, including a potential new remuneration system for the Chairman and the Chief Executive Officer.
- Proposed an annual maximum limit for the total amount of director remuneration.
- Examined and organised the succession of the Chairman of the Board and the Company's Chief Executive Officer.
- Reported to the Board on the evaluation of its own functioning and that the Board of Directors and of the performance of the Chairman and the Chief Executive Officer.
- Proposed to the Board the content of the Annual Directors' Remuneration Report.
- Analysed the amendments to the corporate governance texts that affect the Committee and its functions to bring them into line with the new law.
- Reported favourably on (i) the appointment by co-option of Sheikh Ali Jassim M. J. Al-Thani, at the proposal of its shareholder, Qatar Investment Authority, following the resignation tendered by Silvia Villar-Mir de Fuentes; and (ii) the appointment of Nuria Oferil Coll, director of the Company's legal services department and Deputy Secretary of the Board, as proprietary director of SFL as a representative of Colonial.

C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years.

	Number of female directors							
	Year t		Year t-1		Year t-2		Year t-3	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	0	0	0	0	0	0	0	0
Audit Committee	1	20%	1	20%	0	0	0	0
Nomination and Remuneration Committee	0	0	0	0	0	0	0	0

C.2.3 Repealed

C.2.4 Repealed

C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

The Board committees are governed by the Regulations of the Board of Directors, which are available on the Company's website (www.inmocolonial.com) under the “Corporate governance” section, and on the website of the Spanish National Securities Market Commission (www.cnmv.es).

In 2015 the related amendments were made to (i) bring the regulations into line with the Spanish Limited Liability Companies Law, as worded following the entry into force of Law 31/2014, (ii) include improvements in corporate governance in addition to those required by law, and (iii) include technical improvements in the wording of the text.

The annual report on the activities of each committee in 2015 was prepared by the Audit and Control Committee and made available to shareholders on the Company's website along with the call notice for the General Shareholders' Meeting.

C.2.6 Repealed

D_RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related party or intragroup transactions.

Procedures for approving related party transactions
Pursuant to article 17 of the Regulations of the Board of Directors, express authorisation is required from the Board of Directors, which cannot be delegated, following a favourable report from the Audit and Control Committee, in the following cases: - Provision of professional services by a director to Inmobiliaria Colonial companies. The employment or any other type of relationship that executive directors have with the Company is exempt for these purposes. - Sale, or transfer in any other way, for any manner of economic consideration, by a director, a significant shareholder or a shareholder represented on the Board, or parties related thereto, to Inmobiliaria Colonial or its Group companies of supplies, materials, goods or rights in general. - Transfer by Group companies to a director, a significant shareholder or a shareholder represented on the Board, or parties related thereto, of supplies, materials, goods or rights, in general, which do not form part of the ordinary business of the transferring company. - Provision of works, services or sale of materials by Inmobiliaria Colonial Group companies to a director, significant shareholder or a shareholder represented on the Board, or parties related thereto, and which, being part of their ordinary business, is carried out under economic conditions below market rates. - Any other legal business with Group companies in which the director or persons related thereto has a direct or indirect interest. The aforementioned approval by the Board of Directors will not be necessary when such transactions simultaneously meet the following three characteristics: 1. They are governed by standard form contracts applied on an across-the-board basis to a large number of clients; 2. They go through at market prices, generally set by the person supplying the goods or services; and 3. The amount does not exceed 1% of the Company's annual income.

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (thousands of euros)

D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors.

Name or corporate name of director or senior manger	Name or corporate name of related party	Relationship	Type of transaction	Amount (thousands of euros)

D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens.

Corporate name of the group company	Brief description of the transaction	Amount (thousands of euros)

D.5 Indicate the amount from other related party transactions.

There are none.

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

In accordance with article 29 of the Bylaws, a director must abstain from participating in the deliberation and voting on resolutions or decisions in which such director or a person related thereto has a direct or indirect conflict of interest. Votes from directors affected by a conflict of interest and required to absent themselves from the meeting shall be deducted from the calculation of the majority of votes necessary. Resolutions or decisions that affect the director in his position as director, such as the appointment or revocation of positions in the governing body or others of a similar nature, are excluded from this obligation to abstain. Likewise, in accordance with article 16 of the Regulations of the Board of Directors, directors must adopt the measures necessary to avoid becoming involved in situations where their interests, either as independent professionals or as employees, may be in conflict with the Company's interests and their duties to the Company.

In particular, the duty to avoid conflicts of interest requires that directors abstain from: a) carrying out transactions with the Company, except when they are ordinary transactions, performed under standard market conditions for customers and are hardly relevant, which is understood to mean those transactions whose information is not necessary to present a true and fair view of the Company's assets and liabilities, financial position and results; b) using the Company's name or relying on their status as directors to unduly influence private transactions; c) using the Company's assets, including its confidential information, for personal gain; d) taking advantage of the Company's business opportunities; e) obtaining advantages or remuneration from third parties other than the Company and its Group in connection with the performance of their duties, unless considered an act of mere courtesy; f) carrying out activities as independent professionals or as employees that involve effective competition, be it present or potential, with the Company, or that, in any other way, place the directors in an ongoing conflict with the Company's interests. The foregoing will also be applicable if the beneficiary of the actions or prohibited activities is a person related to the director. Those persons mentioned in the Spanish Limited Liability Companies Law shall be considered related parties.

In all cases, directors must notify the Board of any conflict that they or persons related thereto may have that could lead to a direct or indirect conflict of interest with the Company. Any conflicts of interest in which the directors are involved shall be reported in the notes to the financial statements and in the annual corporate governance report.

However, the Company may waive the prohibitions contained in the section above in certain cases, and authorise a director or a person related thereto to carry out a specific transaction with the Company, use certain company assets, take advantage of a specific business opportunity, or obtain an advantage or remuneration from a third party. If the prohibition of using the Company's assets is waived, the economic advantage obtained shall be considered indirect remuneration and must be authorised by the Nomination and Remuneration Committee. The authorisation must be approved by the shareholders at the General Meeting when its purpose is to waive the prohibition of obtaining an advantage or remuneration from third parties, or when it affects a transaction whose value is greater than ten per cent of the Company's assets. Authorisation may be granted in other cases by the Board of Directors, provided the independence of the members granting such authorisation with regard to the exempt director can be guaranteed. The Company must also ensure that the authorised transaction does not harm its assets and liabilities and, where applicable, ensure its performance under market conditions and the transparency of the process. The obligation of not competing with the Company may only be waived if no damage is expected to be caused to the Company or if the Company is expected to be compensated for the profit that such director may obtain. The waiver will be granted through an express and separate resolution by the shareholders at the General Meeting.

D.7 Is more than one group company listed in Spain?

Yes ☐ **No** ■

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Describe the risk management system in place at the company, including fiscal risks.

Risk management as a key aspect of Colonial's organisational culture and, for this reason, all risks to which the Company is exposed are identified, analysed, assessed, managed, controlled and updated.

In order to meet these corporate objectives, the Company has developed an Internal Control and Risk Management System (hereinafter, ICRMS), which establishes the bases for the efficient and effective management of risks, including tax risks, throughout the Company.

Colonial's ICRMS is structured in the following phases:

i. Identification, analysis and assessment:

– Identification of risks which may prevent Colonial from fulfilling its strategic goals: risk map.

– Analysis of the possible positive and negative effects of risk events and their likelihood.

– Assessment and treatment of risks based on strategic risk appetite criteria and risk tolerance levels and an analysis of the options to respond thereto (either minimising the negative impact or maximising the growth potential of opportunities).

ii. Management and updating:

– Establishment of constant communication flows (consultation, information and training) to promote a risk management culture throughout the entire Company.

– Review of the model by monitoring and updating the results of the ICRMS.

iii. Control:

– Independent monitoring of the efficiency of the ICRMS and the existing control measures by the internal audit function.

Colonial's ICRMS has the following risk monitoring and reporting activities:

– Permanent monitoring activities carried out by the owner of the risk in real time by analysing and dealing with unexpected events.

- Annual self-assessments to check the effectiveness of risk management.
- Preparation and updating of risk records which basically include the impact of the risk on value creation, as well as key risk indicators and action plans rolled out or being developed to achieve Colonial's desired level of response.
- Preparation of a report on the Audit and Control Committee's monitoring activities for the Board of Directors.
- Preparation of public information associated with the financial statements and Annual Corporate Governance Report.

The internal audit function analyses the corporate risk map and proposes which processes, risks and controls should be reviewed each year in the Internal Audit Plan.

The corporate risk map is reviewed and updated every two years to maintain an efficient and updated ICRMS.

E.2 Identify the bodies responsible for preparing and implementing the risk management system, including fiscal risks.

The Board of Directors is responsible for determining the Company's risk management and control policy, including tax risks, identifying its main risks, and implementing and supervising the internal information and control systems in order to ensure the future viability and competitiveness of the Company, adopting the decisions having greatest relevance to its better development. The Board of Directors is assisted in managing this policy by the Audit and Control Committee (ACC). The main bodies responsible for the Internal Control and Risk Management System (ICRMS) are:

1. Board of Directors: Reviews and approves the ICRMS, approves the corporate risk map (CRM) and monitors the internal information and control systems.

2. Audit and Control Committee:

- Continuously monitors the ICRMS.
- Reviews the CRM.
- Ensures that the information regarding risk management submitted to the Board of Directors and shareholders is correct.
- Reviews the risk management guidelines and risk events which exceed the predefined supervision limit.

3. Internal Audit:

- Submits an annual review on the CRM and the progress made to the governing bodies.
- Evaluates the effectiveness of those risk management processes and controls introduced to mitigate risks.
- Reviews, advises and develops risk treatment plans.
- Reviews and advises on initiatives to reduce excessive risk.
- Advises on current risk management practices and those being developed, particularly for the European rental sector.

The ICRMS also specifically identifies the duties of senior management, operating departments and owners of the risks with regard to risk management. In this regard, Colonial has determined the level of risks that can be assumed and the risk tolerance for each risk area.
One of the functions of the ACC, as delegated by the Board of Directors, is to monitor and control risk in collaboration with the managers of the various operating units.

The ACC has the following functions, among others, regarding risk management and control:

- To submit to the Board, for approval, a report on the ICRMS which identifies at least (i) the different types of financial and non-financial risks the Company is exposed to; (ii) the determination of the risk level the Company sees as acceptable; (iii) the measures in place to mitigate the impact of risk events should they occur; and (iv) the internal reporting and control systems to be used to control and manage the above risks.

- To supervise the process of drawing up, the integrity of and the presentation of required public financial and non-financial information.
- To regularly review the internal control and risk management systems, so that the main risks can be identified, managed and reported appropriately.

In addition, the Company has set up a Regulatory Compliance Unit (RCU) and internal audit function to reinforce this objective. The RCU is responsible for ensuring compliance with any laws and regulations which may affect the Company. Meanwhile, the internal audit function is responsible for carrying out the oversight duties required and established in its annual plans to ensure that the internal control procedures to mitigate and prevent risks are correctly implemented and work efficiently.
In short, the Board is ultimately responsible for ensuring risks are correctly managed, delegating the duty of supervising risk management and the efficiency of the control systems to the ACC.

E.3 Indicate the main risks, including fiscal, which may prevent the entity from achieving its targets.

Colonial's ICRMS defines risk as any contingency which, should it occur, may prevent or make it difficult for the Company to fulfil the objectives set by its governing bodies. These are classified into a risk map for Colonial as follows:

- Strategic Risks: risks arising from the implementation of the Company's strategy.
- Corporate Risks: risks arising from the organisational structure, corporate culture, corporate policies and key decision-making processes by the governing bodies.
- Operational Risks: risks arising from losses due to failures or to inadequate management of operations.
- Reporting Risks: risks in compiling relevant and complete information to generate internal and external reports.
- Compliance Risks: risks relating to regulatory compliance.

The main risks that Colonial faces in achieving its targets include:

- Risks inherent to the environment since the real estate sector is a highly cyclical and competitive sector, as well as risks related to economic and/or political changes in the countries in which it operates and regulatory changes, especially those relating to real estate activities.
- Risks arising from the specific nature of the business in relation to the high concentration of office rental activities in the central business district areas of Barcelona, Madrid and Paris, the appraisal of its property assets and the concentration of customers.
- Risks of a financial nature relating to restrictions in capital markets and in financial debt markets, the debt level, the drop in credit rating and interest rate fluctuations.
- Tax risks relating to the limit on tax loss carryforwards, the loss by its French subsidiary, Société Foncière Lyonnaise, of its status as a listed real-estate investment company (SIIC) and changes in its favourable tax regime.
- Corporate risks arising from the management of its corporate reputation and image and from carrying out its activities through subsidiaries.
- Operating risks arising from the management of and damage to its property assets, the maintenance and repair thereof, its liability for the actions of its contractors and subcontractors, and from court and out-of-court claims.

E.4 Identify if the entity has a risk tolerance level, including fiscal.

Colonial has established an appetite and tolerance for each risk area. Risk appetite is the level of risk a company is prepared to undertake or reject according to its objectives and taking into account the expectations of its stakeholders, and risk tolerance is the determination of fluctuations in risk levels deemed to be normal in keeping with their risk appetite.

Risk management at Colonial has been structured into a corporate risk map which is the tool that graphically represents the assessment of risks according to their impact, their effect on Colonial measured in economic terms and in terms of its operations, reputation and compliance, and the likelihood and probability of the risk occurring over a time period.

In this regard, the Company assesses risk from two angles: inherent risk, which is understood to be that to which the Company is exposed in the absence of any mitigating actions/control; and residual risk, which is understood to be the risk remaining after the corresponding prevention and control measures have been taken.

E.5 Identify any risks, including fiscal, which have occurred during the year.

The risks that arose in 2015, the circumstances that caused them and the functioning of the control systems are as follows:

i. FINANCING OF PROPERTY ASSETS. FINANCIAL STRUCTURE AND DEBT LEVEL

Circumstances: Following the refinancing of Colonial in 2014, the Group's net financial debt at 31 December 2014 was 2,545 million euros and the Loan to Value (LtV) ratio was 44.8%. With these actions, Colonial was able to return its leverage ratio to a level more appropriate for the value of its assets and capacity to generate cash flow. However, Colonial had certain restrictions linked to the syndicated loan.

Control systems: In 2015 Colonial received a long-term credit rating of BBB- and a short-term credit rating of A-3 from Standard & Poor's, which enabled the Company to successfully issue 1,250 million euros in bonds, thereby repaying the syndicated loan entered into in 2014 early, diversifying the average maturity of its debt and, in turn, generating an annual savings in borrowing costs of around 20 million euros. The Company also entered into a new syndicated loan in 2015 for 350 million euros, which matures in June 2019, but may be extended until November 2020. The purpose of this loan is to finance possible acquisitions, renovations and other investments in property assets. At 31 December 2015, 67.3 million euros were drawn down on this syndicated loan; and the Group's net financial debt at 31 December 2015 was 2,992 million euros with an LtV of 41.8%.

ii. INCREASE OF COMPETITION IN THE REAL ESTATE SECTOR

Circumstances: The real estate sector recovered the confidence of investors, which gave rise to an increase in competition, finally enabling Spain in 2015 to reach the investment levels of 2007. This high level of competition could give rise to an increase in the price of property acquisitions, excess supply on the office rental market or a decrease in the level of rent obtained from such properties.

Control systems: Colonial diversifies its investments in Barcelona, Madrid and Paris, selecting high-quality properties located in central business district (CBD) areas. Colonial's strategy is to have the best portfolio of offices for rent. In 2015 the Colonial Group continued with this selective investment strategy in CBD areas, making new acquisitions in the amount of 234 million euros.

iii. IMPAIRMENT OF PROPERTY ASSETS

Circumstances: The holding and acquisition of properties implies certain risk factors, including the possibility that returns on investment will be lower than estimated or that estimates and valuations performed could prove inaccurate or wrong. In addition, the market value of the assets may decline or be negatively affected in certain cases.

Control systems: To mitigate this risk factor, Colonial engages independent experts to appraise all of its assets on a six-monthly basis. The Group allocates a significant portion of its resources to investing in and maintaining its property assets in order to enhance their value and position on the market and the income obtained from these assets. In this regard, Colonial invested 128 million euros in 2015 in projects to improve and renovate its property assets.

iv. CONCENTRATION OF THE GROUP'S ACTIVITIES IN SPAIN AND FRANCE

Circumstances: Colonial focuses its business activities solely on the rental business of properties in Barcelona, Madrid and Paris.

Control systems: The level of the Group's rental income comes from property rentals located in CBD areas of such cities. The new investments made in 2015 reinforced this business strategy with the acquisition of five properties located in these CBD areas in the amount of 234 million euros. This strategy of focusing its rental business in CBD areas and its high quality standards have positioned the Group as a reference in the real estate sector.

E.6 Explain the response and monitoring plans for the main risks the entity is exposed to, including fiscal.

Risks are classified into four levels according to their impact and probability (ranging from the most to the least serious), and are then placed into one of the following categories according to the Company's response to each:

Avoidance: This entails abandoning activities which generate risks where no response has been identified which could reduce its impact and/or likelihood to a level deemed as acceptable.

Reduction: This entails carrying out actions to reduce the likelihood and/or impact of the risk, thereby reducing the residual risk so that it is in line with the Company's risk tolerance level.

Sharing: The likelihood or impact of a risk is reduced by transferring or sharing part of the risk to reduce the residual risk so that it is in line with the Company's risk tolerance level.

Acceptance: No action is taken which may affect the likelihood or impact of the risk as the residual risk is already within the Company's risk tolerance level.

The internal audit function is responsible for monitoring the risk reaction plans of the owners of the risks.

F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the entity.

F.1 The entity's control environment

Specify at least the following components with a description of their main characteristics:

F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

The Board of Directors, as stipulated in the Regulations of the Board, is responsible for the existence and updating of a suitable and effective ICFR system.

Specifically, article 5 of the Regulations of the Board of Directors (“General Functions and Competences”) stipulates, among others, the following functions:

1. Determining the Company's general policies and strategies, approving the investment and financing policy, the strategic or business plan, the annual management targets and annual budgets, and the treasury share policy, determining the corporate governance policy of the Company and the Group and approving the corporate social responsibility policy and the dividend policy. The Board of Directors will also determine the Company's risk management and control policy, including tax risks, identifying its main risks, and implementing and supervising the internal information and control systems in order to ensure the future viability and competitiveness of the Company, adopting the decisions having greatest relevance to its better development.

   To this end, Colonial has published an Internal Control and Risk Management Manual for its ICFR system approved by the Audit and Control Committee, detailing the methodology for establishing the materiality of risks, as well as methodologies for documenting, classifying and assessing risks and associated control activities.

2. Approving the financial information that all listed companies must periodically disclose.

   To this end, Colonial has published a manual for disclosure of statutory information which covers the aspects mentioned in this section and which has been approved by the Audit and Control Committee.

3. Supervising the effective operation of the committees that the Board has formed and the actions of the delegated bodies and the executives appointed.

4. Approving and amending the Regulations of the Board of Directors.

In this regard, the Board is ultimately responsible for the existence of an effective ICFR system at Colonial.

This ICFR Organisational and Monitoring Model, approved by the Audit and Control Committee, establishes the mechanism which the Board, and by delegation the Audit and Control Committee, deems effective and sufficient to guarantee the completeness, reliability, correct presentation and validity of Colonial's financial information.

Without prejudice to the other functions attributed by law, article 32 of the Regulations of the Board of Directors states that at least the following functions must be performed by the Audit and Control Committee.

In particular, the Audit and Control Committee is entrusted with the following functions, among others, regarding the ICFR system organisational model:

1. Submit to the Board, for approval, a report on the risk management and control policy which identifies at least: (i) the different types of financial and non-financial risks facing the Company; (ii) the determination of the risk level the Company sees as acceptable; (iii) the measures in place to mitigate the impact of risk events should they occur; and (iv) the internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

2. Supervise the process of drawing up and presenting the required financial information.

3. With respect to internal control and reporting systems: (i) monitor the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the Group, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles; (ii) monitor the independence and effectiveness of the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the Company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports; and (iii) establish and supervise a mechanism whereby employees can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the Company.

4. Act as a communication channel between the Board of Directors and the external auditor, assessing the results of each audit, and having responsibilities in respect of the external auditor: (ii) to receive information on a regular basis from the external auditor on the audit plan and its implementation;

5. Inform the Board of Directors of all matters established by law, the Bylaws and the Regulations of the Board of Directors and, in particular:

    a) The financial information that the Company must periodically disclose.

6. Minutes will be taken of all Committee meetings and will be available to all Board members.

In this regard, the Committee is responsible for preparing and updating the internal audit regulations as well as defining and structuring the function, including establishing its objectives, methodology, systems and reporting model.

The internal audit function is responsible for drawing up the annual Internal Audit Plan and submitting it to the Audit and Control Committee. It includes the necessary tests to verify compliance with ICFR manuals, procedures and policies.

The internal auditor shall carry out these tests and report on the conclusions to the Audit and Control Committee, including any internal control weaknesses identified, recommendations for improvement and the general conclusions of the annual audit plan which specifically includes, among others, those related to the ICFR system.

F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:

- **The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the entity.**

The internal audit function and the Operations-Finance Department are responsible for designing the ICFR organisational structure at Colonial and are the two departments which are most involved in the preparation and subsequent monitoring of the financial information to be disclosed.

Nevertheless, all departments involved to a lesser or greater degree in preparing the financial information must take responsibility for correctly carrying out the tasks, processes and controls in which they are involved.

The organisational structure of Colonial's ICFR system is based on two differentiated areas:

a) The general control environment, where the main ICFR guidelines, as well as the roles and responsibilities of senior management, are developed.

b) Specific ICFR controls, where the related operating procedures for the preparation of financial information are developed.

Colonial's ICFR system is structured as follows:

a) Establishment of a general atmosphere of appropriate control.

b) Identification of the relevant risks which may materially affect financial information. These risks are cross-referenced against Colonial's key business processes, to obtain a list of business processes to be monitored.

c) For those risks identified in the relevant processes, mitigating controls are implemented to reduce these risks to acceptable levels. Key documentation regarding the identified processes, risks and controls is drawn up. The affected departments are responsible for adequately implementing these procedures.

d) The internal audit function and the Audit and Control Committee are responsible for monitoring the ICFR system to guarantee it functions effectively.

Finally, the Operations-Finance Department is responsible for maintaining and keeping Colonial's accounting policies and manuals up to date and ensuring that there are suitable controls in place for the Company's IT systems.

- **Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

Colonial's Board of Directors approved its Code of Ethics on 28 September 2011.

This Code of Ethics reiterates Colonial's commitment to the principles of corporate ethics and transparency, and establishes a series of basic principles to which all Colonial personnel, partners and suppliers must adhere at all times, as their behaviour may affect Colonial's reputation.

Specifically, and with regard to financial information, article 6.5 of the Code establishes the following:

"Colonial assumes as a guiding principle for its corporate behaviour with its shareholders, investors, analysts and the market in general, to disclose true, complete information which expresses the true and fair view of the Company and the Group, its corporate activities and its business strategies.

This information shall always be disclosed according to the regulations and within the timeframes established by prevailing legislation. The corporate actions and the strategic decisions of Colonial are focused on creating value for its shareholders, transparency in its management, the adoption of best corporate governance practices in its companies and the strict observance of prevailing regulations in this matter."

Colonial's Regulatory Compliance Unit, which reports to the Audit and Control Committee, is responsible for disseminating, both internally and externally, the Code of Ethics.

The Code has been distributed to all employees.

The Audit and Control Committee is responsible for assessing the degree of compliance with the Code and preparing an annual report based on its findings.

The Regulatory Compliance Unit is responsible for compiling any irregularities or breaches of the Code, and corrective or disciplinary actions must be taken in accordance with the fines and sanctions detailed in the collective bargaining agreement or applicable labour legislation.

The Board is responsible for reviewing and updating the Code of Ethics based on the report drawn up by the Audit and Control Committee.

- 'Whistle-blowing' channel, for the reporting to the Audit Committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.

Colonial's Regulations of the Board of Directors, and, specifically the section of article 32 of these Regulations regarding the responsibilities of the Audit and Control Committee, stipulate that these responsibilities include, among others:

"With respect to internal control and reporting systems: ... (iv) establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities."

As we have noted in the previous point, the Regulatory Compliance Unit, which reports to the Audit and Control Committee, is responsible for managing any irregularities or breaches of the regulations, and specifically, of Colonial's Code of Ethics.

To this end, Colonial has set up a whistle-blowing channel on its intranet where employees can report any irregularities and breaches identified in the Company.

This channel is managed by the Regulatory Compliance Unit, and is regularly reviewed to guarantee its confidentiality and compliance with regulatory requirements.

- Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating the ICFR, which address, at least, accounting rules, auditing, internal control and risk management.

Colonial has a corporate training plan which covers all business areas according to the specific needs of each one.

However, the functional business areas themselves, under the coordination and supervision of the human resources department, are responsible for designing and suggesting specific training plans for their areas.

For staff involved in preparing and reviewing financial information, training is structured around attending events about regulatory updates, on financial, accounting and tax regulations, as well as receiving, distributing and analysing documentation from external advisors regarding regulatory updates.

In addition, the Regulatory Compliance Unit, together with the functional areas, is responsible for identifying and distributing regulatory updates which affect Colonial, so that these can be analysed and implemented.

In the event of any regulatory changes of special relevance to the Company's financial, accounting or tax departments, the Operations-Finance Department proposes the need for specific training.

Likewise, personnel from the internal audit function attended thematic courses and forums outside the Company related to the evaluation of certain internal control aspects.

F.2 Risk assessment in financial reporting

Report at least:

F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

- The process exists and is documented.

One of the basic functions of the Audit and Control Committee, as delegated expressly by the Board of Directors, is to monitor and control risk. To this end the managers of the various operating units collaborate in identifying and correcting risk by applying Colonial's internal control and risk management system (ICRMS).

The Audit and Control Committee has the following functions, among others:

a) Submit to the Board, for approval, a report on the risk management and control policy which identifies at least:

   1) The different types of risk the Company is exposed to;

   2) The determination of the risk level the Company sees as acceptable;

   3) The measures in place to mitigate the impact of risk events should they occur;

   4) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

b) Supervise the process of drawing up and presenting the required financial information.

c) Monitor the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the Group, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles.

d) Review internal control and risk management systems on a regular basis, so the main risks are properly identified, managed and disclosed.

Colonial's ICFR organisational and monitoring structure, as well as its Internal Control and Risk Management Manual, are aligned with and form part of Colonial's general risk policy, and have been approved by the Audit and Control Committee.

The objective of the Internal Control and Risk Management Manual, as part of the Company's risk and internal control policy, is to guarantee the preparation and dissemination of reliable financial information.

- The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.

The Internal Control and Risk Management Manual covers the following seven types of risk:

1) Completeness: Transactions, events, assets, liabilities or equity interests that are not identified and, consequently, are not included in the Company's accounts. Data entries not captured in the ledgers or data entries which have been rejected. Disclosures not identified and, consequently, not included in the notes to the financial statements or deliberately omitted.

2) Existence: Unauthorised transactions which are entered into the Company's accounting application. Duplicate transactions. Erroneous adjustments carried out in the ledgers.

3) Disclosure and comparability: Disclosures not identified and, consequently, not included in the notes to the financial statements or deliberately omitted. Transactions that have not been recorded consistently over time.

4) Rights and obligations: Incorrect determination of the ability to control the rights arising from an asset or a contract/agreement. Correct determination of the obligations derived from a liability or from a contract/agreement.

5) Valuation: Incorrect determination of the value of an asset, liability, revenue or expense, and which could generate the recording of adjustments in determining market values, amortised costs, value in use or due to an error in the depreciation as well as adjustments carried out and which are not duly justified.

6) Presentation: Incorrect presentation of financial transactions in the financial statements (assets vs. liabilities, income vs. expense, long-term vs. short-term, etc.).

7) Transaction cut-off: Incorrect recording of transactions in the corresponding accounting period.

Colonial's Internal Control and Risk Management Manual is revised and periodically updated by Internal Audit and the Legal Advisory and Operations-Finance Departments, at the proposal of any of these, also taking into account the suggestions and proposals of Internal Audit resulting from its reviews of operations. The Audit and Control Committee must approve any amendments to the Manual, while Internal Audit and the Operations-Finance Department must be notified in advance of any reviews or updates.

- A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies, etc.

Colonial's Regulations for the Board of Directors, and, specifically the section regarding the responsibilities of the Audit and Control Committee, stipulate that these responsibilities include, among others:

"With respect to internal control and reporting systems: (i) monitor the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the Group, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles...".

In this regard, Colonial has a consolidation process which stipulates, as a basic procedure, the determination of the Group's scope of consolidation at every accounting close.

This procedure is implemented by the Accounting, Consolidation and Tax Department which reports to the Operations-Finance Department. The Audit and Control Committee is notified when the scope of consolidation is amended.

- The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.

As noted above, one of the basic functions of the Audit and Control Committee, as delegated expressly by the Board of Directors, is to monitor and control risk. To this end, the managers of the various operating units collaborate in identifying and correcting risk.

Colonial's ICFR organisational and monitoring structure, as well as its Internal Control and Risk Management Manual, are aligned with and form part of Colonial's general risk policy (see section E above), and have been approved by the Audit and Control Committee.

In the process of identifying risks to the financial information within the ICFR system, all the areas of risk identified in Colonial's risk map have been considered.

- Finally, which of the entity's governing bodies is responsible for overseeing the process.

Colonial's Regulations of the Board of Directors, and, specifically the section regarding the responsibilities of the Audit and Control Committee, stipulate that these responsibilities include, among others:

"With respect to internal control and reporting systems: ... (ii) review internal control and risk management systems on a regular basis, so the main risks are properly identified, managed and disclosed."

In this regard, the Audit and Control Committee is responsible for approving the Internal Control and Risk Management Manual of Colonial's ICFR system.

F.3 Control activities

Indicate the existence of at least the following components, and specify their main characteristics:

F.3.1. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

As mentioned above, the Audit and Control Committee is responsible for supervising the preparation and disclosure of reliable financial information to the market. In this regard, the Committee has approved a manual for disclosure of statutory information which regulates the procedure for preparing and approving this information.

Colonial's Internal Control and Risk Management Manual establishes the criteria for identifying the relevant public financial information as follows:

a) Periodic Public Information (PPI) obligations:
   1) Quarterly Financial Report.
   2) Interim Financial Report.
   3) Annual Financial Report and Annual Corporate Governance Report (ACGR).
b) Annual Report on Directors' Remuneration (ARDR).
c) Registration document.
d) Significant events.

There are preparation and review procedures in place for all relevant statutory financial reporting to the market. These include an internal control questionnaire that must be completed involving the Operations-Finance Department, the Corporate Development and Management Control Department, both of which report to the General-Corporate Department, through the Legal Advisory Department and, depending on the type of information, the CEO, Board of Directors or the General Shareholders' Meeting itself.

Monitoring of the manual for disclosure of statutory information as well as the completion of the specific internal control questionnaires are mandatory and subject to review by Colonial's Internal Audit function.

In terms of the documentation of activity flows and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, Colonial has an ICFR organisational and monitoring structure which has been approved by the Audit and Control Committee. This provides specific internal control mechanisms that have been deployed to maintain an internal control environment conducive to comprehensive, reliable and timely financial reporting and which provides for the possible existence of irregularities and the means to detect and correct these.

The organisational structure of Colonial's ICFR system is based on two differentiated areas:

a) The general control environment, where the main ICFR guidelines, as well as the roles and responsibilities of senior management, are developed.

b) Specific ICFR controls, where the related operating procedures for the preparation of financial information are developed.

In addition, Colonial has an Internal Control and Risk Management Manual for its ICFR system which sets out the specific controls and formal documentation for mitigating financial reporting risks. The organisation model details the high-level controls and mechanisms.

Colonial has determined that errors or inaccuracies in the financial statements and other public information could severely affect its reputation, image and share price and these are therefore included in the ICFR system for monitoring.

Once the relevant financial information has been determined, the cycles and business processes, both in the preparation as well as in the disclosure of financial reporting that could have a material impact on the abovementioned information, are identified.

Once the processes have been identified, the relevant functional areas and Internal Audit then identify the implicit risks in the processes and the corresponding controls.

These processes, risks and controls are formally documented so they can be correctly carried out and monitored.

The Company guarantees that the identified risks are consistent with the corporate risk model.

The scope of the processes selected ensures that, by complying with the same, complete and reliable financial information is obtained.

The Operations-Finance Department and Internal Audit are responsible for identifying the ICFR processes, risks and relevant controls which are then approved by the Audit and Control Committee. In this process, the Company has specifically considered the possible risk of fraud and has in place control activities to prevent this risk. At present, there is no formal corporate anti-fraud policy.

The processes identified at Colonial relating to the ICFR system are:

a) Closing of accounts, and a review of critical judgements, estimates, valuations and projections.

b) Consolidation and reporting at subsidiaries.

c) Recognition of revenue.

d) Asset valuation (determination of the fair value of Colonial's property investments and the net realisable value of inventories).

e) Treasury, debt and derivatives.

f) Manual for disclosure of statutory information.

g) Procedure for maintaining accounting policies, Group accounting policies manual.

h) Taxes.

i) IT systems, including the capture and preparation mechanisms for supporting financial information.

j) Investments and asset acquisitions.

k) Purchases of goods and services.

l) Human resources.

All of Colonial's key processes are documented and working, and are updated annually to include any potential amendments.

The key processes at Colonial which affect the preparation of financial information are documented through the following:

a) Flow charts of the activities in the procedure.

b) Descriptions of the processes, their risks and the controls in place.

c) Risk and control matrices.

The ICFR Internal Control and Risk Management Manual is an internal regulation which must be adhered to. Therefore, it is essential that all the functions/departments involved monitor the processes established, as well as the controls in place, to guarantee security when preparing financial information at Colonial.

The most senior-ranking employee in each of the departments involved in the procedures documented in the internal control model shall be responsible for ensuring that the processes and controls are correctly applied and documented for each accounting period.

In this regard, a checklist has been provided to verify that the processes are documented for each accounting period and are subject to review by Internal Audit.

Any transactions with a relevant weight of critical judgments, estimates, evaluations and projections are specifically monitored, as is the case with real estate asset valuations, the preparation of impairment tests and the preparation of efficiency tests for derivative financial instruments.

F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

The IT systems area is responsible for Colonial's corporate IT systems. This department reports to the Operations-Finance Department which in turn reports to the General-Corporate Department.

At present, the operation and maintenance of Colonial's corporate IT systems are outsourced. Therefore, the head of IT coordinates the main aspects concerning the physical security, continuity and operation of the systems with the external supplier.

Furthermore, the head of IT systems at Colonial is responsible for establishing the IT internal control model regarding secure access, segregation of duties (in coordination with the operating business and support areas) and control of changes, as well as carrying out risk monitoring and control activities arising out of the outsourcing of the IT systems.

All Spanish Colonial Group companies use the same SAP operating system. The information systems of the French Group SFL are not fully integrated with Colonial, and therefore information is exchanged by exporting data to secure files.

Colonial's IT internal control model includes, among others, the following key processes:

a) Physical safety of the equipment and the data processing centres (in coordination with the external supplier).

b) Logical security of the applications (in coordination with the external supplier).

c) Monitoring of the Service Level Agreement (SLAs) and the Service Level Objectives (SLOs) with the external suppliers.

d) Project management, rollouts, developments and upgrades of current systems.

e) Operations management.

f) Infrastructure and communications management.

g) Management of the back-up and recovery systems (in coordination with the external supplier).

h) Management of users, profiles and accesses.

i) Management of the audits of the reporting and regulatory compliance systems.

F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

As mentioned in section F.3.1, Colonial has identified the key processes which may materially affect its financial information. Among the criteria used to identify these processes, the Company has considered criteria for activities with a high level of third-party involvement and also those which are fully outsourced.

In this regard, the relevant processes involving significant third-party participation are as follows:

a) Valuation of property assets: determination of fair value.

b) Financial hedging instruments: efficiency tests and resulting fair value.

c) IT systems: maintenance and operation.

All procedures involving third parties have been documented, identifying all the risks and the controls introduced. The functional areas involved in the different processes are responsible for monitoring them and for introducing the appropriate controls.

The Internal Audit function’s annual plan includes the monitoring activities needed to ensure the processes described are correctly executed.

F.4 Information and communication

Indicate the existence of at least the following components, and specify their main characteristics:

F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the entity’s operating units.

The ICFR organisational and monitoring structure, which has been approved by the Audit and Control Committee, establishes that the Operations-Finance Department is responsible for maintaining Colonial's accounting policies and the group accounting policies manual, as well as settling doubts or disputes over their application.

Colonial has a group accounting policies manual, which has been approved by the Audit and Control Committee, and which must be adhered to by all companies.

The Operations-Finance Department is responsible for preparing and updating this manual.

F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

Colonial has implemented a tool to assist in the reporting of financial information and financial and operational budgetary planning for the Group. This guarantees greater control and security in the process of capturing and preparing financial information.

The Group accounting policies manual establishes an accounting plan and model financial statements which all Group companies must follow and which are set up in the tool thereby guaranteeing the uniformity of the financial information.

The preparation of statutory financial information, as well as the individual financial statements for Colonial's Spanish companies, is coordinated centrally by the Operations-Finance Department and the Corporate Development and Management Control Department, thereby guaranteeing uniformity.

A significant portion of the data required to prepare this financial information is obtained directly from the IT tool as it has been customised to do so. For those cases where information must be prepared without this tool, Colonial has control mechanisms in place to ensure its completeness and reliability as well as a physical archive of the information in an internal repository with access limited to the staff involved in preparing the financial information.

Colonial has a specific tool for managing the ICFR system.

F.5 Monitoring

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1. The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the entity has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

The main activities carried out by the Audit and Control Committee in relation to the ICFR system in 2015 consisted of supervising the development process implemented by the internal audit function to supervise the implementation and effectiveness of the ICFR.

The Committee also met with the Company's auditors to assess the internal control weaknesses encountered during the course of their work, as well as any relevant aspects or incidents.

Finally, the Audit and Control Committee has reviewed all the financial information disclosed by Colonial.

The Audit and Control Committee has already approved the 2016 action and audit plans, including the necessary actions to guarantee the correct monitoring and evaluation of the model throughout the year. Any incidents detected and the necessary corrective measures shall be reported on a regular basis, as well as their potential impact on the financial information, once these have been confirmed with the audited areas.

Colonial's Regulations of the Board of Directors, and specifically the section corresponding to the duties of the Audit and Control Committee, state that the Committee's responsibilities with regard to the internal audit function are, among others:

"With respect to internal control and reporting systems:

(iii) To safeguard the independence and effectiveness of the internal audit function; propose the selection, appointment, reappointment and removal of the head of Internal Audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports."

In July 2009, the Audit and Control Committee approved Colonial's internal audit regulations.

The main responsibilities of this function include:

1. Periodically verifying the degree of application of the approved policies and procedures which comprise the internal control system and offering suggestions for improvement, and as a result of this verification, offering suggestions to improve the risk management system.

2. Complying with any other precise requirement of the Audit and Control Committee or of the Executive Committee.

The internal control procedures include those relating to the ICFR system, which are included in the 2016 audit plan, which in turn includes the specific tasks to be carried out to verify that Colonial's ICFR system functions effectively.

The following activities relating to financial information were included in the 2015 audit plan:

1. Review of the financial information publicly disclosed.
2. Analysis of the consistency of the accounting policies used as well as an analysis of the observations and recommendations received from the external auditors.
3. Review of the management report.
4. Review of the information contained in the annual financial statements and interim financial statements concerning related-party transactions.
5. Monitoring of the effectiveness of the processes, risks and relevant controls related to the ICFR system.

F.5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Audit Committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

Article 8 of the Regulations of the Board of Directors states that:

"The relationship between the Board of Directors and the external auditor shall be channelled through the Audit and Control Committee."

In this regard, article 32 of the Regulations of the Board of Directors regulates the functions of the Audit and Control Committee, and among other aspects, establishes the following:

1. Act as a communication channel between the Board of Directors and the external auditor, assessing the results of each audit, and having responsibilities in respect of the external auditor:

   (ii) to receive information on a regular basis from the external auditor on the audit plan and its implementation;

2. Establish the appropriate relationships with the external auditor to receive information on any issues which may jeopardise its independence and which will be studied by the Committee, and any other information relating to the auditing procedure, as well as any other communications provided for in the legislation relating to auditing and the technical rules thereof.

Likewise, and in relation to the internal audit function, the functions of the Audit and Control Committee include:

1. Monitor the effectiveness of the Company's internal control, internal audit and risk management systems, including tax risks, and discuss with the external auditors any significant weaknesses detected in the internal control system during the course of the audit.

All monitoring activities are carried out by the Company's Board of Directors and the Audit and Control Committee throughout the year and included in the agenda of the various meetings held during the year.

F.6 Other relevant information

No other aspects have been identified.

F.7 External auditor's report

State whether:

F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The Audit and Control Committee and the internal audit function are responsible for the supervision of the ICFR system, complemented by the activities of the external auditor in identifying any internal control weaknesses identified during the course of the audit.

These supervision activities are considered adequate and sufficient, and it is therefore not considered necessary to submit the ICFR information to an additional external review.

G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the Company's compliance with Corporate Governance recommendations.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

1. The Bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Compliant X Explain □

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

a) The activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies.

b) The mechanisms in place to resolve possible conflicts of interest.

Compliant X Partially compliant □ Explain □ Not applicable □

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

a) Changes taking place since the previous annual general meeting.

b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Compliant □ Partially compliant □ Explain X

The Company expects to comply with this recommendation at the General Shareholders' Meetings to be held in 2016.

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Compliant □ Partially compliant X Explain □

Although not published on the Company's website, both the Bylaws and Colonial's Code of Ethics include the action principles for Inmobiliaria Colonial, S.A.'s relationship with its various stakeholders, including its shareholders, institutional investors and proxy advisors. These principles fully comply with market abuse regulations and accords equitable treatment to shareholders in the same position.

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant X Partially compliant □ Explain □

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

a) Report on auditor independence.

b) Reviews of the operation of the audit committee and the nomination and remuneration committee.

c) Audit committee report on third-party transactions.

d) Report on corporate social responsibility policy.

Compliant □ Partially compliant X Explain □

The report on the independence of the auditor, and on the functioning of the Audit Committee, are published on the corporate website well in advance of the Annual General Meeting. It should also be noted that the Audit Committee's report on third-party transactions was not drawn up because no third-party transactions were carried out in 2015.

7. The company should broadcast its general meetings live on the corporate website.

Compliant □ Explain X

Although the General Meeting was not broadcast live, this possibility is included in article 15 of the Regulations of the General Shareholders' Meeting.

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Compliant X Partially compliant □ Explain □

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Compliant X Partially compliant □ Explain □

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

a) Immediately circulate the supplementary items and new proposals.

b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.

c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.

d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Compliant X Partially compliant □ Explain □ Not applicable □

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Compliant □ Partially compliant □ Explain □ Not applicable X

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Compliant X Partially compliant □ Explain □

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Compliant X Explain □

14. The board of directors should approve a director selection policy that:

a) Is concrete and verifiable.

b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs.

c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Compliant □ Partially compliant X Explain □

The Board of Directors has a director selection policy that conforms with article 4 of the Regulations of the Board of Directors, with the objective of ensuring that (i) proposals for appointment or re-election are based on a prior analysis of the Board's needs; (ii) the procedures for selecting its members favour diversity of gender, experience and knowledge, and are free from any implied bias entailing any kind of discrimination and (iii) in particular, that such procedures facilitate the selection of female directors. However, the explanatory report of the Nomination and Remuneration Committee is not being published in connection with the call for the General Meeting.

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Compliant X Partially compliant □ Explain □

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Compliant □ Explain X

The number of proprietary directors (5) out of non-executive directors (9) currently exceeds the proportion between Colonial's share capital represented by these directors and the remainder of the Company's capital. However, Inmobiliaria Colonial, S.A. does have several shareholders represented on the Board of Directors that are not otherwise related and, therefore, this criterion can be relaxed.

17. Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.

Compliant □ Explain X

First of all, Colonial cannot be considered to have a large market capitalisation. Second, the Company's Board of Directors currently has three independent directors and one member classified under the category of "other external director", as well as five proprietary directors and two executive directors. In this regard, although the number of independent directors does not exactly represent one-third of all directors and, therefore, does not literally comply with the aforementioned good governance recommendation, we believe that the Company complies with the philosophy and spirit of the good governance principles and recommendations applicable to listed companies, as the Board of Directors is mainly composed of proprietary and independent directors, and the number of executive directors is the minimum necessary.

18. Companies should post the following director particulars on their websites, and keep them permanently updated:

a) Background and professional experience.

b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.

d) Dates of their first appointment as a board member and subsequent re-elections.

e) Shares held in the company, and any options on the same.

Compliant X Partially compliant □ Explain □

19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Compliant □ Partially compliant □ Explain □ Not applicable X

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latters' number should be reduced accordingly.

Compliant X Partially compliant □ Explain □ Not applicable □

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Compliant X Explain □

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Compliant X Partially compliant □ Explain □

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning

for such causes should set out their reasons in the letter referred to in the next recommendation. The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Compliant X Partially compliant □ Explain □ Not applicable □

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Compliant X Partially compliant □ Explain □ Not applicable □

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations should lay down the maximum number of company boards on which directors can serve.

Compliant □ Partially compliant X Explain □

Although the Regulations of the Board of Directors do not establish a maximum number of company boards on which directors can serve, the Nomination and Remuneration Committee ensures that non-executive directors have sufficient time available to properly discharge their duties.

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Compliant X Partially compliant □ Explain □

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

Compliant X Partially compliant □ Explain □

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Compliant X Partially compliant □ Explain □ Not applicable □

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Compliant X Partially compliant □ Explain □

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Compliant X Explain □ Not applicable □

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Compliant X Partially compliant □ Explain □

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Compliant X Partially compliant □ Explain □

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Compliant X Partially compliant □ Explain □

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

Compliant X Partially compliant □ Explain □ Not applicable □

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Compliant X Explain □

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

a) The quality and efficiency of the board's operation.

b) The performance and membership of its committees.

c) The diversity of board membership and competences.

d) The performance of the chairman of the board of directors and the company's chief executive.

e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Compliant X Partially compliant □ Explain □

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

Compliant X Partially compliant □ Explain □ Not applicable □

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

Compliant X Partially compliant □ Explain □ Not applicable □

39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

Compliant X Partially compliant □ Explain □

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Compliant X Partially compliant □ Explain □

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Compliant X Partially compliant □ Explain □ Not applicable □

42. The audit committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

b) Ensure the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.

e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Compliant X Partially compliant □ Explain □

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Compliant X Partially compliant □ Explain □

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report

to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Compliant X Partially compliant □ Explain □ Not applicable □

45. Risk control and management policy should identify at least:

a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off- balance-sheet risks.

b) The determination of the risk level the company sees as acceptable.

c) The measures in place to mitigate the impact of identified risk events should they occur.

d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Compliant X Partially compliant □ Explain □

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Compliant X Partially compliant □ Explain □

47. Appointees to the nomination and remuneration committee - or of the nomination committee and remuneration committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Compliant X Partially compliant □ Explain □

48. Large cap companies should operate separately constituted nomination and remuneration committees.

Compliant □ Explain □ Not applicable X

49. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the nomination committee to propose candidates that it might consider suitable.

Compliant X Partially compliant □ Explain □

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

a) Propose to the board the standard conditions for senior officer contracts.

b) Monitor compliance with the remuneration policy set by the company.

c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.

d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Compliant X Partially compliant □ Explain □

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Compliant X Partially compliant □ Explain □

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) Committees should be formed exclusively by non-executive directors, with a majority of independents.

b) They should be chaired by independent directors.

c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.

d) They may engage external advice, when they feel it necessary for the discharge of their functions.

e) Meeting proceedings should be minuted and a copy made available to all board members.

Compliant □ Partially compliant □ Explain □ Not applicable X

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.

b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.

c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.

e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.

f) Monitor and evaluate the company's interaction with its stakeholder groups.

g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Compliant X Partially compliant □ Explain □

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.

d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Compliant X Partially compliant □ Explain □

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Compliant X Partially compliant □ Explain □

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Compliant X Explain □

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant X Partially compliant □ Explain □

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant X Partially compliant □ Explain □ Not applicable □

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Compliant X Partially compliant □ Explain □ Not applicable □

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Compliant X Partially compliant □ Explain □ Not applicable □

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant X Partially compliant □ Explain □ Not applicable □

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant X Partially compliant □ Explain □ Not applicable □

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Compliant □ Partially compliant □ Explain X Not applicable □

No further provisions in this regard are envisaged, beyond those set out in applicable company law.

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Compliant □ Partially compliant X Explain □ Not applicable □

Compliant with respect to the Chairman of the Board of Directors.

H OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

2. You may include in this section any other information, clarification or observation related to the above sections of this report.

   Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different from that required by this report.

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable, identify the Code and date of

adoption. In particular, indicate whether the company adheres to the Code of Best Tax Practices of 20 June 2010.

- On 10 December 2015, the Company's Board of Directors agreed to adhere to the Code of Best Tax Practices. This resolution was reported to the tax authorities on 8 January 2016.
- The figure contained in section C.1.15 of this report includes (i) the settlement of the share delivery plan, (ii) compensation of executive directors and (iii) the cost of directors for their membership on the Board of Directors of group companies.

This annual corporate governance report was adopted by the Company's Board of Directors at its meeting held on 19 February 2016.

List whether any directors voted against or abstained from voting on the approval of this Report.

Yes X No

Name or corporate name of director who voted against the approval of this report	Reasons (voted against, abstained, non-attendance)	Explain the reasons
Sheikh Ali Jassim M.J. Al-Thani	Non-attendance	Non-attendance