Colonial

2017

Integrated Annual Report

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Main Figures 2017

21%
Total Shareholder Return

+14%
EPS Growth[1]

€8.60/ share
EPRA NAV

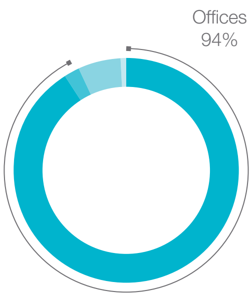
€4,016m
Market capitalization[2]

€9,282m
GAV Group

1,017,031 sq m
above ground

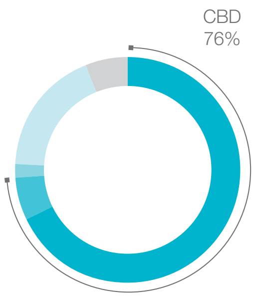
4%
EPRA Vacancy

+4%
GRI var EPRA Like-for-Like



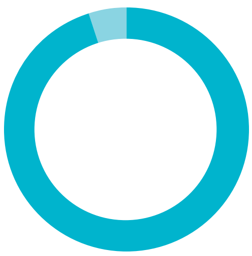
By use

- Offices
- Axiare
- Retail
- Others



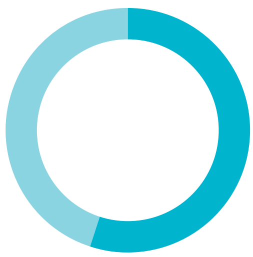
By area

- Prime CBD
- CBD
- Axiare
- BD
- Others



Energy efficiency

- 95% with energy certification



Valuation - by market

- 57% Spain
- 43% France

(1) Recurring EPS.
(2) On 16 April 2018.

Note: Additionally, at the beginning of 2018 and under Alpha III project, Colonial has acquired one asset in Barcelona and one asset in Madrid.

EPRA performance Measures Summary Table

As at 31 December	2017		2016	
	€M	€ per share	€M	€ per share
EPRA Earnings	62	0.16	63	0.18
EPRA NAV	3,744	8.60	2,587	7.25
EPRA NNNAV	3,428	7.88	2,284	6.40

As at 31 December (%)	2017	2016
EPRA Net Initial Yield	3.0%	3.1%
EPRA "topped-up" Net Initial Yield	3.4%	3.7%
EPRA vacancy rate	3.9%	3.3%
EPRA Cost ratio (including vacancy costs)	18.4%	18.6%
EPRA Cost ratio (excluding vacancy costs)	17.1%	16.9%

EPRA: European Public Real Estate Association: Association of listed European property companies that sets best market practices for the sector (www.epra.com)

Summary

Interview with the Chairman and CEO

Juan José Brugera, Chairman

Pere Viñolas Serra, Chief Executive Officer

Colonial has closed the year with extraordinary achievements. What are the main highlights?

J.J. Brugera
We closed 2017 with record profits of more than €683 million, which is 2.49 times more than results from a year ago.

This progress is based on very good operating results, which have enabled an improvement in our cash flow as well as the value of the assets in each one of the three markets we operate in, Barcelona, Madrid and Paris.

The business variables are solid with top tier clients and a vacancy rate of 4%, offering our investors and shareholders a quality platform with low risk, without renouncing attractive returns.

We have rotated our portfolio divesting more than €445 million euros in Paris, with a premium of 27% on the valuation. On the other hand, we have invested more than €260 million in new acquisitions in the Alpha II project framework.

In addition, we launched a takeover bid on Axiare in November which was successfully completed with an 87% stake. This company will enable us to increase our income base by more than €100 million annually with a top quality offices portfolio, consolidating our position of leadership in the offices market in Spain and especially reinforcing our portfolio in Madrid.

On the corporate level, debt issuances are highlighted for total volume of €800 million, as well as two transactions in the capital market for a total of €669 million.

All of this has been obtained in the framework of the improvement in our ratings, our conversion into a SOCIMI, and our inclusion in the IBEX35, the benchmark index on the Spanish stock exchange.

P. Viñolas
The year 2017 was extraordinary, as the Chairman has stated, and was marked by a clear fulfillment of the Business Plan and of all of the objectives set by the company.

On an operational level, we have formalized 99 contracts corresponding to a total surface area of more than 130,000 sq m and €48 million in annual rents with top tier clients. The main aspect to highlight is the increase in prices we have achieved. The year-on-year increase is at 9%, with Barcelona highlighted at 10%. If we compare the new rental prices of contract renewals to previous ones, the increase in prices is currently in double digits, boosted by Barcelona which is up 19% and Madrid up 11%.

These parameters have enabled us to maintain the portfolio at full occupancy levels reaching 96%, highlighting the Barcelona market with a 99% occupancy. In this sense, it is important to mention the good reception of the Parc Glòries project, where 80% was let previous to completion. Specifically, more than 10,000 sq m were pre-let in the 4th quarter of 2017, pre-letting ratios never seen in Barcelona.

In the portfolio rotation, we have maintained our financial discipline, divesting with active mature premiums to reinvest the capital in properties with real estate growth potential, creating prime products with maximum quality.

Consequently, we obtained total returns of 21% for our shareholders. Since the beginning of the real estate sector recovery in Spain that started mid-2014, the total returns have been at 99% for Colonial shareholders. This is the highest return in the listed Spanish sector and among the highest in Europe.

It is important to highlight that these returns were obtained within the framework to maintain a strong capital structure with a solid investment grade rating.

The capital market has awarded the achievement of all these milestones and the solid bet the Colonial offers, with a revaluation of 26% in 2017.

What aspects would you highlight in the non-financial sector?

J.J. Brugera
The key element in the Colonial Group’s strategy is the objective and commitment to generate sustainable results in the long term. We are committed to all of our stakeholders (shareholders, investors, clients, employees, creditors, suppliers and society), and therefore we aspire to the highest standards in Corporate Social Responsibility.

We are very proud to have taken on a leading role in the Spanish sector, being the only company to have the maximum EPRA rating in sustainability for the second year in a row. We have also reached the GreenStar status by GRESB, which rates more than 800 companies around the world.

More than 90% of our property portfolio in operation hold LEED and BREEAM certifications, the maximum energy efficiency qualifications.

In the Corporate governance arena, we are at the highest levels of best practices.

P. Viñolas
Being leaders in all areas of Corporate Social Responsibility is very important to us, and therefore constitutes an essential part of the Group's strategy to offer sustainable profitability in the long term.

Likewise, it is important to anticipate all of the new trends that can come up in any field that could affect returns in the long term. As a consequence, Colonial has made a firm bet on the CoWorking business by acquiring Utopic_US, a leading platform in the Spanish market, and has reinforced the strategy of the Group with various initiatives in the Proptech field.

What are the prospects for the current year and in the medium term?

J.J. Brugera
The 2017 results offer us a solid base for the new year in progress. With the execution of Alpha III in January, we have already reached our investment objective for 2018, expanding our portfolio with 5 buildings, highlighting two plots of land south of the Spanish capital.

The takeover bid on Axiare was successful and this year we will work on the combining of both companies.

Paris continues to be a very stable and attractive return base, especially for experts in this business. As the same time, there are attractive prospects for the city with many dynamizing elements such as the "Grand Paris" project, for example, positive impacts from the Brexit, and acceleration in the growth of the economy on the basis of reforms, as well as the Olympics in 2024 on the horizon.

P. Viñolas
Colonial has started 2018 with elevated solidity, with a portfolio at full occupancy, a strong balance sheet and a portfolio of more than 240,000 sq m above ground under refurbishment or for development, concentrated in 10 projects. This implies a solid base for future value creation, based on products with attractive acquisition cost levels, as well as a high potential for real estate transformation, creating prime products in the market with good fundamentals and growth prospects.

Additionally, we have incorporated more than 40 assets from the Axiare portfolio with a potential for annual rents of more than €100 million.

Therefore, the total revenues of the Group, which currently amount to €300 million annually, could reach more than €500 million once all of the projects are executed and all of the Axiare assets are included.

Additionally, we will analyze all of the possibilities of property disposals that show no further value path, and we will continue to look for attractive investment opportunities. All of this will be done while maintaining maximum financial discipline and ensuring an investment grade financial structure.

We are focused on maximizing the returns for our shareholders, specifically to provide an attractive profitability with a low risk profile and to continue fulfilling our Business Plan, as we have done to date, counting on the support of the capital markets.

J.J. Brugera
The main focus of our strategy is attractive profitability for our shareholders, based on a growth plan where quality and long term sustainable results prevail.

In this regard, I formally thank the trust of all of our shareholders that support our vision, management and results. With them and thanks to them, we build the bases of our future day by day.

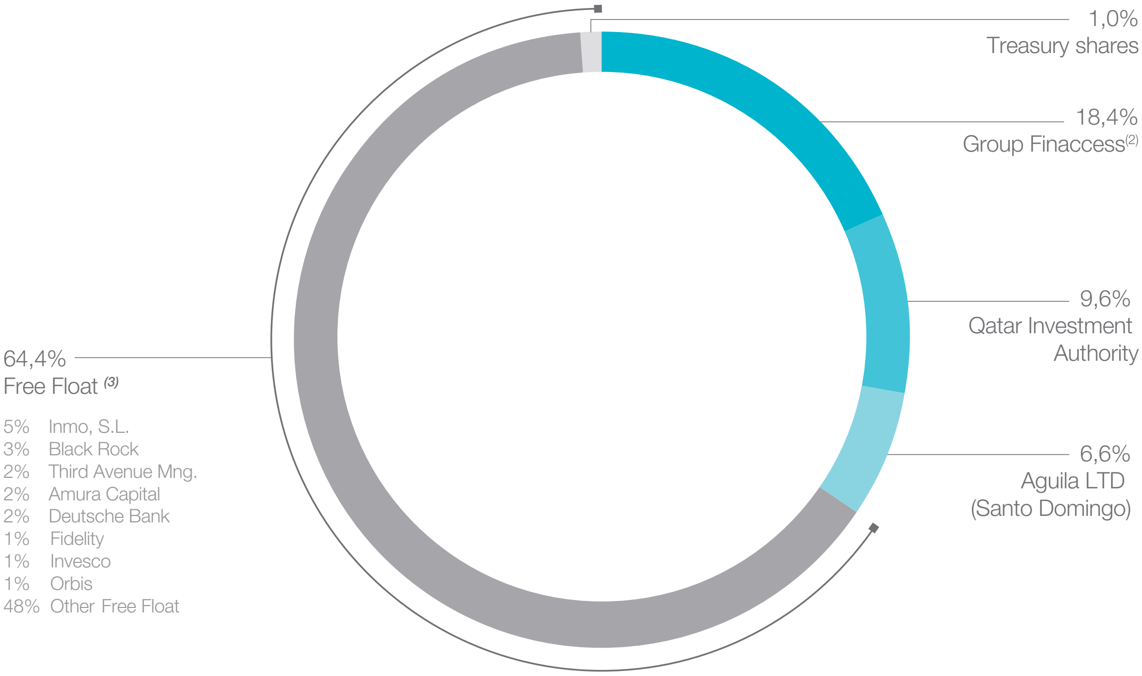
01

Shareholders structure and Corporate Governance

1.1. Shareholder Structure

Colonial's shareholder structure is as follows:

Shareholder structure at 26/01/2018[1]



(1) According to reports in the CNMV and notifications received by the company
(2) Through Hofinac BV, Finaccess Capital, S.A. de C.V. and Finaccess Capital Inversores, S.L.
(3) Free float: shareholders with minority stakes and without representation on the Board of Directors.

1.2. Corporate Governance

The Colonial Group works to achieve the Sustainable Development Goals (SDGs). Accordingly, through its Corporate Governance it contributes to SDG number 8: **Decent work and economic growth** within the framework of its shareholder commitments.

8 DECENT WORK AND ECONOMIC GROWTH

One of the basic pillars of the Colonial Group is to maintain best corporate governance practices through compliance with the regulations and recommendations issued by Spanish and European regulatory bodies, together with the commitment to transparency in those areas of most significance to investors and shareholders of the Colonial Group.

Board of Directors

The Board of Directors, acting as a single body, is responsible for the management, administration and representation of the Company. The Board's main duties are to supervise and control the Company's strategy and general management, and to consider all issues of particular significance to the Company.

The Board of Directors is endowed with the broadest powers with respect to the administration, representation and management of the Company, and the administration and use of its equity. All powers not attributed to the General Shareholders' Meeting by law or under the Bylaws lie with the Board.

Pursuant to Spanish Limited Liability Companies Law, the Board of Directors has, among others, the following non-delegable powers:

> Approval of the strategic or business plan, management objectives and annual budgets, investment and financing policy, corporate social responsibility policy and dividends policy.

> Determining the risk control and management policy, including tax risks, and supervising internal information and control systems.

> Determining the corporate governance policy of the Company and of the Group, its organisation and functioning and, in particular, the approval and amendment of its own regulations.

With regard to its breakdown, the Board of Directors must ensure that the procedures for selecting its members favour diversity of gender, experience and knowledge, and that they are free from any implicit bias entailing any kind of discrimination and, in particular, that they facilitate compliance with the Board's diversity objectives. In this regard, the Candidate Selection policy for directors of Inmobiliaria Colonial, SOCIMI, S.A. expressly sets forth the target at least 30% women directors on the board by 2020 (up from the current 10%).

At 31 December 2017, Colonial's Board of Directors had 10 members, four of which were independent directors, four are proprietary directors and two are executive directors.

Likewise, in accordance with Colonial's Bylaws, the Board of Directors counts with an Executive Committee, an Audit and Control Committee and a Nomination and Remuneration Committee.

The Audit and Control Committee and the Nomination and Remuneration Committee have the essential function of providing support to the Board of Directors in its undertaking to supervise and control the Company's ordinary management and its members are appointed by the Board of Directors, to which they are answerable in the performance of their duties.

At 31 December 2017 the breakdown of the Board of Directors, the Audit and Control Committee and the Nomination and Remuneration Committee was as detailed in the following table.

Board of Directors

Name	Title		Committee Role	
Juan José Brugera Clavero	Chair	Colonial	Chair	Executive Committee
Pere Viñolas Serra	Chief Executive Officer	Colonial	Member	Executive Committee
Sheikh Ali Jassim M. J. Al-Thani	Proprietary Director	QIA		
Adnane Moussanif	Proprietary Director	QIA	Member	Executive Committee, Nominations and Remuneration Committee
Juan Carlos García Cañizares	Proprietary Director	Aguila LTD (Santo Domingo)	Member	Executive Committee, Nominations and Remuneration Committee
Carlos Fernández González	Proprietary Director	finaccess fondos de inversión	Member	Executive Committee
Ana Sainz de Vicuña	Independent Director		Chair	Audit and Control Committee
Carlos Fernández-Lerga Garralda	Independent Director		Member	Executive Committee, Audit and Control Committee
			Chair	Nominations and Remuneration Committee
Javier Iglesias de Ussel Ordís	Independent Director		Member	Nominations and Remuneration Committee, Audit and Control Committee
Luis Maluquer Trepat	Independent Director		Member	Nominations and Remuneration Committee, Audit and Control Committee
Francisco Palá Laguna	Non-Director Secretary		Secretary	Executive Committee, Nominations and Remuneration Committee, Audit and Control Committee
Nuria Oferil Coll	Non-director Vice-Secretary		Vice-Secretary	Executive Committee, Nominations and Remuneration Committee, Audit and Control Committee

● Executive Committee ● Nominations and Remuneration Committee ● Audit and Control Committee

Audit and Control Committee

The Board of Directors' Regulation establishes that the Audit and Control Committee will be comprised by a minimum of three and a maximum of eight directors, all of which must be non-executive directors, appointed by the Board of Directors.

The Audit and Control Committee will appoint a Chair from among its members who, under all circumstances must be an independent director. The Chair of the Audit and Control Committee will be replaced every four years, and may be re-elected after one year has elapsed from the date on which his/her term of office expires. The members of the Committee will be relieved of their duties once their tenure as director finishes, or as agreed by the Board of Directors.

Without affecting the remaining functions attributed to it by Law and the Company Bylaws and, in compliance therewith, and the Board of Directors' Regulations, the Audit and Control Committee supervises the efficiency of internal control, internal audit and the risk management systems, as well as external audits.

In the risk control and management area, the Company has set up the Regulatory Compliance Unit (RCU) and the Internal Audit Unit (IA), which are directly answerable to the Company's Audit and Control Committee. In this regard, the RCU is responsible for ensuring compliance with any laws and regulations that may affect the Company. Meanwhile, the IA is responsible for the oversight required as established in its annual plans to assess the efficiency of the risk management and control processes implemented to mitigate any risk.

At 31 December 2017, the Audit and Control Committee was formed of four directors, all independent. In 2017, the ACC met 10 times; notable among its activities were the following:

- Act as a communication channel between the Board of Directors and the external auditor, assessing the findings of each audit.
- Issue, prior to issuing the auditor's report, a report expressing an opinion on the independence of the auditors or audit companies.
- Monitor the effectiveness of the Company's internal control, internal audit and risk management systems, including tax risks, and discuss with the auditors any weaknesses detected in the internal control system during the course of the audit.
- Approve reports on the risk management and control policy, corporate governance and treasury share reports to be submitted to the Board of Directors.
- Monitor compliance with the Group's corporate social responsibility (CSR) policy.
- Supervise compliance with the internal codes of conduct.
- Supervise the process of drawing up and presenting the required financial information.
- Report on the Annual Corporate Governance Report, which forms part of the financial statements, for its submission to the Board of Directors for approval.
- Evaluate its own functioning within the framework of the self-evaluation process of the Board of Directors and its Committees.
- Analyse and inform on the Company's treasury share transactions to be submitted to the Board and, in particular, issue the favourable report for the plan to repurchase shares and monitor such plan.
- Notify the Board, through the Chair, of the content of the ACC meetings.
- Review the structure of the Company's powers.
- Analyse the update of the Company's risk map and processes map, and review and assess the risk inventory.
- Analyse the effect of the Company availing itself of SOCIMI's special tax system, together with its economic impact, based on the reports of external advisers submitted to the Committee by the corporate managing director.
- Likewise, inform on the remaining corporate transactions projected by the Company in that year.
- Inform on the issue of bonds under the "Euro Medium Term Note" programme.
- Supervise the application of the measures agreed in the framework of the cybersecurity action and improvement plan.
- Implementation of the Audit and Control Committee Regulations.

In relation to the Audit and Control Committee Regulations, in the 2017 financial year, a draft document was prepared, which was approved by the Board of Directors at its meeting on 22 February 2018, in line with Technical Guide 3/2017: On audit Committees at public-interest entities of the Spanish National Securities Market Commission (CNMV) of 27 June 2017, which sets forth the procedure and specific criteria that define the involvement of the ACC in preserving, among other things, the independence of the external auditors.

Also, the Audit and Control Committee assessed its functioning in 2017. This self-assessment was conducted, in line with article 34 of the Board of Directors' Regulations, through the issue of questionnaires sent to each member. These questionnaires include evaluation of the following dimensions: structure of the committee, organisation, performance and execution of competences.

After analysing the findings, they are subsequently submitted to the Company's Board of Directors which, ultimately, is the body in charge of approving the Committee's comprehensive assessment.

Nomination and Remuneration Committee

The Board of Directors' Regulation establishes that the Nomination and Remuneration Committee (NRC) will be formed of a minimum of three and a maximum of eight directors, all of which must be non-executive directors, appointed by the Board of Directors.

The Nomination and Remuneration Committee will appoint a Chair from among its members who, in all circumstances, must be independent. The NRC members must leave their post when agreed by the Board of Directors.

Without prejudice to any other functions attributed thereto by Law, the Company Bylaws and, in compliance therewith, the Board of Directors' Regulations, the Nomination and Remuneration Committee has, at least, the following responsibilities:

1. Evaluate the skills, knowledge and experience necessary for Board members, defining the functions and skills required for candidates, and assessing the time and dedication necessary to perform their roles effectively.

2. Establish a representation target for the less represented gender on the Board of Directors and draft guidelines to reach this target.

3. Submit to the Board the proposals for appointing independent directors to be designated by co-option or to be submitted for approval at the General Shareholders' Meeting, as well as proposals for re-election or withdrawal by the shareholders at the General Shareholders' Meeting.

4. Report on the proposed appointments of remaining directors for their designation by co-option or for their submission for approval at the General Shareholders' Meeting, as well as proposals for re-election or separation by the shareholders at the General Shareholders' Meeting.

5. Report on the proposals for appointment and separation of senior executives and the basic terms and conditions of their contracts.

6. Examine and organise the succession of the Chair of the Board and the Company chief executive and, if appropriate, make proposals to the Board of Directors in order for successions 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 observance thereof.

8. Supervise compliance with corporate governance rules. For these purposes, the following minimum functions will be specifically attributed to the Nomination and Remuneration Committee: (i) monitoring of compliance with the Company's corporate governance rules; and (ii) frequent assessment of the adaptation of the Company's corporate governance system.

The Corporate Governance Unit, which is directly answerable to the NRC, was set up to oversee compliance with corporate governance rules, to advise on and propose procedures required to keep Company corporate governance in line with the best national and international practices and recommendations.

In 2017, the Corporate Governance Unit prepared an Annual Activities Report, summarising the main activities performed, the attainment of the objectives defined for the Unit by the NRC and, as a result, a series of priorities approved for 2018.

At 31 December 2017, the Nomination and Remuneration Committee comprised five directors, all of whom were non-executive, two of which were proprietary directors and three of which were independent directors. In 2017, the NRC met eight times; notable among its activities were the following:

> Coordinate and submit to the Board the reports on the evaluation of the board itself and of the NRC, and on the performance of their functions by the Chair, the Chief Executive Officer, the Lead Director and the Secretary, relying on the advisory services of an expert third party.

> Supervise observance of the remuneration policy established by the Company and, in particular, propose the variable remuneration of the Chair and CEO to the Board of Directors.

> Analyse the classification of the Board members, in line with that stipulated in the Company's Bylaws, the Spanish Limited Liability Companies Law and the corporate governance recommendations.

> Inform favourably and propose to the Board the approval of the Annual Directors' Remuneration Report. Supervise compliance with corporate governance rules. In particular, the following functions were performed: (i) monitor compliance with the Company's corporate governance rules; and (ii) assessment of the suitability of the Company's corporate governance system.

> Acknowledge the appointment of a female independent director at the subsidiary Société Foncière Lyonnaise, together with the proposal to increase fixed remuneration, fees and attendance fees of the directors of that subsidiary.

> Propose, based on compliance with indicators, 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 (the "Plan").

> Analyse and monitor the possible amendments to the Plan and inform on the proposals made by PricewaterhouseCoopers, S.L in this regard.

> Agree, for the purposes of motivating and retaining talent in the management team, an extension of the Plan in the same terms as those approved by the General Shareholders' Meeting on 21 January 2014, so that that Plan remains in force in 2019 and 2020.

> Propose to the Board that it submits a proposal to the General Shareholders' Meeting to set the number of Directors at ten as a result of the waiver presented by the director Mr Juan Villar-Mir de Fuentes.

> Implementation and development of the directors' update plan in relation to, among other things, new trends arising in the sector, which are having a disruptive effect on the property business, with particular reference to "PropTech" and the "CoWorking" phenomenon.

> Inform the Board favourably regarding the resignation of Mr Sheikh Ali Jasssim J.M. Al-Thani as a member of the NRC and of the appointment of Mr Adnane Mousannif as a new member.

Risk Management

The Group's main objective is to have sustained ongoing growth, providing value to stakeholder groups and managing all risks that may arise throughout the course of its activities. In this regard, Colonial has a Corporate Governance system, together with solid risk control and management procedures.

To gain maximum possible control over its risks, the Board of Directors has delegated to the Audit and Control Committee with the management and monitoring of all risks that may affect the Company. This monitoring is carried out through the implementation of the internal control and risk management system (hereinafter, ICRMS), together with frequent update and follow-up of the Company's risk map.

The risk map is a tool used by Colonial to visually represent the risk assessment based on its impact (effect produced at the Group measured in economic, operational, reputational and compliance terms) and its likelihood of occurrence.

In 2017, the Group updated and approved its corporate risk map, in line with the significant changes occurring mainly in the socio-economic environment, the office lease real estate sector itself and the Group's position.

Accordingly, the Internal Audit Unit coordinated the update of Colonial's corporate risk map in conjunction with the parallel SFL risk map update process. In this regard, two risk maps were obtained with a homogeneous structure, which were submitted in 2017 to their respective Audit and Control Committees. The objective of both risk maps is to be dynamic, periodically performing a review of the evolution of each risk, the established controls and the action plan to mitigate them. The Company published several documents (Annual Corporate Governance Report, continuation prospectus) describing the main risks identified in its risk map.

In 2017, Colonial carried out additional risk management activities:

> The RCU updated Colonial's regulatory risk matrix, placing special emphasis on raising the directors' awareness in each area.

> The RCU gave specific risk management training across the different levels of the Company in the following areas:

  – Corporate Governance

  – Criminal risk prevention

  – Prevention of money laundering and terrorist financing.

> The Financial Area implemented the following procedures:

  – Preparation of a tax report, featuring an analysis of the Group's tax contributions in addition to the Group's main figures in this aspect.

  – Analysis of reports by the Company's tax advisers in relation to the requirements and impacts for Colonial, for the Group's structure and for its shareholders as a result of availing itself of SOCIMI's special tax system.

> To strengthen the environment of control, the Internal Audit Unit reviewed the authorisation levels for the management of purchases and services provisions. Also, it implemented a new application for the Internal Audit Unit to monitor control of the suppliers the Company works with, the billing amounts of those companies and the approval circuits for these.

> In the cybersecurity area, and after analysing the degree of maturity and exposure of Colonial's information systems in this area, in 2017, the Company implemented an action plan to mitigate this risk.

Ethics and compliance

The Code of Ethics constitutes a basic reference within the scope of the good governance recommendations recognised in international markets and the principles of social responsibility accepted by the Company.

This Code of Ethics lays down Colonial's commitment to the principles of corporate ethics and transparency, and establishes a series of basic principles to which all Colonial Group personnel, partners and suppliers must adhere at all times.

It forms part of Corporate Governance regulations at the Company, which ensures that it is adhered to and carried through, using the means it considers most effective.

The Code of Ethics is provided to new employees when they join the Company, and it is permanently available on the corporate Intranet. When deemed appropriate, reminders are sent regarding the need to comply with this Code.

As a tool to effectively apply the Code of Ethics, Colonial provides its employees with an internal complaints channel so that any employee that is aware of or has suspicions based on any irregularities related to accounting and auditing matters or breaches of the Code of Ethics may present the related complaint, which will be dealt with on a confidential basis by the Regulatory Compliance Unit, which will perform all actions required to provide an adequate response.

For Colonial it is highly important that its team demonstrates ethical and transparent conduct and show integrity. Accordingly, not only is it responsible for complying with the legislation in force and Corporate Governance standards, but it also endeavours to establish links with its stakeholders based on exemplary conduct.

Code of Ethics

1. Objective
2. Scope of application
3. Colonial's vision and values
4. Guidelines
   > Compliance with the prevailing legislation
   > Professional integrity
   > Respect for the environment
5. Relationship with and among the Group's employees
   > Non-discrimination, mutual respect and equal treatment
   > Equal opportunities
   > Work/life balance
   > Right to privacy
   > Occupational health and safety
6. Commitment to third parties and to the market
   > Free competition
   > Integrity in management
   > Client relations
   > Relations with suppliers and contractors
   > Relations with shareholders
   > Privileged and confidential information
   > Safeguarding corporate assets
   > Conflicts of interest
   > Neutrality
   > Social commitment
   > External activities
7. Implementation of and compliance with the Code of Ethics

The content of Colonial's Code of Ethics is summarised in the table.

Prevention of regulatory risks

In addition to the Code of Ethics, the Company has also implemented a regulatory risk prevention system, which it manages through the Regulatory Compliance Unit. This Unit is made up of the Chief Legal Officer and the Internal Auditor, who report directly to the Audit and Control Committee.

The functions of the RCU, without prejudice to any others attributed to it by the Board of Directors or the Audit and Control Committee, include the following, among others:

> Keep all regulations applicable to Inmobiliaria Colonial, SOCIMI, S.A. up to date and available for the Audit and Control Committee.

> Be cognisant of legislative changes applicable to Inmobiliaria Colonial, SOCIMI, S.A. and implement procedures to ensure that these are adhered to.

> Regularly appraise compliance with all applicable legislation as well as the appropriateness and effectiveness of internal regulations.

> Establish, apply and maintain appropriate procedures to detect and endeavour to correct any breaches of the obligations included in the applicable regulations.

> Exercise the functions assigned under the Internal Code of Conduct (ICC) of the Securities Markets, the Code of Ethics of Inmobiliaria Colonial, SOCIMI, S.A. and any other Company Corporate Governance rules.

> Present the Audit and Control Committee with an Annual Activities Report.

Within the function of detecting and endeavouring to rectify breaches of applicable regulations, Colonial has a specific Criminal Risk Prevention Manual and a Prevention of Money Laundering and Terrorist Financing Manual. With regard to the content of these Manuals, the RCU regularly performs diverse initiatives to increase the knowledge of Company employees. Also, both the manuals in their current versions and diverse documentation deemed to be of interest by the RCU are available for Colonial employees on the corporate Intranet.

In 2017, the main procedures carried out by the RCU were as follows:

1. Report on amendments to the Bylaws, on the Regulations of the General Shareholders' Meeting and the Regulations of the Board of Directors in the financial year.

2. Perform a review and analysis of the regulations on the operation of the Audit and Control Committee as a result of the publication of Technical Guide 3/2017 on audit committees at public-interest entities by the CNMV.

3. Manage and monitor the Internal Conduct Regulations (ICR) for the Securities Market.

4. Manage the Company's whistleblower channel and publication of the Code of Ethics.

5. Manage and monitor the obligations of the Anti-Money Laundering and Counter Terrorism Financing Manual. Annual Report and support to the ICCB.

6. Management and monitoring in the Personal Data Protection area.

7. Analysis of the new regulatory data protection (GDPR) environment for adaptation thereto when the new regulations apply.

8. Frequent update of the Criminal Risk Prevention Manual.

9. Execution of the regulatory update programme.

10. The RCU favourably informed on the content of the Corporate Social Responsibility Report for 2016, with regard to the performance of its activities.

Conflicts of interest

With respect to the management of possible conflicts of interest, the Board of Directors' Regulations include the legal provisions of the duty of loyalty and the duty to avoid conflicts of interest, together with the imperativity and exemption systems. In accordance with the foregoing and by virtue of these rules, the directors must abstain from participating in deliberation and voting on resolutions or decisions in which such directors or people related thereto have a direct or indirect conflict of interest. Likewise, the Company has internal procedures to identify and manage any conflicts of interest that may arise during its day-to-day business.

1.3. Management Team

1 **Juan Manuel Ortega,** Chief Investment Officer

2 **Núria Oferil,** Chief Legal Officer

3 **Àngels Arderiu,** Chief Financial Officer

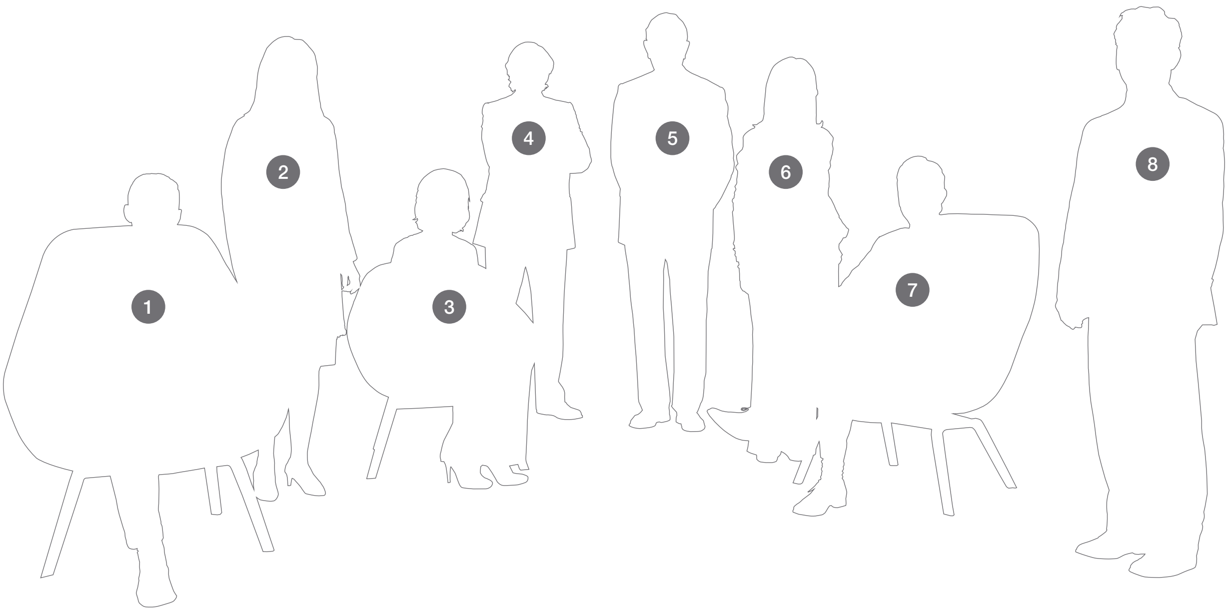
4 **Pere Viñolas,** Chief Executive Officer

5 **Juan José Brugera,** Chairman

6 **Carmina Ganyet,** Corporate Managing Director

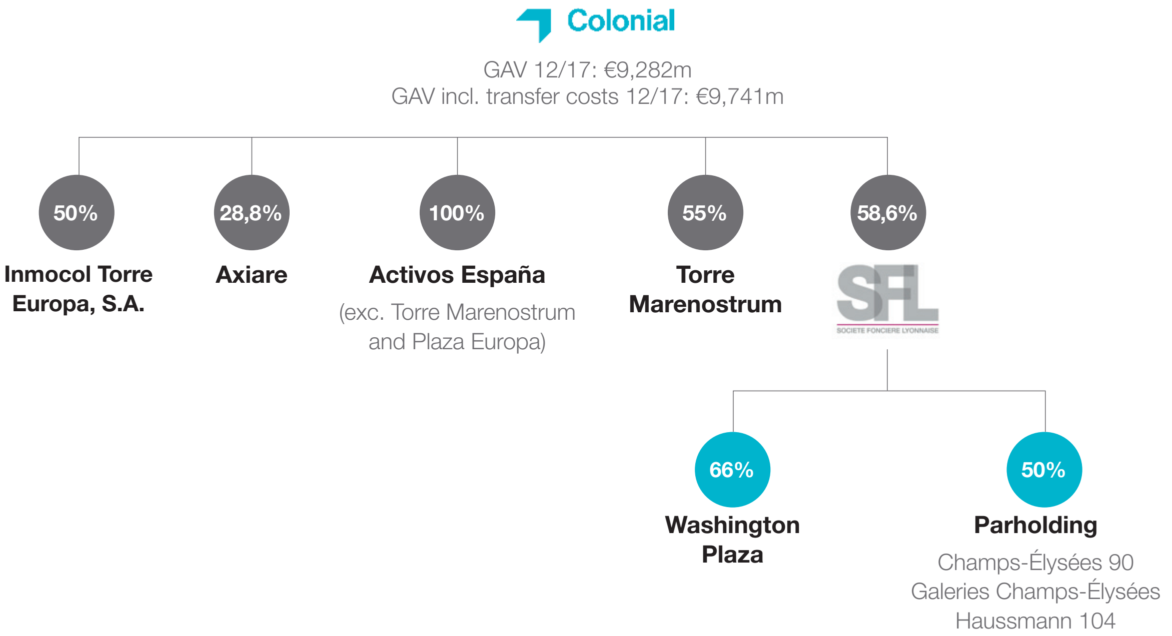
7 **Carlos Krohmer,** Chief Corporate Development Officer

8 **Albert Alcober,** Chief Operating Officer



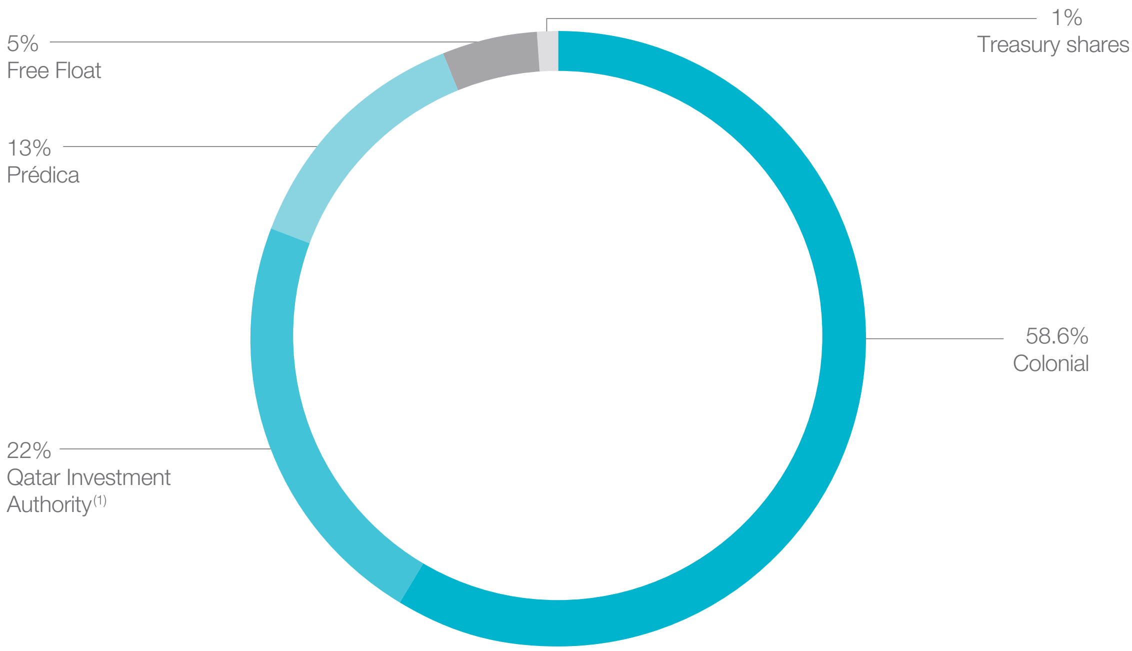
1.4. Group Structure

Colonial Group



SFL - Shareholder Structure

SFL - Shareholder structure at 31/12/2017



(1) Participation held through Qatar Investment Authority (13.7%) and DIC Holding (8.6%).

1.5. Share price performance

Colonial's shares closed 2017 with a revaluation of 26%, outperforming the benchmark indices (EPRA and IBEX 35).

The average daily trading volume during 2017 reached €12m, positioning it among the most liquid values of the Spanish Real Estate Companies. Additionally, on 19 June 2017, the Colonial Group was included in the IBEX 35, the benchmark index for the Spanish Stock Exchange, increasing the visibility of the company for institutional investors.

With respect to analyst coverage, there are currently 21 analysts, both national and international, covering the company. It is important to highlight that many analysts are pending to update their reports on Colonial. The maximum target price is €10/share issued by Morgan Stanley.

Colonial
EPRA
IBEX-35

32% buy
47% neutral
21% sell

The target prices and recommendations are as follows:

	Institution	Analyst	Date	Recommendation	Target Price actual (€/share)
1	Banco Santander	Jose Alfonso Garcia	17/10/16	Buy	7.5
2	Fidentiis	Pepa Chapa	23/02/17	Buy	7.6
3	Intermoney Valores	Esther Martín	05/05/17	Maintain	7.5
4	Bankinter	Jesús Amador	18/07/17	Neutral	8.1
5	Haitong	Juan Carlos Calvo	13/07/17	Neutral	8.1
6	Morgan Stanley	Bart Gysens	29/08/17	Overweight	10.0
7	Deutsche Bank	Markus Scheufler	18/10/17	Restricted	Restricted
8	Goldman Sachs	Jonathan Kownator	01/11/17	Neutral	8.9
9	ING	Jaap Kuin	13/11/17	Maintain	8.3
10	Green Street Advisors	Peter Papadakos	13/11/17	Maintain	8.5
11	BPI	Gonzalo Sanchez Bordona	13/11/17	Neutral	8.8
12	Merrill Lynch	Samuel Warwood	13/11/17	Neutral	8.0
13	Banco Sabadell	Ignacio Romero	13/11/17	Buy	8.7
14	Mirabaud	Ignacio Méndez Terroso	14/11/17	Sell	7.0
15	Societe Generale	Alvaro Soriano De Miguel	30/11/17	Buy	9.0
16	Bankinter Securities	Juan Moreno Martínez de Lecea	19/01/18	Sell	7.8
17	JB Capital	Daniel Gandoy	19/01/18	Restricted	Restricted
18	Alpha Value	Zeineb Sahnoun	22/01/18	Sell	8.8
19	Alantra Equities	Fernando Abril-Martorell García	05/02/18	Neutral	9.3
20	Kempen	Max Mimmo	05/02/18	Buy	9.4
21	Kepler Cheuvreux	Mariano Miguel	19/02/18	Sell	8.4
Analysts consensus					8.4

Source: Bloomberg & reports of analysts.

Colonial is a member of the following indices: IBEX 35, the FTSE EPRA/NAREIT Developed Europe, the FTSE EPRA/NAREIT Developed Eurozone and the Global Property Index 250 (GPR 250 Index).

In addition, Colonial is a member of the Morgan Stanley Capital International (MSCI) index, a global property benchmark index for profitability.

During the first half of 2017, MSCI rated Colonial as the best performing specialist fund for Spain. In particular, MSCI highlighted that Colonial had obtained the highest total annualized return in the last 3 years as at 31 December 2016 compared to the property sector benchmark.

MSCI European Property Investment Awards WINNER 2017

Investor Relations

The Colonial Group's priority is to maintain transparent and smooth communication through two-way dialogues with its investors and shareholders, in order to satisfy all concerns of this group.

In this regard, Colonial has a series of communication channels, as follows:

Shareholder Relations Office

E-mail: Accionistas@inmocolonial.com
Telephone no.: 93 404 79 10

Investor Relations

E-mail: inversores@inmocolonial.com
Telephone no.: 93 404 78 98
Address: Av. Diagonal, 532
08006 Barcelona

Webcast

The Colonial Group constantly seeks innovative channels that encourage communication with shareholders and enables them to reinforce trust between the Company and the stakeholders. Hence, in 2017, the Company held a total of 6 webcasts with free access, to explain the results of each quarter and the Group's performance. These presentations include the main novelties such as the conversion to a SOCIMI, the takeover bid over Axiare or the presentation of the new phase of the Alpha project.

Corporate website

The Colonial Group also provides shareholders and investors with a corporate web section aimed at presenting information that may be useful, such as, for example, the tentative dates for the publication of earnings, financial information, announcements of Board meetings and other significant events of the Group.

https://www.inmocolonial.com/accionistas-inversores/home-accionistas-inversores

Roadshows

The Investor Relations department is the main communication channel with shareholders, investors and analysts. The department is tasked with organising roadshows, meeting with shareholders and investors with the purpose of explaining the evolution of the current Business Plan and the attainment of the objectives defined.

These encounters constitute an update of significant matters such as global business performance, the income statement, occupancy data of the properties or the situation of the markets in which the Group operates. As in previous years, the roadshows have taken place in various European and North American cities. This year, a total of 45 encounters were held with investors, including roadshows, conferences and asset tours.

In this regard, noteworthy was the increase in 2017 of the coverage of analysts. Currently, a total of 21 analysts, both foreign and Spanish, follow the Company. Currently the maximum price target is €10.5/share.


P
COSTAPA
Green Shots
Green Shots

02

Highlights
2017

02. Highlights 2017

A year of excellent achievements

Financial Results

+21%

TSR[1]

Operational Performance

134,800 sqm let

Strong Rental Growth

Disposals

€445m

+27% premium[2]

Acquisitions

Alpha II

€389m

M&A

axiare PATRIMONIO

Take over bid

Equity Raising

€669m

2 ABBs

Bond Issuances

€800m

2 tranches

SOCIMI (REIT) conversion & IBEX inclusion

Colonial SOCIMI, S.A.

IBEX 35

Rating Upgrade

Colonial	Standard & Poor's	BBB
	Moody's	Baa2
SFL Société Foncière Lyonnaise	BBB+	

Integration of Co-Working Platform

Utopic_US

(1) 2017 Total Shareholder Return per share = NAV growth per share + Dividend yield.
(2) Premium on 2016 GAV.

Financial Results

2017 was an excellent year for the Colonial Group with a Total Shareholder Return of +21% due to an increase in the EPRA Net Asset Value per share of +19% in combination with a dividend yield of +2%.

This return is a consequence of a strategy of specialization on prime offices in the markets of Barcelona, Madrid and Paris, with an approach of real estate value creation – "Prime Factory" –, that priorities quality of return maintaining highest financial discipline.

Operational Performance

The Colonial Group's business has had an excellent performance with strong volumes of lettings, maintaining levels close to full occupancy.

The Colonial Group has signed 99 rental contracts, corresponding to 134,831 sq m and an annual rental income of €48m. More than 59,000 sq m correspond to new contracts, and more than 75,000 sq m to renewals.

The Colonial Group's portfolio has captured **significant increases in rental prices:** +9% versus the ERV at December 2016 (Barcelona +10%, Madrid +8% & Paris +8%). In addition, the increase in renewals (Release Spread) was in the double digits in Spain (Barcelona +19% Madrid +11%).

The excellent letting performance has enabled Colonial to achieve solid ratios close to full occupancy, clearly above the market average in the three cities in which the Group operates.

At the close of 2017, the EPRA vacancy of the Colonial Group was 4%. It is worth highlighting the Barcelona portfolio with only 1% vacancy. The Paris property portfolio had a 3% vacancy.

Vacancy in the Madrid portfolio reached 7%, mainly due to the entry into operation of the recently delivered Discovery project. Excluding this new product, the rest of the Madrid portfolio had a vacancy rate of 2%.

Disposals

The Colonial Group regularly reviews the potential of future value creation for each one of its assets in the portfolio. As a consequence of this analysis, in September 2017, the disposal of the In&Out office complex in Paris was completed for a price of €445m, representing a premium of +27% on the appraisal valuation prior to the disposal commitment. This sale represents the culmination of the process of real estate value creation for this asset: (1) the transformation of the building through a development project, (2) the signing of a long-term contract for the OECD headquarters, and finally (3) the disposal of the asset at one of the highest prices in this market segment.

The sale proceeds of this mature asset will be reinvested in new projects of the Group, such as the creation of the Emile Zola office complex in the 15th arrondissement in Paris with an approximate investment amount of €265m (purchase price + future capex).

Acquisitions

During the first quarter of 2017, the Colonial Group executed the Alpha II acquisition program, corresponding to the purchase of four assets for a total investment volume of almost €400m (acquisition price + future capex). Specifically, three development projects were acquired: Plaza Europa 34 in Barcelona, Paseo de la Castellana 163 in Madrid and 112-122 Av. Emile Zola in Paris, as well as the Spanish headquarters for the Bertelsmann Group in Travessera de Gracia 47-49, located in the Barcelona CBD.

M&A

Colonial successfully executed a takeover bid on Axiare on 13 November 2017, reaching a stake of 87%.

It is important to highlight the following milestones in the process:

- 13/11/2017: Announcement of the takeover bid on Axiare prior acquisition of shares to obtain 28.8%, pre-takeover bid.
- 28/12/2017: Approval of the takeover bid prospectus by the CNMV.
- 29/12/2017: Start of the acceptance period.
- 08/01/2018: Opinion of the Board of Directors of Axiare on the takeover bid.
- 29/01/2018: End of the acceptance period of the takeover bid.

The acquisition positions Colonial as a European office leader, with almost €10,000m of asset value, a portfolio of 1.7 million sq m of surface area in use and 330,000 sq m under development.

In addition, Colonial reinforces its bet on the office market in Spain, strengthening its positioning in Madrid.

Equity Raising

At the beginning of May, Colonial executed successfully a capital increase for an effective amount of 253 million of euros. The deal involved the issue of 35,646,657 new ordinary shares at a final price of €7.1 per share. Final Price breakdown corresponds to €2.5 of nominal value and €4.6 of share premium. The issuance was completed at a minimum discount on current market price underpinned by a strong demand. This capital increase represents a 9.99% of Colonial's share capital before the issuance and a 9.08% post money.

Additionally, during the month of November, Colonial successfully closed the capital increase announced at the market close on 29th November for the total amount of €416 million. The operation consisted in the issue of 42,847,300 new ordinary shares at an issue price of €7.89/share, representing a 2.1% premium over the last closing market price. This capital increase represents 10.92% of Colonial's share capital before the issue.

Bond Issuances

At the end of November, Colonial successfully closed two issuance of senior unsecured notes (bonds) for the total nominal amount of 800 million euros structured in two tranches; 500 million euros with an 8 year maturity, due date 28 November 2025, and 300 million euros with a 12 year maturity, due date 28 de November 2029. The demand has exceeded the volume of the issue in almost 3x.

The bonds will accrue an annual coupon of 1.625% for the 8 year tranche, and 2.5% for the 12 year tranche, payable annually in arrears. This structure adds a new financing with an average of 9.5 year maturity to the Colonial group with a resulting financial cost of 1.95%.

Rating Upgrade

At the end of 2017, the Colonial Group had a robust capital structure with a solid "Investment Grade" rating.

1. In April of this year, the Standard and Poor's ratings agency revised Colonial's rating upwards and currently gives it a **BBB rating with stable outlook**. Additionally, a report was published in October 2017 that highlighted Colonial's good positioning due to the geographical diversification of its assets.

2. Moody's whose **rating for Colonial stands at Baa2 with negative outlook**, recently mentioned in a report the possible impact the political situation in Spain could have on Colonial's rating where it underlined the defensive nature of Colonial's prime asset portfolio.

3. Additionally, in October 2017, the credit ratings agency Standard & Poor's **revised SFL's rating upwards to BBB+ with stable outlook**.

These current levels of ratings position the Colonial Group among the companies with the best credit ratings in the Spanish real estate sector.

SOCIMI (REIT) conversion & IBEX inclusion

On 19 June, the Colonial Group was included in the IBEX 35, the benchmark index for the Spanish Stock Exchange, which the increases visibility of the company for institutional investors. To date, the market capitalization of the company amounts to approximately €4,000m with a free-float of 64%.

Initiatives in the Proptech field

The Colonial Group's strategy involves taking advantage of initiatives in the Proptech field, which enable the Group to maximize the service provided to its clients and to be a leader in emerging trends in the offices sector.

There are three initiatives carried out throughout the year:

1. In October 2017, Colonial formalised the acquisition of a controlling stake in the Spanish platform Utopic_US, a leader in the field of flexible spaces and Coworking in Spain. With this acquisition, the Colonial Group has positioned itself in a new strategic line with the objective to complement and reinforce the user strategies of the Group, offering flexibility, integrated services and content.

2. In August 2017, Colonial incorporated Aleix Valls, the former Managing Director of Mobile World Capital Barcelona, as Digital Senior Advisor to boost initiatives and strategies in the Proptech area of the company.

3. Colonial is part of a think-tank created by six European companies specialized in the office business line in order to develop and boost best practices in the Proptech, Flexible Office Space, Digitalization and Sustainability fields.

Maximum standards in Corporate Social Responsibility (CSR) and Reporting

The Colonial Group maintains the maximum standards in Financial Reporting as well as Sustainability Reporting. For the third consecutive year, it has obtained the EPRA Gold Award in Financial Reporting, as well as the EPRA Gold Award in Sustainability Reporting for the second consecutive year. The Colonial Group is the only Spanish REIT company (SOCIMI) with the maximum rating in both categories.

Regarding the ratings in relation to CSR, the Colonial Group has achieved the GREEN STAR rating by GRESB, a benchmark institution in CSR ratings in the real estate sector on a global scale.

In addition, the SFL subsidiary has been awarded with the "BREEAM Awards 2017" for the responsible management of its portfolio and the strong commitment of its teams in sustainable development.

It is important to highlight that 93% of the Group's portfolio in operation has maximum Sustainability certificates (BREEAM/LEED), clearly positioning Colonial as a leader in the European offices sector.

Corporate Social Responsibility is an integrated part of Colonial's Group strategy to offer long-term sustainable returns.

Colonial Group regularly presents EPRA Best Practices at ASIPA and other forums in Spain. Colonial forms part of a Best Practices panel on CSR within the framework of an EPRA workshop in Brussels.

Colonial forms part of a think-tank created by 6 European companies specialising in office business that are leaders in their respective real estate markets: Alstria, COIMA RES, Colonial, Gecina, Great Portland Estates and NSI. Their objective is to develop and promote best practices in the fields of Proptech, Flexible Office Space, Digitalisation and Sustainability.

This forum for exchanges and initiatives will complement the actions taken by each of the companies. It will be a framework for research projects and any other initiative aimed at strengthening their capacity for innovation and implementing sustainability best practices.

In its presentations to investors and at quarterly Roadshows, Colonial reports on all CSR advances and collects comments and suggestions from the investment community in order to optimise reporting and adapt the long-term CSR strategy.

The investment market appreciates the fact that CSR is an integral part of the strategy at Grupo Colonial, prioritising return quality and sustainable results in the long term.


Colonial
Colonial

03

Business performance

3.1. Portfolio letting performance

Signed contracts

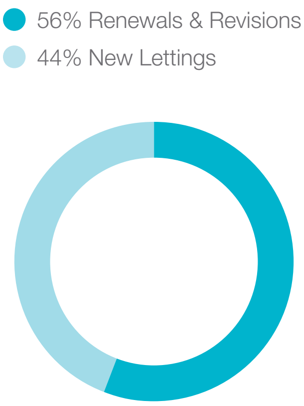
During 2017, the Colonial Group signed contracts for **a total of 134,831 sq m**. Out of the total contracts 84% (113,789 sq m) were signed in Barcelona and Madrid, and the rest (21,042 sq m) were signed in Paris.

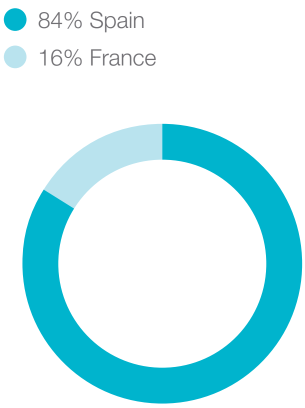
New lettings: Out of the total commercial effort, 44% (59,708 sq m) related to new contracts, of which more than 40,000 sq m were signed in Barcelona and Madrid.

Renewals: Contract renewals were carried out for 75,122 sq m, highlighting almost 42,000 sq m that were renewed in Madrid.

New signed rents were 13% above previous rents, in particular signed rents in Barcelona were up 19% and in Madrid up 11%.

Letting performance December cumulative - sq m	2017	Average maturity	% New rents vs. previous
Renewals & revisions - Barcelona	31,724	3	19%
Renewals & revisions - Madrid	41,348	4	11%
Renewals & revisions - Paris	2,050	9	0%
Total renewals & revisions	**75,122**	**3**	**13%**
New lettings - Barcelona	19,890	5	
New lettings - Madrid	20,826	6	
New lettings - Paris	18,992	10	
New lettings	**59,708**	**7**	**na**
Total commercial effort	134,831	5	na





Colonial's total **commercial effort** is spread over the three markets in which the company operates, highlighting the following actions:

Main actions

Building	Tenants	Surface (sq m)
Barcelona		
Diagonal, 220-240 Glories	Ajuntament de Barcelona	11,672
Parc Glories	King Share Services & Schibsted Spain	10,185
Diagonal, 530	Caixabank	7,058
Illacuna	Liberty Seguros, Konecta & others	8,278
Diagonal, 609-615 (Dau/Prisma)	Caixabank, Ceva Salud Animal & others	6,624
Diagonal, 682	Clifford Chance, Cisco Systems & others	3,220
Madrid		
Poeta Joan Maragall, 53	Public company	11,475
Alcala, 30-32	Comunidad de Madrid	9,088
Santa Engracia	Public service company, Canal Isabel II Gestión & others	8,489
Recoletos, 37-41	Casino & BDO Audiberia	5,470
Castellana, 43	WeWork & others	5,998
Alfonso XII	Information Technology Nostrum & "PropTech" company	5,717
José Abascal, 56	Grant Thornton	2,820
Génova, 17	Caixabank & Zooplus Services	2,619
Paris		
Cézanne Saint-Honoré	KBL Richelieu Banque Privée & consulting firm	3,458
92 Champs Elysées	WeWork	3,381
Edouard VII	Theatre Edouard VII & others	2,960
103 Grenelle	Real Estate Group & Apparel company	2,946
Washington Plaza	Harmonie Technologie & others	2,832
#Cloud	Technology company	2,305

In Spain, during 2017, almost 114,000 sq m were signed, corresponding to 71 contracts.

In **Barcelona**, almost 52,000 sq m were signed, corresponding to 32 contracts, concentrated in properties located in Diagonal (Prime CBD) as well as the 22@ area.

Of special mention is the signing of more than 10,000 sq m on the Parc Glories project with King Shared (8,837 sq m) and with Schibsted Spain (1,348 sq m). If added to this is the 9,000 sq m also signed with Schibsted last year, the asset is currently almost 80% pre-let, before its entry into operation. In addition, worth highlighting is the renewal of more than 11,000 sq m with the Ajuntament de Barcelona on the Diagonal Glories building, the renewal with Caixabank of more than 7,000 sq m on the Diagonal 530 building, the renewal of almost 6,000 sq m with Liberty Seguros on the Illacuna building and the signing of almost 2,000 sq m and the renewal of 2,500 sq m with Caixabank on the Diagonal 609-615 building.

In the **Madrid** office market, more than 62,000 sq m were signed in 2017, corresponding to 39 contracts.

It is worth highlighting the renewal of a contract for more than 11,000 sq m on the Poeta Joan Margall 53 building with a government organisation, the renewal of 9,000 sq m on the Alcalá 30-32 building with the Comunidad de Madrid, as well as the renewal of a contract of almost 5,000 sq m with a transportation company on the Santa Engracia building and the renewal of 4,500 sq m in Recoletos 37-41 with Casino. Also worth mentioning is the signing of 5,500 sq m on the Castellana 43 building with WeWork and the signing of a contract for 4,100 sq m with the company PropTech on the Alfonso XII building, with rental revenues 28% higher than those of the previous tenant.

In **Paris**, more than 21,000 sq m were signed in 2017, corresponding to 28 contracts.

Among others, it is worth highlighting the signing of a 12-year contract for almost 3,400 sq m with WeWork on the 92 Champs Elysées building, the signing of 1,800 sq m with KBL Richelieu Banque Privée and the signing of 1,580 sq m with a consulting firm on the Cézanne Saint-Honoré property, as well as the signing of 1,350 sq m with a real estate services group and 1,596 sq m with a fashion company on the Grenelle 103 building. Also worth mentioning is the renewal on the Edouard VII Theatre for more than 2,000 sq m.

The transactions described above were closed with rental prices at the high end of the market.

Analysis of the tenant portfolio

Regarding the volume of rental renewals in the contract portfolio, 73,072 sq m of renewals were signed in Spain, and 2,050 sq m were signed in France.

This high volume of renewals shows the capacity of the Colonial Group to retain clients. This fact is also reflected in the length of time the tenants stay, as 75% of the main tenants have been clients of the Group for more than 5 years.

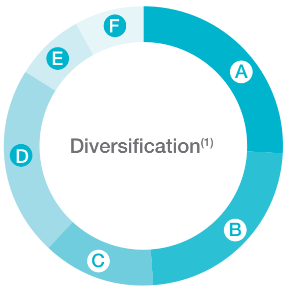
It is important to point out that Colonial has a solvent and diversified client base.

The sectors that stand out are those which, due to their type of business, require quality offices located in central business areas.

Ranking of the most important tenants (42% of rental income)

RK	Tenant	City	% total income	% cumul.	Age - Years
1	Natixis Immo Exploitation	Paris	4%	4%	14
2	GRDF	Paris	4%	8%	150
3	International Business Machines	Madrid	4%	12%	6
4	La Mondiale Groupe	Paris	4%	15%	10
5	Exane	Paris	3%	18%	2
6	Hennes & Mauritz / H & M	Paris	3%	21%	8
7	Zara France	Paris	3%	23%	8
8	Comuto	Paris	2%	26%	3
9	Freshfields Bruckhaus Deringer	Paris	2%	28%	14
10	Grupo Caixa	Barcelona / Madrid	2%	30%	25
11	Gas Natural SDG	Barcelona	2%	32%	12
12	Fast Retailing France	Paris	2%	34%	3
13	Klepierre Management	Paris	2%	36%	4
14	Grupo Comunidad de Madrid	Barcelona	2%	37%	22
15	Sociedad Estatal Loterias y Apuestas del Estado	Madrid	1%	38%	13
16	Iberia, Lineas Aereas de España	Madrid	1%	39%	5
17	Ajuntament de Barcelona	Barcelona	1%	40%	21
18	Casino de Juego Gran Madrid	Madrid	1%	41%	5
19	Allen & Overy	Madrid	1%	42%	1
20	Grupo Editorial Bertelsmann	Barcelona	1%	42%	19
Average					17

High quality tenants



A Law firms & Consultancy: 26%

ALLEN & OVERY
Freshfields
accenture
ashurst
CBRE
McKinsey&Company
MISYS
KLEPIERRE
Bird & Bird
CLIFFORD CHANCE
SCHIBSTED SPAIN

B Finance & Insurance: 23%

AG2R LA MONDIALE
CaixaBank
KBL RICHELIEU BANQUE PRIVÉE
ZURICH INSURANCE
MoneyGram
NATIXIS
COMGEST
Liberty Seguros
EXANE

- 75% > 5-10 years
- 25% < 5 years

C Digital & Information Technology: 13%

King
wework
facebook
BlaBlaCar
IBM
Pretty Simple
harmonie technologie
NICE
Akamai
Tecnocom

D Consumer Goods & Industry: 22%

BERTELSMANN
IBERIA
gasNatural fenosa
BOSS HUGO BOSS
FAST RETAILING
H&M
GRDF
zooplus
COTY
Constellium
ZARA

E Government Bodies: 8%

esma European Securities and Markets Authority
Proparco
Ajuntament de Barcelona
Servei Meteorològic de Catalunya meteo.cat
Loterías y Apuestas del Estado

F Leisure & Others: 8%

IT NOSTRUM
NBC UNIVERSAL
NH HOTELS
TV5MONDE
sacem
Lagardère

(1) Calculated based on the entire portfolio.

Satisfied clients

The Colonial Group, alongside its clients, is working to obtain the Sustainable Development Goal (SDG) Number 11: **Sustainable cities and communities.**

Priorities in client satisfaction and loyalty	Main progress in 2017
> To guarantee the quality and technical safety of the buildings that comprise the Colonial Group portfolio.	> Progress in certifying the buildings under BREEAM and LEED certifications.
> To foster innovation mainly in the services offered in communal areas.	> Community surveys carried out to implement those services that create value for Group clients.
> To actively develop the accessibility of the different buildings in the portfolio, ensuring a quality service.	> In 2017, Colonial performed works to improve a number of properties and to bring them into line with the highest-quality service proposal.
> To ensure a proactive, transparent two-way communications channel with different clients.	> In 2017, the fifth edition of the "Coffee with a manager" programme was held, a regular event since 2013.
> To encourage the inclusion of environmental and social aspects in satisfaction surveys and to conduct surveys on specific items that may concern clients (e.g. environment, accessibility, services, etc.).	> The satisfaction survey was conducted in France, with a general satisfaction rate that was highly positive at 96.92%.
> To promote social and volunteer activities with clients.	> Currently working on a client loyalty-building plan, which will include joint activities with clients.
> Identification of new services and trends for customers incorporating elements of "Flexible Office".	> Acquisition in October of the UTOPIC_US company pioneer in Spain in the creation of coworking spaces.

The success of the Colonial Group's strategy involves generating a bond of trust with clients, ensuring their long-term loyalty and satisfaction. This trust is only possible through pro-active and personalised management of each client. In this regard, the Colonial Group maintains a commitment to active listening and to providing innovative services that respond to client expectations.

Accessibility of buildings

All the Group's buildings have excellent connections and access to public transport, giving rise to optimum use of travel time by the property users, as well as reducing the environmental impact of the exploitation of the property.

The Group provides all new tenants with a welcome brochure which specifies all the building features, including access to public transport.

Portfolio of innovative services

One of the objectives of the Colonial Group is to stand out from its rivals by offering innovative services. Accordingly, Colonial's priority is to get to know its clients, identify their needs and expectations and offer the services that provide them with value.

To conduct ongoing monitoring, in 2017, the Group has conducted a survey specifically designed for the Spanish portfolio, known as "Community", to ask clients about the group of services offered and their needs at Colonial's buildings. A total of 47 clients participated in the survey, representing 44% of total rentals.

The following was taken into account in the survey:

- The appropriateness of the liaison person for the interview.
- The involvement of Colonial's teams.
- The participation of the main clients.

The survey was conducted on four main themes:

- Occupancy Policy.
- Work spaces.
- Services for employees.
- Corporate services.

The findings show a clear tendency of companies to move away from closed offices (telecommuting and roaming) and a greater need for work rooms, collaborative spaces and services for workers such as, gyms, change rooms, bicycle parking and recreational areas.

Through the survey, Colonial has confirmed the need to adapt certain buildings in order to create more dynamic, open spaces that will enable improved socialisation of users, thereby contributing to greater satisfaction of all Colonial Group clients.

As a complement, in France, the Colonial Group carried out the ParisWorkPlace study. This study is conducted annually and in 2017 it focused on technology companies, as they represent around 10% of the portfolio of clients in France and 20% of the French market, and there has been a rise in leases of prime offices by companies in the new technologies sector.

The ParisWorkPlace study showed the needs of technology companies. These relate mainly to ways of working, largely to coworking. As a result, an action plan was developed to cover such needs, including the services they request and which add value according to their workers.

As in Spain, the Group's buildings in France offer maximum flexibility and high operating efficiency, with special attention paid to comfort, design and organisational efficiency; accordingly, all buildings are regularly refurbished.

SFL has a committee to schedule and define operations, and which is in charge of integrating client expectations into scheduling property refurbishments. Accordingly, the committee works to offer its clients offices featuring freedom of movement, modularity and adaptability.

Alongside the aforementioned initiatives, SFL has developed a specialised web platform called SERVICES-BYSFL. This platform shows all the local stores and services surrounding its assets to complement the service offered to clients, with the additional purpose of fostering the development of the local economic fabric.

In its quest for differentiation and excellence, the Colonial Group endeavours to offer exclusive innovative services at its properties that adapt to market trends and enable them to gain competitive advantage; with this objective, throughout 2017, new services were included at their properties, including most notably the following:

> Launch of a new intranet for the properties using responsive web design

> Creation of an outside lounge area and planter boxes for the Sant Cugat complex.

> Creation of a lounge/garden on the rooftop terrace and of a rest area on the ground floor of the building at José Abascal, 45 Madrid.

> Creation of an outdoor garden/lounge at the building at Diagonal, 220-240 in Barcelona.

> Creation of a mezzanine lounge at the building at Génova, 17 , Madrid.

62%

of employees appreciate having work lounges in their buildings

72%

of users prefer open spaces and rooms

80%

of employees appreciate having multi-purpose spaces

77%

of users would not use external services through an app (Uber, Cabify, etc.)

- Creation of a lounge in the interior patio of the building at Alfonso XII , Madrid.
- Decoration of an interior patio of the building at Recoletos, 37 , Madrid.
- Installation of multi-service mailboxes for the company Citibox at properties in Barcelona.
- Creation of a network of parking meter spaces in Barcelona and Madrid.
- Welcome leaflets for new occupants of the properties with all related information (location, building access and timetable among others).
- Installation of 112 spaces for bicycles at d'Lena, 119 in Paris.
- Implementation of caretaker services at certain buildings, such as, for example, the Washington Plaza.
- Plantation of urban allotments on the rooftop terraces of various buildings in Paris.
- Implementation of catering and fitness services in several buildings in Paris.

With respect to 2018, the Group is working to offer additional services such as, for example:

- Creation of an outdoor lounge at the building at Sta. Engracia, 120, Madrid.
- Creation of an outdoor lounge at the building at Arturo Soria 336, Madrid.
- Extension of the network of multi-service mailboxes for Citibox at properties in Barcelona and Madrid.
- Extension of the network of parking meter spaces in Barcelona and Madrid.
- Creation of bicycle parking spaces at the building at J. Abascal 56, Madrid.

Health and safety in buildings

To meet its commitments to clients, the Colonial Group not only complies with health and safety regulations in its properties, it also follows best market practices in this aspect.

Spain

Notable health and safety measures taken by the Group in Spain included the Business Activity Coordination Division's annual meetings with different building suppliers to ensure compliance with all health and safety standards in accordance with prevailing regulations (RD 171/2004).

To improve the well-being of users, various buildings were refurbished, creating multi-use areas that enable greater socialisation such as, for example, eating and lounge areas. All the new areas feature technical characteristics designed to improve user comfort such as the implementation of mailboxes of the company Citibox at various buildings in the portfolio such as Diagonal 530, Illacuna and Sant Cugat. These enable multiple products and services to be requested through an app, provided through smart multi-user mailboxes.

Also of note is the reform of the mezzanine space in calle Génova, Madrid, where materials and furniture were installed in the new lounge that pay special attention to absorbing noise reverberation, such as curtains, paintings and a sound-absorbing lamp for ambient noise.

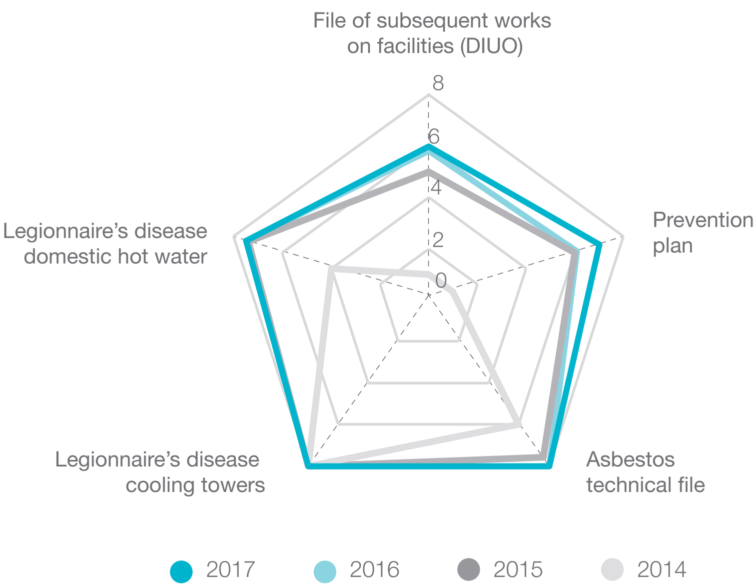
France

SFL also periodically updates the risk matrix in the health and safety area, to guarantee its clients security and control of environmental risks with a requirement level that exceeds regulations.

SFL divides risks into two categories: operating and refurbishment. Both are controlled through MEX, a web platform created in 2015, which enables risk monitoring, and a procedures guide to control health and safety risks. The MEX (Module d'Exploitation) platform also includes details of claims and building user notices for each of the Group's properties in France. The maintenance team for each property carries out detailed monitoring of all manner of communications received and their processing times. For such times, objectives are set based on the type of query and how critical it is. In the area of user health and safety, the tool is a rapid and effective channel for managing possible incidents.

The progress made in identifying and preventing risks at properties in the last four years may be seen in the following graph:

Risk matrix



Management of satisfaction

The Colonial Group aims to offer maximum quality properties and gain the satisfaction of its clients. Accordingly, the Company conducts satisfaction surveys every three years in Spain and every two years in France, in order to understand client expectations and to identify opportunities for improvement in the services offered by the Group.

Satisfaction survey in Spain

In Spain, the last satisfaction survey was conducted in 2015, with a participation of 60% of clients, served as the basis for developing the action plan carried out in 2016. The questions mainly referred to corporate image, property market trends, building facilities and services, corporate social responsibility and environmental policy.

The survey findings were used to carry out a strengths, weaknesses, opportunities and threats (SWOT) analysis and to draw up an action plan. The action plan comprised a series of procedures performed entirely during 2016. In 2017, the property management team conducted a follow-up to ensure that the actions performed in the previous year were correctly executed and mitigated the negative aspects identified in the survey.

Satisfaction survey France

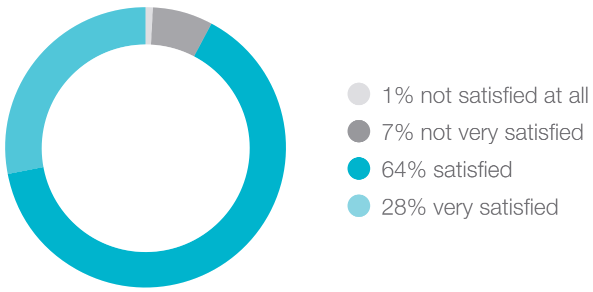
In order to better understand the needs of the clients to include them in its programme, SFL conducts a satisfaction survey every two years.

In 2017, a new satisfaction survey was performed of over 400 tenants. This survey revolves around five main aspects:

1. Client profile
2. Transport
3. Global satisfaction
4. Services offering
5. Quality of life in the workplace

The findings showed that the general level of satisfaction of clients in the portfolio is very high, with an average of 96.92%, reaching 100% at certain buildings, such as, for example, Grenelle 103 or #cloud.paris.

Findings of satisfaction survey France 2017



Client satisfaction management milestones

2015	2016	2017	2018
• Satisfaction survey Spain • Satisfaction survey France	• Action Plan Spain • Action plan France	• Community survey Spain • Satisfaction survey France	• Satisfaction survey Spain • Actions plan France

Management and communications channels

To maintain pro-active dialogue with the clients and users of its buildings, the Colonial Group has established a series of two-way communication channels.

Building manager

Aware that communication with its clients is of maximum importance and in order to bring the company closer to them, Colonial has the figure of the manager as the person in charge of a property, who carries out three main functions:

> **Client service**, serving as the direct liaison between clients and the Colonial Group.

> **Control of operating activities**, analysing the profitability of the property and monitoring its economic feasibility.

> **Maintenance and conservation**, offering clients a more proactive service adapted to market needs.

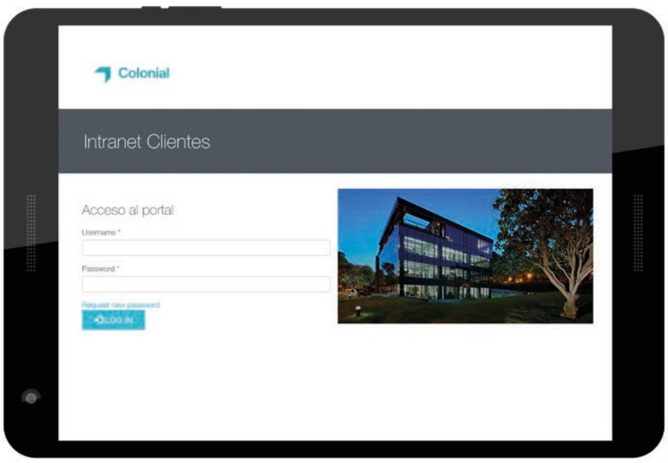
Client Intranet

To ensure smooth communication with clients, in 2014, the Client Intranet was established in Spain, a portal with access from the Company's web page in which the clients and the Colonial Group maintain smooth, two-way and personalised communication for each building.

Colonial's innovative strategy and the size of its property portfolio led the Company to update the Intranet and to implement it at all mono-use and multi-use buildings, gaining greater operating effectiveness and autonomy.

The point of access to this platform is the Group's official website with any browser or through the following URL:

https://inmuebles.inmocolonial.com



The services offered on the Intranet include most notably:

> Creation of notices of breakdowns in the buildings

> Correspondence with the caretaker's office

> Suggestions and complaints channel

> Property services

> Shared space bookings

> Newsletters

> Surveys

> Building documentation and manuals

> Information concerning access and transport

"A coffee with the manager"

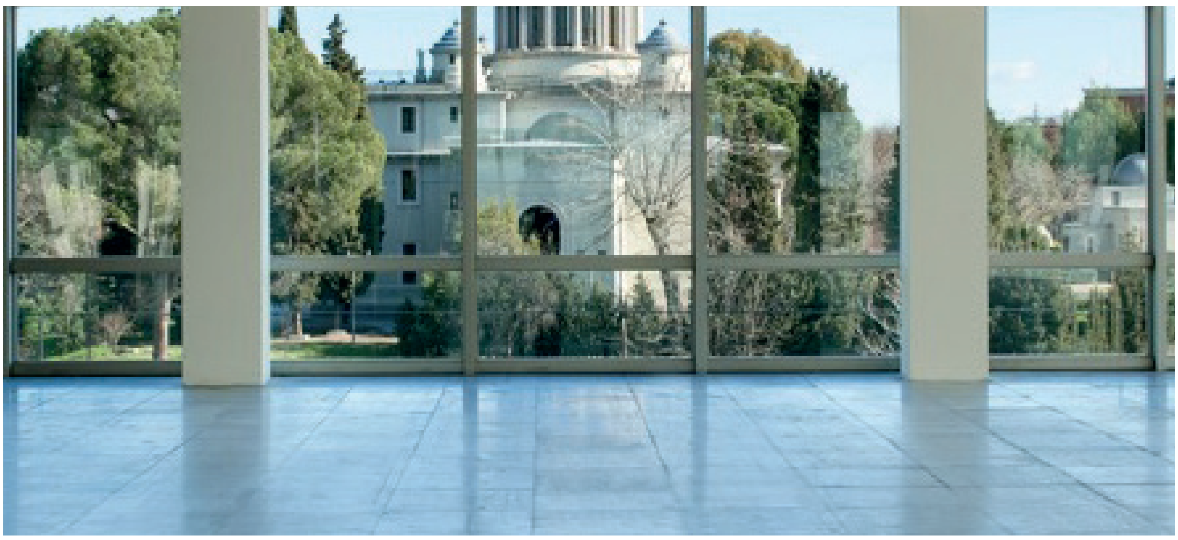
In 2012, Colonial implemented an initiative to get closer to its clients in Spain and to thereby obtain direct feedback in a warm and relaxed atmosphere enabling users to propose measures for improvement and comment on their expectations with respect to the buildings.

Throughout 2017, a total of 173 encounters took place, 82% of which were proposed by Group managers. The two themes most dealt with in 2017 were the building's current services and facilities and any new ones that may be implemented. In relation to the services provided and the facilities existing at the Group's properties, for the sixth year running, such facilities have obtained the category of "Good" with a rating of 4.2 out of 5.

In line with the objective set in 2016 to focus on meeting and assessing the liaison person and the place in which the interviews are held, the following was observed in 2017:

Liaison person and location in the last four annuities of the "A coffee with the Manager" programme

	Liaison				Location	
Year	Partners and CEO	Directors	Managers and people in charge	Office Manag. and attendees	Bars and restaurants	Client offices
2014	3%	31%	29%	38%	54%	46%
2015	4%	29%	19%	49%	53%	47%
2016	6%	28%	24%	42%	46%	54%
2017	6%	28%	20%	46%	46%	54%



Portfolio occupancy

At the close of 2017, the Colonial Group's financial occupancy[(1)] for the office portfolio reached 96%.

The total financial occupancy[(1)] for the portfolio including all uses also reached 96%.

Financial Occupancy[(1)]

Office & Total Occupancy – Evolution of Colonial's Portfolio

(1) **Financial occupancy:** financial occupancy according to the calculation recommended by EPRA (occupied surfaces multiplied by the market prices/surfaces in operation at market prices).

In **Barcelona**, the financial occupancy(1) of the office portfolio increased 238 bps compared to the same period of the previous year, reaching a ratio of 99%. This increase is mainly due to the contracts signed on the Illacuna, Diagonal 609-615 and Travessera de Gràcia/Amigó buildings, among others. Occupancy increased 86 bps compared to the previous quarter.

In **Madrid**, the financial occupancy(1) of the office portfolio is 93%, a figure 473 bps below the occupancy at the close of the previous year (–426 bps in the last quarter). This decrease is mainly due to the entry into operation of the Discovery project with more than 10,000 sq m of available office space.

Excluding the entry into operation of this project, the occupancy of the rest of the portfolio is 98%, 30 bps above that obtained at the close of the previous year.

In **Paris**, the financial occupancy(1) of the office portfolio is 97%, which means an increase of 13 bps in this last year and 38 bps in the last quarter.

Currently, the Colonial Group has more than 26,000 sq m of available GLA which corresponds to 4% of EPRA vacancy over the total portfolio.

Vacancy surface of offices

Surface above ground (sq m)	Entries into operation(2)	BD area and others	CBD area	2017	EPRA Vacancy Offices
Barcelona	0	371	983	1,354	**1%**
Madrid	0	2,065	13,106	15,171	**7%**
Paris	0	6,026	4,204	10,230	**3%**
Total	0	8,462	18,293	26,755	4%

(1) **Financial occupancy:** financial occupancy according to the calculation recommended by EPRA (occupied surfaces multiplied by the market prices/surfaces in operation at market prices).
(2) Projects and refurbishments that have entered into operation.

Commercial lease expiry and reversionary potential

Commercial lease expiry

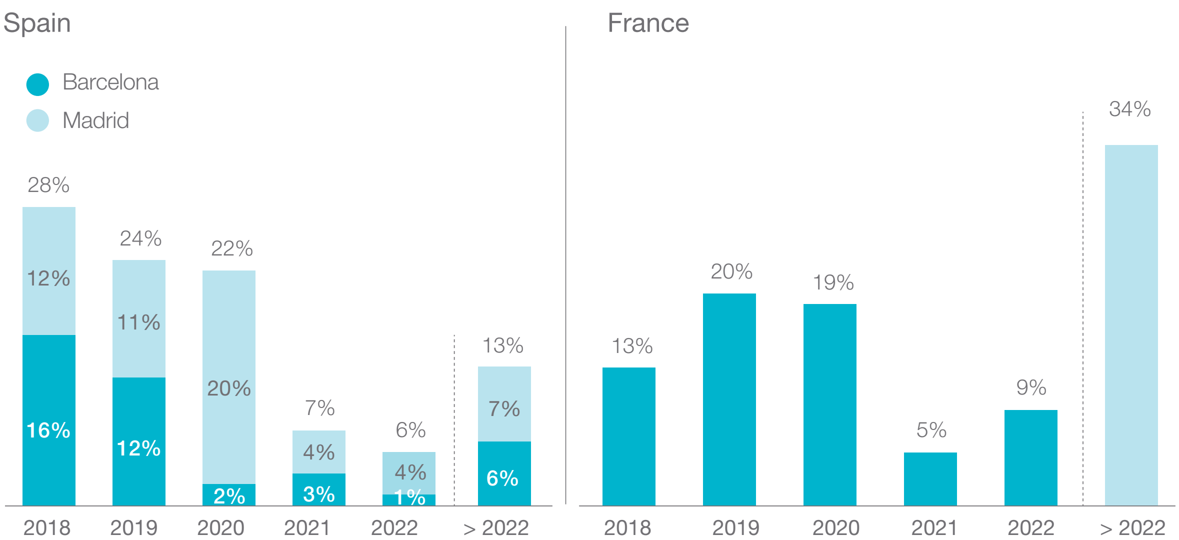
The following graphs show the contractual rent roll for the coming years in the portfolios in Spain and France.

The **first graph** shows the commercial lease expiry dates if the tenants choose to end the contract at the first possible date (break option or end of contract).

In this context, in the Spanish portfolio, approximately 74% of contracts could be renewed in the next 3 years, which will enable the company to capture the rental growth cycle with one of the best products available in the market.

In France, the contract structure is longer term, in line with the behaviour of the players in that market.

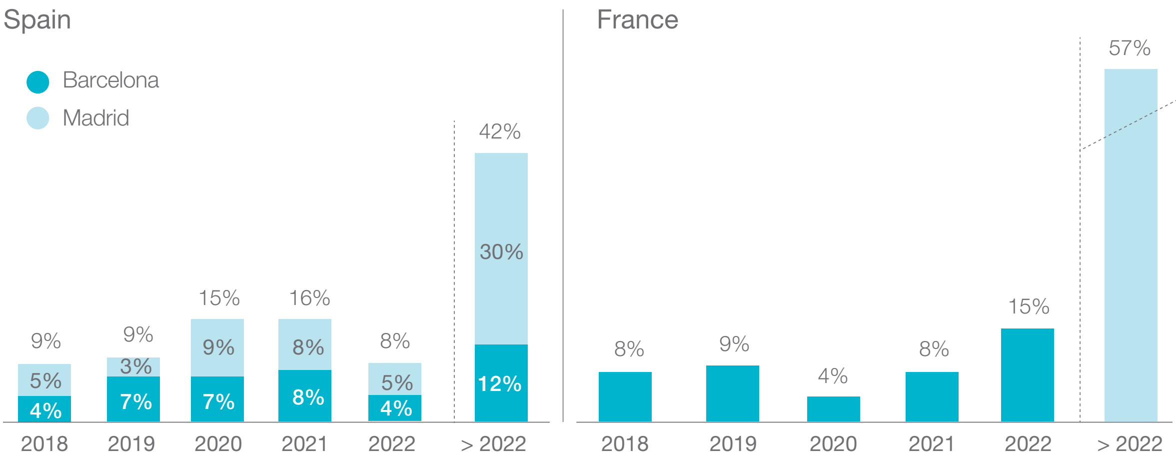
Commercial lease expiry dates in economic terms [1] - First Potential Exit [2]
(% passing rent of surfaces to be leased)



(1) % = surface to rent x current rents / current rental revenues.
(2) Renewal dates based on first potential exit of the current contracts.

The **second graph** shows the rent roll of the portfolio if the tenants remain until the contract expires. The contract structure in Spain is more short-term than in France.

Commercial lease expiry dates in economic terms - Expiry date (3)
(% passing rent of surfaces to be leased)



(1) % = surface to rent x current rents / current rental revenues.
(3) Renewal dates based on the expiry date of the current contracts.

Reversionary Potential of the rental portfolio

The Colonial Group's contract portfolio has significant reversionary potential.

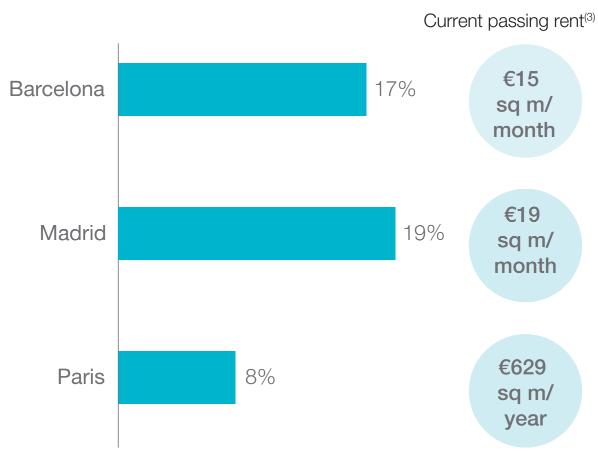
This reversionary potential is the result of comparing the rental revenues of the current contracts (contracts with current occupancy and current rents) with the rental revenues that would result from letting the total surface at the market prices estimated by independent appraisers at 31 December 2017 (not including the potential rents from the substantial projects and refurbishments underway).

At the close of 2017, the static reversionary potential[1] of the rental revenues of the properties in operation (considering current rental prices without future impacts from a recovery in the cycle) stood at +17% in Barcelona, +19% in Madrid and +8% in Paris.

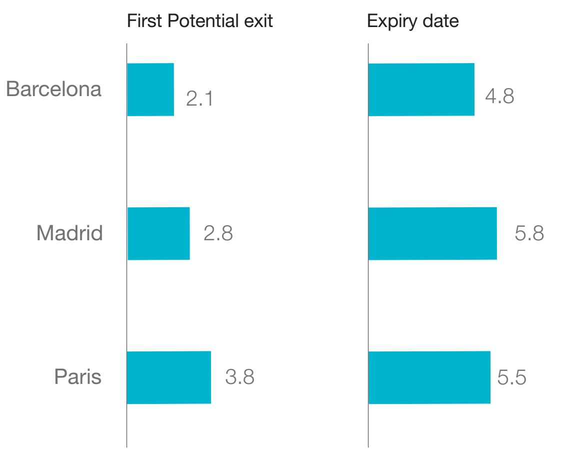
Specifically, the static reversionary potential[1] in the current portfolio would result in approximately €33m in additional annual rental revenues.

Figures at December 2017

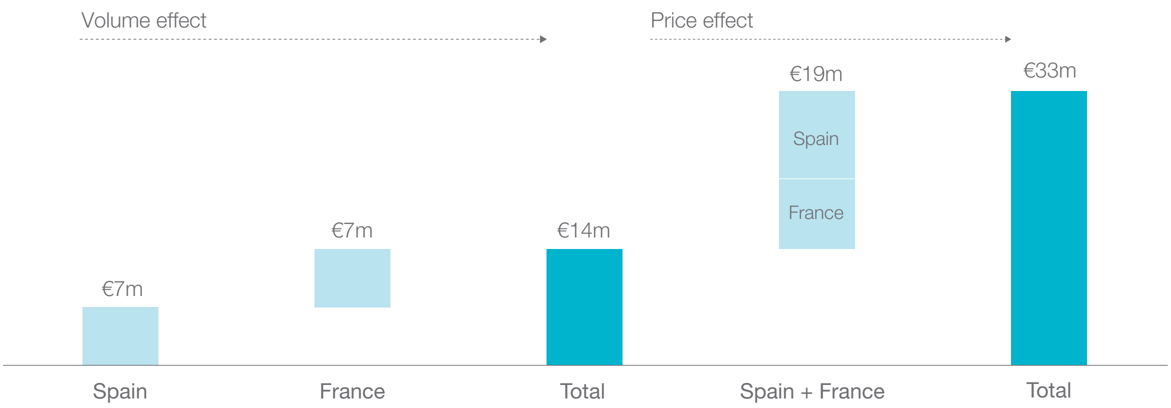
Reversionary potential-rental income[2]



Average maturity of the contracts (years)



Reversionary potential-rental income



(1) Without including the positive impacts of the recovery cycle in rents.
(2) Reversionary potential: maximum portfolio potential of surface in operation.
(3) Current office rent of occupied surfaces.

3.2. Acquisitions, Asset rotation and Project portfolio

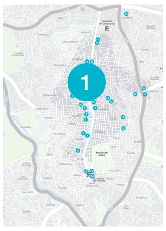
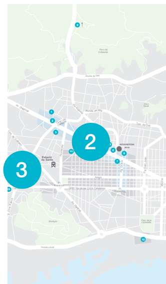
Acquisitions

Alpha II acquisitions

Accelerating the fulfilment of growth objectives in the strategic plan, Colonial started 2017 with the execution of the Alpha II project, which includes the acquisition of four assets for an investment volume of almost €400m (total investment volume including future capex of development projects). Specifically, three development projects were acquired: Plaza Europa 34 in Barcelona, Paseo de la Castellana 163 in Madrid and 112-122 Av. Emile Zola in Paris. Additionally, Colonial purchased the Spanish headquarters of the Bertelsmann Group, located in the CBD in Barcelona.

The main characteristics of the Alpha II acquisitions are as follows:

Alpha II Project

Madrid		1	Paseo de la Castellana, 163 *Madrid Prime CBD*		Value Added – Prime factory GLA: 10,910 sq m	Total invesment[1]: €51m
Barcelona		2	Travessera de Gràcia, 47-49 *Barcelona Prime CBD*		Core with value added potential GLA: 8,939 sq m	Total invesment[1]: €41m
		3	Plaza Europa, 34 *Barcelona Plaza Europa*		Value Added – Prime factory GLA: 14,306 sq m	Total invesment[1]: €32m
Paris		4	112-122 Av. Emile Zola *Paris South Center*		Value Added – Prime factory GLA: 20,340 sq m	Total invesment[1]: €245m - €265m

(1) Acquisition price + total project capex.

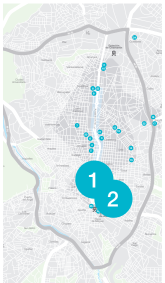
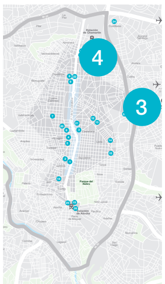
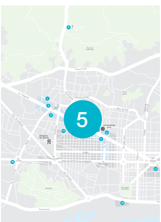
Alpha III acquisitions

In addition to these investments, Colonial commenced 2018 with the execution of the Alpha III project. This project includes the acquisition of five assets: four in Madrid and one in Barcelona, with a total expected investment volume of €480m. With Alpha III, the Colonial Group has already achieved its investment objective for 2018.

Under the framework of Alpha III, four assets were acquired in Madrid: the two plots of land in Méndez Álvaro located in the south of the CBD where the development of more than 110,000 sq m of offices, distributed across two office complexes, will be carried out, as well as the acquisition of two top quality assets in new business areas in the capital: Arturo Soria and EGEO -Campo de las Naciones. In addition, Colonial acquired an asset in Gal·la Placídia, located in the CBD of Barcelona, where a complete refurbishment will be carried out with the objective of strengthening coworking initiatives.

The Arturo Soria and Méndez Álvaro properties were purchased in 2017, while the EGEO and Gal·la Placídia assets were purchased in the first quarter of 2018.

Alpha III Project

Madrid - City Center		1	Méndez Álvaro Campus *Madrid - Inside M-30*		Value Added – Prime factory GLA: 89,871 sq m	Total investment[1]: €272m – €287m Yield on Cost[2]: 7%-8%
		2	Méndez Álvaro *office Scheme* *Madrid - Inside M-30*		Value Added – Prime factory GLA: 20,275 sq m	Total investment[1]: €68m Yield on Cost[2]: 7%-8%
Madrid		3	EGEO *Madrid - Campo de las Naciones*		Core with value added potential GLA: 18,254 sq m	Total investment[1]: €79m Yield on Cost[2]: 5%
		4	Arturo Soria *Madrid - New Business Area*		Core with value added potential GLA: 8,663 sq m	Total investment[1]: €33m Yield on Cost[2]: 6%
Barcelona		5	Gal·la Placídia *Barcelona CBD*		Value Added – Prime factory GLA: 4,312 sq m	Total investment[1]: €17m Yield on Cost[2]: ≥7%

(1) Acquisition price + total estimated project capex.
(2) Potential running yields on cost for the next years.

The main characteristics of the **Alpha III** acquisitions are as follows:

1. Méndez Álvaro. Colonial bets on the south of the CBD in Madrid with the acquisition of more than 110,000 sq m of office space above ground. The two acquired plots of land are located in the Méndez Álvaro market, just south of the Madrid CBD, very close to Atocha station. The area counts on excellent communication links for public as well as private transport, with easy access on foot from the centre of Madrid. There are also various train and bus lines as well as quick access from the M-30. The Méndez Álvaro market has grown exponentially in the last years, with the establishment of various multinationals such as Repsol, Amazon, Ericsson and Mahou, among others.

Colonial plans to develop two office complexes in Méndez Álvaro:

> Mendez Álvaro Campus. This plot of 90,000 sq m of surface area above ground for office and/or residential use will enable the development of a new unique campus in the centre of the capital, incorporating the latest trends in the real estate market in the areas of energy efficiency, space distribution, use combinations and Proptech initiatives. Construction is expected to start at the end of 2019 and the total cost of the project, once completed, will be in a range between €3,000 and €3,200/sq m (including the acquisition cost of the land).

> Méndez Álvaro - 2. This plot of 20,000 sq m of surface area aboveground for office use will allow for the development of a unique high quality office building just a few metres from Atocha station. The start of construction is expected in the next months and the total cost of the project, once completed, will be around €3,375/sq m (including the acquisition cost of the land).

2. EGEO. Building of 18,254 sq m above ground placed in phase 1 of Campo de las Naciones, Madrid. The asset has an unbeatable location, with easy access to public transport to the CBD and airport. The acquisition enables Colonial to incorporate a high quality building to its portfolio, with floors of 3,000 sq m divisible into up to 8 modules, allowing for higher flexibility for renting. Currently, it is 93% occupied by various tenants and has high reversionary potential. The acquisition cost is €4,300/sq m.

3. Arturo Soria. High quality 8,663 sq m asset located in the Arturo Soria area in the North of Madrid. The asset stands out due to its location with excellent communication links, positioning the building in an optimum location to capture tenants who want to be located in the North of Madrid. It also counts on easy accesses of public transport to the city centre and airport. It is currently 98% occupied by various tenants and it has high reversionary potential. The acquisition cost is €3,300/sq m, a very attractive entry price that enables high potential for value generation for the Company's shareholders.

4. Gal·la Placídia. This building has an unbeatable location in the Barcelona CBD, just in front of the Gracia metro station and a few meters away from Colonial's headquarters. The asset has 4,312 sq m of surface area above ground with floors of up to 1,600 sq m and large terraces, a unique characteristic in the centre of Barcelona. Colonial will carry out a complete refurbishment of the building with the objective to boost coworking initiatives and increase the cash flow generation as well as the value creation potential. Accordingly, the building will be fully rented to Utopic_US, a reference in the management of flexible spaces and coworking contents in Spain, recently acquired by Colonial. The total price of the project once completed will be below €4,000/sq m.

The Alpha III project is within the framework of the organic acquisitions program of the Colonial Group. All of the assets acquired offer a substantial upside potential of real estate value creation based on: (1) the property transformation of the buildings into top quality products and (2) the location in market segments with solid fundamentals that capture the high end of the rental prices.

Asset Rotation

In September 2017, the disposal of the In&Out office complex in Paris was completed for a price of €445m, representing a premium of +27% above the appraisal valuation prior to the disposal commitment. This sale represents the culmination of the process of real estate value creation for this asset: (1) the transformation of the building through a development project, (2) the signing of a long-term contract for the OECD headquarters, and finally (3) the disposal of the asset at one of the highest prices in this market segment.

The sale proceeds of this mature asset will be reinvested in new projects of the Group, such as the creation of the Emile Zola office complex in the 15th arrondissement in Paris with an approximate investment amount of €265m (purchase price + future capex).

Smart Capital Rotation

In & Out

Value creation through disposal of a mature asset

€445m

€265m[1]

Reinvestment in value add project in city center

Emile Zola

Real Estate Value Creation

Capital recycling from "Core" to "Value Add"

In & Out
€445m

Emile Zola
€265m[1]

(1) Estimated total investment of (€245m - €265m) based on current project analysis.

Project portfolio

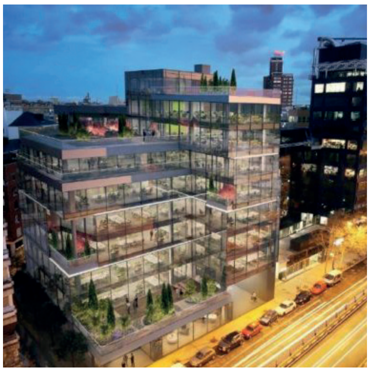
At the close of 2017, Colonial owns a large portfolio of development and refurbishment projects of more than 240,000 sq m above ground[(4)], with significant potential for value creation in the short and long term.

The projects are progressing as planned and delivery is expected during the next five years.

Projects	Entry into operation	% Group	% Prelet	Market	Use	Surface above ground (sq m)[(1)]
Príncipe de Vergara, 112	2018	100%	–	Madrid	Office	11,368
Méndez Alvaro 1	> 2020	100%	–	Madrid	Campus	89,871
Méndez Alvaro 2	> 2020	100%	–	Madrid	Office	20,275
Parc Glòries	2018	100%	80%	Barcelona	Office	24,551
Louvre Saint Honoré	2021	100%	–	Paris	Retail	16,000
Plaza Europa,34	> 2020	50%	–	Barcelona	Office	14,306
112-122 Avenue Emile Zola	> 2020	100%	–	Paris	Office	24,000[(2)]
Iéna, 96	2021	100%	–	Paris	Office	9,300[(4)]
Castellana, 163	> 2019	100%	–	Madrid	Office	10,910[(4)]
Gal·la Placídia 1-3 (acquired in 2018)	2019	100%	–	Barcelona	Office	4,312
Projects under development						**224,893**
Yield on cost[(3)]						**7%**
Cezanne Saint-Honoré		100%				1,787
Torre BCN		100%				1,600
Rest of portfolio						2,743
Surfaces under refurbishment						**6,130**
Parc Central 22@	na	100%				14,737
Solar Parc Central 22@						**14,737**
Total Projects & Refurbishments						**245,760**

(1) Surface area of completed project.
(2) Final surface of the project.
(3) Yield on cost: market rent 100% rented/market value at start of project net of impairment in value + capex.
(4) Future projects currently in operation, not included in the calculatio of the yield on cost.

In Spain, the current projects in the pipeline correspond to the Méndez Álvaro, Príncipe de Vergara 112 and Castellana 163 buildings in Madrid, as well as the Parc Glories and Plaza Europa 34 projects in Barcelona. In the case of Príncipe de Vergara 112 and Parc Glòries, these assets are expected to enter into operation in 2018 and in the case of the Castellana 163 building, refurbishment will be done progressively by floor.



Príncipe de Vergara 112

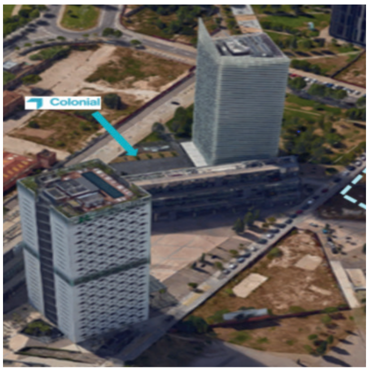
Parc Glories

Paseo Castellana 163

The development of the two projects in Méndez Álvaro, as well as the plot of land at Plaza Europa 34, have a more medium-term schedule.

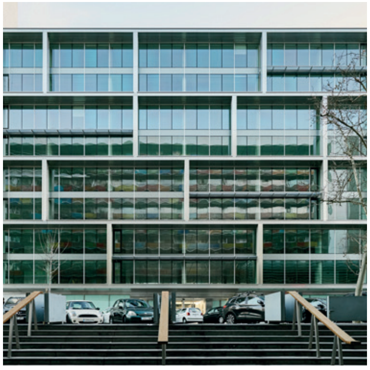
Méndez Álvaro campus

Méndez Álvaro office scheme



Plaza Europa 34

Of special mention is the entry into operation of the Discovery property at the end of the last quarter of 2017. This asset has increased the surface area above ground in operation in the offices market in Madrid by 10,000 sq m.



Discovery Building

Discovery Building

In Paris, the portfolio offers attractive returns through the Avenue Emile Zola and Iéna 96 projects. In addition, it is worth highlighting the total refurbishment project on the commercial part of the Louvre Saint Honoré through the creation of a prime space in the very centre of Paris in front of the Louvre. In all these assets, unique Prime Factory development projects will be carried out, and they are expected to be delivered as of 2020/2021.

112-122 Emile Zola

Louvre Saint Honoré

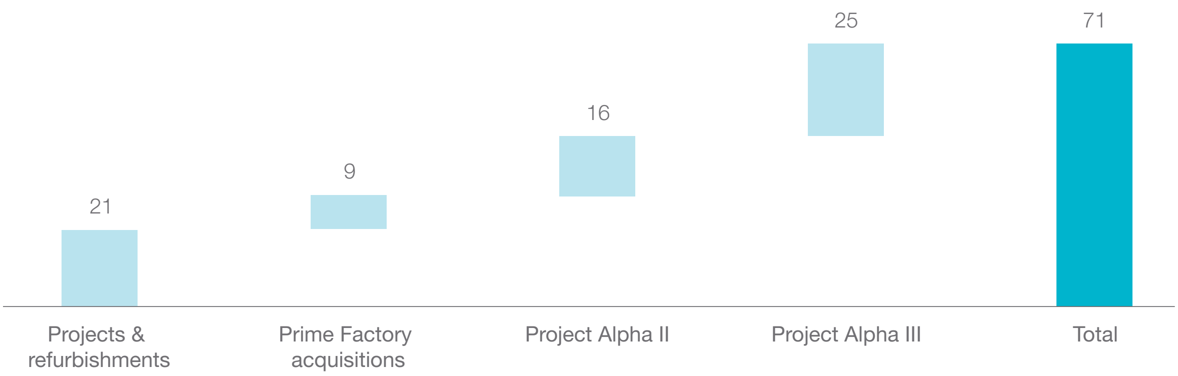
96 Iéna

The portfolio of projects, as well as the new acquisitions will result in additional rental revenues of approximately €71m per annum.

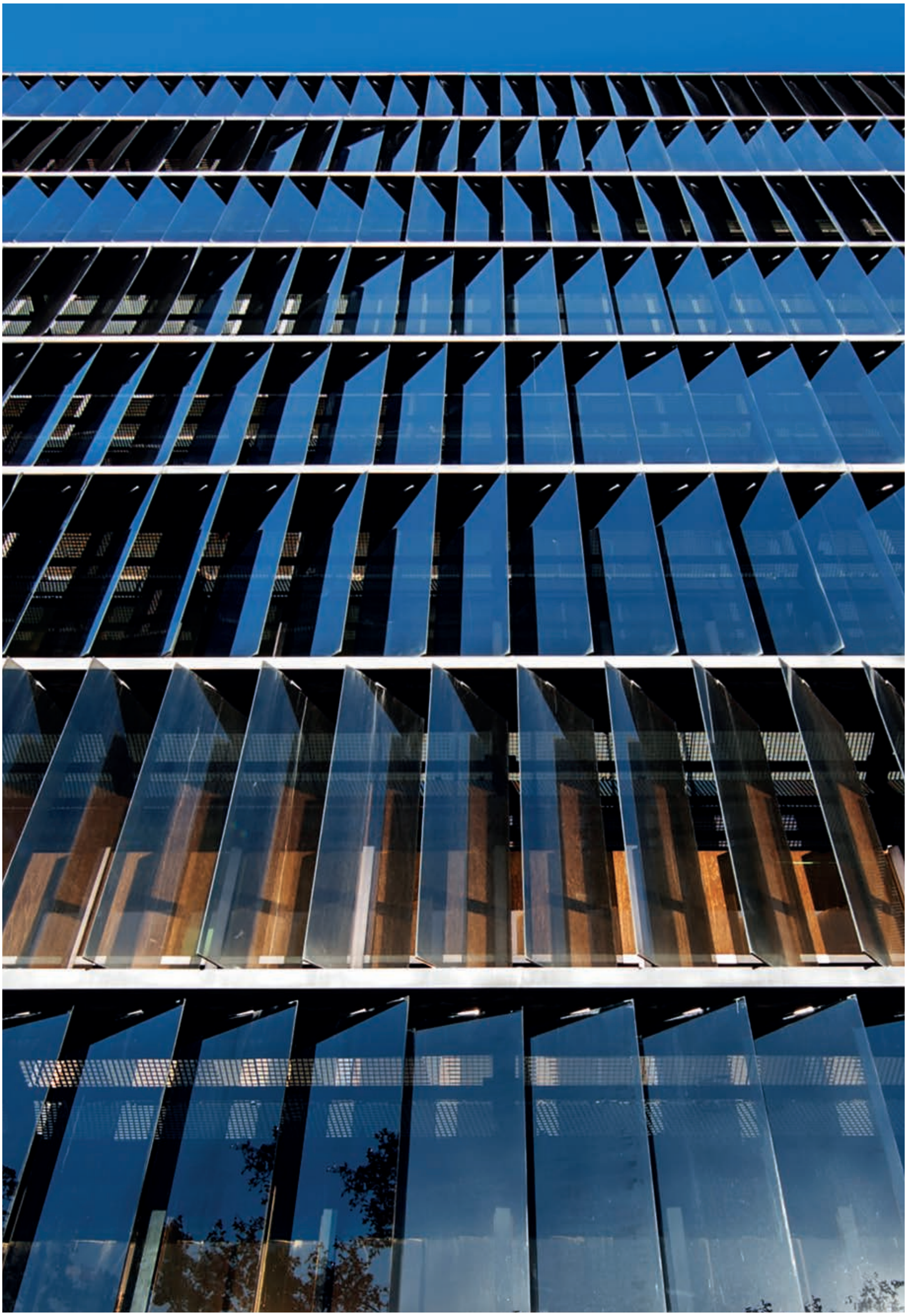
In addition to these development projects, the Colonial Group is currently carrying out substantial refurbishments on 6,000 sq m above ground, with the aim of optimizing the positioning of these assets in the market. These include refurbishments on the Cézanne Saint-Honoré and Torre BCN buildings, among others. In addition, Colonial owns a plot of land of more than 14,000 sq m above ground in the 22@ submarket in Barcelona.

In 2017, approximately €69m was invested in Prime Factory projects and refurbishments to optimize the positioning of the property portfolio.

Additional rental income from projects and significant refurbishments - €m(1)



(1) Includes Gala Placídia asset acquired in January 2018.



3.3. Rental revenues and EBITDA of the portfolio

Rental revenues reached **€283m, 4% higher than that achieved the previous year.**

In **Like-for-Like terms**, adjusting for investments, disposals and variations in the project and refurbishment portfolio and other extraordinary items, **the rental revenues of the Group also increased by 4% Like-for-Like.**

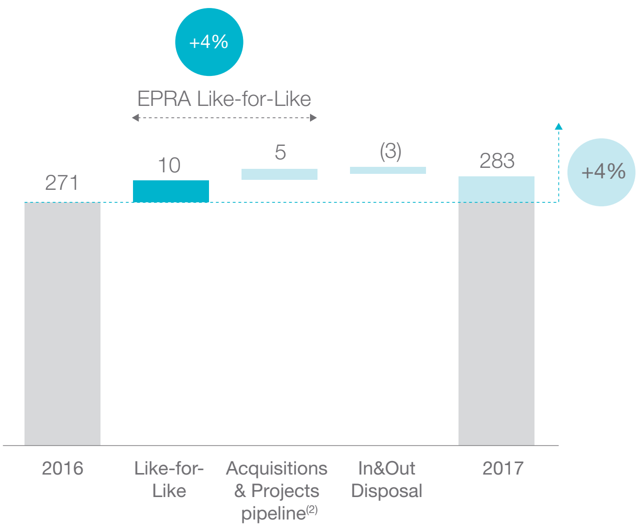
In **Spain, the rental revenues Like-for-Like increased by 5%**, especially due to the **Barcelona** portfolio, which increased by **10% Like-for-Like**. The Barcelona portfolio has experienced significant positive growth, consolidating the good evolution seen in the last quarters.

The **Madrid** portfolio increased **2% Like-for-Like**, a percentage which has seen a reduction due to the tenant rotation on 4,000 sq m in Alfonso XII (exit of Banca Marenostrum, a surface rented in June to a PropTech company with a higher rent). **Excluding this effect the rest of the Madrid contract portfolio increased by 4% Like-for-Like.**

In **Paris, the rental revenues rose by 4% Like-for-Like**, mainly due to the contracts signed on the Edouard VII, #Cloud, Percier and Cézanne Saint Honoré buildings in Paris.

In Paris, it is worth mentioning the reduction in rental income due to the sale of the In&Out asset, as well as a temporary downward impact due to rotation in the project portfolio, in particular in relation to surface areas being refurbished in the Cézanne Saint Honoré and 92 Champs Elysées buildings. These effects were offset by the additional rental income obtained from the new acquisitions carried out in Spain.

Gross rental income - €M



	EPRA Like-for-Like(1)	Price	Volume
Barcelona	+9.6%	+5.3%	+4.3%
Madrid	+2.1%	+1.9%	+0.2%
Paris	+3.6%	+2.1%	+1.6%
GRI Total	+4.2%	+2.5%	+1.7%

(1) Like-for-Like calculated following EPRA BPR recommendations.
(2) Includes indemnities of tenant rotation.

Breakdown – Rental revenues

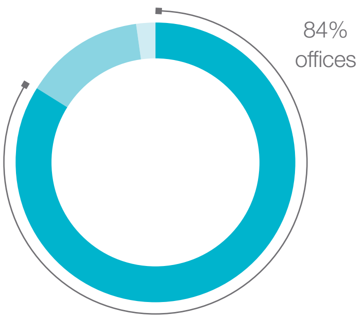
The majority of the Group's revenues (84%) are from office buildings. Likewise, the Group maintains its high exposure to CBD markets (74%).

In consolidated terms, 69% of the rental revenues (€196m) came from the subsidiary in Paris and 31% were generated by properties in Spain. In attributable terms, 55% of the rents were generated in France and the rest in Spain.

Consolidated Group

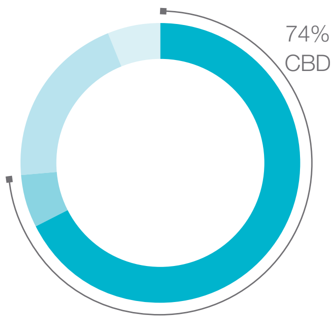
Revenues - by use

- Offices
- Retail
- Others



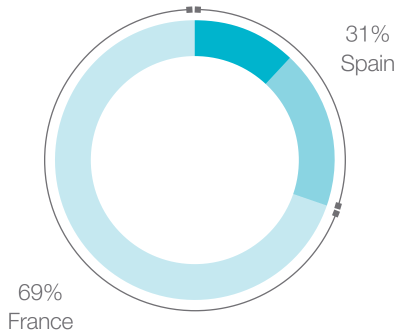
Revenues - by area

- Prime CBD
- CBD
- BD
- Others



Revenues - by market

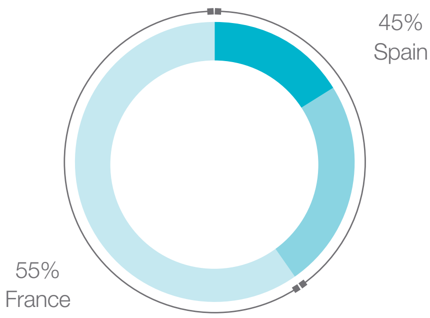
- Barcelona
- Madrid
- Paris



Attributable

Revenues - by market

- Barcelona
- Madrid
- Paris



Rental EBITDA reached €265m, a 4% increase in Like-for-Like terms, with an EBITDA margin of 93%.

Property portfolio - December cumulative - €m	2017	2016	Var. %	EPRA Like-for-Like[1] €M	EPRA Like-for-Like[1] %	EPRA Like-for-Like[1] Adjusting Alfonso XII[2]
Rental revenues - Barcelona	35	30	15%	2.9	10%	10%
Rental revenues - Madrid	52	43	22%	0.8	2%	4%
Rental revenues - Paris	196	198	(1%)	6.2	4%	4%
Rental revenues	283	271	4%	9.9	4%	5%
EBITDA rents - Barcelona	34	28	21%	3.9	14%	14%
EBITDA rents - Madrid	46	38	23%	0.9	3%	6%
EBITDA rents - Paris	185	188	(1%)	4.5	3%	3%
EBITDA rents	265	253	5%	9.3	4%	5%
EBITDA rents/Rental revenues - Barcelona	*96%*	*92%*	*4.6 pp*			
EBITDA rents/Rental revenues - Madrid	*88%*	*88%*	*0.3 pp*			
EBITDA rents/Rental revenues - Paris	*94%*	*95%*	*(0.2 pp)*			
EBITDA rents/Rental revenues	*93%*	*93%*	*0.2 pp*			

Pp: percentage points.
(1) EPRA Like-for-Like: Like-for-Like calculated according to EPRA recommendations.
(2) Excluding the exit of Banca Marenostrum from the Alfonso XII asset in Madrid (surface re-let in June 2017).

3.4. Analysis of the Profit and Loss Account

Analysis of the Consolidated Profit and Loss Account

December cumulative - €m	2017	2016	Var.	Var. %[1]
Rental revenues	283	271	12	4%
Net operating expenses[2]	(18)	(18)	(0)	(1%)
Net Rental Income	265	253	12	5%
Other income	2	3	(1)	(28%)
Overheads	(37)	(36)	(2)	(5%)
EBITDA recurring business	**229**	**220**	**9**	**4%**
EBITDA - asset sales	**1**	**(0)**	**1**	**–**
Exceptional items	**(13)**	**(1)**	**(14)**	**(817%)**
Operating profit before revaluation, amortizations and provisions and interests	**217**	**219**	**(2)**	**(1%)**
Change in fair value of assets	933	561	373	66%
Amortizations & provisions	(13)	(10)	(3)	(33%)
Financial results	(79)	(105)	25	24%
Profit before taxes & minorities	**1,057**	**664**	**393**	**59%**
Income tax	23	(105)	128	122%
Minority Interests	(398)	(286)	(112)	(39%)
Profit attributable to the Group	683	274	409	149%

(1) Sign according to the profit impact.
(2) Invoiceable costs net of invoiced costs + non invoiceable operating costs.

The rental revenues of the Colonial Group amounted to €283m at the close of 2017, 4% higher than the same period of the previous year. In Like-for-Like terms, the increase stood at 4%.

The recurring EBITDA of the Group reached €229m, 4% higher than the same period of the previous year.

The impact on the profit and loss account due to the change in fair value in real estate assets at 31 December 2017 reached €933m. This revaluation, which was registered in France as well as in Spain, is the result of a +12% Like-for-Like increase in the appraisal values of the assets in 12 months.

The net financial results amounted to €(79)m, an increase of 24% compared to the same period of the previous year.

The recurring financial results of the Group amounted to €(77)m, 4% lower than the same period of the previous year.

The result before taxes and minority interests at the close of 2017 amounted to €1,057m, 59% higher than that reached during the same period of the previous year, mainly as a result of an increase in gross rental income and asset values, as well as a decrease in financial expenses.

Results analysis - €m	2017	2016	Var.	Var. %[1]
Rental revenues	283	271	12	4%
Net operating expenses[2] & other income	(16)	(15)	(1)	(6%)
Overheads	(37)	(36)	(2)	(5%)
Recurring EBITDA	229	220	9	4%
Recurring financial result	(77)	(80)	3	4%
Income tax expense & others - recurring result	(10)	(12)	2	16%
Minority interest - recurring result	(59)	(61)	1	2%
Recurring net profit - post company-specific adjustments[3]	**83**	**68**	**15**	**22%**
EPRA Earnings - pre company-specific adjustments[4]	62	63	(1)	(2%)
Profit attributable to the Group	683	274	409	149%

(1) Sign according to the profit impact.
(2) Invoiceable costs net of invoiced costs + non invoiceable operating costs.
(3) Recurring net profit = EPRA Earnings - post company-specific adjustments.
(4) EPRA Earnings = Recurring net profit pre company-specific adjustments.

A positive amount was registered under corporate tax for €23m, mainly due to the reversion of a provision related to latent capital gains of several assets as a consequence of Colonial adopting the SOCIMI regime.

Finally, after deducting the minority interest of €(398)m, the net profit attributable to the Group amounted to €683m, an increase of 149% compared to the previous year.

Colonial's Board of Directors has proposed to the AGM a dividend charged against the 2017 results of €0.18/share, an increase of 9% compared to the previous year. This proposed dividend is subject to the approval of the AGM in 2018.

3.5. Financial structure

Main debt figures

Colonial Group	12/2017	Var. *vs* 12/2016
Gross financial debt	4,170	15%
Net financial debt	3,066	(13%)
Undrawn balances	2,427	178%
% debt fixed or hedged	90%	10%
Average maturity of the debt (years)	5.5	0.5
Cost of current debt	1.86%	(10 p.b.)
Rating Colonial	BBB	BBB–
Rating SFL	BBB+	BBB
LtV Group (including transfer costs)	31%	(1,006 p.b.)

Main financing transactions formalized in 2017:

Colonial:

> New credit line for €375m, maturing in five years. This credit line is intended to meet the general corporate demands of the company, and counts on the participation of a total of 10 banks, with Credit Agricole Corporate and Investment Bank acting as the agent bank. This new financing increases Colonial's liquidity and investment capacity, maximizing its strength and financial flexibility.

> In October 2017, the company renewed its EMTN program and under the scope of this program it carried out an issuance of unsecured bonds for a total nominal amount of €800m, structured in two tranches, the main terms of which are as follows:

– Bonds for a total nominal amount of €500m, maturing in November 2025, with an annual coupon of 1.625% and an issue price of 99.577% of its nominal value.

– Bonds for a total nominal amount of €300m, maturing in November 2029, with an annual coupon of 2.5% and an issue price of 99.969% of its nominal value.

The demand exceeded the volume of the issue by almost three times.

> Regarding the takeover bid on Axiare Patrimonio, SOCIMI, S.A., a bridge loan secured by JP Morgan was signed for €1,000m. This loan was cancelled upon obtaining the necessary funds for the takeover bid through the bond issue described above and the capital increase in November 2017.

> In Torre Marenostrum, the mortgage security loan it holds has been renewed, extending the maturity term by 8 years (from 2024 to 2032) and adjusting the cost of debt to the current market situation.

SFL:

> An increase in its credit lines by €270m with two new bilateral loans for a total amount of €250m and an increase in the limit of an existing loan by €20m. The new bilateral loans mature in 6 and 7 years, respectively.

On the other hand, at maturity in November 2017, it amortized the bond issue, whose pending nominal amount was €301m and accrued a coupon of 3.50%.

These transactions have enabled the Group to increase its liquidity and the average maturity of the undrawn debt.

In addition, in December 2017, Colonial signed a bank guarantee, issued by Caixabank, for the amount of €1,034m, as guarantee for the takeover bid for Axiare Patrimonio, SOCIMI, S.A, wholly guaranteed by the funds coming from the bond issue and the capital increase mentioned above.

The net financial debt of the Group at 31 December 2017 stood at €3,066m, the breakdown of which is as follows:

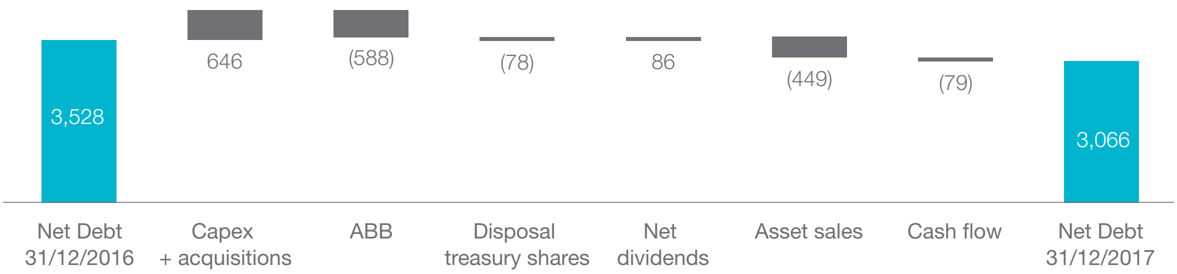
Breakdown of the consolidated net financial debt	December 2017			December 2016			Var.
	COL	SFL	Total	COL	SFL	Total	Total
Syndicate loan	163	0	163	122	20	142	22
Mortgage debt/leases	35	203	238	36	205	241	(3)
Unsecured debt and others	0	443	444	0	425	425	19
Bonds	2,325	1,000	3,325	1,525	1,301	2,826	499
Total gross debt	2,523	1,647	4,170	1,682	1,951	3,633	537
Cash & cash equivalents[1]	(1,089)	(16)	(1,105)	(85)	(20)	(105)	(999)
Group Net Debt	1,435	1,631	3,066	1,597	1,931	3,528	(463)
Average maturity of drawn debt (years)	6.4	4.1	5.5	6.0	4.1	5.0	0.5
Cost of debt % (without arrangement fees)	1.98%	1.68%	1.86%	1.96%	1.95%	1.96%	(10 p.b.)

(1) Cash and cash equivalents include €1,034m pledged as collateral of the bank guarantee of the same amount that guarantees Colonial's payment obligations related to the takeover bid launched over Axiare Patrimonio, SOCIMI, S.A.

The net Group debt decreased by €463m (–13%) compared to December 2016, mainly as a result of the capital increases carried out by Colonial in May 2017 and November 2017 and the sale of the In&Out building by SFL in September 2017.

The evolution of the Group's net debt during 2017 is as follows:

Net Debt Movement €m - December 2017



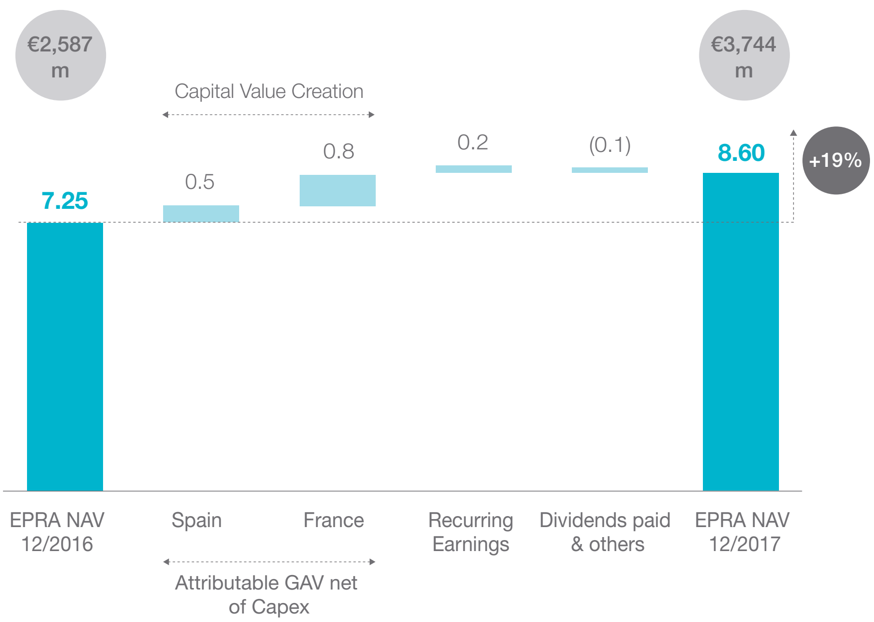
3.6. EPRA Net Asset Value

At the close of 2017, the EPRA NAV of the Colonial Group amounted to €8.60/share, an increase of 19%.

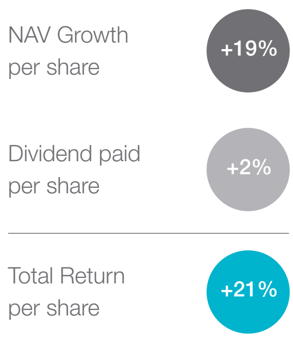
The total shareholder return, understood as NAV growth per share plus the dividend paid, amounted to 21%(1), positioning it among one of the highest returns in the listed sector in Spain as well as in Europe.

This high Total Shareholder Return is a result of the industrial strategy of the Colonial Group, focused on the transformation and creation of prime offices in the centre of Paris, Madrid and Barcelona, which enables Colonial to capture value creation above market average.

EPRA NAV €/share



Total Shareholder Return(1)



(1) Total return understood as NAV growth per share + dividends paid.

The **EPRA Net Asset Value (EPRA NAV)** is calculated based on the Group's consolidated equity and adjustments of specific items following EPRA recommendations.

Calculation of the EPRA NAV: Following the EPRA recommendations and starting from the consolidated equity of €3,592m, the following adjustments were carried out:

1. Revaluation of investments: corresponding to latent capital gains (not accounted for on the balance sheet) of specific assets registered at cost, amounting to €13m.

2. Revaluation of other investments: register at fair value of several investments of the Group.

3. Adjustment of deferred taxes: adjustment of the amount of deferred taxes associated with the revaluation of the property assets (+€198m), registered on the balance sheet.

EPRA Net Asset value - €m	12/2017	**12/2016**
NAV per the Consolidated financial statements	**3,592**	**2,302**
Include:		
(i.a) Revaluation of investment properties (if IAS 40 cost option is used)	13	11
(i.b) Revaluation of investment property under construction (IPUC) (if IAS 40 cost option is used)	na	na
(i.c) Revaluation of other non-current investment	(58)	51
(ii) Revaluation of tenant leases held as finance leases	na	na
(iii) Revaluation of trading properties	na	na
Exclude:		
(iv) Fair value of financial instruments	(1)	2
(v.a) Deferred tax	198	221
(v.b) Goodwill as a result of deferred tax	–	–
Include/exclude:		
Adjustments (i) to (v) above in respect of joint ventures interests	na	na
EPRA NAV - €m	3,744	2,587
Nº of shares (m)	***435.3***	***356.8***
EPRA NAV - Euros per share	***8.60***	***7.25***

EPRA
EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

EPRA NNNAV amounted to €3,428m at 31 December 2017, which corresponds to **€7.9/share**.

For its calculation, the following items have been adjusted in the EPRA NAV: the fair market value of the financial instruments, the fair market value of the debt (–€117m), and the taxes that would be accrued in case of the disposal of the assets at their market value. As a result of Colonial's conversion to a SOCIMI, a provision related to accrued taxes for a total amount of €72m has been reverted. This has resulted in a positive impact of €0.18/share on EPRA NNNAV.

EPRA Triple Net Asset value (NNNAV) - €m	12/2017	12/2016
EPRA NAV	3,744	2,587
Include:		
(i) Fair value of financial instruments	1	(2)
(ii) Fair value of debt	(117)	(79)
(iii) Deferred tax	(200)	(222)
EPRA NNNAV - €m	3,428	2,284
Nº of shares (m)	*435.3*	*356.8*
EPRA NNNAV - Euros per share	*7.88*	*6.40*

04

Responsible Business

Creation of value

Colonial's mission is to, "Create long-term value for shareholders, investors, employees and all stakeholders by investing in and managing office buildings that allow our clients to meet their full potential".

With regard to its vision, Colonial works "To be leaders in the European office market and be recognised for our experience and professionalism, stability and performance, bringing strength and profitability and providing excellent, sustainable real estate solutions tailored to our clients' needs".

To achieve its goal, Colonial prioritises six values designed to guide the performance of all team members.

4.1. Value generation chain

The Colonial Group identifies, through a materiality analysis, the key aspects of its value chain, which enable it to generate a positive impact on its stakeholders.

Material issues for the Colonial Group

	Acquisition of property/ land	Investment in property	Property development	Portfolio management	Business support services
Location and accessibility	●	●	●	●	
Company service efficiency		●	●	●	●
Client satisfaction and communication			●	●	●
Certification		●	●	●	
Generating value for shareholders	●	●	●	●	●
Relevance of CSR investment (CAPEX/ OPEX)	●	●	●	●	
Responsible consumption (energy, raw materials, water and waste)		●	●	●	●
Emissions management and efficiency	●	●	●	●	●
Safety and environmental risk management	●	●	●	●	●
Procurement and supplier relationships		●	●	●	●
Attracting talent and training					●
Diversity and equal opportunities			●		●
Health and safety		●	●	●	●
Quality of life		●	●		●
Governance and transparency	●	●	●	●	●
Corporate ethics	●	●	●	●	●
Commitment to the local community	●	●	●	●	●
Technology and digitalisation			●	●	●

In 2017, the Group updated its materiality study to continue improving its knowledge of the expectations of its stakeholders in the environmental, social and economic issues. Accordingly, a thorough analysis was performed of the value chain and of the legal environment in which the Company operates.

In order to obtain enhanced information about what Group clients consider significant, in Spain the Community survey was carried out and in France, the ParisWorkPlace study was conducted which focused on new technologies and which assesses aspects such as the importance of design and distribution when choosing an office building and stress levels and well-being in the workplace.

Likewise, the significant trends expected to be crucial for the sector and the relevant aspects of the property sector were taken into account, in accordance with the most significant sustainability indices. SASB, GRESB, EPRA, MSCI, FTSE, DJSI and VIGEO. All significant aspects were assessed for the sector and for the Colonial Group, prioritising them in line with their level of importance, to therefore be able to include them in the CSR management of the organization.

The main emerging themes identified with the greatest impact on the business relate to digitalisation, technology and new work methods.

4.2. Corporate Social Responsibility policy

The Board of Directors and the Audit and Control Committee are responsible for approving and supervising the Corporate Social Responsibility policy, respectively. This policy specifies the strategy bases to be followed in the coming years, and establishes the Group's commitment to earmark the necessary resources to ensure that Colonial generates a positive sustainable impact in the ESG area (environmental, social anf governance).

The CSR policy is deployed in three working blocks, which are the pillars of the ESG Strategic Plan. As a pillar for each plan, a long-term mission is supported by various immediate commitments with stakeholders.

E: Eco-efficient management

S: People development

G: Generation of Sustainable Value, Satisfaction and Client Loyalty-Building, Ethics and Compliance

E	**Eco-efficient management** The management of the Group's property portfolio must be aligned with its values and commitments, in order to actively contribute to a more sustainable world. By incorporating eco-efficient processes and actions, the Group seeks to reduce its environmental impact through nine priorities, which are detailed in the "Eco-efficiency" chapter.
S	**People Development** The Colonial Group's culture is predicated on commitment, teamwork and cooperation among team members. To transform this culture into a competitive advantage, the Group seeks to develop its talent through seven priorities which are presented in the chapter "Team of Professionals".
G	**Ethics and compliance** The Colonial Group is committed, vis-à-vis both its investors and its different stakeholders, to carry out its activities in an ethical, transparent manner, in keeping with regulatory requirements. In this regard, via instruments such as the Code of Ethics and the Compliance Unit, the Group seeks to make a positive social impact in this sphere, as described in the "Shareholder structure and Corporate Governance" chapter. **Client satisfaction and loyalty-building** Ensuring the satisfaction, trust and loyalty of clients is a critical aspect to ensure the sustainability of the Colonial Group. Through active dialogue, the Group seeks to rise to growth opportunities, satisfy the needs of its client network and respond to the six priorities developed in the "Business Performance" chapter. **Sustainable value creation** Integrated management of financial, social and environmental aspects is incorporated into the Colonial Group's policies and processes. In this respect, all of the Group's practices shall set a standard for corporate behaviour and must be geared towards generating a positive social impact through value creation for stakeholders, as described in the "Business Performance" chapter.

4.3. Strategic ESG Plan

In 2017, in line with the Group's strategic objectives, Colonial implemented a Strategic ESG Plan, which envisages a series of actions to be taken in the next three years. Its main priority is to maximise the Group's positive impact, both on the environment and on its stakeholders.

To develop this plan the important issues were considered as were the Group's strategic objectives, a benchmark for the property market and the expected situation of the Group for each area, together with the current situation. Based on these analyses, a total of 72 actions were established for the three blocks - Environmental, Social and Governance (ESG).

The "E" pillar of the Strategic Plan is structured into a Sustainability Master Plan with six areas of action: environmental information, environmental management plan, eco-efficiency, biodiversity, climate change and well-being. Within each area, specific actions were planned, detailing the impact of each action and its degree of difficulty. All actions have associated investment for the purpose of having detailed quantitative and qualitative programming.

Along these lines, the Sustainability Master Plan categorises the actions for the different areas of the plan, including the objectives for the coming year.

The remaining actions of the Strategic ESG Plan planned are structured through the Social Master Plan (S) and the Governance Master Plan (G), expected to be approved in 2018.

Detail of the Strategic Plan in ESG and its contribution to the SDGs

19 key actions	**23 key actions**	**30 key actions**
12 climate actions	0 climate actions	1 climate actions
6 actions for sustainable cities and communities	1 actions for sustainable cities and communities	4 actions for sustainable cities and communities
0 actions for decent work and economic growth	22 actions for decent work and economic growth	15 actions for decent work and economic growth

Contribution to Sustainable Development Goals

In September 2015, the United Nations (UN) approved the 2030 Agenda for Sustainable Development, which included 17 global sustainable development goals to:

1. Eradicate poverty
2. Protect the planet
3. Ensure global prosperity

Colonial wished to join the initiative and accordingly, identified the three Sustainable Development Goals (SDG) most related with its activity, with respect to which it can have a positive impact. These goals constitute significant material aspects for its stakeholders and accordingly, are addressed through its Strategic ESG Plan.

8. Decent work and economic growth

47 actions in the Strategic ESG Plan

11. Sustainable cities and communities

11 actions in the Strategic ESG Plan

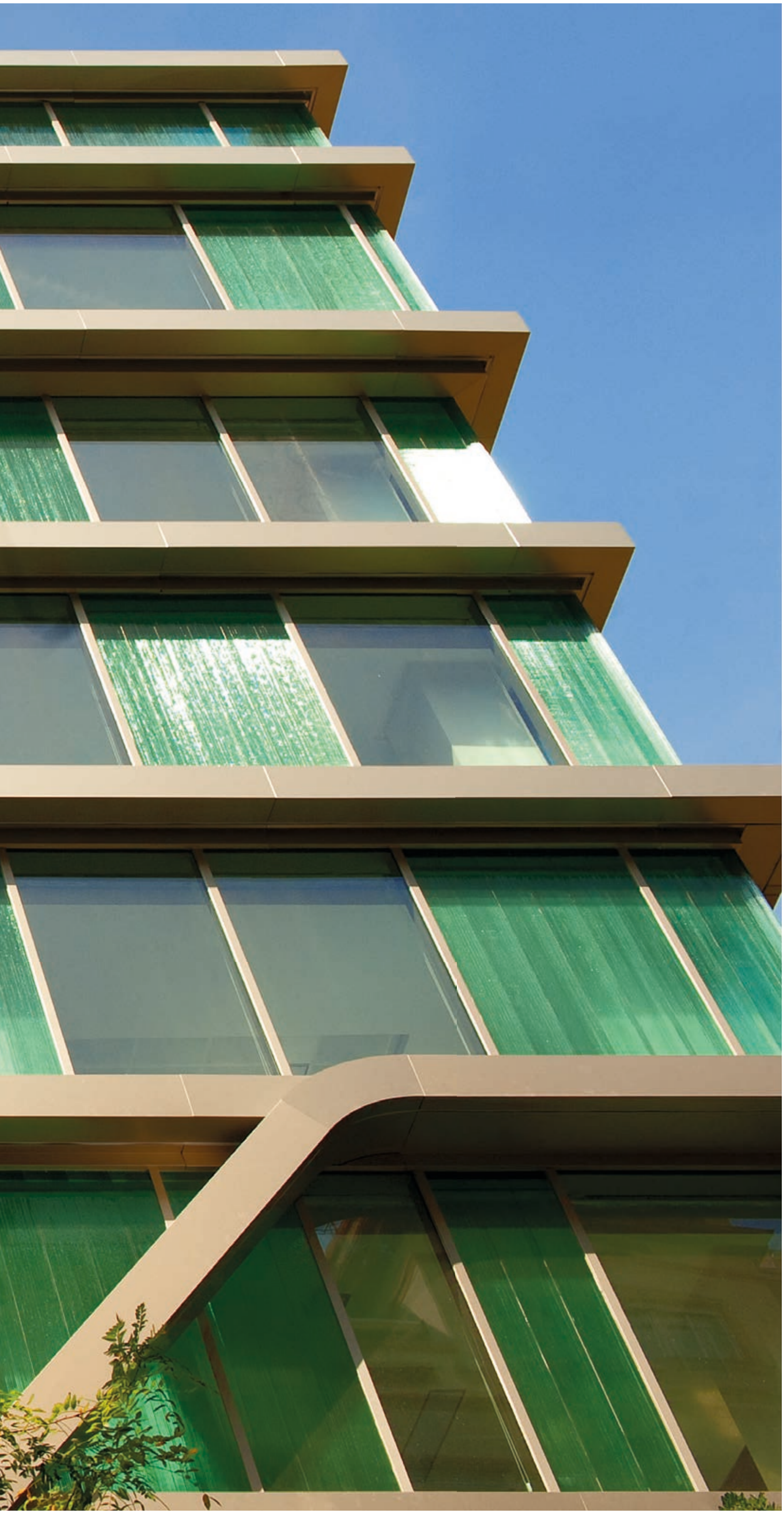
13. Climate actions

13 actions in the Strategic ESG Plan

4.4. Colonial Group stakeholders

Colonial considers sustainability to be a key element of its business model, a model in which returns should not only be economic but also social and environmental. Through its CSR policy, it makes long-term commitments with its stakeholders, seeking value creation for all of them. To better understand the expectations of stakeholders and to be able to adapt its commitments to those expectations, the Company provides them with a series of communications channels to facilitate constant transparent dialogue:

Stakeholders		**Communication channels**
Shareholders and investors	Investor groups and institutional and other shareholders.	Investor Day, Shareholder Office (email and phone), Investor Office (email and telephone) and corporate website (information section for shareholders and investors).
Clients	Leaders in various industries and official agencies.	Building manager, Colonial Group Client homepage (Colonial Intranet and ServicebySFL) and client points of contact (telephone, mail and online).
Financial backers	Funds, insurance companies, financial institutions and other financial services groups.	Points of contact with management (telephone, mail and online).
Employees	Employees at Colonial, Société Foncière Lyonnaise (SFL) and their labour representatives.	Intranet, points of contact (telephone, post and online) and informal horizontal and vertical channels of communication (*in situ*).
Suppliers	Asset suppliers, building service providers, appraisers, contractors and other external partners.	Supplier management platform and points of contact with procurement managers (telephone, email and online).
Society	Industry-specific associations, public authorities, the media, local communities, NGOs and the general public.	General points of contact (telephone, email and online).



05

Team of professionals

05. Team of professionals

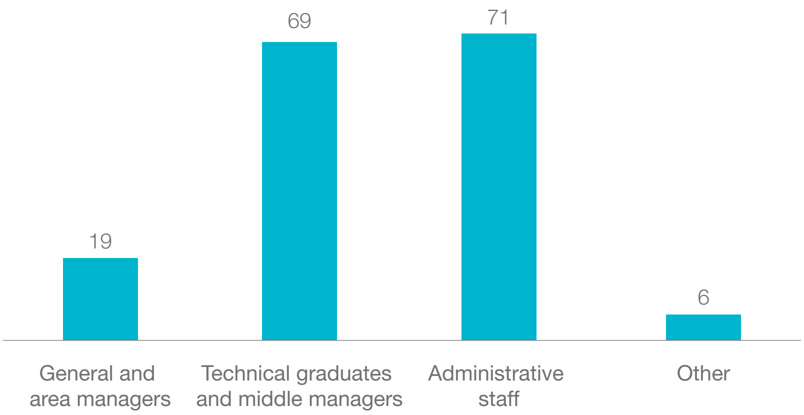
The Colonial Group's business success involves having a team with extensive recognised experience in the industry, which shows a commitment to the sustainability of the Group's project.

Priority of people development and recruitment	**Main progress in 2017**
> To create a pleasant working environment, allowing employees to apply their skills and develop both personally and professionally.	> The central offices were refurbished, offering new dynamic spaces and lounge areas that facilitate collaborative work.
> To facilitate a balance with personal/family life and promote flexibility in the workplace.	> Work has continued to provide specific work-life balance solutions.
> Fairness and equal opportunities, fostering employee health and well-being.	> SFL concluded a new agreement on workplace equality between men and women, which includes a series of measures with objectives for progress in the following three areas: – Recruitment and access to employment. – Professional promotion through professional training. – Effective remuneration.
> To foster training and knowledge management by implementing training plans adapted to the needs of each employee.	> Colonial continues to offer training in languages, increasing the number of hours of training in English. Training hours to employees was increased by 6%.
> To encourage the identification, attraction, development and retention of talent.	> In 2017, the workforce of utopic_Us was incorporated, enabling new talent to be incorporated and complement existing profiles.
> To promote mechanisms that improve internal communication by using new technologies and continually updating the corporate Intranet.	> Ongoing development of projects involving Colonial employees such as, for example, the Way of St. James or the virtual library within the Active Life application, which enables recommendations to be made to other employees.
> To work in an environment that is safe and that guarantees employee health and well-being.	> In order to protect and promote the well-being of Colonial employees, the new tool Active Life and the Gympass option were installed.

The Colonial Group's human team

The Colonial Group has a significant commitment to its employees and is aware that their satisfaction, together with a good working environment, is necessary for the sound functioning of the Company and its sustained growth. Accordingly, it bases the management of its employees on the following principles: respect, flexibility, equal opportunities, diversity and non-discrimination of gender, age and disability.

Employees by professional category



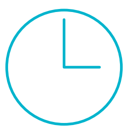
At year-end 2017, the Colonial Group's workforce comprised 165 employees, 56% of which worked in Spain and 44% in France.

5.4%
Turnover

100%
Permanent contracts(1)

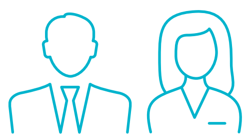
Number of employees

165
people



14.7
Average length of service

2
Number of accidents



66 men

99 women

(1) Does not include information on Finresa or utopic_Us (19 employees).

The Colonial Group has continued working to achieve greater diversity in its workforce. In this regard, the organisation comprises 99 women and 66 men, with 63% of the workforce aged between 30 and 50.

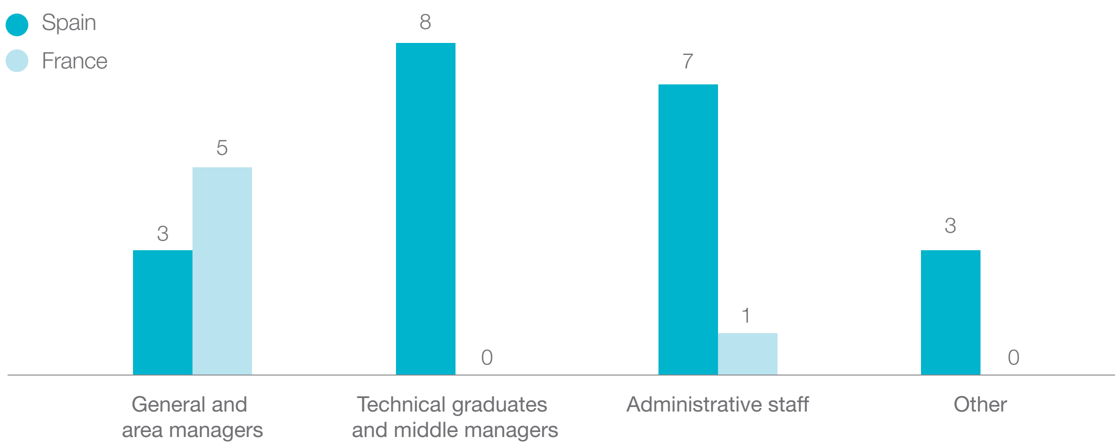
In addition, the workforce stood out in 2017 due to increases in the following key metrics in the area of diversity and equality in Spain:

- 30% in the number of women in the team of employees.
- 150% of employees under 30 years of age, a direct consequence of the inclusion of utopic_Us into the Group.

Colonial Group workforce as of 31/12/2017

	2017		2016	
	Men	**Women**	**Men**	**Women**
Employment category				
General and area managers	13	6	12	5
Technical graduates and middle managers	33	36	29	32
Administrative staff	16	55	18	49
Other	4	2	1	1
Age				
Under 30	4	8	4	6
30-50	46	58	43	51
Over 50	16	33	16	30
Total	165		150	
Employees included in the industry-specific collective agreement	143		147	
Percentage of employees included in the collective agreement in proportion to the total headcount	98%		98%	

Details of new recruits



The Colonial Group seeks to structure its workforce in line with the growth objectives defined in its Business Plan. Hence, in 2017, a total of 27 employees were incorporated into the Group, much higher than the 12 people that left the Company in the year.

Noteworthy was the inclusion of 16 employees of utopic_Us.

Investment in human capital

For the Colonial Group, the basis of the Company's ongoing sustained growth is its employees; accordingly, it considers it essential to invest in human capital and to ensure that its professionals are qualified to support the Group's future strategy.

On a yearly basis, the Colonial Group's Human Resources department reviews the Internal Training Plan in conjunction with the Group's executives. The review focuses on the degree of satisfaction, suggestions and progress of all employees in relation to last year's courses, and on insights regarding the degree of implementation and attraction of talent. Accordingly, the Training Plan is determined for the year under way, in line with the needs of both Colonial's employees and of the Group's requirements and needs.

In this regard, in 2017, 4,042 hours and 1,869 hours of external training were given in Spain and France, respectively. In 2017, a total of 5,912 hours of training were offered, which translates to an average of 36 hours of training per employee and a rise of 16% in the total hours offered with respect to 2016.

The Colonial Group earmarked a total investment of €329,027 for training, up more than 8% on 2016. In this regard, in 2017, the Group provided training courses to 124 employees of its workforce.

Total participation in training in 2017

	2017			
	Spain		France	
	Participants	Hours	Participants	Hours
Employment category				
General and area managers	4	447	54	1,582
Technical graduates and middle managers	12	1,200	11	231
Administrative staff	39	2,395	4	56
Total	55	4,042	69	1,869
Gender				
Men	18	1,383	26	730.5
Women	37	2,660	43	1,138.5
Total	55	4,042	69	1,869

	2017	2016
	Colonial Group	Colonial Group
	Hours	Hours
Total	5,911	5,094

Training plan

In accordance with the 2016 training plan, the Colonial Group has different training areas, in line with its employees' needs.

Key data of the Colonial Group's Training Plan

- 1,123 hours Area training
- 460 hours Skills training
- 115 hours Motivational training
- 3,905 hours Language training
- 308 hours Specific training

Area training

The objective of area training is to develop the specific knowledge and capacities to perform the role.

In 2017, a total of 1,123 hours of training were provided, in which over €130,000 was invested.

Skills training

The objective of skills training is to train employees in the development of specific aspects to perform their duties.

In line with the objective set in 2016 of emphasising increased skills training, in 2017, Colonial's employees attended a total of 460 training hours.

Motivational training

For Colonial, it is essential to have motivated employees. Consequently, the Company considers it highly important for its employees to work their entire professional career at the Company. For this reason training is promoted that enables employees to grow within the Company, thereby providing them with support in their career plan and keeping them motivated. In France in 2017, a total of 115 hours of motivational training were given.

Likewise, in 2017, of the three employees that studied a Master's degree, two of them studied an MBA at the prestigious ESADE university and one of them studied a Master's Degree related to the property industry at recognised university IESE.

Language training

Colonial is highly aware that we live in a changing global world in which communication and the ability to adapt is basic and necessary. Accordingly, the Group continued to offer language training in 2017, looking to the challenge of having a bilingual workforce.

In 2017, Colonial increased training hours over 2016 by more than 30%, providing a total of 3,392 training hours in Spain and 513 hours in France. The Group maintained small groups in training courses, in order to reach common goals.

Specific training

Continuing the training provided in Spain in the area of safety, corruption and sustainability in 2016, in France a total of 308 hours training was provided in these areas of safety and sustainability, in which nine employees participated.

Training Plan of the Board and its Committees

As part of the Training Plan of the Board and its Committees, in 2017, Colonial provided a total of five training courses. The training sessions involved different themes, both current matters of a macro nature and subjects related directly to the business. The main ones were:

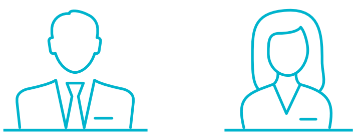
- Impact of digitalisation on the business and on organisation
- Competition in the real estate sector
- Payment systems
- Crypto currencies
- Blockchain
- New businesses (utopic_Us)

Diversity, equality and equal opportunities

One of the principles governing the Group is the diversity, equity and equal opportunities of all people forming the Company. Colonial works to ensure that the difference between posts occupied by men and women gets increasingly narrower. At the end of 2017, 60% of the Group's workforce was made up of women. A clear example of the commitment to equality is that in 2017 at SFL four of the six recruitments made in the year were women, 13 of the 21 of which were recruited in Spain.

To ensure the absence of discrimination, promote gender equality and favour a work-life balance, all Colonial Group employees have flexible arrival and departure times. Also, in 2017, debate groups were set up with a group of employees to deeply explore the salary gap between men and women. As a result of these debates, it was concluded that the internal policies and procedures promote the absence of any type of gender or age discrimination. Two out of two men and two out of two women at the Group took paternity/maternity leave in 2017.

New hires in 2017



10 Men

17 Women

Health and safety

The Colonial Group also has a Health and Safety Committee, which oversees the correct implementation of security measures and the prevention of occupational hazards, while ensuring a healthy work environment. This Committee is formed of four members, two of them form part of Company management and the other two are employee representatives. In 2017, they met a total of four times. The main topics they addressed were as follows:

> Risk prevention

> Health surveillance

> Ergonomics and comfort in the workplace

> Potential concerns of Colonial employees

Aside from the meetings conducted by the Health and Safety Committee, a series of initiatives were implemented to promote and preserve health and safety among employees. Among these:

> Rescue Worker Rescue (SST) training programme for seven employees

> Renewal of fire prevention training

> Recycling of certain existing electrical installations

Safety in the workplace

Colonial annually renews its commitment to its employees' safety, performing ongoing monitoring and ensuring that all safety standards are met. Accordingly, the accident rate remained low in 2017.

In Spain, two occupational accidents took place, which led to increased number of days of absences compare to 2016. Also, one accident took place when travelling to or from the workplace. With regard to the French subsidiary, no occupational accidents occurred in 2017, though one accident took place when travelling to or from the workplace.

		2017			2016		
		Spain	France	Total	Spain	France	Total
No. of occupational accidents	Men	2	–	2	–	–	–
	Women	–	–	–	1	–	1
No. of accidents to and from the workplace	Men	–	–	–	1	–	1
	Women	–	1	–	–	1	1
No. of days absent from work due to occupational accidents	Men	–	–	–	–	–	–
	Women	111	–	111	11	–	11
No. of days absent from work due to accidents that took place when travelling to or from the workplace.	Men	390	–	390	270	–	270
	Women	–	–	–	–	7	7
No. of days absent from work due to absenteeism	Men	238	81	238	20	57	77
	Women	34	463	34	664	947	1,611
Days absent from work per employee		**4**	**7**	**4**	**10**	**13**	**23**
Fatalities		**0**	**0**	**0**	**0**	**0**	**0**

Commitment to well-being

For the Colonial Group, it is essential to have healthy employment environments to improve the Company's productivity and sustainability. Accordingly, in June 2017, the Colonial Group implemented a programme based on the concept of a healthy company, combining all areas of health: physical, mental and social

The concept of a healthy company is inspired by the World Health Organisation's healthy work environment model, which offers the following definition of a healthy company: "that in which employees and management work together in a process of ongoing improvement to promote and protect the health, safety and well-being of employees and the sustainability of the workplace".

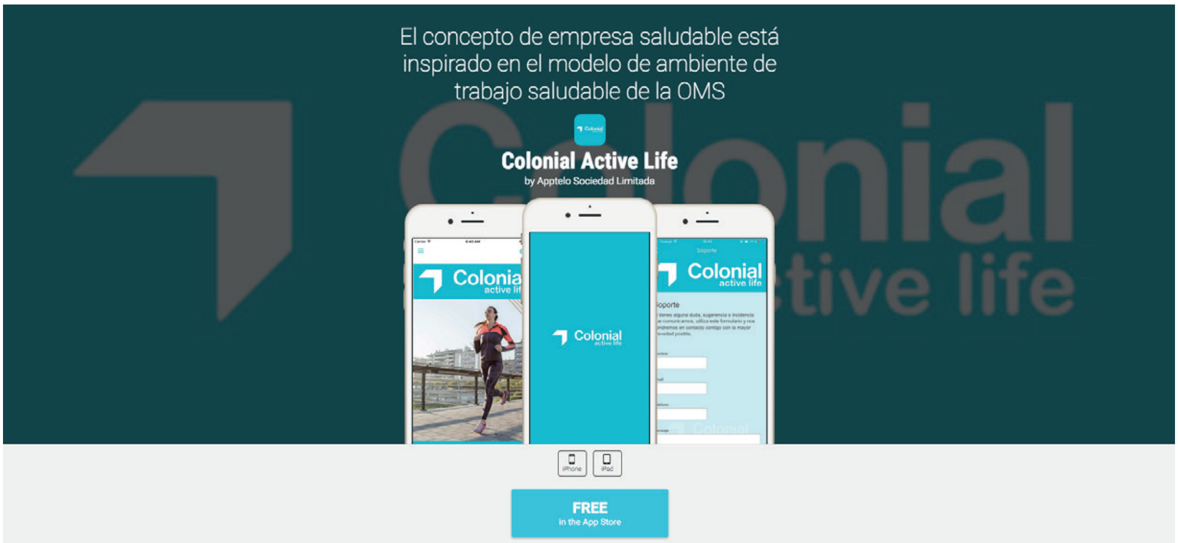
Within the framework of this programme, two lines of action have been developed:

1. Implementation of Colonial Active Life.

2. Refurbishment of offices.

Colonial Active Life

Objective	The project aims to promote health in the employment area, improving the quality of life of the people that make up the organisation. To attain this objective, an application was developed which encourages healthy lifestyle habits inside and outside the Company.
Active Life programming structure	The programme is structured through the Colonial Active Life platform, through which an annual activities and action schedule has been defined.
Updating	The programming is updated and adapted quarterly in accordance with the data being obtained regarding the interests, needs and desires of the registered/active users on the homepage.
Interaction	> Corporate challenges to promote healthy lifestyles in a team. > Access via Intranet direct to the application. > Access via mobile app. > An online health coach that facilitates direct access to a doctor's surgery to ask questions on health and well-being.
Adhesion	All Colonial employees.



The platform has the following sections:

Social Life

Where different discounts can be found for sports and leisure activities such as, for example, entrances to theme parks and different shows and musicals.

Food

The food section is one of the most visited by Colonial employees. It contains different healthy menus that are easy to prepare and help employees to eat a healthy balanced diet.

Reading club

In the reading section, Colonial's employees may share their ebooks, make recommendations to other users and give literary reviews.

Volunteers

This section publishes the different charity work in which the Company is involved to facilitate the participation of employees in volunteer work.

Events

This section publishes the Company's most significant internal events, together with a summary of the most important activities of the application.

Sports & Leisure

Following along the lines of the commitment to employee health, the application provides direct access to Gympass, a programme which encourages employees to practise sport and improve their quality of life and reduce stress and anxiety. Currently, 73 Colonial employees are registered in Gympass.

The application provides access to over 50,000 gymnasiums around the world and Colonial subsidises 80% of the fees selected.

Well-being

Where to find ergonomics videos and tips to improve health. How, for instance, employees should sit to avoid backaches, stretches and very useful different suggestions.

Challenges

This space proposes challenges for employees on an individual or group basis.

For example, in June 2017, the challenge of the Way of St. James was created in which each employee made a note of the kilometres that he/she covered, be it on foot, running, swimming or by bicycle. Among them all, the objective was to cover the whole of the Way of St. James. The challenge was a success and they managed to complete the Way of St. James. The result was measured by the different Colonial areas, thereby promoting healthy competition among all employees.

Refurbishment of offices

Also, to improve the culture of internal management and communication within the Company, in 2016, a refurbishment project was commenced at the Barcelona offices, which was completed in 2017.

The main purpose of the refurbishment of the offices was to improve the staff social spaces: a more spacious company canteen and multi-use and comfortable rooms were built enabling improved communication and better lighting of work stations by adding table lamps. Accordingly, employees gained a high degree of comfort at their work stations.

The French, this commintment was carried out though a work group tasked with optimising quality of life in the workplace. In 2017, this work group met a total of three times, when they defined a series of objectives which led to the signing of an agreement on quality of life in the workplace, whose main measures relate to:

> The integration of new employees through a specific procedure.

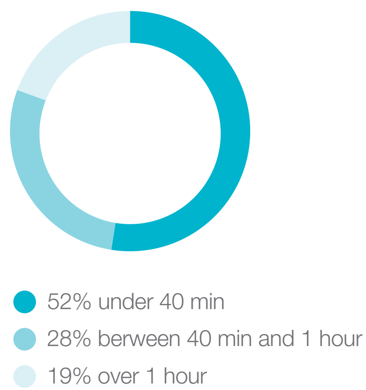
> Internal communication in the context of frequent meetings with all employees to inform on current Company matters.

> Comfort and well-being of employees: creation of new services and teams within the central office, regulation of the use of digital tools and measurement of the employment environment, among others.

Accessibility

In order to improve accessibility, not only with respect to its customers, but also with regard to its employees, in 2017, a survey was conducted in France on all employees regarding the time they take to reach the office, the findings of which were as follows:

Time to reach the office



With regard to distance, the average journey an employee made to reach their work station was 19 Km, i.e. a total annual distance of almost 2,700 km for all employees, representing approximately 11 tonnes a year of CO_2. The objective of this survey was to understand the transportation habits of the building users and to understand which aspects are most important for them. Hence, the Company has a series of aspects that can be taken into account to assess which initiatives can be performed to improve the experience of employees with regard to accessibility.

Compensation and remuneration

In order to ensure an egalitarian and equitable policy, the Colonial Group draws up a remuneration map which includes all employees and which is reviewed annually by the Human Resources team.

The map is updated taking into account:

> Comparison of responsibilities of the various positions.

> Principle of equal pay for all employees.

> Market wages data from national surveys or the industry itself.

The Colonial Group's remuneration policy is based on three fundamental pillars:

1

The proportionality and adaptation of remuneration to each work post. Accordingly, remuneration must correspond to the dedication and responsibilities of employees.

2

Equal opportunities. Colonial considers it vital that all employees feel equally valued, regardless of their gender, age, disability or any other circumstance. Accordingly, an annual check is made to ensure that its remuneration policy benefits all its employees without distinction.

3

Competitiveness with respect to the market. The Company is aware that remuneration is a vital tool to attract and retain talent; thus, Colonial attempts to offer remuneration above market rates.

Colonial's remuneration system comprises different parts: a fixed part, another variable part and, last, employee benefits.

The fixed part or base salary is reviewed year after year to ensure that it is in line with the Remuneration Policy bases and, as with the variable part, it will be weighted for all Company employees, depending on the employee's post and professional category.

Last, the third part of Colonial's remuneration system is employee benefits, which are available for all Company employees.

In this line, the Group has general employee benefits that apply both to Spain and to France and specific plans for each country. There are basically two specific employee benefits in France: the Savings Plan for employees and the retirement plan (PERCO). In total, SFL's financing earmarked to both plans was €214,252 in 2017. Also, Spain has parking for its employees and gives them a basket of products at Christmas.

Employee benefits	No. of beneficiaries
General employee benefits	
Health insurance	219 [(1)]
Life and accident insurance	145
Meal vouchers	138
Employee benefits France	
Business savings premium	76
Retirement plan (PERCO)	58
Employee benefits Spain	
Car park	73
Christmas batch	73
Christmas meal	73

(1) Includes family members of employees.

Employee Representatives

Works Council

The Works Council is tasked with representing employees to ensure smooth communication between employees and Colonial and to provide a work climate of partnership between the two parties. In this regard, both in Spain and France, the employees have a representative body, which provides support for the different needs and concerns of the employees of each company.

Colonials' Works Council boasts six members, five of which belong to the Barcelona Works Council and an employee delegate at the Madrid offices. In 2017, seven ordinary work meetings and three meetings with the Human Resources Department were held. The main topics addressed, in addition to the ordinary operation of the Company and the Council, were the refurbishment of the new offices and the corporate transactions performed by the Company.

The SFL representative body is the Unified Delegation of Employees. It has a total of eight members, representing the different Company departments. They met three times in 2017 to address matters such as identifying priorities and guidance for employees in promoting an optimum working environment, proposing changes in this area and giving formal notification of these so that they can be covered in the collective agreement.

Collaborative management with suppliers

The Colonial Group is aware that its responsibility is not limited to its internal team of professionals; hence, it seeks to ensure that the employees that form its supply chain share the Group's values and apply them in each phase of its activity.

Group suppliers

To be able to offer a quality service, it is essential that suppliers also offer a high-quality service and product. Accordingly, Colonial pays special attention when selecting and assessing its suppliers.

Colonial strives to ensure that both its employees and suppliers respect the agreements defined by the International Labour Organisation (ILO) in terms of:

> Freedom of association and collective bargaining.

> Elimination of all forms of discrimination in terms of access to work and employment.

> Elimination of forced and/or mandatory labour.

> Effectively eliminating child labour.

The Colonial Group suppliers are classified into two categories, depending on the type of services and goods provided:

> Maintenance service providers.

> Construction service providers during remodelling and refurbishment projects and other improvements to buildings.

Colonial prioritises local suppliers to help generate value in the community in which they operate, which is also more efficient from an environmental, economic and social viewpoint. Hence, of the 925 suppliers with which Colonial worked in Spain in 2017, 92% were local. In France, of the 261 suppliers Colonial worked with in 2017, 260 were local, that is, 99.6%. Further, in line with this pledge to contribute value to the community, 88.9% of all suppliers are located in Île-de-France, the region in which all buildings in the portfolio in France are location.

Approval processes

The Colonial Group involves its suppliers in its work plans. Hence, it endeavours to ensure that its suppliers follow the principles of the Group's CSR policy. Likewise, technical proposals are prepared that promote responsible behaviour, especially in the following areas:

> Optimisation of energy consumption and liquids.

> Use of ecological cleaning products.

> Decreases amount of packaging and volume of waste.

> Improvement of occupant's comfort.

> Increase in the level of operating certificates of the buildings (BREEAM in use).

Last, to avoid any illegal employment situation and comply with its obligations to verify documentation, as has been done in previous years, SFL outsourced this process using a partnership platform (E-attestation). This platform manages all administrative documents deposited by the suppliers, verifies their integrity and, if necessary, issues reminders.

06

Eco-efficiency

06. Eco-efficiency

The Colonial Group, through the relationship with its suppliers and other employees in its supply chain, is working to obtain the Sustainable Development Goal (SDG) Number 13: **Climate actions.**

Priorities in eco-efficient management	Main progress in 2017
> To continue making progress in the certification of the buildings in the Colonial Group's portfolio.	> Constant search for certifications for its buildings and objectives set. Improvement in the levels of certification obtained, with respect to the renewals (every three years).
> To improve the technical environmental level of facilities through specific actions at existing buildings.	> Work has been performed to improve the technical environmental level in the property refurbishments made and in the planning of the construction of new buildings. The clearest example is the work performed at the Discovery Building in Madrid (Estébanez Calderón 3-5).
> To promote the efficient use of resources, as well as the reduction of waste generated.	
> To encourage sustainable building practices at the new assets acquired by the Group.	> The Discovery Building has obtained the LEED Platinum certification. The Washington Plaza building in Paris obtained the "Outstanding" rating in BREEAM Part 2.
> To ensure the availability of information on consumption at the various buildings, as well as the quality of such information.	> The Colonial Group is improving the systems of monitoring consumption under its control. In 2018, the implementation of a new monitoring tool will be completed.
> To encourage the development of tools to monitor consumption, and to enable a follow-up of their performance.	
> To develop programmes for the continual improvement of environmental and energy performance.	> In 2017, the 2018-2020 Sustainability Master Plan was implemented, which includes 34 initiatives to improve environmental and energy performance.
> To standardise and uniformly implement the sustainable procurement strategy across the various companies in the Group.	> New scorecard with special emphasis on Environmental, Social and Governmental matters.
> To optimise management processes under an integrated system.	> Under the Sustainability Master Plan, the Company succeeded in unifying the follow-up and the environmental management procedures through a scoreboard which includes the common lines of work.

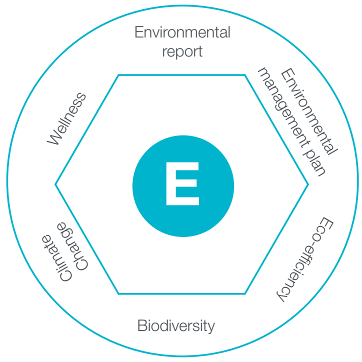
Sustainable resource management

General environmental policy

In the environmental area, Colonial's Business Area defined the 2018-2020 Sustainability Master Plan, whose objective is to go one step further in the Company's environmental commitment. This Plan establishes the Company's sustainable development objectives and includes: initiatives related to the environmental management of buildings, eco-efficiency, improved biodiversity, challenges arising from climate change and wellness.

This plan represents the implementation of the Environmental Management Policy approved in order to be leaders in sustainable environmental practices and constantly improve the environmental credentials of operations and projects. This policy defines the working lines and improvement commitments that must be achieved in 2020.

Aditionally, Colonial's has established as a goal that all buildings acquired obtain the BREEAM Very Good (existing buildings) or LEED Gold (new buildings) ratings, in accordance with the schedule envisaged.



34 key actions

10 short Term Actions

17 middle Term Actions

7 long Term Actions

Energy efficiency and emissions reduction

In 2017, work continued on initiatives to ensure a responsible consumption of resources, mainly energy and water. To monitor company progress, the Company has had a consumption management system in place for years (Dexcell).

Some of the main actions in 2017 to reduce consumption were as follows:

- Changes in lighting
- Installation of presence detection systems in the hall and emergency stairway
- Replacement of fuel oil boilers with gas boilers

The "energy consumption and emissions" tables detail consumption in 2017 and 2016, both in absolute terms and in terms of intensity.

Energy and emissions

Given the Group's extensive property portfolio, the Group has various degrees of control over its buildings and the corresponding energy consumption. Accordingly, the following three casuistries arise:

Own offices

The offices used by the Colonial Group to carry on its activities, whose energy consumption is managed in full.

The Colonial Group has three offices of its own located in the cities in which it operates: Barcelona (Avenida Diagonal 530), Madrid (Castellana 52) and Paris (Washington Plaza). In the three offices there is electricity consumption, however, the consumption of fuels is only produced in the Barcelona (diesel) and Madrid (natural gas) offices. During 2017, there was a reduction in the electricity consumption, influenced mainly by the period of refurbishments in the Barcelona office as well as by the energetic improvements introduced in said office. The consumption of fuels has also been influenced by the refurbishments of Diagonal 530, varying with the filling and charging of the deposits.

Leased offices, with control over the management of energy consumption in the entire building

Offices leased to Colonial Group customers, but in which Colonial manages energy consumption.

Leased offices, without control over the management of energy consumption in the entire building

In this case, the Colonial Group does not manage consumption in the buildings or only manages consumption in the communal areas. In this situation, those charged with monitoring consumption are the customers themselves.

Sustainable Like-for-Like

The table below shows the general consumption and emissions of the buildings included in the Sustainable Like-for-Like, following the recommendations of the EPRA Best Practices on Sustainability Reporting (EPRA BPR Guidance). Buildings included in the Sustainable Like-for-Like category represent properties for which the Group controls total or partial consumption and emissions (excluding therefore single user buildings) and that have been in the Group's portfolio during 2016 and 2017. The measurement of consumption and emissions under Colonial's operational control enables the monitoring of the efficacy of the measures put in place to improve the Group's efficiency over time.

In 2017, only one building was sold, IN&OUT; accordingly, consumption in this building is not included in the Like-for-Like calculation for this report.

Additionally, the Group has reported the absolute consumption of its portfolio and the Like-for-Like with the same scope, given that for the properties acquired during 2017, measures to ensure the monitoring and reporting of consumption information are still being implemented.

During the year 2017, the Group has carried out the calculation of scopes 1 and 2 of its carbon footprint from the energy consumption of common areas in buildings operationally controlled by the Group, as well as from the consumption of their own offices. Scope 3 emissions have been calculated for three concepts:

> Energy consumption from tenants in buildings operationally controlled by Colonial.

> Energy consumption from buildings controlled by tenants, estimated from the average intensity of similar buildings.

> Business trips with data from the trips carried out and the means of transport used.

(See detail of scope by scope emissions in chapter 12. GRI & EPRA BPR'S Indices).

The following table shows direct and indirect emissions, as well as the energy consumption of buildings operationally controlled by the Group.

The adjusted intensity of the following tables refers to the consumption of buildings between the average level of occupancy thereof throughout the corresponding period, calculated in m^2. In addition, the emission factors for 2016 were updated in line with the latest version available in 2017, which necessarily resulted in a change of the emissions published for the 2016 exercise. Finally, in 2017, the cooling and heating networks in France have been informed separately and the data from 2016 has been presented in a comparable manner.

For the second year running, the Colonial Group participates in the Carbon Disclosure Project (CDP) index to align with best practices in terms of measuring its carbon footprint and the fight against climate change. Additional information regarding the management of climate change related risks and opportunities, energy management and the environmental management of buildings can be found in said questionnaire.

Energy consumption and emissions at offices for own use

Sustainability indicators	Measurement unit	Coverage	Consumption/ emissions 2017	Consumption/ emissions 2016	Change	Square metres	Intensity 2017	Intensity 2016	Change
Electricity consumption (Elec-Abs, Elec-Lfl) (GRI 302-2,3, CRE1)	Mwh	3 of 3	590.57	610.32	–3%	4,575	0.129	0.133	–3%
Fuel consumption (Fuels-Abs, Fuels-LfL,) (302-1,3, CRE1)	Mwh	2 of 2	124.58	64.82	92%	2,775	0.045	0.023	92%
Total energy consumed (Energy-Int)	Mwh	3 of 3	715.15	675.13	6%	4,575	0.156	0.148	6%
Direct emissions of CO_2 (GHG-Dir-Abs, GHG-Dir-LfL, GHG-Int) (GRI 305-1,4, CRE3)	$TeqCo_2$	2 of 2	32.44	17.01	91%	2,775	0.012	0.006	91%
Indirect emissions CO_2 (GHG-Indir-Abs, GHG-Indir-LfL, GHG-Int) (GRI 305-2,4, CRE3)	$TeqCo_2$	3 of 3	164.01	172.22	–6%	4,575	0.035	0,038	–6%
Total CO_2 emissions (GRI 305,1,2,4, CRE3)	$TeqCo_2$	3 of 3	196.45	189.23	3%	4,575	0.042	0,041	3%

Note: In their own office there is no Heating and cooling consumption.

Energy consumed and emissions at leased buildings with control over energy consumed in the buildings

Sustainability indicators	Measurement unit	Coverage	Consumption/ emissions 2017 (Mwh)	Consumption/ emissions 2016	Chg.	M^2 (real)	M^2 adjust.	Intensity 2017	Intensity Adjusted 2017	Intensity 2016	Intensity Adjusted 2016	Chg.	Adjusted chg.
Electricity consumption (Elec-Abs, Elec-Lfl) (GRI-302-2,3)	Mwh	33 of 33	61,933	62,359	–1%	393,735	362,871	0.16	0.17	0.16	0.18	–2%	–3%
Fuel consumption (Fuels-Abs, Fuels-LfL,) (GRI-302-2,3)	Mwh	8 of 8	4,461	3,419	30%	210,032	186,014	0.02	0.02	0.02	0.02	27%	28%
Heating and cooling consumption (DH&C-Abs, DH&C-LfL) (GRI-302-2,3)	Mwh	9 of 9	21,124	20,415	3%	175,749	152,425	0.12	0.14	0.12	0.14	0%	1%
Green energy consumption (Photovoltaic)	Mwh	1 of 1	38	42	–9%	3,242	3,080	0.01	0.01	0.01	0.01	–9%	–13%
Total energy consumed (Energy-Int) (GRI-302-2,3)	Mwh	33 of 33	87,518	86,193	2%	393,735	362,871	0.22	0.24	0.22	0.24	0%	0%
Direct emissions of CO_2 (GHG-Dir-Abs, GHG-Dir-LfL, GHG-Int) (GRI 305-1,4, CRE3)	$TeqCo_2$	8 of 8	920	717	28%	210,032	186,014	0.00	0.00	0.00	0.00	25%	26%
Indirect emissions CO_2 (GHG-Indir-Abs, GHG-Indir-LfL, GHG-Int) (GRI 305-2, CRE3)	$TeqCo_2$	33 of 33	16,418	15,930	3%	393,735	362,871	0.04	0.05	0.04	0.04	2%	1%
Total CO_2 emissions (GRI 305,1,2,4, CRE3)	$TeqCo_2$	33 of 33	17,337	16,647	4%	603,768	548,884	0.03	0.03	0.03	0.03	2%	2%

Notes: The group of buildings for which both energy consumption and emissions are detailed are the buildings that the Colonial Group includes in its Like-for-Like portfolio and whose consumption it controls. In certain cases, it only controls consumption of the communal areas.
The building at Paseo de la Castellana 163 is excluded from the Like-for-Like scope to calculate consumption, since it was acquired in December 2016 and therefore consumption data are not available for the entire year.
To calculate CO_2 emission in Spain for 2016 and 2017, the MAPAMA V.9 emission factors for July 2017 were used and for France those provided by the energy providers were used, following the methodology for the calculation of the French Environment and Energy Management Agency (ADEME).
The unit used for intensity is Mwh/m^2, and $TeqCO_2/m^2$ regarding emissions.

It must be emphasised that the Group participates in the global drive to control and reduce greenhouse gas (GHG) emissions, established at the end of the 21st Conference of the Parties, in which decisions are adopted to comply with the objectives of the fight against climate change. These objectives conform fully with the international commitments and, in particular, with the 2° C goal resulting from the Paris Agreement.

One of the actions scheduled in the 2018 Sustainability Master Plan is the in-depth analysis of the ability to adapt its assets to climate change and to the related risks in order to anticipate the possible multiplication of exceptional climate events. During 2017, this practice was implemented in the start-up of the French subsidiary, in line with the recommendations of the French Environment and Energy Management Agency (ADEME).

New due diligence procedures

To reduce the negative environmental impact in its value chain, the Colonial Group updated the Due Diligence procedures prior to the acquisition of the property. The process is performed by a technician and approved by the Investment Committee, and comprises mainly the following phases:

Improvement drive in Spain

Throughout 2017, in Spain work continued to be performed to reduce the intensity of portfolio consumption. However, due to increased occupancy or to increased operating hours, there were slight rises in absolute consumption in certain buildings.

Among the improvement actions performed by Colonial to reduce consumption, noteworthy was the case of Francisco de Silvela, which managed to reduce its energy consumption by over 8%. Such reduction was achieved as a result of the change in LED technology in the stairway, together with the installation of a lighting control system.

In order for the portfolio to be as efficient as possible, in 2017, Colonial continued its refurbishment plan in certain buildings. In Barcelona, the Company's own offices were refurbished to improve the level of comfort of its employees and to reduce the different consumption of supplies through, among other measures, an update of lighting and air conditioning systems. The benefits of these actions were reflected by a reduction in the building's energy consumption of 9%. In the Spanish capital, a total of five buildings were refurbished. Noteworthy among the improvements performed were the integration of variators in the cooling towers and the replacement of heat recovery systems on certain floors.

Phases of the due diligence proces

External analysis
- Background
- Urban development conditions

Analysis of the environmental impact of the building construction
- Materials
- Waste
- Discharge
- User risk
- Other pollution

Technical audit
- Accessibility
- Fire prevention
- Licences
- Assessment of procedures to be performed

Conclusion

Improvement actions in France

SFL has had a series of long-term objectives since 2014, which were reviewed year after year, and which include specific objectives relating to the reduction of energy consumption. Specifically, for 2020, the Company wishes to reduce energy intensity and water intensity by 20%. It must be highlighted that the objectives set for 2017 with regard to energy intensity were attained with a reduction of over 17% with respect to the base year. Likewise, at 31 December 2017, over 65% of the energy consumed in the portfolio related to electricity, while fossil fuel represents a marginal portion of the total energy consumed.

With regard to the use of renewable power, of note was the #cloud.paris building, which already produces and consumes energy from renewable sources.

With regard to water, noteworthy was Washington Plaza, which installed tanks to capture rainwater in order to use it for this building's vertical garden. In 2017, a total of 1,300 m^3 of rainwater was reused at this building.

At 31 December 2017, all the buildings in France had obtained BREEAM Part 1 certification. For 2018, the main objective is to obtain LEED, HQE and BREEAM Construction certification for all buildings in the portfolio under construction (Iena, Louvre and Destination).

Lastly, in 2017, significant progress was made in the five leverages defined to improve the energy efficiency of assets.

Biodiversity initiatives

Colonial carries on its activities in the prime areas of the cities in which it operates: Barcelona, Madrid and Paris. Accordingly, although most of the portfolio does not offer the possibility of external green areas, in order to improve the ecological value of its buildings, the Company attempts to place living plants in the buildings' communal areas.

Likewise, at the buildings that may exceptionally generate an impact on biodiversity and on the area's ecosystems, studies are performed to minimise such impacts. This is the case of the Sant Cugat Nord building, at which Colonial conducted an ecological analysis of the building and an Action Plan to improve the biodiversity to be developed in 2018. This Action Plan includes proposals such as:

> Replacement of invasive exotic plants with other plants that consume little water.

> Landscape restoration of banks.

> Increase in the presence of nest boxes for insectivorous birds and bats as a means of pest control.

Actions for the improvement of the energetic efficiency

1	2	3	4	5
Automation of invoicing data reports.	Analysis of consumption per usage.	Measurement of global energy performance, including consumption of the uncontrolled areas.	Development of an Energy Efficiency Improvement Plan.	Obligation, by the operating partners, to work to reduce consumption.

Since certain species that live close to the Sant Cugat Nord complex are in danger of extinction, Colonial has decided to build refuge boxes to attempt to support their conservation.

With regard to France, the most significant initiative was the vertical garden at Washington Plaza. Such garden involves a modular automatic watering system, in which the species planted were mainly exotic species chosen due to their adaptation to vertical environments. Boxes have also been included so that the passeriform species can nest. The vertical garden is encompassed within an Action Plan in the area of biodiversity for Washington Plaza, which includes various actions.

At 31 December 2017, 9% of the total surface area of SFL's portfolio had green areas. Of particular note, were the buildings at 176 Charles de Gaulle and Galerie des Champs-Elysées, which has over 40% of garden areas. Likewise, as an objective for 2020, SFL proposes to increase the percentage of green areas to 11%. To progress in this objective, in 2017, the aquatic landscape was recreated with large terraces around the Le Vaisseau en Issy-les-Moulineaux building close to the Seine.

Reduction of materials consumed

The consumption of materials at the Company's own offices can be found below.

Table of materials consumed

Consumption					
Sustainability indicators	**Measurement unit**	**Number of buildings**	**Consumption 2017**	**Consumption 2016**	**Change**
Paper (GRI 301-1)	Kg	2 (Diagonal 530 and Castellana 52)	1,961	2,286	–14%
Toner (GRI 301-1)	Units	2 (Diagonal 530 and Castellana 52)	19	43	–56%
Fluorescent tubes (GRI 301-1)	Units	1 (Castellana 52)	12	106	–89%
PL lamps (GRI 301-1)	Units	1 (Diagonal 530)	0	96	–100%
Halogens (GRI 301-1)	Units	1 (Castellana 52)	60	0	100%

Intensity					
Sustainability indicators	**Measurement unit**	**Number of people**	**Intensity 2017**	**Intensity 2016**	**Change**
Paper (GRI-301-1)	Kg/person	73	27	32.66	–18%
Toner (GRI-301-1)	Units/person	73	0.26	0.61	–57%
Fluorescent tubes (GRI-301-1)	Units/person	13	0.92	0.70	32%
PL lamps (GRI-301-1)	Units/person	60	0	0.34	–100%
Halogens (GRI-301-1)	Units/person	13	4.62	0	100%

As an example of the use of material in the performance of refurbishment work, this year a total of 1,379 kg of recycled ceramic material was used for the refurbishment of the building at Estébanez Calderón, 3-5 (Discovery Building) in 2017.

Responsible use of water

Actions to reduce water consumption

In order to comply with the commitment defined in the Environmental Management Policy, the Group is implementing various actions to reduce water consumption. In 2017, the Company implemented a grey water recovery system at its buildings in Barcelona, Til·lers, 2-6, which enables water consumption to be reduced by 30%. Furthermore, the buildings at Sant Cugat Nord, Capitán Haya 53 and Louvre Saint-Honoré succeeded in reducing their water consumption by 20% or more.

However, the general trend in 2017 was to increase absolute water consumption due to various causes:

> Increase in the operating hours of certain offices.

> Installation of climate water treatment and its start-up.

> Increased building occupancy rates.

> Performance of building refurbishment works.

Water consumption at offices for own use

Sustainability indicators	Measur. unit	Coverage	Consum. 2017	Consum. 2016	Chg.	Square metres	Intensity 2017	Intensity 2016	Chg.
Water consumption (Water-Abs, Water-Int, Water LfL) (GRI 303-1, CRE2)	m^3	3 of 3	1,900	1,851	3%	4,575	0.42	0.40	3%

Table of water consumed at leased properties with control over water consumed

Sustainability indicators	Measur. unit	Coverage	Consum. 2017	Consum. 2016	Change	Square metres	Adjusted square metres
Water consumption (Water-Abs, Water-Int, Water LfL) (GRI 303-1, CRE2)	m^3	34 of 34	254,464	253,787	0.3%	397,303	367,821

Sustainability indicators	Intensity 2017	Adjusted intensity 2017	Intensity 2016	Adjusted intensity 2016	Change	Adjusted change
Water consumption (Water-Abs, Water-Int, Water LfL) (GRI 303-1, CRE2)	0.64	0.69	0.65	0.71	–1%	–3%

BREEAM

BREEAM (Building Research Establishment Environmental Assessment Methodology) is a leading global system enabling the degree of sustainability of buildings to be assessed.

The BREEAM system assesses the buildings, taking into account their impacts classified into 10 categories:

> Health and well-being

> Energy

> Transport

> Water

> Materials

> Waste

> Ecological use of the soil

> Pollution

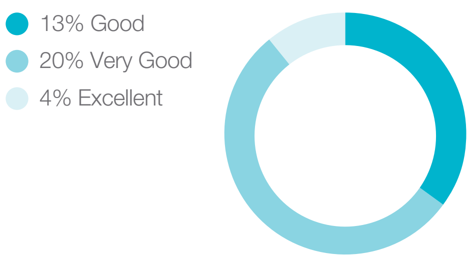
> Innovation

Existing buildings over two years old use the BREEAM In-Use scheme. The BREEAM In-Use certification enables the separate certification of the building as a result of the appraisal of its covering, facilities and construction (Part 1), and of building management with regard to policies, procedures, the consumption of key natural resources, emissions and waste generated (Part 2).

The Colonial Group always seeks the best practices and has developed a plan whose objective was that all its buildings obtain a minimum classification of Very Good, be it Part 1, Part 2 or both.

With regard to the Group's certifications, in 2017, 72% of the portfolio has obtained the BREEAM certification (Part 1, Part 2 or both). In this line, in Part 1, over 50% of the certified buildings portfolio obtained the "Very Good" rating and 14% obtained the "Excellent" rating. It must be highlighted that with respect to BREEAM Part 2, Washington Plaza obtained the highest rating ("Outstanding") and of the total buildings certified, all of them have a rating between "Very Good" and "Excellent".

BREEAM Part 1



BREEAM Part 2

LEED

LEED "Leadership in Energy and Environmental Design" provides a framework to create buildings that save energy, water and resources, generating less expenses and supporting health and safety, all minimising the cost of attracting tenants. Currently LEED operates in over 160 countries and has over 92,000 projects.

This certification assesses the characteristics and materials of the portfolio as strictly as possible. Accordingly, four certification levels exist, depending on the degree of compliance with the elements assessed in line with the level of sustainability.

Certification:	40-49 points
Silver:	50-59 points
Gold:	60-79 points
Platinum:	+80 points

In 2017, the Group obtained the LEED certification at the following buildings:

> Discovery Building
  Estébanez Calderón, 3-5 - **Platinum**

With regard to its objectives for 2018, the Group intends to obtain LEED certification for the following buildings:

> Iéna 96 – **Gold**

> 112 Emile Zola – **Gold**

> Ciudad de Granada – **Gold**

> Príncipe de Vergara, 112-114 – **Gold**

Discovery Building – A reference in the portfolio

One of the main projects in 2017 was the work to be performed at the Discovery Building, in Estébanez Calderón 3-5 (Madrid). Work was performed to include sustainable management in all phases of the project, from the design phase to the performance of the works themselves. The main action performed can be divided into the following categories:

1. Location of the building
A land lot was chosen in a consolidated urban space, to avoid the urbanisation of rural or unbuilt areas. Its location enables efficient connectivity with the community, since it has various access points to quality public transportation. Accordingly, such dimension has enabled the maximum score during the certification. Likewise, of note was the installation of electric vehicle recharging spaces in car parks and bicycle parks, accompanied by showers and changing rooms for users.

2. Green spaces
A terrace was designed with garden and rest areas for building occupants. Over 22% of this terrace has green areas, which enables the required level of reduction of the urban heat island effect to be obtained.

3. Efficient water management
The installation of efficient timed and odourless valves with the possibility of a double outlet enabled the reduction of over 41% of water consumption(1).

4. Energy consumption
In terms of energy, the building complies with the requirements of ASHRAE-90 (Energy Standard for Buildings). It is considered that the building will enable a reduction of over 32% in normal energy consumption(1) as a result of the qualities and initiatives and its low energy demand, the efficiency of the air conditioning system with the recovery of installed heat or efficient LED illumination with a lighting control system. In addition, photovoltaic solar panels were installed as a source of onsite renewable energy.

5. Responsible use of materials
In order to minimise the pollution caused by suppliers and contractors, over 34% of materials selected are regional. Furthermore, a large part thereof is manufactured with recycled content. During the performance of the works, around 70% of the waste generated were separated for adequate management.

6. Air quality
The building was designed so that 90% of the spaces regularly occupied have external views, thereby favouring work spaces that have natural light. The ventilation systems comply with and exceed the current regulations and the renewed air is filtered before entering the building in order to improve air quality for building users.

(1) Comparing its estimated consumption with that of reference office buildings.

HQE

HQE (High Quality Environmental standard) is a certification system that assesses four main categories: energy, environment, health and comfort which, in turn, are structured around a series of 14 specific objectives. The ratings are represented by a maximum of up to four stars, which indicate the level of achievement in the four categories.

The HQE certification is obtained through three steps:

1. Commencement of the project, in which the applicant issues an application request with the relevant operator, including a description of the environmental objectives that the project endeavours to achieve.

2. Performance of audits, which verify various aspects, depending on the project's status, and a report is issued.

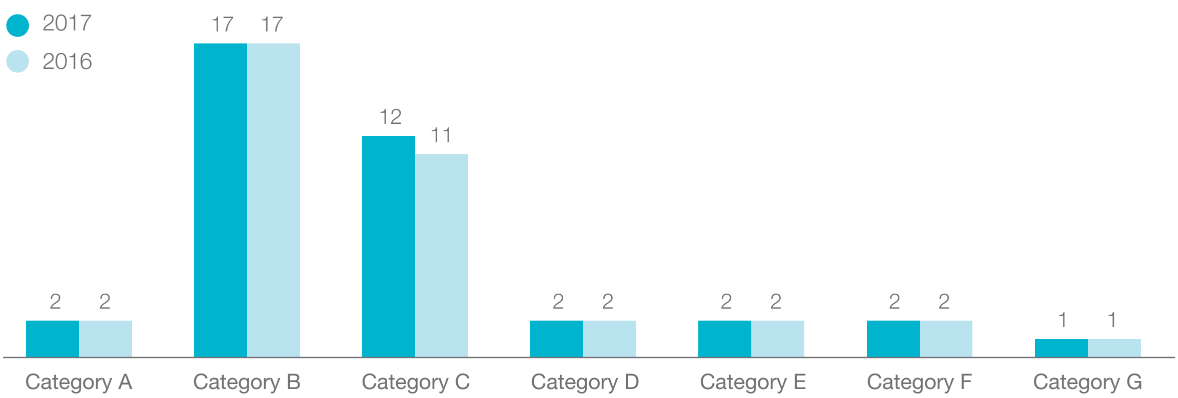
3. Presentation of the auditors' report to the committee, which issues its approval and a pre-certificate.

Certification

In Spain, energy certification is regulated through Royal Decree 235/2013, of 5 April, approving the basic procedures for certifying the energy efficiency of buildings. Following the applicable regulations in Spain, the Colonial Group has energy efficiency labels at the vast majority of its buildings:

Energy certifications obtained in Spain in 2017

Certification	2017	2016
Category A	2	2
Category B	17	17
Category C	12	11
Category D	2	2
Category E	2	2
Category F	2	2
Category G	1	1
Total	38	37



Supply management

Following is the Group's current property portfolio, with details of the consumption controlled by the Group in 2017, where it can be observed which buildings form part of the Like-for-Like.

Building name	Energy	Fuel	Water	Dexcell(1)	Materials	Like-for-Like
Barcelona						
1. Av. Diagonal, 530-532	● T	●	●	●	●	●
2. Av. Diagonal, 682	●	NG	●	●		● N
3. Av. Diagonal, 409	●		●	●		●
4. Av. Diagonal, 609-615 (DAU)	●		●	●		●
5. Vía Augusta 21-23	●		●	●		●
6. Passeig dels Til·lers, 2-6						
7. Travessera Gràcia, 11	● T		●	●		●
8. Travessera Gràcia , 47-49						
9. Amigó, 11-17	● T		●	●		
10. Berlín 38-48 / Numància 46	●		●	●		●
11. Av. Diagonal, 220-240 (Glòries)						
12. BCN Tower	● T		●	●		●
13. Illacuna	●		●	●		●
14. Torre Marenostrum						
15. Plaça Europa, 42-44						
16. Sant Cugat Nord	● T		●	●		●
17. Solar Parc Central 22@						
18. Parc Glòries						
19. Plaza Europa	N					
Madrid						
20. P. Castellana, 52	●	NG	●	●	●	●
21. P. Castellana, 163						
22. P. Castellana, 43						
23. Recoletos, 37-41	● T		●	●		●
24. Miguel Ángel, 11	● T		●	●		●
25. José Abascal, 56	●	NG	●	●		●
26. José Abascal, 45	●					● N
27. Estébanez Calderón, 3-5						
28. Génova, 17				●		
29. Serrano, 73						
30. Santa Engracia						

Building name	Energy	Fuel	Water	Dexcell[1]	Materials	Like-for-Like
31. Príncipe de Vergara, 112-114						
32. Alcalá, 30-32						
33. Alfonso XII, 62	● T		●	●		●
34. Capitán Haya, 53 (Poeta Joan Maragall, 53)	● T	NG	●	●		●
35. López de Hoyos, 35	●	NG	●	●		●
36. Francisco de Silvela, 42	● T		●	●		●
37. Ramírez de Arellano, 37						
38. Ortega y Gasset, 100						
39. MV Business park	● T		●	●		●
40. Santa Hortensia, 26-28						
41. Agustín de Foxá 29	●	NG	●	●		●
42. Hotel Tryp Chamartín (Hotel Centro Norte: Meliá)						
43. Arturo Soria, 335	N					
Paris						
44. 96 Iéna	● T		●			●
45. 176 Charles de Gaulle	● T	●	●			●
46. Washington Plaza	● T		●			●
47. Edouard VII	● T		●			●
48. Rives de Seine (single tenant)	● T		●			●
49. Cézanne Saint-Honoré	● T		●			●
50. Louvre Saint-Honoré	● T		●			●
51. 103 Grenelle	● T		●			●
52. 112 Wagram	● T		●			●
53. 92 Champs-Elysées	● T		●			● N
54. Galerie des Champs-Elysées	● T		●			●
55. #cloud.paris	● T		●			
56. 90 Champs-Elysées	● T		●			●
57. 9 Percier						
58. 131 Wagram						
59. 6 Hanovre						
60. 104/110 Haussamann						
61. Le vaisseau						
62. Condorcet						
63. 112-114 Av Emile Zola	N					

(1) The properties marked in the Dexcell column are those for which this consumption monitoring system is used, which enables a more thorough monitoring and improved analysis thereof.
T: buildings in which the Colonial Group controls the total level of energy consumed in the building.
NG: natural gas used at the building.
N: new properties in the 2017 portfolio.

Certification

The following table shows all the certifications obtained by each of the buildings belonging to the Colonial Group. A ● is placed by those buildings that have obtained the certification indicated at the top of the column.

Building name	HQE	ISO 50001 (Certified)	BREEAM (Part 1)	BREEAM (Part 2)	LEED	ISO 140001
Barcelona						
1. Av. Diagonal, 530-532		●	Good	Very good		●
2. Av. Diagonal, 682			Good	Excellent		
3. Av. Diagonal, 409				Very good	Gold	
4. Av. Diagonal, 609-615 (DAU)			Good	Very good		
5. Vía Augusta 21-23			Good	Very good		
6. Passeig dels Til·lers, 2-6					Gold	
7. Travessera Gràcia, 11				Very good	Gold	
8. Travessera Gràcia , 47-49						
9. Amigó, 11-17				Very good	Gold	
10. Berlín 38-48 / Numància 46			Good	Very good		
11. Av. Diagonal, 220-240 (Glòries)			Very good	Very good		
12. Torre BCN			Good	Very good		
13. Illacuna			Very good	Excellent		
14. Torre Marenostrum						
15. Plaça Europa, 42-44						
16. Sant Cugat Nord			Very good	Excellent		
17. Solar Parc Central 22@						
18. Parc Glòries						
19. Plaza Europa						
Madrid						
20. P. Castellana, 52		●	Good	Excellent		●
21. P. Castellana, 163						
22. P. Castellana, 43			2018		Gold	
23. Recoletos, 37-41			Very good	Excellent		
24. Miguel Ángel, 11			Good	Excellent		
25. José Abascal, 56			Good	Very good		
26. José Abascal, 45			2018	2018		
27. Estébanez Calderón, 3-5					Platinum	
28. Génova, 17			2018	Very good		
29. Serrano, 73			2018			
30. Santa Engracia			2018	Very good		

Building name	HQE	ISO 50001 (Certified)	BREEAM (Part 1)	BREEAM (Part 2)	LEED	ISO 140001
31. Príncipe de Vergara, 112-114					Gold	
32. Alcalá, 30-32			2018			
33. Alfonso XII, 62			Good	Excellent		
34. Capitán Haya, 53 (Poeta Joan Maragall, 53)				Excellent		
35. López de Hoyos, 35			2018	Very good		
36. Francisco de Silvela, 42			Good	Very good		
37. Ramírez de Arellano, 37			Good			
38. Ortega y Gasset, 100						
39. MV Business park			Very good	Excellent		
40. Santa Hortensia, 26-28						
41. Agustín de Foxá 29			Good	Very good		
42. Hotel Tryp Chamartín (Hotel Centro Norte: Meliá)						
43. Arturo Soria, 336						
París						
44. 96 Iéna			Very good	Excellent	Gold[1]	
45. 176 Charles de Gaulle			Very good	Excellent		
46. Washington Plaza			Excellent	Outstanding		
47. Edouard VII			Very good	Excellent		
48. Rives de Seine (single tenant)			Very good	Excellent		
49. Cézanne Saint-Honoré			Excellent	Excellent		
50. Louvre Saint-Honoré			Very good	Very good		
51. 103 Grenelle	●		Very good	Excellent		
52. 112 Wagram	●		Excellent	Excellent		
53. 92 Champs-Elysées	●		Excellent	Excellent		
54. Galerie des Champs-Elysées			Very good	Very good		
55. #cloud.paris	●		Very good		Gold	
56. 90 Champs-Elysées			Very good	Very good		
57. 9 Percier			Very good	Very good		
58. 131 Wagram			Very good			
59. 6 Hanovre			Very good	Excellent		
60. 104/110 Haussamann			Very good			
61. Le vaisseau			Very good	Excellent		
62. Condorcet			Very good	Excellent		
63. 112-114 Av Emile Zola					Gold[1]	

(1) The LEED Gold certifications marked with an asterisk were obtained in 2018.

07

Relations with the community

07. Relations with the community

The Colonial Group, in the communities in which it is present, is working to obtain the Sustainable Development Goal (SDG) Number 11: **Sustainable cities and communities.**

11 SUSTAINABLE CITIES AND COMMUNITIES

Contribution to sustainable cities

Through its CSR policy, the Colonial Group undertakes to generate shared value with the Company by promoting sustainable cities and communities. This commitment mainly materialises through the investment and management of buildings, following the best sustainability practices on the market, but also through an analysis of the social impact of its activity and welfare and sponsorship actions.

In 2017, SFL published a book on the Company's history since 1879 and its relationship with the community: "From Haussmann to the connected town", which details the Company's contribution to the city of Paris.

"SFL has been one of the leading figures of the main transformations of Paris; it has always anticipated the main capital evolutions"

Simon Texier, history of contemporary art teacher at Picardie University

Impact management

One of the key moments in the management of property is during the performance of new refurbishment and restoration projects. As is standard practice, the Colonial Group analyses the impacts of these projects in the area and on its inhabitants and plans the measures required to avoid the negative impacts, both on the environment and on the mobility or quality of life of the neighbours. It also strives to notify and provide information on the measures that will be taken to reduce the potential inconveniences before and during the execution of the projects. The following most common mechanisms of communication with the community in the projects performed are the email boxes, the information panels, the project's information bulletins, consultation meetings with affected stakeholders or specific presentations of the project.

114, Emile Zola (Paris)

In the case of Emile Zola, the Company set up a web site and met the municipal representatives (as representatives of the local community) to ascertain the opinion of residents regarding the project and to be able to minimise the impacts.

This case illustrates the importance for the Group of establishing a transparent relationship with the local community from the outset.

Accessibility

The development and promotion of sustainable cities involves improving and ensuring the accessibility of all groups to the Group's buildings. Accordingly, the Colonial Group plans and annually performs a series of actions to adapt its buildings for use by people with a certain degree of disability.

In this regard, in 2017, work continued on the installation of platforms to facilitate the accessibility of people with reduced mobility to buildings, and buttons on lifts and in halls have been replaced by button sets with characters in braille. Another of the improvements consisted in the building of an adapted toilet at the Company's own offices at Castellana 52.

Social integration

The Colonial Group is committed to the society and the environment in which it acts, through the promotion of social action and projects to provide support to culture, new entrepreneurs and to the promotion of volunteer work.

One of the main agents for the development and promotion of the Group's welfare action is through Pedralbes Centre. In 2017, over ten projects were carried out at the Pedralbes Centre to promote culture, the work of the young and to support welfare action.

Community projects

Letter to the Three Kings. One of the most well-known actions which most affected the Pedralbes Centre is the Letter to the Three Kings campaign with the Soñar Despierto Foundation, held for the sixth time in 2017.

This campaign proposes the possibility of one of the more than 1,000 children between the age of 1 and 16 who live in children's homes in Catalonia being one of the Three Kings. This action was awarded the best Corporate Social Responsibility Action award by the Spanish Association of Shopping Centres (AECC), representing a significant way for the Group to boost charity projects.

Charity race for cerebral palsy. In order to provide maximum support to such cause, in 2017, Pedralbes ceded a space to register inscriptions for the race created by the Ipsen Pharma Foundation and the Catalonian Cerebral Palsy Federation (FEPCCAT).

2017 Charity Skate. This event is already considered to be traditional at the centre. It involves the building of an ice skating rink at the Pedralbes Centre, in which the whole collection from some of the days is earmarked to different organisations. This year the funds were earmarked to the Amics de la Gent Gran Foundation and Sanstha Nepal.

Integration show. The Pedralbes Centre organises a show in which models from the INTEGRA programme participate in conjunction with professional models, and the objective is to help professional models with disabilities to show that they can belong to the fashion world and to reveal their talent and abilities to the Company.

Adapts part of its Disabled Workers' Employment Policy, SFL contributes to the European Week for the Employment of Disabled People (EWEDP) established by ADAPT since 1997. This event is performed annually and aims to create awareness at companies and the public regarding the lack of employment for the disabled.

Activities in support of new entrepreneurs

Another of the historical actions of the Pedralbes Centre was the **annual Design School ESDI students show**, which has been running for over 19 years. With this initiative, Colonial shows its support for new designers by ceding the centre's facilities, providing resources and boosting the communication of the ESDI students' end of first year show, so that the future designers practice some of what will be their activities in the future.

Catalan Junior Achievement Mini-company Competition. In this competition, the students and future entrepreneurs set forth their company projects and ideas at stands in the form of a fair for which the Pedralbes Centre cedes the space.

Cultural support activities

Maria Canals international piano competition. In which in March the Pedralbes Centre houses various concert pianos, musical and other performances, to be able to bring music closer to the public in general. It should also be noted that, in order to provide greater support to this initiative, the centre permanently has a piano available to the public.

Ciudad de Barcelona international dance competition. In June, the Pedralbes Centre cedes its facilities to provide new opportunities to young dance students.

Assignment of the space to the Urban Art platform. The Pedralbes Centre cedes its facilities to perform an urban art competition in which a selection of the best national and international urban artists participates.

With regard to activities in France, SFL supports the "**Pavillon de l'Arsenal**" association, whose objective is to contribute to the promotion of urban development knowledge and the architectural heritage of Paris and its metropole to be able to develop and reinforce quality architectural development in the area.

Likewise, the Company also supports the event held in the French capital entitled "**Sleepless Night**". This event was held for the sixteenth year running in 2017 and aims to provide the public with free access to a multi-disciplinary artistic offering.

For many years, SFL has been a partner and sponsor of the **Palladio Foundation**, which joins together companies from the real estate industry involved in the construction of future cities. Noteworthy among the activities performed in 2017 by the Foundation were as follows: the performance of the sixth annual cycle of the Instituto de Palladio Altos Estudios on the areas "Property and the city" and the development of tools for students.

Partners and Sponsorship

Aware of its commitment to the local community and always endeavouring to provide maximum value both to it and to its stakeholders, aside from performing its main activities, Colonial also carries on other activities to promote social integration and foster new entrepreneurs, among other causes.

In 2017, Colonial sponsored a series of events, noteworthy of which was the Barcelona Meeting Point. This event is the most important real estate exhibition in Spain which, since it was founded in 1997, has been held annually for the public at large and for professional visitors.

For Colonial it is very important to be close to the best talent, which does not always have the funds to finance their training. Accordingly, through work with the ESADE Foundation which, through its foundation, offers:

> A grants programme, which represents a pledge for talent, diversity and equal opportunities.

> It supports research, enabling both students and teachers to investigate key strategic areas that support business and social value and cover the actual needs of the organisations.

> Infrastructures that enable the global present and future challenges to be met.

Another of the foundations with which Colonial works is World Nature, which performs actions throughout the whole world to preserve and conserve nature as a driver of change and of the generation of social well-being.

World Nature works on projects to:

> Conserve natural spaces.

> Protect endangered species.

> Publish, educate and raise awareness.

Colonial is a collaborating member of Fundación Abadía de Montserrat 2025, and amongst other initiatives carried out during 2017, the following stand out:

> Social Action. Carried out through Fundación Bancaria "la Caixa".

> Musical activities.

> Contributions to the Montserrat Library. Restoration of a manuscript from the second half of the XIV century.

> Escolania de Montserrat. Concerts, tours and grant program.

> Scriptorium Biblicum et Orientale. The study, dissemination and efforts to reflect the value of the archeologic, ethnologic, zoological and botanic material that P. Bonaventura Ubach acquired in the Holy Ground, Egypt, Syria and Iraq, with the aim of translating and illustrating the Bible, it is one of the functions of the Scriptorium de Montserrat, together with the study of the Holy Scriptures and the research of the history and culture of the geographic area named Bible lands, as well as the study of the important papyrus collection, legacy of Dr. Ramón Roca-Puig.

> Montserrat Museum. Organising Caravaggio days, dedicated to the study and dissemination of his piece San Jerónimo Penitente.

2025
FUNDACIÓ ABADIA DE MONTSERRAT, 2025

It should be noted that Colonial is one of the sponsors of the EPRA.

Your sponsorships makes possible for EPRA to deliver its mission to promote, develop and represent the European listed real estate, through through the provision of information, education for investors and stakeholders and active involvement in strengthening the industry's cohesion.

EPRA
EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

08

EPRA ratios

8.1. EPRA Earnings

EPRA Earnings - €m	2017	2016
Earnings per IFRS Income statement	683	274
Earnings per IFRS Income statement - €/share	*1.78*	*0.77*
Adjustments to calculate EPRA Earnings, exclude:		
(i) Changes in value of investment properties, development properties held for investment and other interests	(931)	(556)
(ii) Profits or losses on disposal of investment, development properties held for investment and other interests	2	0
(iii) Profits or losses on sales of trading properties including impairment changes in respect of trading properties	0	0
(iv) Tax on profits or losses on disposals	0	0
(v) Negative goodwill / goodwill impairment	3	0
(vi) Changes in fair value of financial instruments and associated close-out costs	(0)	24
(vii) Acquisition costs on share deals and non controlling joint venture interests	0	0
(viii) Deferred tax in respect of EPRA adjustments	(33)	96
(ix) Adjustments (i) to (viii) above in respect of joint ventures (unless already included under proportional consolidation)	0	0
(x) Minority interests in respect of the above	338	225
EPRA Earnings	62	63
Average Nº of shares (m)	*383.8*	*356.8*
EPRA Earnings per Share (EPS) - €/share	*0.16*	*0.18*
Company specific adjustments:		
(a) Extraordinary expenses	18	4
(b) Non recurring financial result	2	0
Company specific adjusted EPRA Earnings	83	68
Average Nº of shares (m)	*383.8*	*356.8*
Company adjusted EPRA Earnings per Share (EPS) - €/share	*0.22*	*0.19*

8.2. EPRA NAV

EPRA Net Asset value - €m	12/2017	12/2016
NAV per the Consolidated financial statements	**3,592**	**2,302**
Include:		
(i.a) Revaluation of investment properties (if IAS 40 cost option is used)	13	11
(i.b) Revaluation of investment property under construction (IPUC) (if IAS 40 cost option is used)	na	na
(i.c) Revaluation of other non-current investment	(58)	51
(ii) Revaluation of tenant leases held as finance leases	na	na
(iii) Revaluation of trading properties	na	na
Exclude:		
(iv) Fair value of financial instruments	(1)	2
(v.a) Deferred tax	198	221
(v.b) Goodwill as a result of deferred tax	–	–
Include/exclude:		
Adjustments (i) to (v) above in respect of joint ventures interests	na	na
EPRA NAV - €m	3,744	2,587
Nº of shares (m)	***435.3***	***356.8***
EPRA NAV - Euros per share	***8.60***	***7.25***

8.3. EPRA NNNAV

EPRA Triple Net Asset value (NNNAV) - €m	12/2017	12/2016
EPRA NAV	**3,744**	**2,587**
Include:		
(i) Fair value of financial instruments	1	(2)
(ii) Fair value of debt	(117)	(79)
(iii) Deferred tax	(200)	(222)
EPRA NNNAV - €m	3,428	2,284
Nº of shares (m)	***435.3***	***356.8***
EPRA NNNAV - Euros per share	***7.88***	***6.40***

8.4. EPRA Net initial Yield & Topped-up Net Initial Yield

Figures in €m		Barcelona	Madrid	Paris	Total 2017	Total 2016
Investment property – wholly owned		921	1,783	6,229	8,933	7,928
Investment property – share of JVs/Funds		0	na	na	0	na
Trading property (including share of JVs)		na	na	na	na	na
Less: developments		(85)	(287)	(421)	(793)	(576)
Completed property portfolio	E	836	1,496	5,808	8,140	7,352
Allowance for estimated purchasers' costs		22	36	370	428	380
Gross up completed property portfolio valuation	**B**	**858**	**1,532**	**6,178**	**8,568**	**7,732**
Annualised cash passing rental income		36	54	179	269	252
Property outgoings		(1)	(6)	(4)	(11)	(9)
Annualised net rents	**A**	**35**	**48**	**175**	**258**	**243**
Add: notional rent expiration of rent free periods or other lease incentives		0	4	24	29	42
"Topped-up" net annualised rent	**C**	**35**	**53**	**199**	**287**	**286**
EPRA Net Initial Yield	A/B	4.1%	3.2%	2.8%	3.0%	3.1%
EPRA "Topped-Up" Net Initial Yield	C/B	4.1%	3.4%	3.2%	3.4%	3.7%
Gross Rents 100% Occupancy	F	38	65	212	315	307
Property outgoings 100% Occupancy		(1)	(5)	(4)	(10)	(8)
Annualised net rents 100% Occupancy	**D**	**38**	**59**	**208**	**305**	**299**
Net Initial Yield 100% Occupancy	D/B	4.4%	3.9%	3.4%	3.6%	3.9%
Gross Initial Yield 100% Occupancy	F/E	4.6%	4.3%	3.6%	3.9%	4.2%

8.5. EPRA Vacancy Rate

EPRA Vacancy Rate - Offices Portfolio - Annualized figures

€m	2017	2016	Var. %
BARCELONA			
Vacant space ERV	0	1	
Portfolio ERV	36	33	
EPRA Vacancy Rate Barcelona	1%	3%	(2 pp)
MADRID			
Vacant space ERV	4	1	
Portfolio ERV	61	49	
EPRA Vacancy Rate Madrid	7%	3%	5 pp
PARIS			
Vacant space ERV	6	7	
Portfolio ERV	179	188	
EPRA Vacancy Rate Paris	3%	4%	(0 pp)
Total Portfolio			
Vacant space ERV	11	9	
Portfolio ERV	276	270	
EPRA Vacancy Rate Total Office Portfolio	4%	3%	1 pp

EPRA Vacancy Rate - Total Portfolio - Annualized figures

€m	2017	2016	Var. %
BARCELONA			
Vacant space ERV	0	1	
Portfolio ERV	37	35	
EPRA Vacancy Rate Barcelona	1%	3%	(2 pp)
MADRID			
Vacant space ERV	4	1	
Portfolio ERV	63	51	
EPRA Vacancy Rate Madrid	7%	3%	5 pp
PARIS			
Vacant space ERV	7	7	
Portfolio ERV	219	224	
EPRA Vacancy Rate Paris	3%	3%	(0 pp)
Total Portfolio			
Vacant space ERV	12	9	
Portfolio ERV	319	310	
EPRA Vacancy Rate Total Portfolio	4%	3%	1 pp

8.6. EPRA Cost Ratios

Figures in €m		12/2017	12/2016
(i) Administrative/operating expense line per IFRS income statement[1]		41	36
(ii) Net service charge costs/fees		18	18
(iii) Management fees less actual/estimated profit element		0	0
(iv) Other operating income/recharges intended to cover overhead expenses less any related profits		(0)	(0)
(v) Share of Joint Ventures expenses		0	0
Exclude (if part of the above):			
(vi) Investment Property depreciation		na	na
(vii) Ground rent costs		na	na
(viii) Service charge costs recovered through rents but not separately invoiced		(9)	(5)
EPRA Costs (including direct vacancy costs)	**A**	**50**	**49**
(ix) Direct vacancy costs		(4)	(5)
EPRA Costs (excluding direct vacancy costs)	**B**	**47**	**44**
(x) Gross Rental Income less ground rent costs - per IFRS		283	271
(xi) Less: service fee and service charge costs components of Gross Rental Income (if relevant)		(10)	(9)
(xii) Add: share of Joint Ventures (Gross Rental Income less ground rents)		0	0
Gross Rental Income	**C**	**273**	**263**
EPRA Cost Ratio (including direct vacancy costs)	A/C	18.4%	18.6%
EPRA Cost Ratio (excluding direct vacancy costs)	B/C	17.1%	16.9%

Additional Disclosure		
Capitalized overhead costs[2]	0	0
Commercialisation fees[3]	1	2

(1) 2017: 40.7€m refer to administrative expenses and 9.9€m refer to extraordinary operating expenses.
2016: 35.8€m refer to administrative expenses and 1.4€m refer to extraordinary operating expenses.
(2) Overheads which are directly and totally related to projects are capitalized.
(3) Commercialisation fees related to projects and refurbishments are capitalized.

8.7. EPRA Capex disclosure

Figures in €m Property-related CAPEX	12/2017	12/2016
Acquisitions[1]	429	168
Development (ground-up/green field/brown field)	57	71
Like-for-Like portfolio	12	11
Other[2]	6	4
Capital Expenditure	**503**	**255**

(1) Does not include contribution of assets in exchange of shares.
(2) Includes capitalised interest relating to projects, tenant incentives, letting fees and other capitalised expenses.

09

Our properties

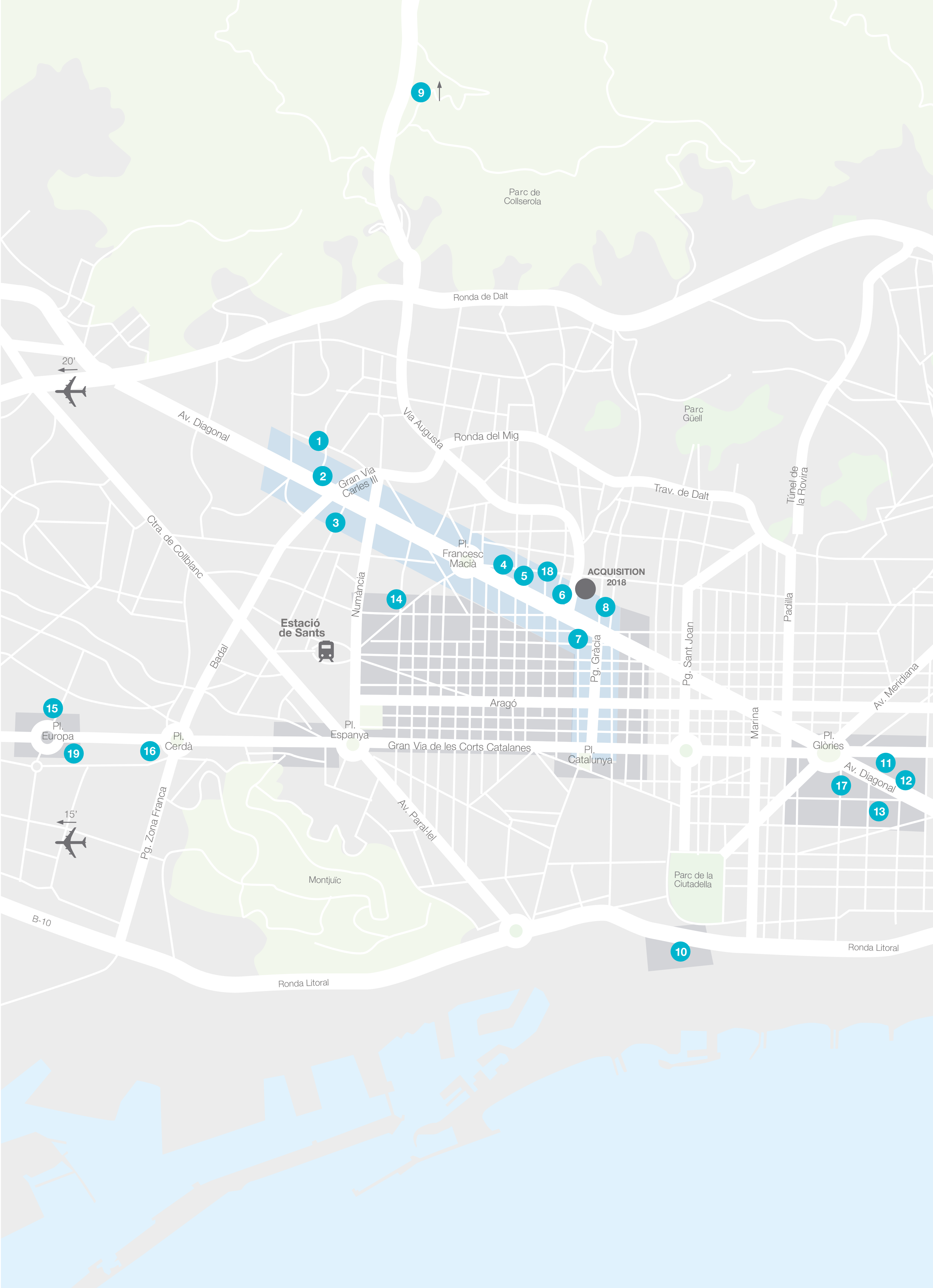
9.1. Maps

Barcelona

1 Paseo de los Tilos, 2-6
2 Av. Diagonal, 682
3 Av. Diagonal, 609-615
4 Travessera de Gràcia, 11
5 Amigó, 11-17
6 Av. Diagonal, 530-532
7 Av. Diagonal, 409
8 Via Augusta, 21-23
9 Offices complex Sant Cugat Nord
10 Torre Marenostrum
11 Diagonal Glòries
12 Offices complex Parc Central 22@
13 Offices complex Illacuna
14 Berlín, 38-48 / Numància, 46
15 Plaza Europa, 42-44
16 Torre BCN
17 Parc Glòries
18 Travessera de Gràcia, 47-49
19 Plaza Europa, 34
Gal·la Placídia (acquisition 2018)

19 assets

Prime Central Business District
Business District



Parc de Collserola
Ronda de Dalt
20'
Av. Diagonal
Via Augusta
Ronda del Mig
Parc Güell
Gran Via Carles III
Trav. de Dalt
Túnel de la Rovira
Ctra. de Collblanc
Pl. Francesc Macià
ACQUISITION 2018
Numància
Estació de Sants
Padilla
Badal
Pg. Gràcia
Pg. Sant Joan
Av. Meridiana
Aragó
Marina
Pl. Europa
Pl. Cerdà
Pl. Espanya
Gran Via de les Corts Catalanes
Pl. Catalunya
Pl. Glòries
Av. Diagonal
15'
Pg. Zona Franca
Av. Paral·lel
Montjuïc
Parc de la Ciutadella
B-10
Ronda Litoral
Ronda Litoral
1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19

Madrid

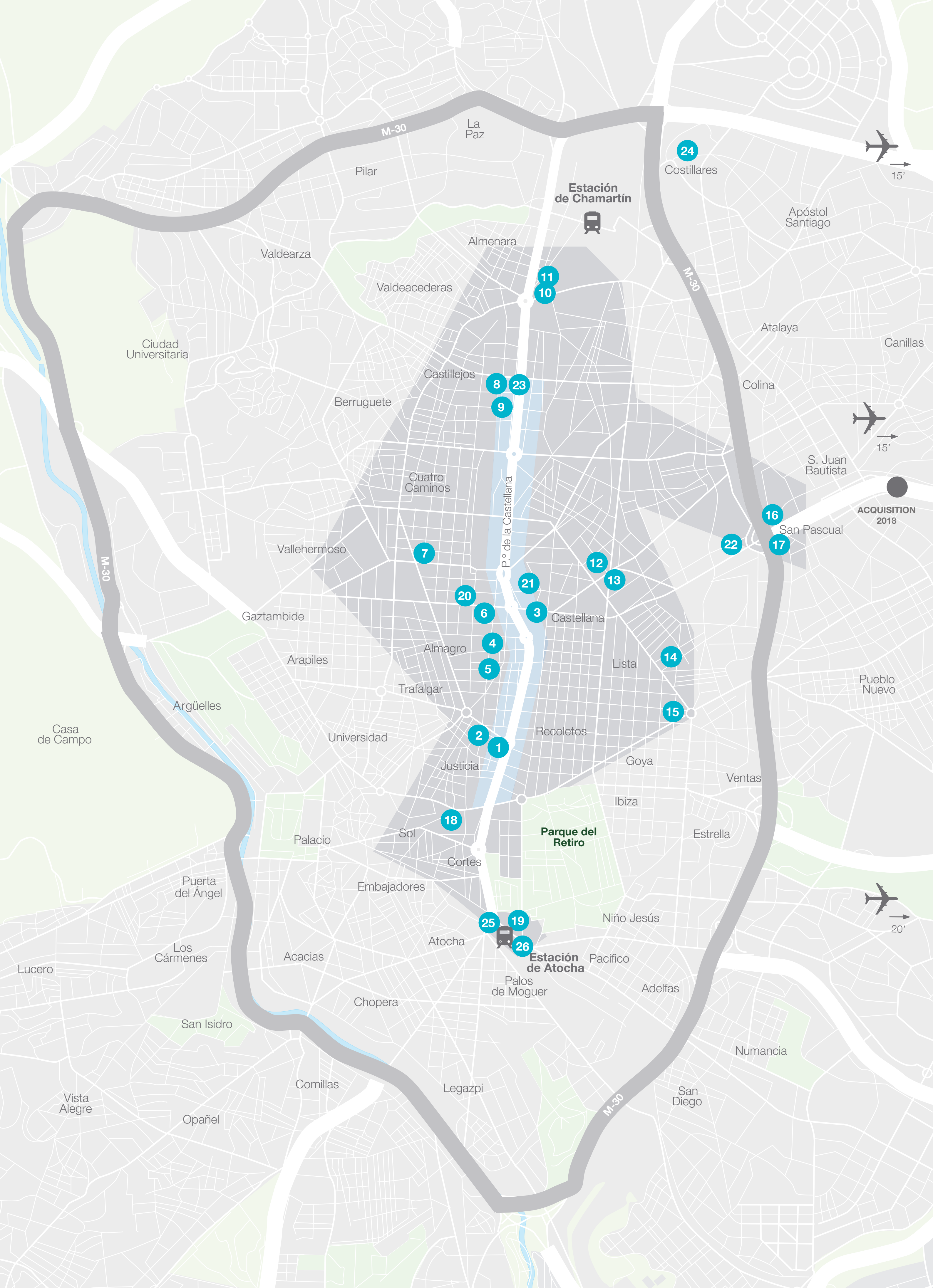
26

assets

1. Paseo de Recoletos, 37-41
2. Génova, 17
3. Paseo de la Castellana, 52
4. Paseo de la Castellana, 43
5. Miguel Ángel, 11
6. José Abascal, 56
7. Santa Engracia
8. Poeta Joan Maragall, 53
9. Discovery Building
10. Agustín de Foxá, 29
11. Hotel Tryp Chamartín
12. López de Hoyos, 35
13. Príncipe de Vergara, 112
14. Francisco Silvela, 42
15. Ortega y Gasset, 100
16. Ramírez de Arellano, 37
17. MV 49 Business Park
18. Alcalá, 30-32
19. Alfonso XII, 62
20. José Abascal, 45
21. Serrano, 73
22. Santa Hortensia, 26-28
23. Paseo de la Castellana, 163
24. Arturo Soria, 336
25. Campus Méndez Álvaro
26. Méndez Álvaro II

- EGEO - Campo de las Naciones (acquisition 2018)

- Prime Central Business District
- Business District



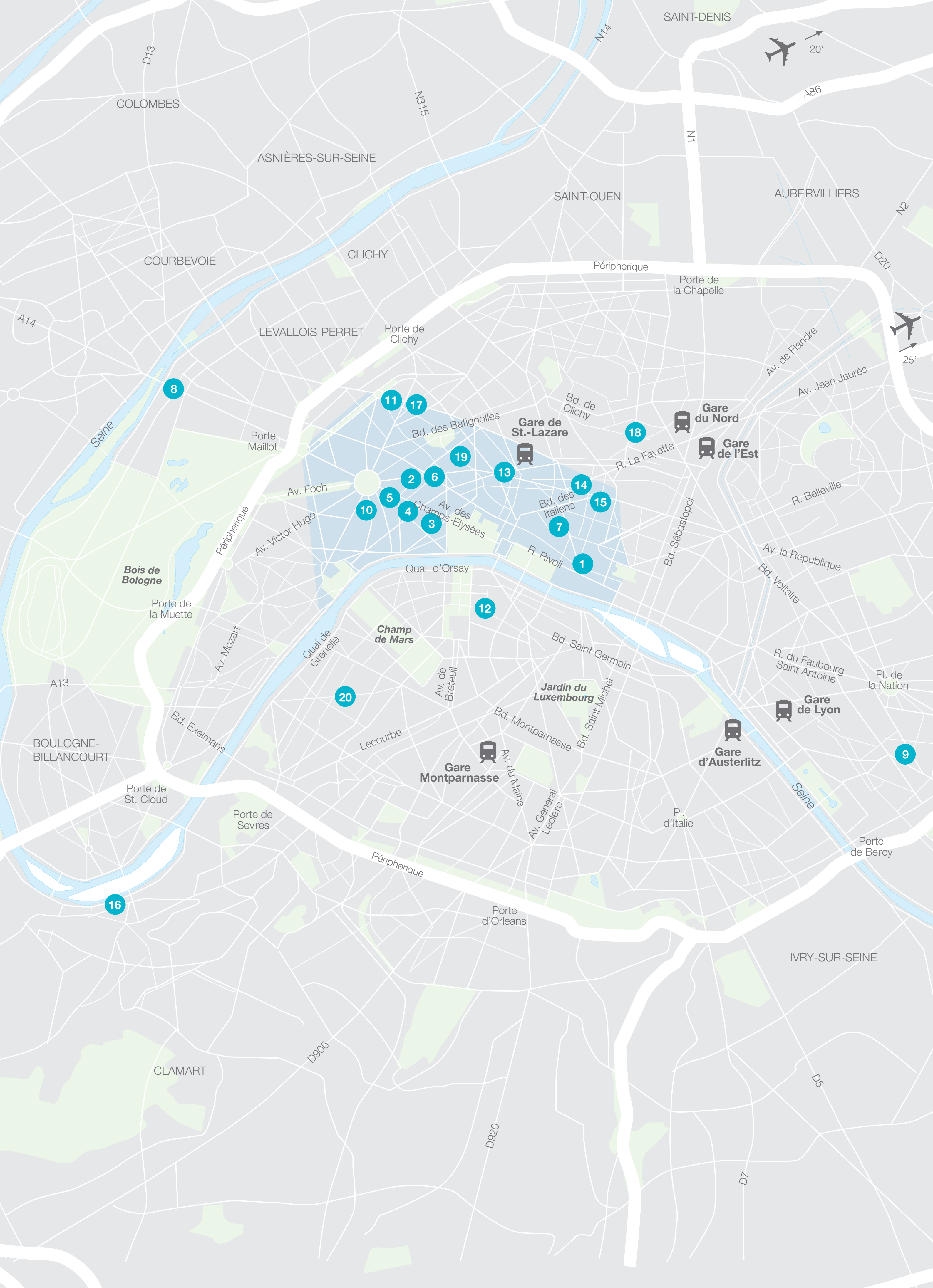
M-30
La Paz
Pilar
Estación de Chamartín
24
Costillares
15'
Apóstol Santiago
Almenara
Valdearza
Valdeacederas
11
10
Atalaya
Canillas
Ciudad Universitaria
Castillejos
8
23
Berruguete
9
Colina
15'
S. Juan Bautista
Cuatro Caminos
P.º de la Castellana
16
ACQUISITION 2018
San Pascual
22
17
Vallehermoso
7
12
13
21
20
6
3
Castellana
Gaztambide
4
Almagro
Arapiles
5
Lista
14
Pueblo Nuevo
Trafalgar
Argüelles
15
Casa de Campo
Universidad
2
1
Recoletos
Justicia
Goya
Ventas
Ibiza
18
Sol
Parque del Retiro
Palacio
Estrella
Cortes
Puerta del Ángel
Embajadores
Niño Jesús
25
19
20'
Atocha
26
Los Cármenes
Estación de Atocha
Pacífico
Acacias
Lucero
Palos de Moguer
Adelfas
Chopera
San Isidro
Numancia
Comillas
Legazpi
San Diego
Vista Alegre
Opañel

Paris

1. Louvre Saint-Honoré
2. Washington Plaza
3. Galerie des Champs-Élysées
4. 90 Champs-Élysées
5. 92 Champs-Élysées Ozone
6. Cézanne Saint-Honoré
7. Édouard VII
8. 176 Charles de-Gaulle
9. Rives de Seine
10. 96 Iéna
11. 131 Wagram
12. 103 Grenelle
13. 104-110 Haussmann Saint-Augustin
14. 6 Hanovre
15. #Cloud
16. Le Vaisseau
17. 112 Wagram
18. 4-8 Rue Condorcet
19. 9 Avenue Percier
20. 112-122 Av. Emile Zola

20 assets

Prime Central Business District


SAINT-DENIS
20'
A86
N14
D13
COLOMBES
N315
N1
ASNIÈRES-SUR-SEINE
SAINT-OUEN
AUBERVILLIERS
N2
COURBEVOIE
CLICHY
Péripherique
D20
Porte de
la Chapelle
A14
LEVALLOIS-PERRET
Porte de
Clichy
Av. de Flandre
25'
Av. Jean Jaurès
8
11
17
Bd. de
Clichy
Gare
du Nord
Seine
Porte
Maillot
Bd. des Batignolles
Gare de
St.-Lazare
18
R. La Fayette
Gare
de l'Est
19
13
Av. Foch
2
6
14
R. Belleville
5
Bd. des
Italiens
15
10
4
Av. des
Champs-Elysées
Périphérique
Av. Victor Hugo
3
7
Bd. Sébastopol
R. Rivoli
Av. la Republique
Bois de
Bologne
1
Quai d'Orsay
Bd. Voltaire
Porte de
la Muette
12
Champ
de Mars
Av. Mozart
Quai de
Grenelle
Bd. Saint Germain
R. du Faubourg
Saint Antoine
Pl. de
la Nation
A13
Av. de
Breteuil
Jardin du
Luxembourg
Bd. Saint Michel
20
Gare
de Lyon
Bd. Exelmans
Bd. Montparnasse
BOULOGNE-
BILLANCOURT
Lecourbe
Gare
d'Austerlitz
9
Av. du Maine
Gare
Montparnasse
Porte de
St. Cloud
Seine
Porte de
Sevres
Av. Général
Leclerc
Pl.
d'Italie
Porte
de Bercy
Péripherique
16
Porte
d'Orleans
IVRY-SUR-SEINE
D906
CLAMART
D5
D920
D7

9.2. Valuation of the portfolio

At the close of 2017, the assets of the Colonial Group were appraised at €9,282m (€9,741m including transfer costs).

The assets in Spain and France have been appraised by Jones Lang LaSalle, Cushman & Wakefield and CB Richard Ellis. The appraisal figures are updated half-yearly, following the best market practices, in compliance with the Regulation Standards of the Royal Institution of Chartered Surveyors (RICS) comprised in the Red Book valuation manual, as well as in accordance with the NIC40. The valuations of the market defined by the RICS are internationally recognized by advisors and accountants of investors and corporations that own real estate assets, as well as The European Group of Valuers (TEGoVA) and the International Valuation Standards Committee (IVSC). The appraisers' fees are determined by the volume for the specific workout of each assignment.

Out of the total valuation of the property business, €8,933m correspond to the asset portfolio directly held by the Colonial Group and €349m correspond to the value of the 28.8% stake in Axiare.

Gross Asset Values - Excluding transfer costs

				Dec 17 vs Jun 17		Dec 17 vs Dec 16	
Asset valuation (€m)	**31-Dec-17**	**30-Jun-17**	**31-Dec-16**	**Total**	**LfL(1)**	**Total**	**LfL(1)**
Barcelona	836	827	761	1.1%	1.1%	9.9%	9.9%
Madrid	1,497	1,339	1,273	11.8%	4.8%	17.6%	10.6%
Paris	6,064	6,144	5,736	(1.3%)	6.4%	5.7%	12.6%
Portfolio in operation(2)	**8,398**	**8,311**	**7,771**	**1.0%**	**5.6%**	**8.1%**	**12.0%**
Projects	**519**	**174**	**144**	**198.2%**	**7.3%**	**261.4%**	**20.5%**
Others	16	12	14	38.3%	3.2%	17.9%	(12.0%)
Property business	8,933	8,497	7,928	5.1%	5.6%	12.7%	12.1%
Axiare	349	169	141	106.3%	11.0%	147.1%	17.8%
Colonial group	9,282	8,666	8,069	7.1%	5.7%	15.0%	12.2%
Spain	3,053	2,522	2,333	21.1%	4.2%	30.9%	11.4%
France	6,229	6,144	5,736	1.4%	6.4%	8.6%	12.6%

Gross Asset Values - Including transfer costs

Colonial group	9,741	9,103	8,478	7.0%	5.7%	14.9%	12.2%
Spain	3,121	2,580	2,387	21.0%	4.2%	30.8%	11.4%
France	6,619	6,523	6,092	1.5%	6.3%	8.7%	12.5%

(1) Portfolio in comparable terms.
(2) Portfolio in operation: current rental portfolio as well as new entries into operation of completed projects.
Note: Includes the price of the disposal agreement on In/Out and the value of the JV with Plaza Europa 34.

The **Colonial Group's** Gross Asset Value at December 2017 increased 12% compared to December 2016 (+6% Like-for-Like in 6 months).

The value of the assets in Spain increased by +11% Like-for-Like in the last 12 months. The portfolios in Madrid as well as Barcelona had +11% year-on-year growth each. It is important to highlight that more than half of the increase in asset values in Spain (+8% in Barcelona and +7% in Madrid) is a result of the increase in market rents on the properties. This increase in prices is based on the Colonial Group's capacity to capture the rental cycle growth with its prime portfolio.

The asset value of the Paris portfolio has increased +13% Like-for-Like in the last 12 months. An increase in prices makes up +2% of the growth. However, the majority of the value creation is due to projects of real estate transformation. Among these, the Galerie Champs Elysées, Louvre Saint Honoré, Edouard VII and Washington Plaza buildings are highlighted.

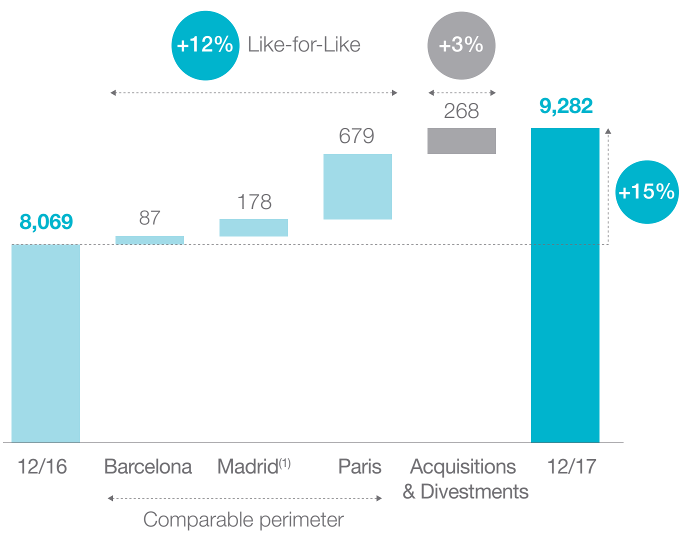
In general terms, the increase in asset values is a consequence of three factors:

1. A growing interest by investors in prime assets, driving down yields, especially in the Paris CBD market, which is one of the core markets that attracts the most investors on a global level.

2. Rental price increases captured in recent quarters by the Colonial Group's portfolio in the three markets.

3. The Group's industrial approach that enables superior value creation through portfolio repositioning and Prime Factory projects.

Variance analysis - Value 12 months - €m



GAV variance

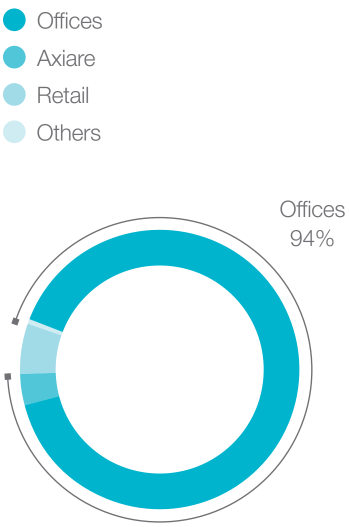
	Total variance	Price & others	Yield
Barcelona	+11%	+8%	+3%
Madrid[2]	+11%	+7%	+4%
Paris	+13%	+2%	+10%
Total LFL	+12%	+4%	+8%

(1) Includes the Like-for-Like value of the 15.1% share of Axiare.
(2) Includes the asset portfolio of shares in Madrid without taking into consideration the share in Axiare.

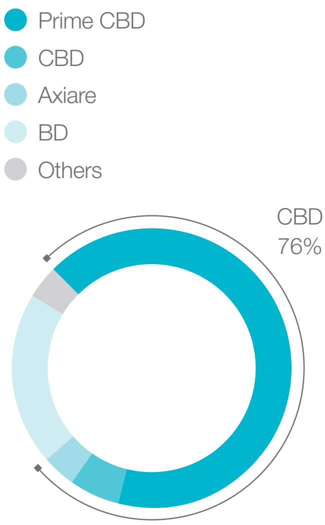
The breakdown of the valuation of the Group's rental portfolio by use, market and type of product is shown below:

Consolidated Group

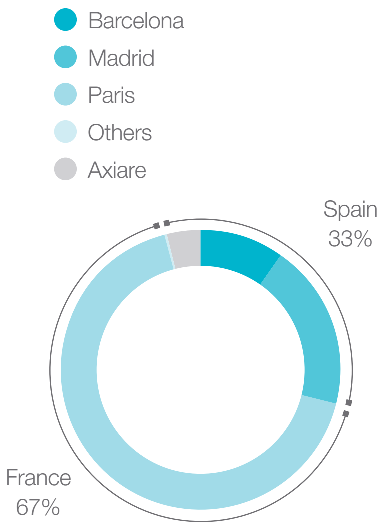
Valuation - by use



Valuation - by area

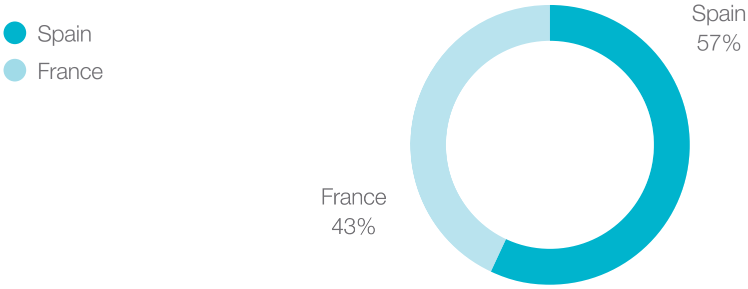


Valuation - by market



Colonial Parent Company(1)

Valuation - by market



(1) France = SFL shares valued at NAV. Spain = GAV assets directly held + NAV stake SPV TMN + NAV stake Axiare + Value JV Plaza Europa 34.

Regarding the valuation of the portfolio in operation, the main value parameters are as follows:

Portfolio in operation	€m	sq m above ground[(1)]	€/sq m[(1)]	Valuation Yield	
Barcelona	836	189,447	4,415	4.92%	Gross Yields
Madrid	1,497	259,402	5,772	4.56%	
Paris	6,064	368,936	16,437	3.25%	Net Yields

(1) In Barcelona the sq m for the calculation of the capital value correspond to the surface above ground of all the assets which amount to 243,132 sq m, excluding 14,737 sq m of the Parc Central project, 24,551 sq m of the Parc Glories project, 14,306 sq m of the Plaza Europa project and the surface area of non-core retail assets.
In Madrid, the sq m correspond to the surface above ground of all assets of 404,758 sq m, excluding the Príncipe de Vergara project of 11,368 sq m, 133,704 sq m of the Méndez Álvaro complexes and the surface area of non-core retail assets of 284 sq m.
In France, the sq m correspond to the surface above ground of the entire portfolio which amounts to 356,638 sq m, excluding the Emile Zola project of 25,000 sq m and including certain rentable surfaces below ground in the portfolio not corresponding to parking units (37,297 sq m).

When **comparing the valuation parameters of Colonial's appraisal values with market data**, the following must be taken into consideration:

1. **In Spain, consultants publish gross yields in their market reports**

(Gross yield = gross rent/value excluding transfer costs).

2. **In France, consultants publish net yields in their market reports**

(Net yield = net rent/value including transfer costs).

Appraisal certificate

CONSEJO DE ADMINISTRACIÓN
INMOBILIARIA COLONIAL S.A.
Av. Diagonal 532
08006 Barcelona

Madrid, 29th January 2018

Dear Sirs,

In accordance with your instruction, JLL Valoraciones; S.A. and CBRE, as valuers of the Colonial portfolio in Spain, and Jones Lang LaSalle Expertise and Cushman & Wakefield, as SFL valuers in France; have carried out the valuation reports of the freehold interest of the portfolio of properties of Inmobiliaria Colonial (Spain and France) as at 31st of December 2017 for internal use of the company.

According to the aforementioned reports, the Net Market Value of the company's portfolio is:

8,933,035,052 EUROS

(Eight Thousand Nine Hundred and Thirty Three Million
Thirty Five Thousand Fifty Two Euros)

The breakdown is as follows:

Unit	Market Value (excl. Transfer costs)	Gross Value (incl. Transfer costs)
Madrid	1,774,954,773 €	1,819,526,900 €
Barcelona	921,254,000 €	945,124,436 €
Rest of Spain	7,750,346 €	7,964,501 €
Total Colonial (Spain)	2,703,959,119 €	2,772,615,837 €
Total SFL (París)	6,229,075,933 €	6,619,201,196 €
Total Colonial + SFL	**8,933,035,052 €**	**9,391,817,033 €**

The valuation has been carried out in accordance with the Practice Statement and the relevant Guidance Notes in the RICS Appraisals and Valuations Manual prepared by the Royal Institution of Chartered Surveyors and with the General Principles adopted in the Preparation of Valuations and Reports.

JLL Valoraciones, S.A.

Jones Lang LaSalle Expertises
S.A.S. au capital de 37 000 Euros
Siège social : 40/42 rue La Boétie
Tél : 01 40 55 15 15 - 75008 PARIS

Cushman & Wakefield Valuation France SA
Tour Opus 12 – 77 Esplanade du Général de Gaulle
92081 paris La Défense Cedex
Tél. : +33 (0)1 53 76 92 92
Société anonyme au capital de 160 000 €
RC Siret 332 111 574 00049
N° TVA intracommunautaire FR 100 332 111 574

9.3. Asset portfolio - Details

Rental portfolio Barcelona (sq m)

	Acquisition year	Floor space above ground: Offices	Floor space above ground: Retail	Floor space above ground	Floor space below ground	Total surface	Parking units
Av. Diagonal, 409	2001	3,680	851	4,531		4,531	
Av. Diagonal, 530	1992	9,226	2,555	11,781	4,708	16,489	99
Av. Diagonal, 609-615 - Dau/Prisma	1997	21,872		21,872	18,839	40,711	438
Av. Diagonal, 682	1997	8,372	145	8,517	1,795	10,312	50
Pedralbes Centre	1997		5,558	5,558	1,312	6,870	
Berlin, 38-48/Numancia, 46	1997	9,644	3,173	12,817	3,659	16,476	99
Diagonal 220-240, Glories	2000	11,672		11,672	536	12,208	40
Illacuna	2006	19,639	812	20,451	13,606	34,057	481
Pº Tilos, 2-6	2000	5,143		5,143	3,081	8,224	79
Travessera de Gracia, 47-49	2016	8,939		8,939	1,705	10,644	6
Via Augusta, 21-23	1999	4,620	218	4,838		4,838	
Travessera de Gracia, 11	1994	4,105	410	4,515	1,994	6,509	61
Amigó, 11-17	1994	2,960	608	3,568	1,778	5,346	88
Plaza Europa, 42-44	2014	4,869		4,869	2,808	7,677	68
Torre BCN	2000	8,000	235	8,235	3,226	11,461	88
Torre Marenostrum	2003	22,394		22,394	19,370	41,764	616
Sant Cugat	1999	27,904		27,904	20,531	48,435	690
Others			103	103		103	
Portfolio in operation		**173,039**	**14,668**	**187,707**	**98,948**	**286,655**	**2,903**
Parc Glories	2016	24,551		24,551	5,343	29,894	141
Parc Central 22@	2010	14,737		14,737	14,737	29,474	184
Plaza Europa, 34	2017	14,306		14,306	4,500	18,806	
Torre BCN	2000	1,600		1,600	172	1,772	
Av. Diagonal, 530	1992		2	2	565	567	
Sant Cugat	1999				531	531	
Av. Diagonal, 682	1997		105	105	237	342	
Av. Diagonal, 609-615 - Dau/Prisma	1997	124		124	150	274	
Berlin, 38-48/Numancia, 46	1997				146	146	
Pedralbes Centre	1997				18	18	
Illacuna	2006				15	15	
Projects & refurbishments		**55,318**	**107**	**55,425**	**26,413**	**81,838**	**325**
Total Barcelona		228,357	14,775	243,132	125,360	368,493	3,228

Note: In order to facilitate the analysis of the portfolio, part of the office buildings have been specified to be dedicated to retail/commercial use (generally on the ground floors).
The assets in the Barcelona rental portfolio are 100% owned by Colonial, with the exception of Torre Marenostrum of which Colonial has a 55% stake and the plot of land at Plaza Europa 34 which is held through a joint venture with Inmo, S.L.

Rental portfolio Madrid and the rest of Spain (sq m)

	Acquisition year	Floor space above ground		Others	Floor space above ground	Floor space below ground	Total surface	Parking units
		Offices	Retail					
Castellana, 52	1998	6,496	1,027		7,523	2,615	10,138	49
P. Castellana, 163	2016	9,610	600		10,210	1,855	12,065	52
Recoletos, 37-41	2005	13,642	3,560		17,202	5,340	22,542	175
Castellana, 43	2005	5,455	543		5,998	2,441	8,439	81
Miguel Angel, 11	2005	5,370	930		6,300	2,200	8,500	81
Jose Abascal, 56	2005	10,857	1,468		12,325	6,437	18,762	219
Génova, 17	2015	3,638	1,038		4,676	2,601	7,277	70
Jose Abascal, 45	2016	5,290			5,290	1,929	7,219	54
Serrano,73	2016	4,242			4,242	3,176	7,418	104
Alcala, 30-32	1994	8,573	515		9,088	1,700	10,788	52
Alfonso XII, 62	2002	13,135			13,135	2,287	15,422	78
Santa Engracia	2015	13,444	220		13,664	5,562	19,226	180
Francisco Silvela, 42	1999	5,393			5,393	3,926	9,319	105
José Ortega y Gasset 100	2000	6,870	922		7,792	2,563	10,355	96
Poeta Joan Maragall, 53	2001	13,685	2,330		16,015	9,668	25,683	295
Discovery Building	2015	9,496	656		10,152	4,751	14,903	103
López de Hoyos, 35	2005	7,140			7,140	4,105	11,245	111
Agustín de Foxá, 29	2003	6,402	873		7,275	2,515	9,789	158
Hotel Centro Norte	2003		385	8,073	8,458	11,089	19,547	
Arturo Soria, 336	2017	8,363	300		8,663	5,655	14,318	200
Martínez Villergas, 49	2006	24,135			24,135	14,746	38,881	437
Ramirez de Arellano, 37	1999	5,988			5,988	4,923	10,911	160
Santa Hortensia, 26-28	2016	46,928			46,928	25,668	72,596	946
Hotel Mojacar	2006			11,519	11,519		11,519	
Others			1,268		1,268	379	1,647	
Portfolio in operation		**234,152**	**16,634**	**19,592**	**270,379**	**128,131**	**398,510**	**3,806**
Campus Méndez Alvaro	2017	89,871			89,871		89,871	
Méndez Alvaro Oficinas	2017	20,276			20,276		20,276	
Autovía Toledo	2017			23,557	23,557		23,557	
Príncipe de Vergara, 112-114	2015	11,368			11,368	4,530	15,898	108
Orense 46-48	1994		1,098		1,098	528	1,626	13
Miguel Angel, 11	2005					849	849	
P. Castellana, 163	2016	700			700		700	
Francisco Silvela, 42	1999					332	332	
Serrano, 73	2016					44	44	
Jose Abascal, 56	2005	12			12		12	
Projects & refurbishments		**122,227**	**1,098**	**23,557**	**146,882**	**6,283**	**153,165**	**121**
Total Madrid & rest of Spain		**356,379**	**17,732**	**43,149**	**417,260**	**134,414**	**551,674**	**3,927**

Note: In order to facilitate the analysis of the portfolio, part of the office buildings have been specified to be dedicated to retail/commercial use (generally on the ground floors).
The assets in the Madrid rental portfolio and the rest of Spain are 100% owned by Colonial.

Rental portfolio France (sq m)

		Floor space above ground							
	Acquisition year	Offices	Retail	Resid.	Others	Floor space above ground	Floor space below ground	Total surface	Parking units
Louvre Saint-Honore	1995	24,897	159		2,134	27,190	4,110	31,300	236
EDOUARD VII	1999	28,412	15,350	4,510	4,202	52,473	10,145	62,618	523
6 Hanovre	1958	3,325				3,325	1,246	4,571	0
#Cloud.paris	2004	28,192			1,860	30,051	3,164	33,216	99
Condorcet	2014	20,376		1,562	1,301	23,239	2,457	25,696	50
Galerie Champs-Elysees	2002		4,141			4,141	3,849	7,990	125
90 Champs-Elysees	2002/2009	7,912	932			8,844		8,844	
92 Champs-Elysees	2000	4,110	3,089			7,199		7,199	
Cezanne Saint-Honore	2001/2007	22,651	1,849			24,501	3,337	27,837	128
131 Wagram	1999	7,100			449	7,549	3,119	10,668	124
96 Iena	2001/2007	6,170				6,170	4,467	10,637	264
112 Wagram	2008	4,470	892			5,362	546	5,908	29
Washington Plaza	2000	38,839	416		2,214	41,470	13,279	54,749	662
Haussmann Saint-Augustin	2002/2004	11,683	791			12,474	2,650	15,124	104
9 Percier	2015	5,945				5,945	419	6,364	14
176 Charles De Gaulle	1997	5,749	389			6,138	2,739	8,876	145
Le Vaisseau	2006	6,026				6,026	2,321	8,347	124
Rives De Seine	2004	20,270			1,760	22,030	6,589	28,619	366
103 Grenelle	2006	15,585	258		1,052	16,895	1,891	18,786	100
Saint Denis				60		60	16	76	1
Portfolio in operation		**261,711**	**28,266**	**6,132**	**14,972**	**311,080**	**66,346**	**377,426**	**3,094**
Emile Zola	2017	24,000			1,000	25,000		25,000	
Louvre Saint-Honore	1995	1,081	14,952			16,034	4,177	20,210	
Cezanne Saint-Honore	2001/2007	1,787				1,787	1,504	3,290	
#Cloud.paris	2004						3,397	3,397	
Washington Plaza	2000	825				825	2,177	3,001	
Galerie Champs-Elysees	2002		578			578	2,124	2,702	
96 Iena	2001/2007	1,336				1,336	1,174	2,510	
103 Grenelle	2006						1,704	1,704	
176 Charles De Gaulle	1997						861	861	
112 Wagram	2008						562	562	
9 Percier	2015						553	553	
131 Wagram	1999						532	532	
92 Champs-Elysees	2000						493	493	
6 Hanovre	1958						36	36	
90 Champs-Elysees	2002/2009						17	17	
Projects & refurbishments		**29,028**	**15,530**	**0**	**1,000**	**45,558**	**19,309**	**64,867**	**0**
Total France		**290,739**	**43,795**	**6,132**	**15,972**	**356,638**	**85,655**	**442,293**	**3,094**
Total Property Colonial		**875,475**	**76,303**	**6,132**	**59,120**	**1,017,031**	**345,429**	**1,362,460**	**10,249**

Note: Colonial has 58.6% of the share capital of SFL. SFL has 100% ownership of the totality of its rental portfolio with the exception of Washington Plaza of which it owns 66%, as well as the assets of Champs Élysées 90, Galerie Champs Élysées 82-88 and Haussmann 104-110 of which it owns 50%.

Barcelona

Barcelona

1 Paseo de los Tilos, 2-6

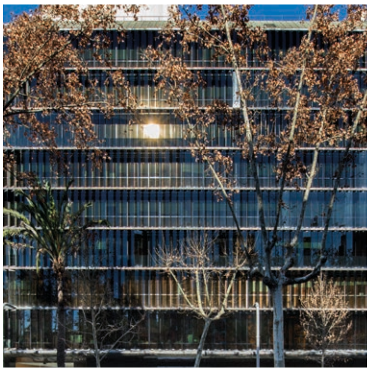
This building is located in Pedralbes, one of the city's most elegant districts. It combines large windows with classic iconography, expressed through pilasters, cornices and tympani. The result is striking and attractive. In addition to essential functionality for any modern corporate site, the building offers a prestigious environment thanks to the classical architectural features of its unique façades.

2 Av. Diagonal, 682

This attractive 13-story office tower is the result of the complete renovation of an older building. Only the original frame was preserved. Both exterior and interior were radically transformed as the building was equipped with the latest fittings and facilities. Rising through quietly elegant lines, the building's curtain wall glass façades produce a highly transparent and colorful effect, with green and steel stones predominating.

3 Av. Diagonal, 609-615

This urban complex consists of two office buildings, a shopping centre and ample parking. Located on the western extension of Avenida Diagonal, the city's principal artery, it is situated in one of modern Barcelona's principal commercial and services districts. Popularly known as the Dice, the office buildings are characterized by their simple, clear cubic volumes.



4 5 TGA

A two-building office complex at the intersection of Travessera de Gràcia and Amigó. The two buildings have a total surface area of 8,000 sq m and hold the LEED Gold environmental certification for their high energy-efficiency and reduction in CO_2 emissions. The unique, state-of-the-art façades in aluminium and glass, not to mention LED night lighting, make it a point of reference in the city. In particular, the Travessera de Gracia 11 façade stands out for the Geoda glass which changes colour tone depending on the exterior light. The main features of these two buildings are the abundant natural light and top quality facilities which enable the tenants to convey an excellent corporate image.

6 Av. Diagonal, 530-532

This elegant structure occupies a privileged position at a busy financial and retail hub, along the central stretch of Avenida Diagonal. The building stands out thanks to its remarkable facade, consisting of fully transparent, vertical, smoked glass panes that serve as a sunshade as well.

7 Av. Diagonal, 409

This marvelous example of urban architecture sits on the triangular lot where Calle Balmes joins Avenida Diagonal. All of the spaces on all eight floors enjoy direct natural lighting. Ideal for companies wishing to combine classic elegance with the functionality of the most modern office building.

Barcelona

8 Via Augusta, 21-23

Located at the intersection of Via Augusta and Avenida Diagonal, this is the archetypical office building; the strong cubic volumes are defined by the stone edges that frame the glass curtain walls covering most of the façades. The ground floor offers exceptional retail space. The two upper floors have large terraces affording excellent views of the city.

9 Offices Complex Sant Cugat Nord

Located within the Metropolitan Barcelona Area, this large office complex consists of three distinct blocks joined on a single, shared platform. Built on the highest portion of the lot, amidst ample landscaped surroundings, the idea was to establish the buildings as a local landmark. The strategically located site, near a rail station, tramway and highway interchange, offers quick, direct access to Barcelona as well as to the airport.

10 Torre Marenostrum

The Marenostrum Tower is one of the most out-standing and important buildings to have been built in the city. It is a very spectacular office building, both for its location on the city seafront and for its conception in sinuous and modern architecture, inspired as a rocky and glassy form beaten by wind and water, on the edge of the Mediterranean. All this makes it a clear point of reference on the Barcelona skyline.

11 Diagonal Glòries

The four buildings in this complex are part of a larger centre that includes offices and a major shopping centre. Adjacent to the Plaça de les Glòries Catalanes, this unique urban centre is located at the intersection of Gran Via, Avenida Meridiana and Avenida Diagonal, Barcelona's three most important thoroughfares. In recent years, the area has become one of the modern city's busiest hubs.

12 Offices Complex Parc Central 22@

Plot of land located in the heart of the 22@ business district, which will allow for the development of an office complex of nearly 15,000 sq m, opposite Avenida Diagonal, one of the up- and-coming areas in the city of Barcelona. The project is not expected to commence in the short-term. The materials and finishings will be top quality and the design philosophy is to perfectly integrate the complex into its surroundings. There will be 136 parking spaces, all located in the same building.

13 Offices Complex Illacuna

Right in the heart of Distrito 22@, one of the business powerhouses of Barcelona, Illacuna is a flagship building, due both to its location and its exceptional features. A unique real estate complex, it was conceived on the basis of 3 buildings with different standard storeys, which house cutting-edge design offices. The play on volumes in the building, built over different levels, gives a sensation of lightness and imbues a largescale construction that is outstanding for its originality and impressiveness with visual dynamism.

Barcelona

14 Berlín, 38-48 / Numància, 46

Conceived by the renowned architect Ricardo Bofill, this office building reconciles classical design with the latest construction techniques. The grouping of two floors in a single design motif creates a somewhat monumental impression while maintaining full functionality and practicality. The seven floors of offices are fully modular, enabling flexible office configurations of varying sizes.

15 Plaza Europa, 42-44

Singular, latest-generation, an office building with 4,869 sq m above ground. The building is located in Hospitalet de Llobregat, within the new business district in Plaza Europa, at the intersection of Amadeu Torner and Gran Via de les Corts Catalanes. The area has excellent transportation links to the centre of Barcelona and El Prat Airport.

16 Torre BCN

Torre BCN (BCN Tower), which consists of a ground floor lobby and 12 floors of offices, sits on Plaza Cerdà, at the border between Barcelona and the municipality of L'Hospitalet de Llobregat.

The location is special, not only because it can be seen from Gran Via, a main artery into Barcelona, but also thanks to its easy access to the city centre, the airport and the main exhibition centres.

17 Parc Glòries

A new project of an emblematic office building in the most prime area of 22@ with extremely high quality finishes, technical specifications and sustainability with expected delivery in 2018. Parc Glòries is a project destined to become an imminent symbol of the city. The project will have more than 24,000 sq m designed by Batlle & Roig, distributed over 17 floors. The building will be one of the first properties to obtain the LEED Platinum certificate in the Barcelona office market.

18 Travessera de Gràcia, 47-49

An office building located in the Barcelona CBD with a surface area above ground of almost 9,000 sq m, distributed between a ground floor, a mezzanine floor, and 8 additional floors as well as 1,700 sq m of surface area below ground. The asset is the Spanish headquarter of the Bertelsmann Group and its subsidiaries with a 5-year contract.

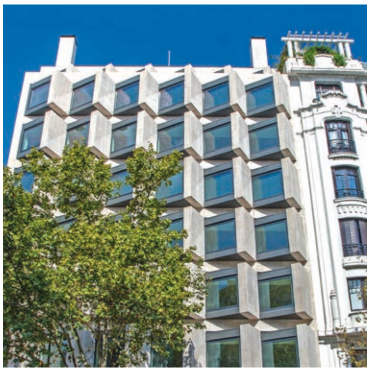
19 Plaza Europa, 34

At the beginning of 2017, Colonial strengthened its position in Plaza Europa, one of the business areas with the most development in recent years in Barcelona, with a new project to build a 21-storey office building with 14,000 sq m above ground and 150 parking spaces. This project is being developed in a joint venture with the Inmo Company, a subsidiary of the Puig family, the land owner, whose current corporate headquarters is located in the adjacent plot. The building will obtain the LEED Gold energy certificate.

Gal·la Placídia (Future project – 2018 acquisition)

Acquired at the beginning of 2018 under the framework of the Alpha III project, this is an office building located in the CBD of Barcelona with a surface area above ground of 4,300 sq m. The building is in an unbeatable location, sought after by coworking companies due to its excellent communication links. The space will be refurbished and will be completely rented by the coworking company of Colonial, Utopic_US.

Madrid



1 Paseo de Recoletos, 37-41

An iconic building, Paseo de Recoletos, 37-41 stands on one of Madrid's nerve centres, with a unique location next to Plaza Colón, an area that is characteristic for its great business activity and which is teeming with distinctive offices housing multinational companies and top-grade hotels and homes. The exquisite overall refurbishment carried out on he building has turned it into a new architectural benchmark on the Recoletos-Prado axis.

2 Génova, 17

Office building of almost 5,000 sq m, located at Génova, 17 in Madrid. The property has been fully refurbished and has obtained the BREEAM Very Good certificate.

3 Paseo de la Castellana, 52

The unusual façade, with its neo-classical style and simple, striking lines, helps give this building its unique personality. Its street-corner position provides for abundant interior natural lighting. Located on Paseo de la Castellana, within the city's main business district, the building offers a privileged location along with an exceptional office environment.

4 Paseo de la Castellana, 43

This modern office building, located in the city's central business district, offers excellent connections to both public and private transportation. The broad, elegant façade, artfully juxtaposing granite and glass surfaces, constitutes a landmark at the Glorieta de Emilio Castelar roundabout, at the intersection of Paseo de la Castellana and Paseo General Martínez Campos.

5 Miguel Ángel, 11

The conception of this unique building is centered around an imposing double-glazed façade. The completely exterior and open spaces intended for offices are distributed throughout the magnificent glazed area around a central core with three elevators. Situated in Madrid's business district, a few metres from Paseo de la Castellana, the building stands in a privileged position at the intersection of Calle Miguel Ángel and Paseo del General Martínez Campos and enjoys excellent communications.

6 José Abascal, 56

A building designed to convey solidity and elegance, it boasts eight floors above ground and a sober yet imposing façade. Composed of granite strips alternating with glass, its structure combines the exact degree of stability with extensive picture windows that let light in. Its sensible and functional architecture makes it the perfect office block. In the heart of Madrid's business district, just a few metres from Paseo de la Castellana, it enjoys an excellent location and unrivalled communications.

Madrid

7 Santa Engracia

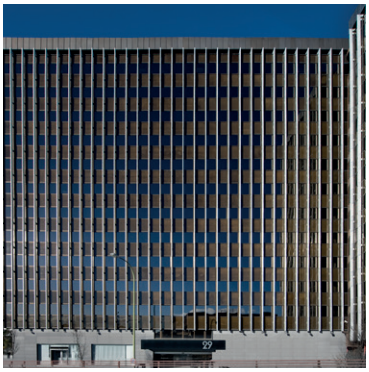
"Core" office building located in the CBD area of Madrid. That has a surface above ground of almost 13,500 sq m of offices and 178 parking spaces.

8 Poeta Joan Maragall, 53

This elegant ten-story structure is located along the upper portion of Poeta Joan Maragall, a street that begins at the Palacio de Congresos, runs parallel to Paseo de la Castellana and ends near Plaza de Castilla. The rectangular building, notable for its unostentatious design, produces a simple, straightforward appearance Exuding comfort and a harmonious atmosphere, the extremely pleasant feeling extends throughout the building.

9 Estébanez Calderón, 3-5 "Discovery building"

Property acquired in May 2015, located at Estébanez Calderón 3-5, just a few metres from Paseo de la Castellana. The former building was demolished to build a new unique property, which incorporates the latest technologies and innovation in materials. The new office building will provide a total of 10,200 sq m of rentable surface area, with optimal space efficiency on all floors. Discovery Building obtained the LEED Platinum certification, the highest certification for sustainability.



10 Agustín de Foxá, 29

Exclusive office building located in a well-established area close to Castilla Square and opposite the Chamartín railway station. The building has a curtain wall exterior finished in bronze-colored aluminum. The building has a lobby floor, a mezzanine and 11 above-ground floors, each having 576 sq m of completely exterior-walled leasable space. Directly accessible by public or private transport. The complex in which the building is located boasts its own parking lot.

11 Hotel Tryp Chamartín

Building solely used as a hotel located in a very well-established area near to Plaza Castilla and opposite the Chamartín railway station. The building housing a three-star hotel consists of a ground floor and 12 above-ground floors boasting a total of 203 rooms. Directly accessible by public or private transport. The complex has its own parking lot.

12 López de Hoyos, 35

This exceptional office building is located in a well-established area, where first class office buildings and residential space co-exist in harmony. The bold façade, which juxtaposes artificial stone, exposed brick and glass curtain walls, creates a contemporary, high technology look. But it is not only the exterior aspect of this unique building that makes the property outstanding. The high quality, elegant interior spaces further contribute to its first class character, along with its functionalism and flexibility.

Madrid

13 Príncipe de Vergara, 112

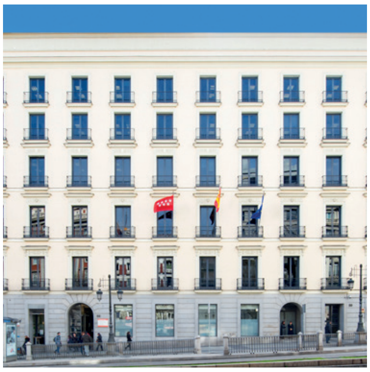
Property located at Príncipe de Vergara, 112, Madrid. The transaction involves demolishing the current property to build a unique building, which will incorporate the latest technologies. The property will receive the most prestigious environmental and sustainability certificates. The new office building will provide a total of 11,400 sq m surface area above ground, with optimal space efficiency on all floors, enabling it to obtain the "LEED Gold" energy certificate.

14 Francisco Silvela, 42

This unique, distinctive building would stand out in any urban environment, not only because of its imposing aspect, but also thanks to its bold, modern look, intelligent design, and simple, elegant lines. The three glass façades provide plenty of natural light, creating a very pleasant environment for users. Located adjacent to Avenida América, the building is near the city's central business district and offers rapid access to Barajas Airport.

15 Ortega y Gasset, 100

The main characteristic of this solid building is its straightforward style, devoid of distracting ornamentation. The building's aspect reflects its function as a fine office building, designed to meet the most demanding needs of any corporate or institutional tenant. Among the building's attractive features is its location, in the financial and business centre within the prestigious Salamanca district, along one of Madrid's best known shopping streets.



16 Ramírez de Arellano, 37

A perfect location where the M-30 meets Av. América, in a completely consolidated area just a few minutes from the airport and the city centre. Without a doubt its layout, architectural design and strategic location makes it a reference point in the Madrid urban landscape. Its layout and location make it an ideal building for a corporate head office.

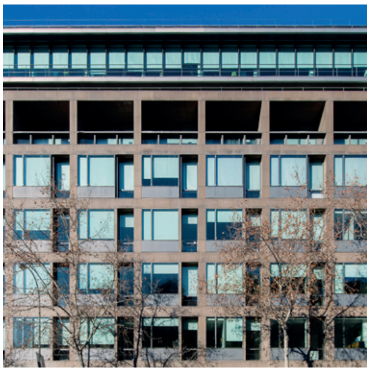
17 MV 49 Business Park

Building Complex located on Calle Martínez Villergas, Madrid, near the intersection of M-30 and Avenida de América. Its exclusive location, surrounded by landscaped areas; its majestic architecture; as well as its striking façades pointing in four directions, make the building an authentic architectural landmark along Av. América as one enters Madrid. The immediate environs are home to multinational companies that have been attracted by the quick, easy access to this well-established area.

18 Alcalá, 30-32

One of Madrid's most prestigious, first class office buildings is located on Calle de Alcalá, in the heart of the city's historic centre. Completely renovated in 1995, the building, with its classical façade, stands out through its originality and quality. Two broad central atriums provide abundant natural light, in sharp contrast to the original structure.

Madrid



19 Alfonso XII, 62

An astute combination of classic volumes with functional space creates the uniqueness of this building. Each of the building's floors consists of bright, flexible spaces, with large windows providing plenty of natural light as well as splendid views of the surrounding urban environment. The location, facing the Parque del Retiro and just a few steps from Paseo de Prado and La Castellana, constitutes another attractive benefit.

20 José Abascal, 45

Colonial has acquired a building located in calle José Abascal, 45 in Madrid. It is an architecturally unique building with a surface area of over 5,300 sq m, located in the prime CBD and rented to top tier companies. Colonial has carried out refurbishment works on the building. The amount of the investment stands at €35m, and confirms the positioning of Colonial as one of the leaders in prime assets in the Madrid market.

21 Serrano, 73

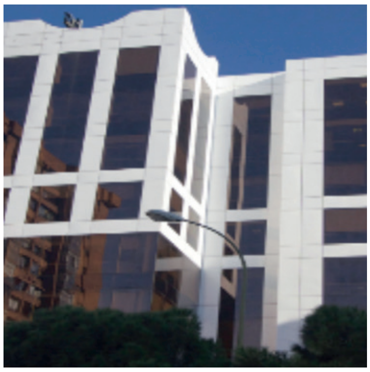
Building located in calle Serrano, 73 in Madrid, a unique location in the super-prime market in Madrid. The property has a surface area of 4,200 sq m, and is one of the office buildings in Madrid with the highest recognition due to its extraordinary location and quality.

22 Santa Hortensia, 26-28

This building located in calle Santa Hortensia, 26-28 in Madrid is also included in the agreement with Grupo Finaccess. The property has a surface area of 47,000 sq m and is one of the 7 largest office buildings in Madrid. Located on a strategically-located land plot of 12,500 sq m, it is a unique building in its characteristics, and fits perfectly into Colonial's strategy to develop the best portfolio of prime assets in Spain.

23 Paseo de la Castellana, 163

An office building located in Madrid's CBD with a surface area above ground of more than 10,900 sq m, divided among 11 floors of office space and a ground floor allocated for commercial premises. Additionally, there are 2 basement floors. The flexible floors are approximately 900 sq m with an efficient design and high luminosity. The building has two entrances: one in Paseo de la Castellana and the other in Poeta Joan Maragall 50. Over the coming two years, the property will be refurbished to obtain the BREEAM Very Good certificate.



24 Arturo Soria, 336

Purchase under the framework of the Alpha III project of an office building at 336 Arturo Soria in Madrid, which has a surface area of 8,663 sq m above ground and almost 200 parking spaces. The asset is currently almost 100% occupied. Highlighted is the potential the building has due to its location, quality and size, as well as the flexibility of the space.

Madrid

25 Campus Méndez Álvaro

Plot of land acquired under the framework of the Alpha III project where an emblematic campus of 90,000 sq m will be created in the centre of Madrid (Méndez Álvaro area). The work will commence in mid-2019 and will be completed by the end of 2021. It will be a macro project which will create an innovative campus with a mixed use of offices and top of the range residential buildings. The campus will include large communal areas of green zones and services for tenants of the campus. The project will obtain the top energy certificates.

26 Méndez Álvaro II

Plot of land acquired under the framework of the Alpha III project and complementary to the acquisition of the Campus Méndez Álvaro. A new office building of 20,275 sq m will be developed south of the centre of Madrid (Méndez Álvaro area). The building will have 16 floors of offices and 270 parking spaces. The floors will be flexible and approximately 1,300 sq m with an efficient design, which will enable it to obtain the top energy certificates. The construction work will commence in 2018 and the assets will be delivered in the second half of 2020 (one year before the Campus Méndez Álvaro).

EGEO - Campo de las Naciones (2018 acquisition)

At the beginning of 2018, under the framework of the Alpha III project, this office building was acquired located in Campo de las Naciones, which has a surface area of 18,000 sq m distributed over 6 floors and 350 parking spaces. The building has two independent wings, with an attractive entrance hall crowned with a skylight, which offers good natural light to the interior spaces. The floors are flexible with 3,000 sq m divisible into up to 8 modules, allowing the possibility to accommodate various tenants. The asset is located in the best area of Campo de la Naciones and has excellent connections to public transport. It is currently at 93% occupancy.

Paris

Paris

1 Louvre Saint-Honoré

Enjoying an upmarket location just opposite the Louvre, this building offers vast functional areas spanning 5,400 sq m/floor. A new retail development Project on the underground floors, ground floor and the first floor of the building. This Prime Factory project will be carried out with top quality finishes and technical specifications, with the capacity to attract top tier tenants.

2 Washington Plaza

With property space of 8,000 sq m in close proximity to the Champs-Élysées, "Washington Plaza" ranks amongst the élite of service sector schemes.

An ambitious renovation project at the heart of the business centre which is now on track to radically transform the function, the identity and the image of this site with the creation of a large lobby on the Friedland side and a spectacular interior gallery opening onto private landscaped spaces.

3 Galerie des Champs-Élysées

The epitome of one of the most prestigious locations in Paris, set on the even numbered side of the most frequented section of the Champs-Élysées, this gallery has undergone serious renovation work. Completely redesigned by Jean Nouvel, it has regained its pride and elegance. This new classic Haussmann-style scheme, stripped bare, offers hints of modernism with its light fixtures and black metal escalators.

All of the Paris portfolio have energy certifications

4 90 Champs-Élysées

Located above the Champs-Élysées gallery, this contemporary building boasts a cut-stone façade used in the most beautiful Haussmann buildings and has more recently been transformed by Jean Nouvel. The building has been renovated and offers beautifully light-filled spaces of 1,200 sq m.

5 92 Champs-Élysées Ozone

Once Thomas Jefferson's residence during his stay in Paris between 1785 and 1789, this is one of the best located buildings along the Champs-Élysées, at the corner of rue de Berri. Undergoing a total refurbishment to restore all of its past prestige, this project was completed at the end of 2012 with HEQ® certified offices.

The building is occupied by retail units on the ground floor and prestigious offices over 5 storeys.

6 Cézanne Saint-Honoré

This exceptional mixed office, retail and residential scheme is composed of two independent buildings facing each other on each side of a private 100 m long, 15 m wide access route, at the heart of the traditional business quarter. Launched in March 2005 following an exemplary refurbishment programme, the building dates back to 1940 and is characterised by the absence of bearing wall structures, allowing for the presence of large functional spaces. Twice winning awards in 2004 and 2005 the "Cézanne Saint-Honoré" is the jewel in the SFL crown.

Paris

7 Édouard VII

Spanning a surface area of a hectare and a half, the Haussmann "Édouard VII" building is situated between Opéra Garnier, la Madeleine and boulevard des Capucines. Its location in the heart of one of the most vibrant quarters of Paris, coupled with its architectural prestige, the fruit of a meticulous redevelopment, makes it an exceptional showcase. The aspiration of SFL is to modernise and upgrade this historic construction and renovate its office, reception and living spaces through the creation of interior green courtyards and enliven the retail street area.

8 176 Charles de-Gaulle

The façade of this building on the axis linking l'Étoile to La Défense is composed of offices and a large retail unit on the ground floor, and overlooks a courtyard opening out onto newly landscaped gardens.

9 Rives de Seine

Set on the banks of the Seine within a stone's throw of the Gare de Lyon and a cluster of public transport systems, this building is one of a group of renovations of the East Parisian business quarter. Built in 1974, its 16 storeys benefit from a vast entrance overlooking the Seine. The building underwent significant renovation work completed in 2001. This allowed for the creation of modern illuminated and flexible 1,200 sq m areas.

All of the Paris portfolio have energy certifications

10 96 Iéna

A future project for the creation of a prime office complex located in the heart of the CBD in Paris, close to "l'Arc de Triomphe". The project will be designed by the famous French architect Dominique Perrault, creating an iconic building with high quality finishes and technical specifications. Common spaces will be optimized on the offices floors and green spaces will be created in the interior patio, as well as an internal atrium that will allow for natural light to reach the underground basement up to two floors down. The property will have the best energy certificates and construction is expected to begin in 2018 and be completed by 2020.

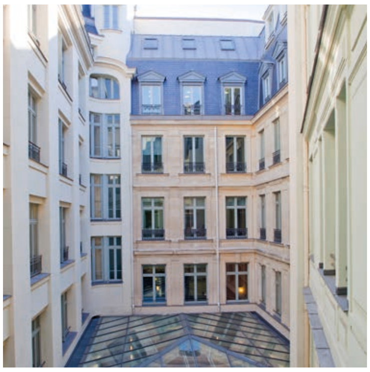
11 131 Wagram

Located equidistantly from Monceau park and Place de l'Étoile, this building is at the corner of rue de Prony. Enjoying a terrace and an interior garden space, it is composed of 9 levels of office space over 5 basement areas. This includes light-filled space of approximately 800 sq m, with flexible lay-outs, an auditorium and a restaurant. Interior refurbishment of the building was carried out in 2004-2005.

12 103 Grenelle

On the Left Bank, in the Ministerial quarter, this historical complex is dominated by a tower, which in the 19th Century housed the first "Chappe" telegraph network and until recent times the Administration offices of the telegraph lines. In mid-2009, following a significant renovation lasting two years, the building developed over 15,000 sq m of prime HEQ® certified rental office space. It offers both floor space allowing for traditional partitioned lay outs, and excellent floor spaces of over 1,500 sq m in the Chappe tower with landscaped or mixed spaces. The complex also offers a high level of services.

Paris



13 Haussmann Saint-Augustin

In 2007, after two years of renovation work, SFL transformed four buildings in boulevard Haussman into prestigious service buildings and perfect work spaces. Covering a floor area of approximately 13,000 sq m over 7 storeys, spread out in a linear fashion across the 82 metre stone façade encompassing the vast, centrally located hall, filled with light from the glass roof. The use of natural and noble materials infuses an architectural and aesthetic warmth, whilst the approach to an elegant interior design blends classic with contemporary.

14 6 Hanovre

Set behind an "Art nouveau" façade, this 1908 building, is part of the additional historic Monuments, and is the work of the architect Adolphe Bocage. It includes a vast entrance opening out on to a horse-shoe staircase. The façade is made up of rectangular bays on the third floor with bow-windows set above. The concrete of the façade, from the entrance to the stairwell, is enclosed in sandstone signed by Alexandre Bigot. The building is located in the heart of the financial district, close to the Paris stock exchange and overlooks Opéra thanks to its panoramic terrace. It has recently undergone a meticulous refurbishment, offering rational and light-filled office spaces.

15 #Cloud

Composed of three buildings "#cloud" is located within walking distance of Palais Brongniart and Opéra in the financial district. This building has undergone a significant renovation to create a unique living framework around flexible and contemporary floor space providing prestigious services such as: a business centre, concierge service, a restaurant, a panoramic terrace, a fitness lounge...

All of the Paris portfolio have energy certifications

16 Le Vaisseau

Set on the Saint-Germain island, the "Ship" building owes its name to its atypical shape. Its façade evokes naval architecture with a mobile roof feature which opens along the whole length of the building. Spanning over 6,000 sq m, it was designed by the architect Jean Nouvel who completed it in 1992, inspired by the innovative concept of a "Ship moored on an island". SFL bought this in 2006 and hopes to fully re-integrate the "Ship" into its environment by re-interpreting the original concept and thereby increasing the heritage value of the site.

17 112 Wagram

Nestled between Place de l'Étoile and Porte de Champerret, "112 Wagram" distinguishes itself in terms of its industrial architecture, contemporary interior design, the use of noble materials, in addition to its spacious interiors: nearly 4 metres in height under the ceiling of ground floor +1 and ground floor +2, three large terraces, a courtyard and an interior tree-lined garden. Behind its metallic façade composed of brick and glass, this group of new offices offers floor spaces of over 1,100 sq m, which are both flexible, efficient and full of light.

18 4-8 Rue Condorcet

Located within the 9th district, the property is situated in Paris Centre West in close proximity to the Central Business District of Paris and important transport hubs. The property was constructed at the end of the XIXth century and comprises 7 buildings. It benefits from a visible location bordered by 4 streets: rue de Maubeuge, rue Condorcet, rue Pétrelle, and rue du Faubourg Poissonnière. The overall character of the property is still heavily influenced by these historical features. The interior of the buildings includes a large number of neoclassical features, such as sculpted columns, painted ceilings, marble coated walls and wood paneling. The quality of the buildings is enhanced by the historic staircase of central building and the large accessible inner courtyard.

Constructed in 1863 under the architect Léon-Armand Darru, the building benefits from a rich architectural heritage and is the historical site of the GDF Group which has occupied it since its construction.

Paris

19 9 Avenue Percier

Office building of 6,000 sq m, located at number 9 Avenue Percier in the 8th district of Paris. This Art Deco style building, located in the central business district, provides flexible and efficient office floors and has the best features which define a prime quality building in the French capital.

20 112-122 Av. Emile Zola

At the beginning of 2017, The Colonial Group completed a transaction for €165m, though its French subsidiary, to acquire the historical headquarters of the SMA Group. This building stands at a prime location at 112-122 Avenue Emile Zola, in the centre of district 15 in Paris. The building has a surface area of approximately 21,000 sq m. SMA will move to a new headquarters in the fourth quarter of 2017, at which time the Colonial Group will restructure the building to transform it into one of the largest office complexes in the South of the French capital. The project will have 1,400 sq m of office space with great luminosity and efficient functionality. There will be a double entrance, optimizing the divisibility and with a wooded garden surrounding the building.

All of the Paris portfolio have energy certifications

10

Strategy
for the future

10. Strategy for the future

Colonial is today the benchmark SOCIMI in the quality office market in Europe and since the end of June 2017 it is listed on the IBEX 35, the index of reference in the Spanish stock exchange.

The Company has a market capitalization of more than €4,000 million, with a free float of around 60%. It manages assets exceeding €9,000 million.

The Company's strategy focuses on the generation of industrial value through the creation of a prime product of the highest quality through repositioning action and the transformation of property assets.

In particular, the strategy is based on the following pillars:

> A business model focusing on the transformation and creation of offices of the highest quality in prime locations, principally in CBD's (Central Business District).

> Maximum commitment to the creation of offices that respond to the highest demands of the market, placing special emphasis on efficiency and sustainability.

> A diversified pan- European strategy in the office markets in Barcelona, Madrid and Paris.

> An investment strategy that combines "Core" and "Prime Factory" acquisitions with "value added" components.

> A clearly industrial real estate approach to create value that exceeds the average in the market.

Colonial is now the European Company that most focuses on center city areas and leads the Spanish real estate market in terms of quality, sustainability and efficiency in its office portfolio.

An integral approach for all areas of Corporate Social Responsibility has been adopted and aspires to the highest standards of (1) sustainability and energy efficiency, (2) corporate governance and transparency as well as (3) excellence in HR and social actions, making them an integral part of the Group's strategy.

Over the past three years the Group has successfully executed its acquisition program and made investments exceeding €1,500 million (committed amounts including future Capex). All acquisitions involve assets in good locations with good fundamentals, potential for additional returns through property repositioning, while always maintaining maximum financial discipline.

The capital structure is solid, with an LTV below 40% (one of the lowest in the sector) and one of the best ratings in the Spanish sector.

The Company's strategy involves consolidation as the prime office leader in Europe, placing special emphasis on the markets in Barcelona, Madrid and Paris:

> A solid capital structure with a clear vocation towards maintaining maximum credit rating standards

> Investment-grade.

> Attractive yields for shareholders based on recurring profitability combined with the creation of property value through "value added" initiatives.

11

About the Report

11. About the Report

Colonial's 2017 Integrated Annual Report incorporates the contents of the business strategy, corporate governance and current performance and future projections, and is the organisation's fourth publication in the area of Corporate Social Responsibility.

Characteristics of the Report

Standards considered in drawing up the 2017 Integrated Annual Report

The Colonial Group prepared the 2017 Integrated Annual Report to include, aside from the information in the annual reports for previous years, all the information on Environmental, Social and Governance issues, along with a comparison with 2016 to show the Company's progress.

To this effect, the Company used the Global Reporting Initiative (GRI), in its standards version and in line with its comprehensive option, principles for reporting over non-financial information, the benchmark for CSR reports, and the new version of EPRA (European Public Real Estate Association). In this regard, Colonial conducted a study to be able to adapt to the best market practices in the area of reporting.

For this purpose, first a new materiality study was conducted, covering all Environmental, Social and Governance aspects that may affect the Company and, especially, its stakeholders, paying special attention to the Company's commitments to them.

The main objective of the annual report is to inform all stakeholders of Colonial's involvement in environmental, social and governance matters in 2017, along with its objectives for 2018.

Material issues	Stakeholders	GRI indicators	EPRA sBPR	Inside/ Outside the organisation	Relevant chapter of the report
1. Location and accessibility	Clients	GRI 416-1	EPRA-H&S-Asset	In and out	3. Business performance
2. Company service efficiency	Clients Society	GRI 203-1 GRI 203-2 GRI 307-1		In and out	3. Business performance 7. Relations with the community
3. Client satisfaction and communication	Clients	GRI 102-43 GRI 102-44		In and out	3. Business performance
4. Certification	Clients	GRI 102-44 GRI 102-5 GRI 417-1 GRI CRE8	EPRA-Cert-Tot	In and out	3. Business performance 7. Relations with the community
5. Generating value for shareholders	Clients Society	GRI 201-1 GRI 201-3		In and out	3. Business performance
6. Relevance of CSR investment (CAPEX/OPEX)	Clients Society Shareholders e inversores			In and out	6. Eco-efficiency
7. Responsible consumption (energy, raw materials, water and waste)	Society Clients	GRI 301-1 GRI 302-1 GRI 302-2 GRI 302-3 GRI 302-4 GRI 302-5 GRI 303-1 GRI 306-2 GRI CRE1 GRI CRE2 GRI CRE3	EPRA - Elec-Abs/ EPRA - Elec-LfL/ EPRA - DH&C-Abs/ EPRA - DH&C-LfL/ EPRA - Fuels-Abs/ EPRA - Fuels-LfL EPRA - Water-Abs/ EPRA - Water-LfL EPRA - Energy-Int EPRA - Water-Int EPRA - GHG - Int	In	6. Eco-efficiency

Material issues	Stakeholders	GRI indicators	EPRA sBPR	Inside/ Outside the organisation	Relevant chapter of the report
8.Emissions management and efficiency	Society Clients	GRI 305-1 GRI 305-2 GRI 305-5	EPRA-GHG-Dir-Abs EPRA-GHG-Indir-Abs	In	6. Eco-efficiency
9. Safety and environmental risk management	Society Clients Suppliers Employees	GRI CRE8	EPRA-Cert-Tot	In and out	6. Eco-efficiency
10. Procurement and supplier relationships	Suppliers	GRI 204-1 GRI 308-1		In and out	5. Team of professionals
11. Attracting talent and training	Employees	GRI 401-1 GRI 401-2 GRI 401-3 GRI 404-1 GRI 404-2 GRI 404-3 GRI 405-1	EPRA-Emp-Turnover EPRA-Emp-Training EPRA-Emp-Dev EPRA-Diversity-Emp	In	5. Team of professionals
12. Diversity and equal opportunities	Employees	GRI 401-1 GRI 401-2 GRI 401-3 GRI 402-1 GRI 405-1	EPRA-Emp-Turnover EPRA-Diversity-Emp	In	5. Team of professionals
13. Health and safety	Employees	GRI 403-1 GRI 403-2 GRI 403-4	H&S-Emp	In and out	5. Team of professionals
14. Quality of life	Employees Clients	GRI 405-1 GRI 416-1 GRI 417-1 GRI 102-43 GRI 102-44	EPRA-Diversity-Emp EPRA-H&S-Asset	In and out	5. Team of professionals 3. Business performance

Material issues	Stakeholders	GRI indicators	EPRA sBPR	Inside/ Outside the organisation	Relevant chapter of the report
15. Governance and transparency	Society Clients Employees Shareholders and investors	GRI 205-1 GRI 205-2 GRI 205-3		In	1. Shareholders structure and Corporate Governance
16. Corporate ethics	Society Clients Employees Shareholders and investors	GRI 205-2 GRI 205-3 GRI 419-1 GRI 307-1		In	1. Shareholders structure and Corporate Governance
17. Commitment to the local community	Society	GRI 203-1		In and out	7. Relations with the community
18. Technology and Digitalisation	Society Clients Shareholders and investors Employees			In and out	3. Business performance

Corporate publications

This report forms part of the transparency exercise undertaken by the Colonial Group and is made available along with four other reports published by Colonial providing information on the initiatives undertaken in 2017.

> 2017 Colonial Group Corporate Governance Report
http://www.inmocolonial.com/

> 2017 Annual Results
http://www.inmocolonial.com/

> 2017 Annual Results
http://www.fonciere-lyonnaise.com/fr

> SFL CSR Report
http://www.fonciere-lyonnaise.com/fr

Calculation methods

The Colonial Group's CO2 emissions were estimated using the calculation methods and emission rates established by the International Energy Commission, the database of the French Environment & Energy Management Agency and the recommendations of the European Public Real Estate Association, version 2.0.

Colonial Group contacts

Inmobiliaria Colonial

Avenida Diagonal, 532, 08006 Barcelona
Telephone: 93 404 79 00.
Website: www.inmocolonial.com

General information:
informacio@inmocolonial.com

Investor Relations:
inversores@inmocolonial.com

Shareholders:
accionistas@inmocolonial.com

Rentals:
patrimoni@inmocolonial.com

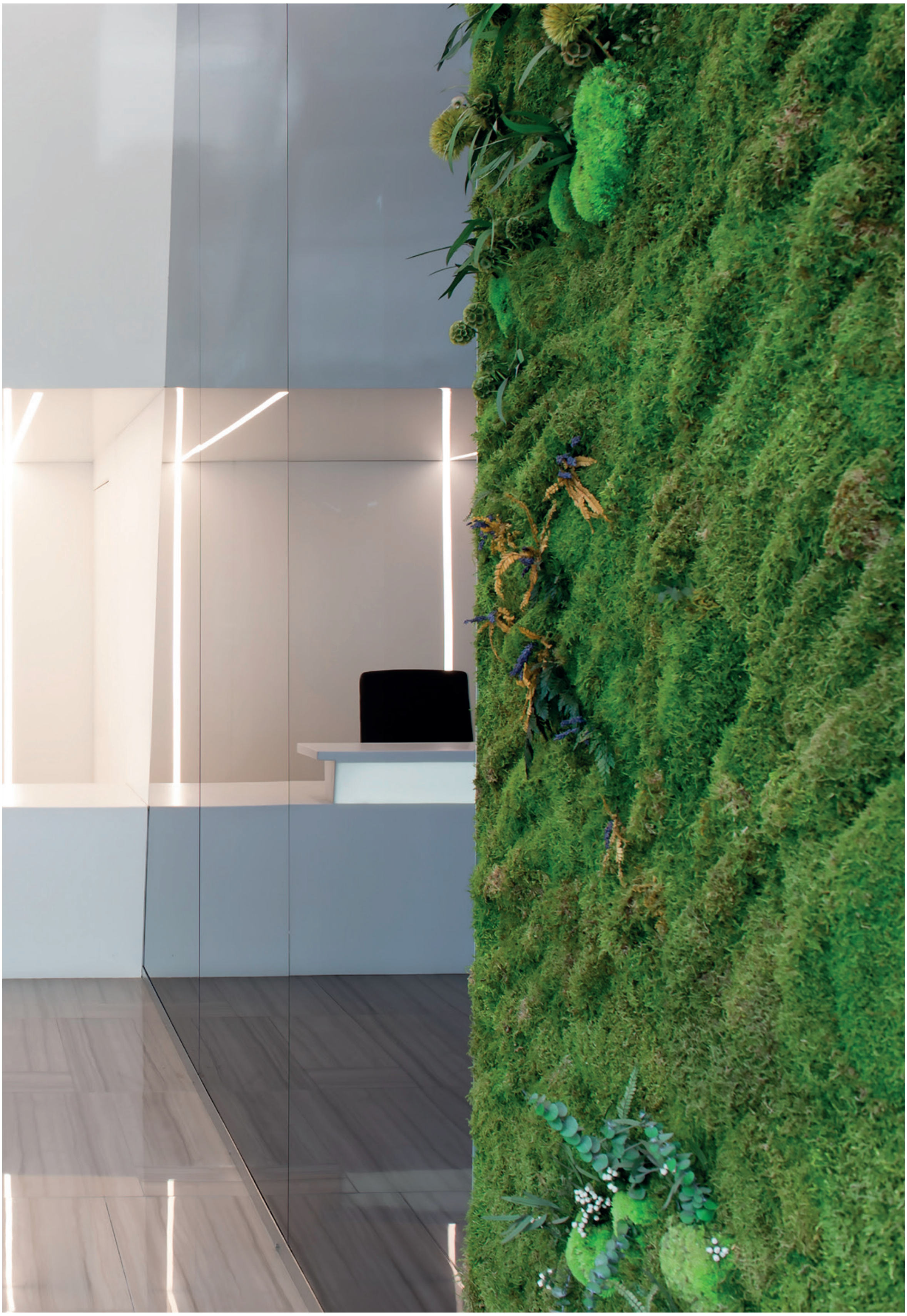
Human Resources:
rrhh@inmocolonial.com

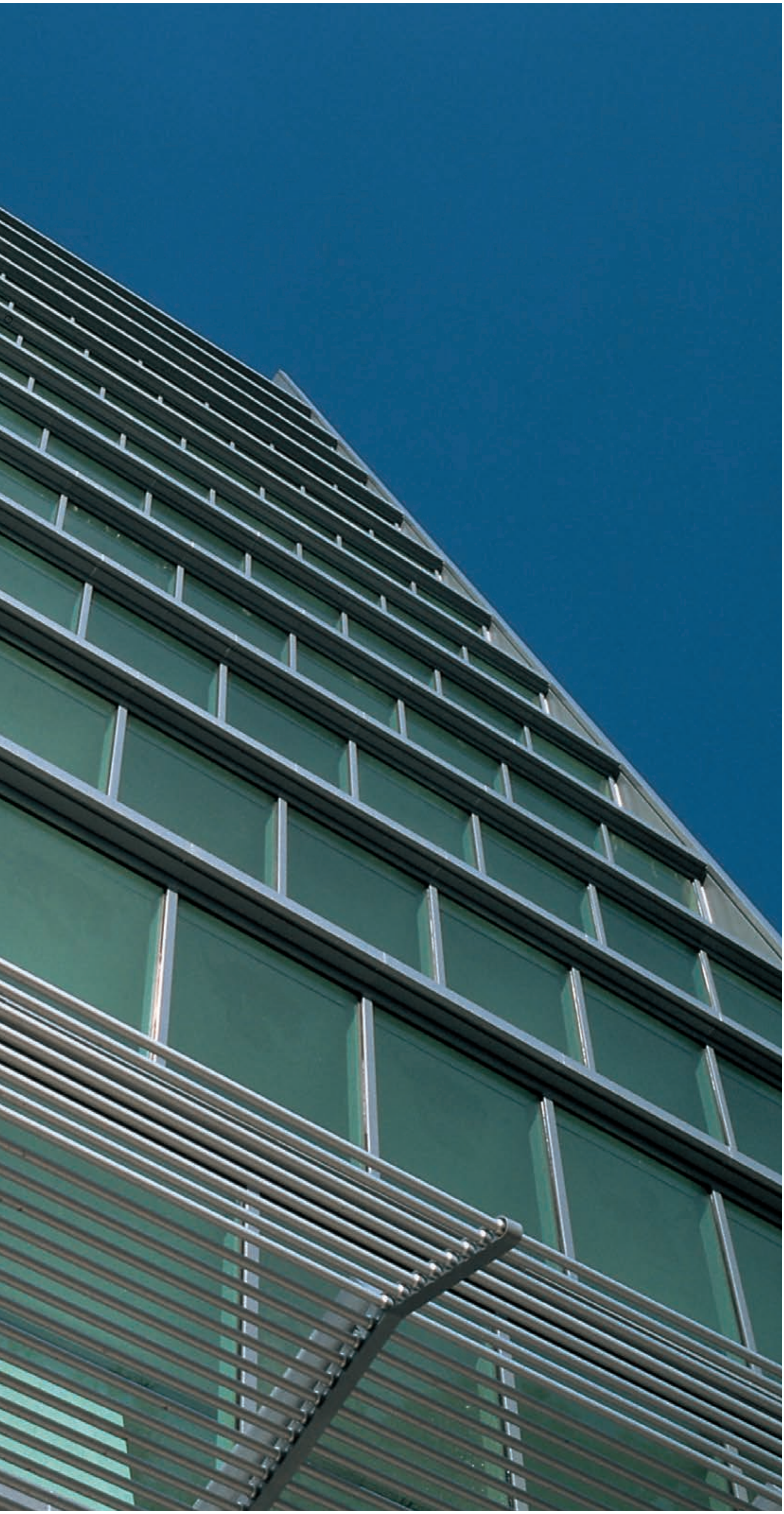
SFL Société Foncière Lyonnaise

42, rue Washington, 75008 Paris
Phone: +33 (0)1 42 97 27 00
Fax: +33 (0)1 42 97 27 26
Website: www.fonciere-lyonnaise.com

Locaparis:
www.locaparis.fr

AMF:
www.amf-france.org





12

GRI index & EPRA BPR's

12. GRI Contents Index

Universal Standards

General content	Description	Page(s)	Scope
Organisational profile			
GRI 102-1	Name of the organisation.	Inmobiliaria Colonial, SOCIMI, S.A.	Colonial Group
GRI 102-2	Activities, brands, products, and services.	44-48 / 62-70/ 146-188	Colonial Group
GRI 102-3	Location of headquarters.	Castellana Av. 52 28046 Madrid	Colonial Group
GRI 102-4	Location of operations.	5	Colonial Group
GRI 102-5	Ownership and legal form.	28	Colonial Group
GRI 102-6	Markets served.	5, 47-48 / 146-188	Colonial Group
GRI 102-7	Scale of the organisation.	4, 36, 44, 97	Colonial Group
GRI 102-8	Information on employees and other workers.	97,98	Colonial Group
GRI 102-09	Supply chain.	87-88, 109	Colonial Group
GRI 102-10	Significant changes to the organisation and its supply chain.	16-18, 28, 38-39	Colonial Group
GRI 102-11	Precautionary Principle or approach.	11,12	Colonial Group
GRI 102-12	External initiatives.	32, 40, 122-124, 132-135	Colonial Group
GRI 102-13	Membership of associations.	32,40, 122-124	Colonial Group
Strategy			
GRI 102-14	Statement from senior decision-maker.	10-12	Colonial Group
GRI 102-15	Key impacts, risks, and opportunities.	22-25 / 192	Colonial Group

General content	Description	Page(s)	Scope
Ethics and integrity			
GRI 102-16	Values, principles, standards, and norms of behaviour.	23-25	Colonial Group
GRI 102-17	Mechanisms for advice and concerns about ethics.	22-25	Colonial Group
Governance			
GRI 102-18	Governance structure.	17-22 / 26-27	Colonial Group
GRI 102-19	Delegating authority.	17-22	Colonial Group
GRI 102-20	Executive-level responsibility for economic, environmental, and social topics.	17-27	Colonial Group
GRI 102-21	Consulting stakeholders on economic, environmental, and social topics.	23/ 92	Colonial Group
GRI 102-22 / EPRA-Gov-Board	Composition of the highest governance body and its committees in line with the following variables: executive or non-executive level; independence; years of experience in the governance body; number of significant roles and compromises for every person and nature of said compromises; gender; affiliation to social minority groups; competencies related to economic, environmental and social issues; representation of stakeholders.	17-18 / Chapter C.1.2 and C.1.3 of IAGC 2017	Colonial Group
GRI 102-23	Chair of the highest governance body.	18 / Chapter C of IAGC 2017	Colonial Group
GRI 102-24/ EPRA-Gov-Selec	Describe the processes of naming and selection of the highest governance body and its committees, as well as the criteria used for the naming and selection of the members of the former.	Chapter C of IAGC 2017	Colonial Group
GRI 102-25/ EPRA-Gov-Col	Describe the processes through which the highest governance body prevents and manages potential conflicts of interest. Indicate whether the conflicts of interest are communicated to the interested parties.	25 / Chapter D.6 of IAGC 2017	Colonial Group
GRI 102-26	Role of highest governance body in setting purpose, values, and strategy.	Chapter C of IAGC 2017	Colonial Group
GRI 102-27	Collective knowledge of highest governance body.	19-21, 23 / Chapter G of IAGC 2017	Colonial Group
GRI 102-28	Evaluating the highest governance body's performance.	Chapter C.1.20 of IAGC 2017	Colonial Group
GRI 102-29	Identifying and managing economic, environmental, and social impacts.	22-25/ Chapter C and E of IAGC 2017	Colonial Group

General content	Description	Page(s)	Scope
GRI 102-30	Effectiveness of risk management processes.	22-25/ Chapter C and E of IAGC 2017	Colonial Group
GRI 102-31	Review of economic, environmental, and social topics.	22-25/ Chapter C and E of IAGC 2017	Colonial Group
GRI 102-32	Highest governance body's role in sustainability reporting.	Board of Directors	Colonial Group
GRI 102-33	Communicating critical concerns.	Chapter C of IAGC 2017	Colonial Group
GRI 102-34	Nature and total number of critical concerns.	Chapter C of IAGC 2017	Colonial Group
GRI 102-35	Remuneration policies.	Chapter C of IAGC 2017	Colonial Group
GRI 102-36	Process for determining remuneration.	Annual Remuneration Report	Colonial Group
GRI 102-37	Stakeholders' involvement in remuneration.	Chapter C of IAGC 2017	Colonial Group
GRI 102-38	Annual total compensation ratio.	There are no procedures to report this information	Colonial Group
GRI 102-39	Percentage increase in annual total compensation ratio.	There are no procedures to report this information	Colonial Group
Stakeholder engagement			
GRI 102-40	List of stakeholder groups.	92	Colonial Group
GRI 102-41	Collective bargaining agreements.	98	Colonial Group
GRI 102-42	Identifying and selecting stakeholders.	88, 92	Colonial Group
GRI 102-43	Approach to stakeholder engagement.	33, 87-88, 92	Colonial Group

General content	Description	Page(s)	Scope
GRI 102-44	Key topics and concerns raised.	Chapters: 3. Business performance, 4. Responsible Business 5. Team of professionals, 6. Eco-efficiency, 7. Relations with the community	Colonial Group
Reporting practice			
GRI 102-45	Entities included in the consolidated financial statements.	28; Annual Accounts	Colonial Group
GRI 102-46	Defining report content and topic Boundaries.	196-199	Colonial Group
GRI 102-47	List of material topics.	196-199	Colonial Group
GRI 102-48	Restatements of information.	Indicated in each case by direct notes	Colonial Group
GRI 102-49	Changes in reporting.	87-88	Colonial Group
Report's profile			
GRI 102-50	Reporting period.	Natural Year 2017	Colonial Group
GRI 102-51	Date of most recent report.	Natural Year 2016	Colonial Group
GRI 102-52	Reporting cycle.	Annual	Colonial Group
GRI 102-53	Contact point for questions regarding the report.	200	Colonial Group
GRI 102-54	Claims of reporting in accordance with the GRI Standards.	196	Colonial Group
GRI 102-55	GRI content index.	Chapter 12. GRI Contents index	Colonial Group
GRI 102-56	External assurance.	The Report has not been externally assured	Colonial Group

General content	Description	Page(s)	Scope
Management approach			
GRI 103-1	Explanation of the material topic and its Boundaries.	86-88	Colonial Group
G4-103-2	The management approach and its components.	86-88	Colonial Group
G4-103-3	Evaluation of the management approach.	86-88	Colonial Group

Thematic standards

Material aspects identified by the materiality matrix	Indicador	Description	Page(s)	Scope
Category - economic				
Economic performance				
Creation of value for the shareholder	GRI 201-1	Direct economic value generated and distributed.	36-39/ 57-83	Colonial Group
	GRI 201-2	Financial implications and other risks and opportunities due to climate change.	There is no information available	Colonial Group
	GRI 201-3	Defined benefit plan obligations and other retirement plans.	Chapter C of IAGC 2017	Colonial Group
	GRI 201-4	Financial assistance received from government.	There has not been any significant subsidies of this nature	Colonial Group
Market presence				
	GRI 202-1	Ratios of standard entry level wage by gender compared to local minimum wage.	Not material	
	GRI 202-2	Significant indirect economic impacts.	Not material	
Indirect economic impacts				
Efficiency of the company's service and Commitment to the Local Community	GRI 203-1	Infrastructure investments and services supported.	11-12, 36 - 38, 62-70, 117-118	Colonial Group
	GRI 203-2	Significant indirect economic impacts.	132-135	Colonial Group
Procurement practices				
Procurement and relationships with suppliers	GRI 204-1	Proportion of spending on local suppliers.	109	Colonial Group

Material aspects identified by the materiality matrix	Indicador	Description	Page(s)	Scope
Anti-corruption				
Governance, Transparency, and Ethics in business	G4-205-1	Operations assessed for risks related to corruption.	22-25	Colonial Group
	G4-205-2	Communication and training about anti-corruption policies and procedures.	22-25	Colonial Group
	G4-205-3	Confirmed incidents of corruption and actions taken.	No cases of corruption have been identified	Colonial Group
Anti-competitive behaviour				
	G4-206-1	Legal actions for anti-competitive behaviour, anti-trust, and monopoly practices.	Not material	
Category - environmental				
Materials				
Responsible consumption (energy, raw materials, water and waste)	GRI 301-1	Materials used by weight or volume.	120	Colonial Group
	GRI 301-2	Recycled input materials used.	120-123	Colonial Group
	G4-301-3	Reclaimed products and their packaging materials.	Not material	
Energy				
Responsible consumption (energy, raw materials, water and waste), Certification and labeling	GRI 302-1	Energy consumption within the organization.	113-116	Group's own offices
	EPRA - Elec-Abs	Total energy consumption.	113-116	Group's own offices and leased offices in which the Group manages the control of consumption
	EPRA - Elec-LfL	Like-for-Like of energy consumption.	113-116	Properties considered Like-for-Like Sustainable
	EPRA - DH&C-Abs	Total consumption of heating and cooling.	113-116	Own offices and leased offices in which the Group manages the control of consumption

Material aspects identified by the materiality matrix	Indicador	Description	Page(s)	Scope
Responsible consumption (energy, raw materials, water and waste), Certification and labeling	EPRA - DH&C-LfL	Like-for-Like total consumption of heating and cooling.	113-116	Properties considered Like-for-Like Sustainable
	EPRA - Fuels-Abs	Total consumption of fuel.	113-116	Own offices and leased offices in which the Group manages the control of consumption
	EPRA - Fuels-LfL	Like-for-Like total consumption of fuel.	113-116	Properties considered Like-for-Like Sustainable
	GRI 302-2	Energy consumption outside of the organization.	116, 219	Leased offices in which the Group manages the control of consumption
	GRI 302-3	Energy intensity.	113-116	Own offices and leased offices in which the Group manages the control of consumption and properties considered Like-for-Like Sustainable
	GRI 302-4	Reduction of energy consumption.	115-118	Colonial Group
	GRI 302-5	Reductions in energy requirements of products and services.	113-118	Colonial Group
	CRE1 / EPRA - Energy-Int	Energy intensity of buildings.	115-116	Own offices and leased offices in which the Group manages the control of consumption

Material aspects identified by the materiality matrix	Indicador	Description	Page(s)	Scope
Water				
Responsible consumption (energy, raw materials, water and waste)	303-1 / EPRA - Water-Abs	Total volume of water extracted, by the source.	121	Own offices and leased offices in which the Group manages the control of consumption
	EPRA - Water-LfL	Like-for-Like water consumption.	121	Properties considered Like-for-Like Sustainable
	CRE2 / EPRA - Water-Int	Water intensity in the buildings.	121	Own offices and leased offices in which the Group manages the control of consumption
	GRI 303-2	Water sources significantly affected by withdrawal of water.	Not material	
	GRI 303-3	Water recycled and reused.	Not reported	
Biodiversity				
	GRI 304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Not material	
	GRI 304-2	Significant impacts of activities, products, and services on biodiversity.	Not material	
	GRI 304-3	Habitats protected or restored.	Not material	
	GRI 304-4	IUCN Red List species and national conservation list species with habitats in areas affected by operations.	Not material	
Emissions				
Management and efficiency of emissions, and Responsible consumption (energy, raw materials, water and waste)	GRI 305-1/ EPRA - GHG – Dir - Abs	Direct (Scope 1) GHG emissions.	114-116, 218, 219	Own offices in which control of consumption management is available

Material aspects identified by the materiality matrix	Indicador	Description	Page(s)	Scope
Management and efficiency of emissions, and Responsible consumption (energy, raw materials, water and waste)	GRI 305-2/ EPRA - GHG-Indir - Abs	Energy indirect (Scope 2) GHG emissions.	114-116, 218, 221	Own offices and leased offices in which control of consumption management is available
	CRE3 / EPRA - GHG - Int	GHG emissions intensity.	114-116, 218, 221	Real estate Convened Sustainable Like-for-Like
	GRI 305-3	Other indirect (Scope 3) GHG emissions.	114-116, 218	Real estate Convened Sustainable Like-for-Like
	GRI 305-4	GHG emissions intensity.	114-116, 218, 219, 221	Own offices and leased offices in which control of consumption management is available
	GRI 305-5	Reduction of GHG emissions.	114-116, 218, 219, 221	Colonial Group
	GRI 305-6	Emissions of ozone-depleting substances (ODS).	Not material	
	GRI 305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions.	Not material	
Effluents and waste				
Responsible consumption (energy, raw materials, water and waste)	G4-306-1	Water discharge by quality and destination.	Not material	
	G4-306-2/ EPRA Waste-Abs	Waste by type and disposal method.	Colonial does not have this information in 2017. The Group is working to improve the reporting process	Own offices where control of consumption management is available

Material aspects identified by the materiality matrix	Indicador	Description	Page(s)	Scope
Responsible consumption (energy, raw materials, water and waste)	EPRA Waste-LfL	Like-for-Like of the different types of waste.	Colonial does not have this information in 2017. The Group is working to improve the reporting process	Properties considered in Sustainable Like-for-Like
	G4-306-3	Significant spills.	Not material	
	G4-306-4	Transport of hazardous waste.	Not material	
	G4-306-5	Water bodies affected by water discharges and/or run off.	Not material	
Environmental compliance				
Efficiency of the company's service, Management and efficiency of emissions and Ethics in business.	G4-307-1	Non-compliance with environmental laws and regulations.	No penalty fees has been received	Colonial Group
Supplier environmental assessment				
Purchases and relationships with suppliers	G4-308-1	New suppliers that were screened using environmental criteria.	There is no information	Colonial Group
	G4-308-2	Negative environmental impacts in the supply chain and actions taken.	109, 118	Colonial Group
Social topics				
Employment				
Attraction of talent and training, Quality of life, Diversity and equal opportunities	G4-401-1/ EPRA-Emp-Turnover	New employee hires and employee turnover.	97, 99, 227	Colonial Group
	G4-401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees.	107-108	Colonial Group
	G4-401-3	Parental leave.	102	Colonial Group

Material aspects identified by the materiality matrix	Indicador	Description	Page(s)	Scope
Labour/management relations				
Diversity and equal opportunities	G4-402-1	Minimum notice periods regarding operational changes.	102,107	Colonial Group
Occupational health and safety				
Health and Safety	G4-403-1	Workers representation in formal joint management- worker health and safety committees.	102-103	Colonial Group
	G4-403-2/ EPRA-H&S-Emp	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities.	102-103	Colonial Group
	G4-403-3	Workers with high incidence or high risk of diseases related to their occupation.	There is no significant risk of illness	Colonial Group
	G4-403-4	Health and safety topics covered in formal agreements with trade unions.	102-103	Colonial Group
Training and education				
Attraction of talent and training	G4-404-1/ EPRA-Emp-Training	Average hours of training per year per employee.	99-101	Colonial Group
	G4-404-2	Programs for upgrading employee skills and transition assistance programs.	99-102	Colonial Group
	G4-404-3/ EPRA-Emp-Dev	Percentage of employees receiving regular performance and career development reviews.	Colonial do not perform performance appraisals	Colonial Group
Diversity and equal opportunities				
Attraction of talent and training, Quality of life, Diversity and equal opportunities	G4-405-1/ EPRA-Diversity-Emp	Diversity of governance bodies and employees.	17-18, 97-99	Colonial Group
	G4-405-2/ EPRA-Diversity-Pay	Ratio of basic salary and remuneration of women to men.	It is not reported	

Material aspects identified by the materiality matrix	Indicador	Description	Page(s)	Scope
Non-discrimination				
	G4-406-1	Incidents of discrimination and corrective actions taken.	Not material	
Freedom of association and collective bargaining				
	G4-407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk.	Not material	
Child labour				
	G4-408-1	Identification of centres and providers with a significant risk of cases of child exploitation, and measures taken to contribute to the abolition of child exploitation.	Not material	
Forced or compulsory labour				
	G4-409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labour.	Not material	
Practices in security				
	G4-410-1	Percentage of security personnel who have received training on the policies or procedures of the organization regarding human rights relevant to operations.	Not material	
Rights of indigenous peoples				
	G4-411-1	Number of cases of violation of the rights of indigenous peoples and measures adopted.	Not material	
Human rights assessment				
	G4-412-1	Operations that have been subject to human rights reviews or impact assessments.	Not material	
	G4-412-2	Employee training on human rights policies or procedures.	Not material	
	G4-412-3	Significant investment agreements and contracts that include human rights clauses or that underwent human rights screening.	Not material	

Material aspects identified by the materiality matrix	Indicador	Description	Page(s)	Scope
Local communities				
	G4-413-1 EPRA-Comty-Eng	Operations with local community engagement, impact assessments, and development programs.	Not material	
	G4-413-2	Operations with significant actual and potential negative impacts on local communities.	Not material	
Supplier social assessment				
	G4-414-1	New suppliers that were screened using social criteria.	Not material	
	G4-414-2	Negative social impacts in the supply chain and actions taken.	Not material	
Public policy				
	G4-415-1	Political contributions.	Not material	
Customer health and safety				
Location and accessibility, Quality of life	G4-416-1 EPRA-H&S-Asset	Assessment of the health and safety impacts of product and service categories.	Not material	
	G4-416-2 EPRA-H&S-Comp	Incidents of non-compliance concerning the health and safety impacts of products and services.	Not material	
Marketing and labelling				
Communication and customer satisfaction, Certification and labelling, Quality of life and safety and management of environmental risks	G4-417-1	Requirements for product and service information and labelling.	Not material	
	G4-417-2	Incidents of non-compliance concerning product and service information and labelling.	Not material	
	G4-417-3	Incidents of non-compliance concerning Marketing communications.	Not material	
	CRE8 / EPRA-Cert-Tot	Type and number of schemes for certification of sustainability, classification and labelling of new construction, management and occupation.	40, 122-124	

Material aspects identified by the materiality matrix	Indicador	Description	Page(s)	Scope
Customer privacy				
	G4-418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data.	Not material	
Socioeconomic compliance				
	G4-419-1	Non-compliance with laws and regulations in the social and economic area.	Not material	

Emissions chart according to Like-for-Like criteria

CO_2 Tonnes	2016	Adjusted Intensity 2016	2017	Adjusted Intensity 2017
Scope 1	527.38	0.04	571.68	0.04
Scope 2	3,899.87	0.03	4,155.21	0.03
Scope 3- Buildings with consumption controlled by Colonial	12,411.00	0.05	12,805.00	0.05
Scope 3- Buildings with consumption under tenants' responsibility	9,555.12	0.08	10,357.79	0.05
Scope 3- Business travel[1]	103.09	N/A	95.03	N/A

(1) Only includes data from Spain.

EPRA Tables Portfolio Environment

Indicator	EPRA code	Unit of measure	2016	Coverage	2017	Coverage	Change
Total electricity consumption	Elec-Abs	kWh	62,358,775	31 of 31	61,932,875	33 of 33	–1%
		% from renewable sources	0%		0%		0%
Like-for-Like electricity consumption	Elec-LFL	kWh	62,358,775	31 of 31	61,932,875	33 of 33	–1%
Total energy consumption from district heating and cooling	DH&C-Abs	kWh	20,415,040	5 of 5	21,124,330	9 of 9	3%
		% from renewable sources	0%		0%		0%
Like-for-Like consumption from district heating and cooling	DH&C-LFL	kWh	20,415,040	5 of 5	21,124,330	9 of 9	3%
Total energy consumption from fuel	Fuels-Abs	kWh	3,418,959	17 of 17	4,461,231	8 of 8	30%
		% from renewable sources	0%		0%		0%
Like-for-Like consumption from fuel	Fuels-LFL	kWh	3,418,959	17 of 17	4,461,231	8 of 8	30%
Building energy intensity	Energy-Int	kWh/m^2	0.24	31 of 31	0.24	33 of 33	0%
Direct GHG emissions (total) Scope 1	GHG-Dir-Abs	tCO_2	717	17 of 17	920	8 of 8	28%
Indirect GHG emissions (total) Scope 2	GHG-Indir-Abs	tCO_2 (market based)	0	31 of 31	0	33 of 33	0%
		tCO_2 (location based)	15,930		16,418		3%
Building GHG emissions intensity	GHG-Int	tCO2/m^2	0.03	31 of 31	0.03	33 of 33	0%
Total water consumption	Water-Abs	Total m^3	253,787	32 of 32	254,464	33 of 33	0%
Like-for-Like water consumption	Water-LFL	m^3	253,787	32 of 32	254,464	33 of 33	0%

EPRA Tables Portfolio Environment

Indicator	EPRA code	Unit of measure	2016	Coverage	2017	Coverage	Change
Building water consumption intensity[1]	Water-Int	m^3/m^2	0.71	32 of 32	0.69	33 of 33	–3%
Weight of waste by disposal route (total)	Waste-Abs	tonnes	778	8 of 14	951	15 of 15	22%
		% recycled	35%		29.00%		–17%
		% composted	0%		0		0%
		% sent to incineration	16%		16%		0%
		% other - energy recovery	0.00%		13.00%		
		% other - landfill	49%		42%		–14%
Weight of waste by disposal route (Like-for-Like)	Waste-LFL	tonnes	778	8 of 14	821	15 of 15	6%
		% recycled	49%		28.00%		–43%
		%composted	0.00%		0.00%		0%
		% sent to incineration	16.00%		9%		–44%
		% other - energy recovery	0.00%		15.00%		
		% other - landfill	49.00%		48.00%		–2%
Type and number of assets certified	Cert-Tot	% of portfolio certified OR number of certified assets	90%		93%		3%

(1) The intensity calculation for Colonial Group's building water consumption is calculated using squared metres.

EPRA Tables Own Office Environment

Indicator	EPRA code	Unit of measure	2016	Coverage	2017	Coverage	Change
Total electricity consumption	Elec-Abs	kWh	610,316	3 of 3	590,573	3 of 3	–3%
		% from renewable sources	0%		0%		0%
Like-for-Like electricity consumption	Elec-LFL	kWh	610,316	3 of 3	590,573	3 of 3	–3%
Total energy consumption from district heating and cooling	DH&C-Abs	kWh	N/A	N/A	N/A	N/A	N/A
		% from renewable sources	N/A		N/A		N/A
Like-for-Like consumption from district heating and cooling	DH&C-LFL	kWh	N/A	N/A	N/A	N/A	N/A
Total energy consumption from fuel	Fuels-Abs	kWh	64,817	2 of 2	124,579	100%	92%
		% from renewable sources	0		0		0%
Like-for-Like consumption from fuel	Fuels-LFL	kWh	64,817	2 of 2	124,579	2 of 2	92%
Building energy intensity	Energy-Int	kWh/m_2	0.148	3 of 3	0.156	3 of 3	5%
Direct GHG emissions (total) Scope 1	GHG-Dir-Abs	tCO_2	17.01	2 of 2	32.44	2 of 2	91%
Indirect GHG emissions (total) Scope 2	GHG-Indir-Abs	tCO_2 (location based)	172.22	3 of 3	161.79	3 of 3	–6,06%
		tCO_2 (market based)	0		0		0%
Building GHG emissions intensity	GHG-Int	tCO_2/m^2	0.041	3 of 3	0.042	3 of 3	2%
Total water consumption	Water-Abs	m^3	1,851	3 of 3	1,900	3 of 3	3%
Like-for-Like water consumption	Water-LFL	m^3	1,851	3 of 3	1,900	3 of 3	3%

EPRA Tables Own Office Environment

Indicator	EPRA code	Unit of measure	2016	Coverage	2017	Coverage	Change
Building water consumption intensity[1]	Water-Int	m^3/m^2	0.40	3 of 3	0.42	3 of 3	5%
Weight of waste by disposal route (total)	Waste-Abs	tonnes	8,629	3 of 3	2.31	1 of 3	–100%
		% recycled	0%		100%		0%
		% sent to incineration	0%		0%		0%
		% other	0%		0%		0%
Weight of waste by disposal route (Like-for-Like)	Waste-LFL	tonnes	8,629	3 of 3	2	1 of 3	–100%
		% recycled	0%		100%		0%
		% sent to incineration	0%		0%		0%
		% other	0%		0%		0%
Type and number of assets certified	Cert-Tot	% of portfolio certified OR number of certified assets	100%	3 of 3	100%	3 of 3	0%

(1) The intensity calculation for Colonial Group's building water consumption is calculated using squared metres.

EPRA Tables Social & Governance

Indicator	EPRA code	Scope	Units of measure	2016	2017
Gender diversity	Diversity-Emp	Corporate operations	% of employees	42% men	40% men
				58% women	60% women
Gender pay	Diversity-Pay	Corporate operations	Ratio	N/A	N/A
				N/A	N/A
				N/A	N/A
Training and devlopment	Emp-Training	Corporate operations	Average hours	35.9	36
Performance appraisals	Emp-Dev	Corporate operations	% of total workforce	N/A	N/A
New hires	Emp-Turnover	Corporate operations	Total number	17	27
		Corporate operations	Rate	6.7%	7.3%
Turnover		Corporate operations	Total number	10	12
		Corporate operations	Rate	9.0%	5.4%
Injury rate	H&S-Emp	Corporate operations	per x hours worked		
Lost day rate		Corporate operations	per x hours worked		
Absentee rate		Corporate operations	Days per employee	11.25	4.95
Fatalities		Corporate operations	Total number	0	0
H&S Impact Assessments	H&S-Asset	Office portfolio	% of assets	0	0
		Residential portfolio			

EPRA Tables Social & Governance

Indicator	EPRA code	Scope	Units of measure	2016	2017
Number of incidents	H&S-Comp	Office portfolio	Total number	3	3
		Residential portfolio		0	0
Community Programmes	Comty-Eng	Office portfolio	% of assets	0	0
		Residential portfolio			
Board composition	Gov-Board	Corporate operations	Total number of Exectuive members	2	2
			Total number of Independent members	4	4
			Average tenure	5.26	5.7
			Total number with competencies relating to environmental and social topics	0	0
Independent / Non-executive board members with competencies relating to environmental and social topics	Gov-Select	Corporate operations	Description	0	0
Conflicts of interest	Gov-Col	Corporate operations	Description	0	0

Additional information in electronic format

Appendix 1.1. Consolidated balance sheet

€m **Assets**	**2017**	**2016**
Property investments	8,792	7,763
Other non-current assets	487	198
Non-current assets	**9,280**	**7,960**
Debtors and other receivables	103	125
Other current assets	1,125	142
Assets available for sale	0	0
Current assets	**1,228**	**267**
Total assets	10,508	8,228

€m **Liabilities**	**2017**	**2016**
Share capital	*1,088*	*892*
Reserves and others	*1,821*	*1,136*
Profit (loss) for the period	*683*	*274*
Equity	3,592	2,302
Minority interests	2,088	1,706
Net equity	**5,680**	**4,008**
Bond issues and other non-current issues	3,308	2,510
Non-current financial debt	857	712
Deferred tax	350	347
Other non-current liabilities	77	143
Non-current liabilities	**4,592**	**3,712**
Bond issues and other current issues	14	314
Current financial debt	39	89
Creditors and other payables	128	61
Other current liabilities	55	43
Current liabilities	**236**	**507**
Total equity & liabilities	10,508	8,228

Market Value Reconciliation	€m
Tangible fixed assets - own use[1]	34
Real estate investment (w/o advances on fixed assets)[2]	8,792
Non-current assets held for sale - Investment properties[3]	–
Value accounted on balance	8,826
Unrealised capital gains - own use	27
Not appraised & other	(0)
Tangible fixed assets	1
Rent free periods	79
Adjustments	**107**
Appraisal value according to external appraisers	8,933

(1) Included in the line of "Other non-current assets".
(2) Included in the line of "Property Investments".
(3) Included in the line of "Assets available for sale".

Appendix 1.2. Financial results

The main figures of the financial results of the Group are found in the following table:

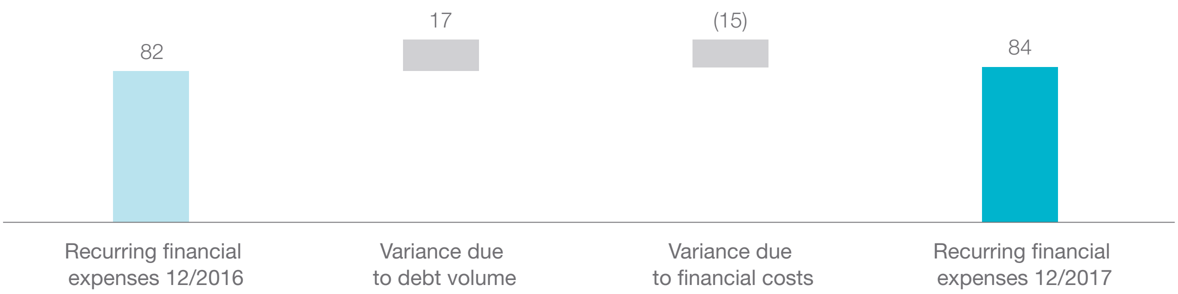
Financial results

December cumulative - €m	COL	SFL	2017	2016	Var. %(1)
Recurring financial expenses - Spain	(41)	0	(41)	(35)	(16%)
Recurring financial expenses - France	0	(43)	(43)	(47)	9%
Recurring Financial Expenses	**(41)**	**(43)**	**(84)**	**(82)**	**(2%)**
Recurring Financial Income	4	0	4	1	593%
Capitalized interest expenses	1	2	3	1	(418%)
Recurring Financial Result	(35)	(41)	(77)	(80)	4%
Non-recurring financial expenses	(3)	0	(3)	(22)	88%
Change in fair value of financial instruments	(0)	0	(0)	(3)	89%
Financial Result	(38)	(41)	(79)	(105)	25%

(1) Sign according to profit impact.

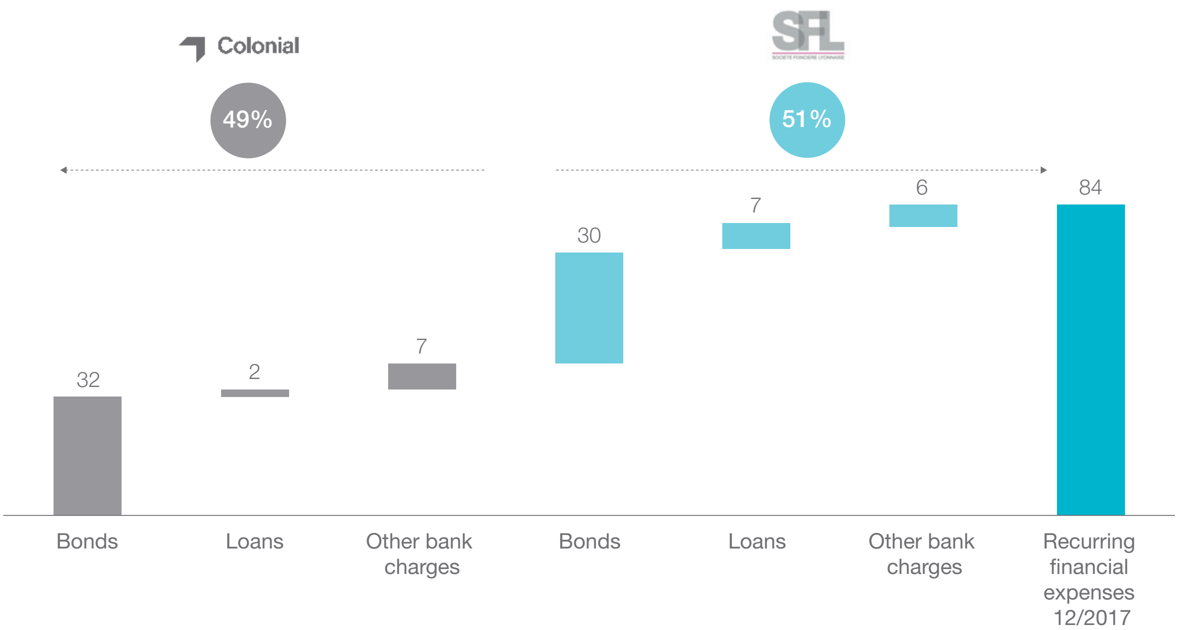
The recurring financial results of the Group improved 2% compared to the same period of the previous year due to an increase in financial expenses in Colonial (mainly due to the increase of gross debt, above all, as a result of the issuances carried out). In SFL, the recurring financial expenses decreased slightly compared to the same period of the previous year, due to a decrease in both the undrawn debt and its cost.

The average credit spread in 2017 amounted to 156 bps (versus 162 bps in the same period in 2016). This improvement is mainly due to the buyback transaction of 50% of Colonial's bonds maturing in June 2019 through the issue of new bonds at a lower coupon rate (liability management) carried out in the fourth quarter of 2016. It is also due to the maturity of two SFL bonds in May 2016 and November 2017 (for an amount of €156m and €301m, with a spread of 180 bps and 275 bps respectively) and the formalization of new debt at a spread lower than the one in effect in 2016.



The breakdown of the recurring financial expenses during 2017 is as follows:

Breakdown recurring financial expenses - December 2017



At 31 December 2017, 90% of the Group's debt was at a fixed or hedged rate. In 2017, SFL formalized two hedging instruments for a nominal amount of €200m (€100m each), maturing in 2022.

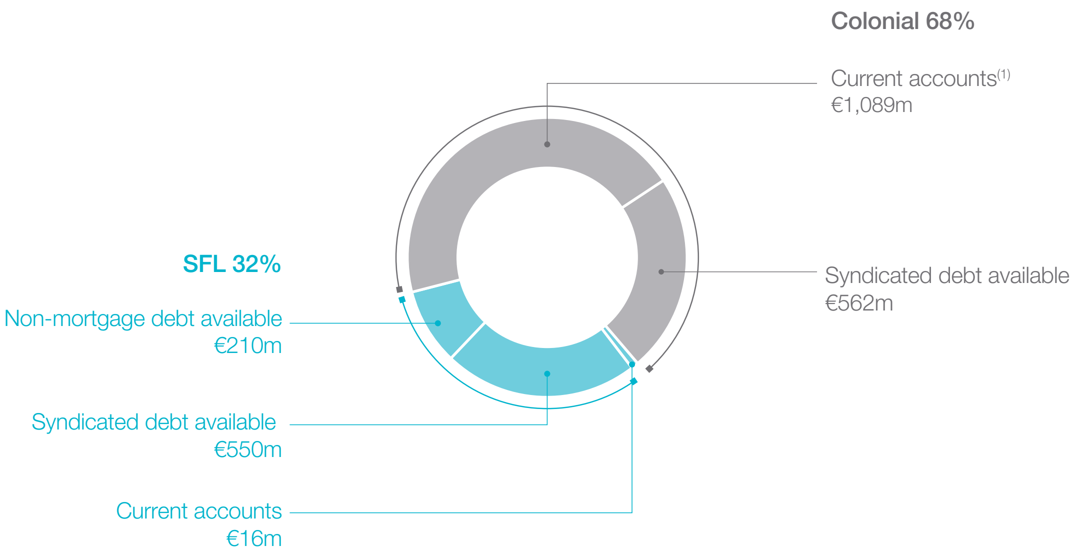
Appendix 1.3. Debt

Main leverage ratios and liquidity

The LTV (Loan to Value) of the Group, calculated as the ratio of total net debt divided by the total GAV of the Group, stood at 31% (41% at 31 December 2016). The LTV of the parent company, calculated as the net debt of the parent company and its 100% subsidiaries divided by the GAV of the parent company and the NAV of its 100% subsidiaries, plus the NAV of the rest of its subsidiaries and affiliated companies was 25% (35% at 31 December 2016).

Cash & undrawn balances of the Colonial Group at 31 December 2017 amounted to €2,427m, distributed as shown in the graph below:

Cash & undrawn balances



(1) Including €1,033m, as guarantee for the takeover bid for Axiare Patrimonio, SOCIMI, S.A.

Main leverage ratios

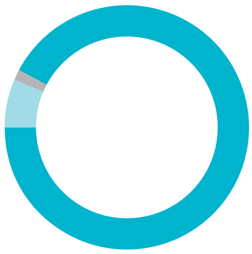
31/12/2017 - €m	Holding	Group
Gross Asset Value [2]	5,562	9,779
Net debt	1,403	3,066
LTV	25%	31%

(2) **Holding:** GAV at 31/12/2017 holding including transfer cost and subsidiaries 100% + NAV SFL, TMN, Inmocol, 28.8% Axiare + treasury shares. **Group:** GAV Group at 31/12/2017 including transfer costs + 28.8% Axiare + treasury shares.

The main characteristics of the Group's debt are shown below:

Type of drawn debt 31/12/2017

Colonial



- Bonds 92%
- Non-mortgage debt 7%
- Mortgage debt 1%

SFL

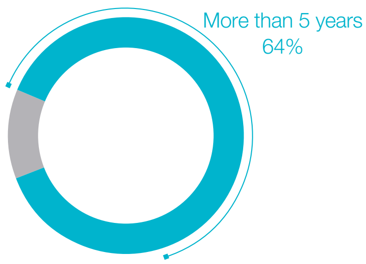
- Bonds 61%
- Non-mortgage debt 27%
- Mortgage debt 12%

Group

- Bonds 80%
- Non-mortgage debt 14%
- Mortgage debt 6%

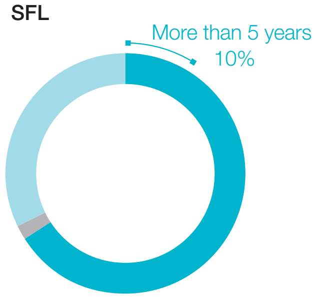
Maturity of contracted debt 31/12/2017

Colonial



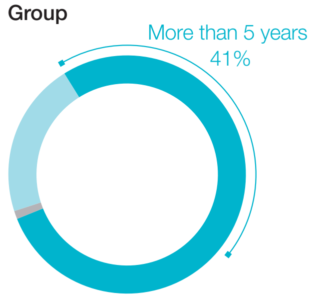
- More than 3 years 88%
- Less than 3 years 12%

SFL



- More than 3 years 66%
- From 1 to 3 years 32%
- Less than 1 year 2%

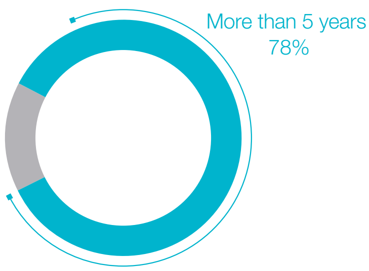
Group



- More than 3 years 78%
- From 1 to 3 years 21%
- Less than 1 year 1%

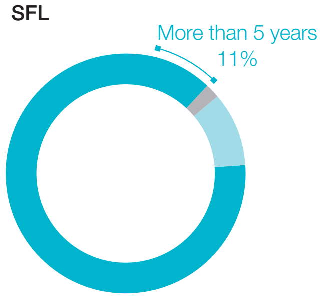
Maturity of drawn debt 31/12/2017

Colonial



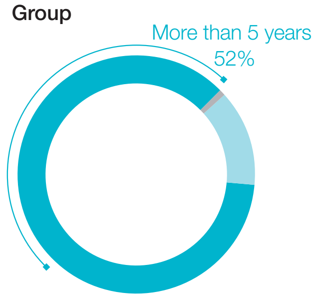
- More than 3 years 85%
- Less than 3 years 15%

SFL



- More than 3 years 88%
- From 1 to 3 years 10%
- Less than 1 year 2%

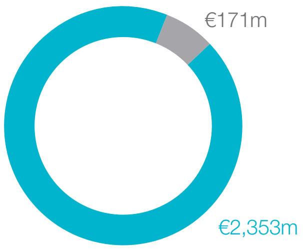
Group



- More than 3 years 86%
- From 1 to 3 years 13%
- Less than 1 year 1%

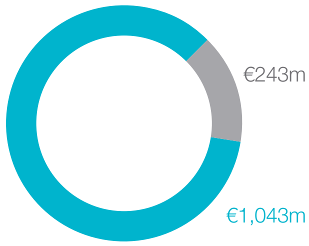
Fixed rate and hedged rate

Colonial



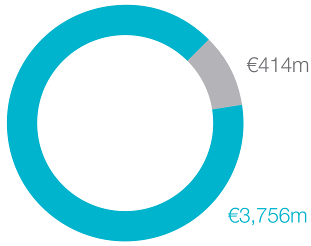
- Fixed rate and hedged debt 93%
- Variable debt 7%

SFL



- Fixed rate and hedged debt 85%
- Variable debt 15%

Group



- Fixed rate and hedged debt 90%
- Variable debt 10%

Colonial	
Spread	151 p.b.
Cost of debt(1)	198 p.b.
Average maturity of drawn down debt (years)	6.4
Average maturity of the contracted debt years	6.0
Contracted debt	3,085 €m

SFL	
Spread	130 p.b.
Cost of debt(1)	168 p.b.
Average maturity of drawn down debt (years)	4.1
Average maturity of the contracted debt years	3.7
Contracted debt	2,407 €m

Total	
Spread	142 p.b.
Cost of debt(1)	186 p.b.
Average maturity of drawn down debt (years)	5.5
Average maturity of the contracted debt years	5.0
Contracted debt	5,492 €m

(1) Cost of debt: Euribor + Spread at 31/12/2017. Commissions and coverage are not included.

The composition of the Group's debt is as follows (data in € millions):

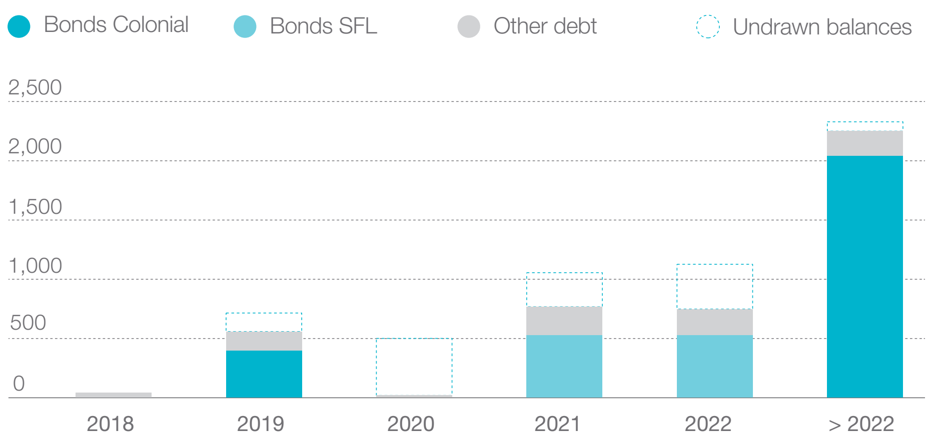
Composition of the drawn gross debt of the Group at December 31, 2017 - €m

	Syndicated debt	Mortgages/ leasings	Unsecured debt	Bonds SFL	Bonds Holding
Cost of debt	1.60%	1.56%	0.86%	2.06%	2.02%
Maturity (years)	3.9	4.9	3.2	4.4	6.6

Average cost of debt: 1.86% & 5.5 years

The breakdown of the drawn debt in terms of maturity is as follows:

Maturity profile of drawn debt

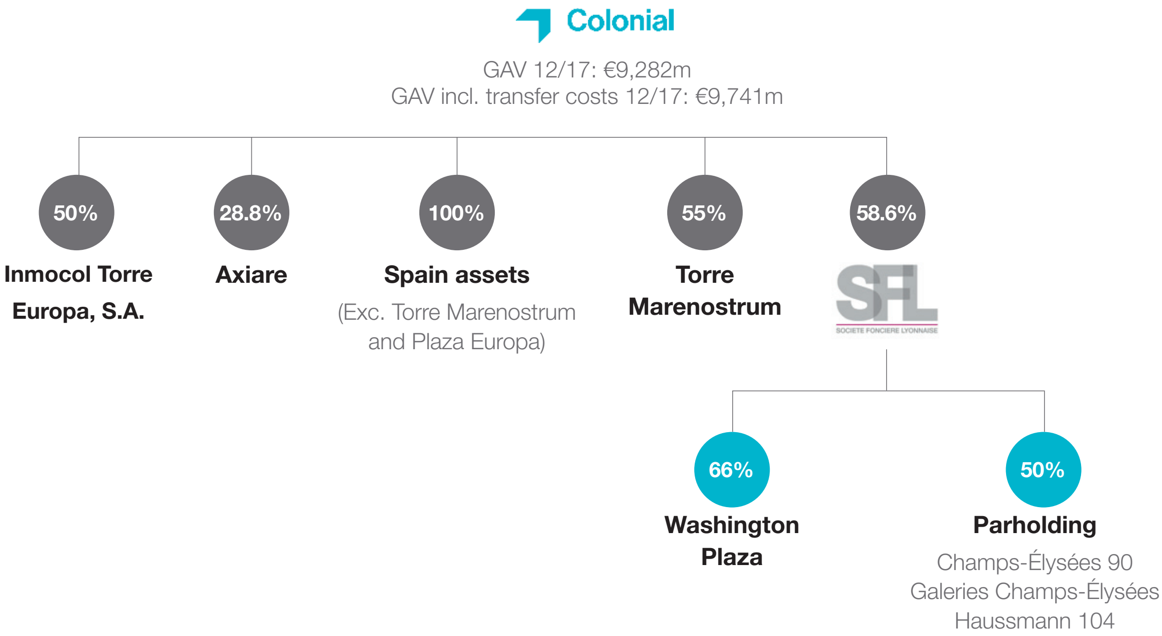


	2018	2019	2020	2021	2022	> 2022	Total
Colonial	2	377	2	152	16	1,974	2,523
SFL	36	152	12	577	695	175	1,647
Total	38	529	14	729	711	2,149	4,170

At 31 December 2017, the average life of the undrawn debt of the Colonial Group was 5.5 years (compared to 5 years in December 2016) and the average cost was 1.86% (compared to 1.96% in December 2016).

Appendix 1.4. Group Structure

Colonial Group



Appendix 1.5. Historical series

Historical series breakdown

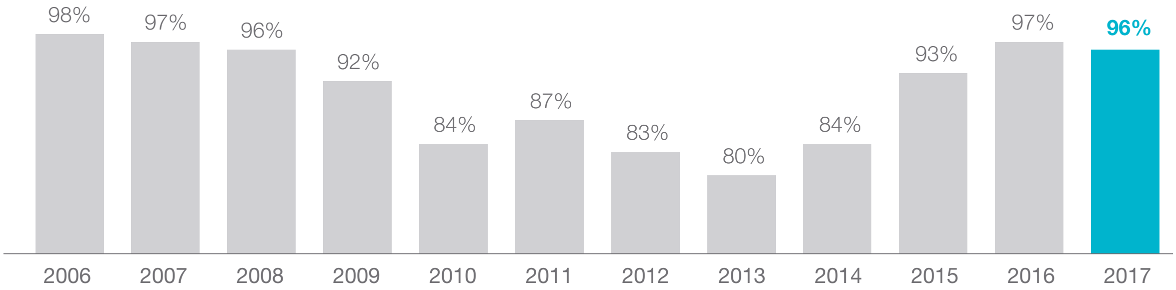
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Barcelona														
Physical offices occupancy (%)	97%	100%	99%	94%	95%	91%	78%	78%	79%	80%	77%	89%	97%	99%
Rental revenues (€m)	55	53	56	60	51	49	39	32	31	28	28	27	30	35
Net Rental Income (€m)	53	51	55	58	49	47	37	28	27	25	23	23	28	34
NRI / Rental revenues (%)	95%	96%	97%	97%	96%	97%	93%	88%	89%	89%	85%	85%	92%	96%
Madrid														
Physical offices occupancy (%)	93%	98%	99%	99%	94%	89%	88%	90%	75%	80%	89%	95%	97%	94%
Rental revenues (€m)	37	44	68	70	56	50	47	45	44	35	32	35	43	52
Net Rental Income (€m)	34	42	66	66	52	46	42	41	40	30	28	31	38	46
NRI / Rental revenues (%)	93%	94%	96%	95%	92%	92%	90%	90%	90%	86%	85%	88%	88%	88%
Paris														
Physical offices occupancy (%)	97%	96%	98%	99%	98%	94%	87%	92%	94%	80%	85%	95%	97%	96%
Rental revenues (€m)	157	153	162	170	182	183	175	152	150	149	152	169	198	196
Net Rental Income (€m)	147	145	153	162	171	173	162	141	138	137	139	155	188	185
NRI / Rental revenues (%)	94%	95%	95%	95%	94%	94%	93%	93%	92%	92%	92%	92%	95%	94%

Evolution of physical office occupancy

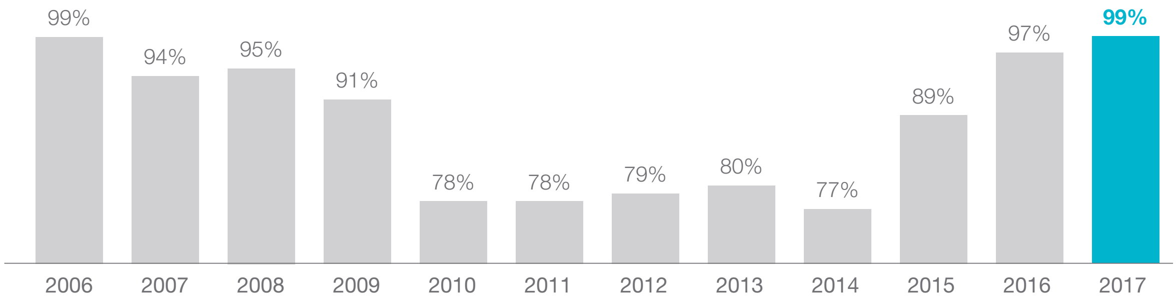
Office Occupancy(1) – Evolution of Colonial's Portfolio

Physical Occupancy - Surface

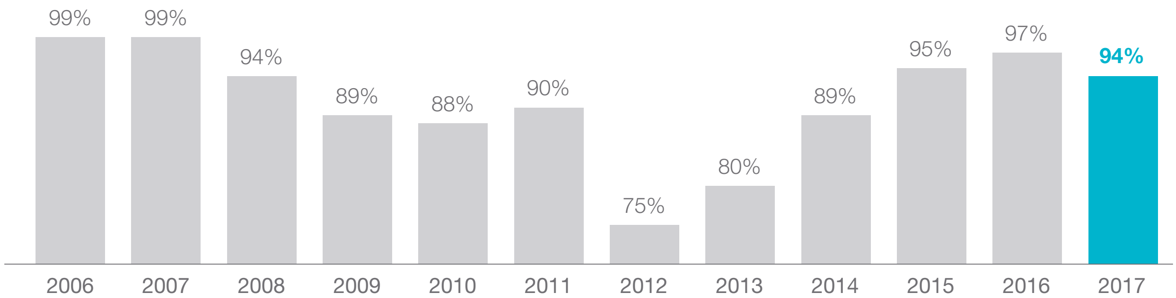
Total



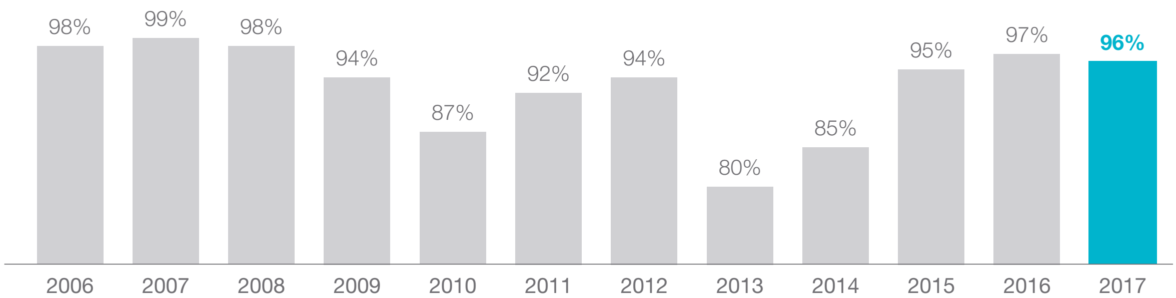
Barcelona



Madrid



Paris



(1) Occupied surfaces/Surfaces in operation.

2. Consolidated Financial Statements 2017

Consolidated Financial Statements
for the year ended 31 December 2017, prepared in accordance
with International Financial Reporting Standards
and Consolidated Management Report

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

pwc

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

Independent auditor's report on the consolidated annual accounts

To the shareholders of Inmobiliaria Colonial, SOCIMI, S.A.:

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Inmobiliaria Colonial, SOCIMI, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2017, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at 31 December 2017, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated annual accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

pwc

Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

Key audit matter	How our audit addressed the key audit matter
Valuation of Investment Property	
Colonial Group has real estate assets which are recognised in Investment property amounting to Euro 8,792,369 thousand under the fair value model, that represent 84% of total assets. Also, the variation in value in investment property in 2017 amounts to Euro 937,108 thousand, representing 87% of the consolidated net profit for the year. Notes 4.c), 8 and 17.f) to the accompanying consolidated annual accounts contains information on the assets included in this heading. In order to obtain the fair value of these assets, the Group commissions valuations that are carried out by independent third party experts. Fair value is determined using the discounted cash flow methodology, generally applied over a 10 year timeframe, in accordance with standard market practice. Such valuations are based on a series of significant judgements and estimates. We have therefore focused on this area due to the materiality of this heading with respect to the Company's total assets and the significant judgment required on the part of Management. Changes in these assumptions could lead to a significant variation in the fair value of such assets and their impact on the consolidated comprehensive income statement and consolidated statement of financial position.	We obtained the year-end valuations of these assets by independent experts and we assessed that these independent experts meet the requirements of competence and independence, finding no exceptions. We determined that the valuations were performed in accordance with the Valuation Rules of the Royal Institution of Chartered Surveyors (RICS), included in the so-called "Red Book" - valuation manual. In this respect, we held meetings with the valuers together with our internal experts and verified for a representative sample of these valuations, the calculations used, final profitability, term of the rental contracts, the type and age of the properties, their location and occupancy rate and the discount rate used. Also, for a sample of assets, we verified the technical specifications used by the independent experts when determining the fair value of those assets using the purchase deeds. Lastly, we assessed the relevant disclosures in Notes 4.c), 8 and 17.f) to the accompanying consolidated annual accounts. We consider that we have obtained sufficient audit evidence in the course of our work to corroborate the reasonableness of the valuation of investment property.
Recognition of rental revenue. Lease incentives	
Consolidated lease income amounts to Euro 283,287 thousand for the year ended 31 December 2017 and is recognised on a straight-line basis over the lease term. There are rental contracts with specific conditions such as lease incentives, registration costs and early cancellation costs. These terms and conditions are subject to special treatment under accounting regulations, as described in Notes 4.n) and 10 to the accompanying consolidated annual accounts. Specifically, rent-free periods have resulted in the recognition of accounts receivable amounting to Euro 78,746 thousand at 31 December 2017.	We reviewed the new lease contracts signed, possible amendments and the follow-up of existing leases in order to identify lease incentives and any other kind of incentives requiring a specific accounting treatment. For a representative sample of contracts with specific characteristics, we analysed the accounting impacts and assessed the recoverability of those assets. We assessed the Group's procedures and controls with respect to the validation of the receivables deriving from the accounting treatment of such incentives. We validated the supporting documentation for Management's assumptions in the valuation and accounting of lease incentives.

pwc

Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

Key audit matter	How our audit addressed the key audit matter
Revenue recognition criteria during rent-free periods have a direct impact on lease income. We therefore focused on this area due to the materiality of the rent-free period assets and the application of significant judgement by Parent company management, concerning the expected term of the lease contract and the recoverability of the receivables, among other matters.	No significant matters warranting disclosure have come to light as a result of our work.
SOCIMI Tax Scheme	
On 30 June 2017 the Parent company and certain subsidiaries asked the Tax Authorities to include them in the SOCIMI tax scheme as detailed in Notes 1, 4.m) and 16 to the accompanying consolidated annual accounts. Adopting this tax scheme entails breaking up the tax group existing at 31 December 2016, with effect as from 1 January 2017 and recovering the Tax Group's adjustments pending recovery. The SOCIMI Tax Scheme is governed by Law 11/2009, dated 26 October 2016, as amended by Law 16/2012, that contains very specific requirements for inclusion in that scheme and which are detailed in Note 4.m) to the accompanying consolidated annual accounts. We have decided to mention this matter as it is a relevant event for the year and because of its impact on the consolidated annual accounts, as a result of the change in the way of accounting for corporate income tax in the Parent company and companies included in the SOCIMI Tax Scheme.	We obtained the certificates dated 30 June 2017 through which the Parent company and certain subsidiaries reported to the Tax Administration State Agency the decision to apply the SOCIMI Tax Scheme and we have seen the documentation relating to the receipt of such communications. We verified that the companies involved meet the necessary requirements under tax legislation to qualify for the SOCIMI Tax Scheme, without finding exceptions. Additionally, we involved our internal tax experts in order to validate that the effects of the scheme are correctly accounted for along with the treatment of temporary differences and their tax impact. We also took into account the relevant disclosures in Notes 1, 4.m) and 16 to the accompanying consolidated annual accounts. The results of our procedures ended satisfactorily and we did not identify any relevant matter affecting the financial information included in the accompanying consolidated annual accounts.
Public offering of shares of Axiare Patrimonio SOCIMI, S.A.	
In November 2017 the Parent company's interest in Axiare Patrimonio SOCIMI S.A. (hereinafter Axiare) amounted to 28.79%. The Group holds this investment as a financial asset available for sale in 2017 as the conditions to view it as an investment in an associate are not met, as indicated in Note 9.b) to the accompanying consolidated annual accounts.	In relation to the interest obtained in Axiare Patrimonio SOCIMI, S.A in November 2017, we took into account the arguments prepared by Management in order to conclude that there was no significant influence over that company. We reviewed that assessment together with our internal legal experts and concluded that Parent company Management's assessment is adequate.

pwc

Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

Key audit matter	How our audit addressed the key audit matter
On 28 December 2017 the Comisión Nacional del Mercado de Valores authorised the voluntary public offer of Axiare shares, covering 100% of the company's share capital, excluding shares already held by the Parent company. On 2 February 2018 it was confirmed that the offer had been accepted by 58.07 % of the corresponding shareholders, resulting in the disbursement of Euro 842,955 thousand. As a result, the Company owns 86.86% of Axiare's share capital. As this transaction was completed after the 2017 year-end but before the date of formulation of the consolidated annual accounts, accounting regulations require information to be disclosed on the business combination and the disclosure, where appropriate, of the reasons why certain information cannot be included. These disclosures are included in Note 23 to the accompanying consolidated annual accounts. We have decided to mention this matter as this is a significant transaction that has a relevant impact on the Company's consolidated annual accounts.	We have determined that the information detailed in Notes 9.b), 9.c) and 23 to the accompanying consolidated annual accounts relates to the information that is publicly available on the public offer of shares and the financial information published by Axiare for the year ended 31 December 2017 and can conclude that the disclosures included are adequate.

Other Matters

On 24 February 2017 other auditors issued an audit opinion on the consolidated annual accounts of the group for the year ended 31 December 2016 in which they expressed an unqualified opinion.

Other information: Consolidated management report

Other information comprises only the consolidated management report for the 2017 financial year, the formulation of which is the responsibility of the Parent company´s directors and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility regarding the consolidated management report is defined in the legislation governing the audit practice, which establishes two different levels:

a) A specific level that is applicable to certain information included in the Annual Corporate Governance Report (ACGR), as defined in art. 35.2. b) of Law 22/2015, on Audit of Accounts, which consists in verifying only that the aforementioned information has been provided in the management report, and otherwise, to report on it.

pwc

Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

b) A general level applicable to the rest of the information included in the consolidated management report, which consists of evaluating and reporting on the concordance of the aforementioned information with the consolidated annual accounts, based on the Group's knowledge obtained in the performance of the audit of the aforementioned accounts and without including information other than that obtained as evidence during the same, as well as evaluating and reporting whether the content and presentation of this part of the consolidated management report are in accordance with the regulations that result from application. If, based on the work we have done, we conclude that there are material inaccuracies, we are obliged to report it.

On the basis of the work performed, as described above, we have verified that the information mentioned in section a) above is provided in the consolidated management report and that the rest of the information contained in the consolidated management report is consistent with that contained in the consolidated annual accounts for the 2017 financial year, and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors and the audit committee for the consolidated annual accounts

The Parent company´s directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent company´s directors are responsible for assessing the Group´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent company´s audit committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group´s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company´s directors.
- Conclude on the appropriateness of the Parent company´s directors´ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor´s report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor´s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent company´s audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent company´s audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent company´s audit committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor´s report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Report to the Parent company´s audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated 22 February 2018.

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Inmobiliaria Colonial, SOCIMI, S.A. and subsidiaries

Appointment period

The General Ordinary Shareholders' Meeting held on 28 June 2016 appointed us as auditors of the Group for a period of 3 years, as from the year ended 31 December 2017.

Services provided

Services different to the audit of the accounts are indicated in the Note 22 to the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
José M Solé Farre (05565)

February 22, 2018

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries (Colonial Group)

Consolidated statement of financial position at 31 december 2017

Thousands of euros

Assets	Note	31 december 2017	31 december 2016
Intangible assets		3,037	2,549
Property, plant and equipment	7	39,369	44,061
Investment property	8	8,792,396	7,762,627
Non-current financial assets	9	444,350	150,676
Non-current deferred tax assets	16	407	454
Non-current assets		**9,279,559**	**7,960,367**
Trade and other receivables	10	103,232	116,954
Current financial assets		12	441
Tax assets	16	20,115	44,689
Cash and cash equivalents	12	1,104,601	105,200
Current assets		**1,227,960**	**267,284**
Non-current assets held for sale	**21**	**–**	**–**
Total assets		10,507,519	8,227,651

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of financial position for the year ended 31 December 2017.

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries (Colonial Group)

Consolidated statement of financial position at 31 december 2017

Thousands of euros

Liabilities and equity	**Note**	**31 december 2017**	**31 december 2016**
Share capital		1,088,293	892,058
Share premium		1,126,248	731,326
Reserves of the Parent		245,118	250,634
Reserves in consolidated companies		406,366	199,417
Valuation adjustments recognised in equity - financial instruments		(559)	(571)
Valuation adjustments on available-for-sale financial assets		70,415	1,317
Other equity instruments		4,686	3,697
Treasury shares		(31,262)	(49,811)
Profit for the year		682,523	273,647
Equity attributable to shareholders of the Parent		**3,591,828**	**2,301,714**
Non-controlling interests		**2,087,870**	**1,706,205**
Equity	11	**5,679,698**	**4,007,919**
Bank borrowings and other financial liabilities	12 and 13	857,237	777,531
Bonds and similar securities issued	12	3,307,633	2,509,956
Non-current deferred tax liabilities	16	371,233	356,658
Non-current provisions	15	11,450	13,674
Other non-current liabilities	14	44,362	54,630
Non-current liabilities		**4,591,915**	**3,712,449**
Bank borrowings and other financial liabilities	12 and 13	39,350	93,549
Bonds and similar securities issued	12	13,574	313,927
Trade payables	14	143,880	69,760
Tax liabilities	16	18,819	17,328
Current provisions	15	20,283	12,719
Current liabilities		**235,906**	**507,283**
Total equity and liabilities		10,507,519	8,227,651

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of financial position for the year ended 31 December 2017.

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries (Colonial Group)

Consolidated statement of comprehensive income for the year ended 31 december 2017

Thousands of euros

Statement of comprehensive income	Note	2017	2016
Revenue	17-a	283,287	271,400
Other income	17-b	2,714	3,057
Staff costs	17-c	(28,936)	(22,293)
Other operating expenses	17-d	(40,921)	(33,481)
Depreciation and amortisation charge	7	(2,445)	(2,909)
Net change in provisions	17-e	(5,704)	(2,755)
Net gain/(loss) on sales of assets	17-g	527	(149)
Operating profit		**208,522**	**212,870**
Changes in fair value of investment property	17-f	933,435	560,777
Losses due to impairment of assets	17-f	(5,220)	(4,373)
Finance income	17-h	7,802	3,559
Finance costs	17-h	(86,846)	(107,794)
Impairment of financial assets	17-h	(401)	(648)
Profit before tax		1,057,292	664,391
Income tax expense	16	23,159	(105,087)
Consolidated net profit		1,080,451	559,304
Net profit for the year attributable to the Parent		682,523	273,647
Net profit attributable to non-controlling interests	11	397,928	285,657
Basic earnings per share (€)	5	1.83	0.81
Diluted earnings per share (€)	5	1.83	0.81

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2017.

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries (Colonial Group)

Consolidated statement of comprehensive income for the year ended 31 december 2017

Thousands of euros

Other comprehensive income	**Note**	**2017**	**2016**
Consolidated net profit		1,080,451	559,304
Other items recognised directly in other comprehensive income		**69,028**	**1,134**
Items that can be subsequently transferred to profit or loss			
Gains/(losses) on hedging instruments	11 and 13	(94)	(244)
Gains/(losses) on available-for-sale financial assets	9	69,098	1,317
Tax effect on prior years' profit or loss	11 and 13	24	61
Transfers to consolidated net profit		**91**	**3,782**
Gains/(losses) on hedging instruments	11 and 13	122	4,217
Tax effect on prior years' profit or loss	11 and 13	(31)	(435)
Consolidated comprehensive profit		1,149,570	564,220
Comprehensive profit for the year attributable to the Parent		751,633	277,031
Comprehensive profit attributable to non-controlling interests		397,937	287,189
Comprehensive basic earnings per share (euros)		2.01	0.82
Comprehensive diluted earnings per share (euros)		2.01	0.82

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2017.

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries (Colonial Group)

Consolidated statement of changes in equity for the year ended 31 december 2017

Thousands of euros

	Note	Share capital	Share premium	Reserves of the Parent	Prior years' losses at the Parent	Reserves in consolidated companies
Balance at 31 December 2015		797,214	560,606	1,163,954	(1,147,975)	64,881
Consolidated comprehensive profit		–	–	–	–	–
Transactions with shareholders:						
Share capital increase		94,844	170,720	(1,905)	–	–
Offset of prior years' losses		–	–	(938,993)	938,993	–
Treasury share portfolio		–	–	(957)	–	(861)
Distribution of 2015 profit		–	–	28,535	208,982	130,063
Share-based payment transactions		–	–	–	–	–
Changes in the scope of consolidation		–	–	–	–	5,270
Other changes		–	–	–	–	64
Balance at 31 December 2016	11	892,058	731,326	250,634	–	199,417
Consolidated comprehensive profit		–	–	–	–	–
Transactions with shareholders:						
Capital increases		196,235	394,922	(6,691)	–	–
Treasury share portfolio		–	–	10,371	–	–
Distribution of 2016 profit		–	–	(7,910)	–	218,808
Share-based payment transactions		–	–	(1,286)	–	–
Changes in the scope of consolidation		–	–	–	–	79
Other changes		–	–	–	–	(11,938)
Balance at 31 December 2017	11	1,088,293	1,126,248	245,118	–	406,366

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of cash flows for the year ended 31 December 2017.

Valuation adjustments recognised in equity - financial instruments	Valuation adjustments on available-for-sale financial assets	Other equity instruments	Treasury shares	Profit/ (loss)	Equity attributable to shareholders of the Parent	Non-controlling interests	Equity
(2,504)	–	2,895	(17,065)	415,413	1,837,419	1,612,048	3,449,467
2,067	1,317	–	–	273,647	277,031	287,189	**564,220**
–	–	–	–	–	263,659	–	**263,659**
–	–	–	–	–	–	–	**–**
–	–	–	(31,521)	–	(33,339)	(453)	**(33,792)**
–	–	–	–	(415,413)	(47,833)	(48,752)	**(96,585)**
–	–	629	–	–	629	462	**1,091**
(134)	–	–	(1,225)	–	3,911	(144,378)	**(140,467)**
–	–	173	–	–	237	89	**326**
(571)	1,317	3,697	(49,811)	273,647	2,301,714	1,706,205	4,007,919
12	69,098	–	–	682,523	751,633	397,937	**1,149,570**
–	–	–	–	–	584,466	–	**584,466**
–	–	–	2,956	–	13,327	–	**13,327**
–	–	–	–	(273,647)	(62,749)	(27,000)	**(89,749)**
–	–	989	2,537	–	2,240	641	**2,881**
–	–	–	(2)	–	77	9,737	**9,814**
–	–	–	13,058	–	1,120	350	**1,470**
(559)	70,415	4,686	(31,262)	682,523	3,591,828	2,087,870	5,679,698

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries (Colonial Group)

Consolidated statement of cash flows for the year ended 31 december 2017

Thousands of euros

Cash flows in operations	Note	2017	2016
1. Cash flows from/(used in) operating activities			
Profit from operations		208,522	212,870
Adjustments to profit			
Depreciation and amortisation (+)		2,445	2,909
Net change in provisions (+/–)	17-e	5,704	2,755
Others	17-a	(11,079)	(32,515)
Gains/(losses) on sale of investment property (+/–)	17-g	(527)	149
Adjusted profit		**205,065**	**186,168**
Taxes paid (–)		29,434	(8,013)
Increase/(decrease) in current assets and liabilities			
Increase/(decrease) in receivables (+/–)		929	352
Increase/(decrease) in payables (+/–)		9,845	(16,127)
Increase/(decrease) in other assets and liabilities (+/–)		4,866	6,117
Total net cash flows from/(used in) operating activities		250,139	168,497
2. Cash flows from/(used in) investing activities			
Investments in (–)			
Intangible assets		(1,318)	(1,154)
Property, plant and equipment	7	(2,867)	(2,776)
Investment property	8	(128,862)	(171,368)
Equity investments and financial assets	2-f	(300,317)	(138,756)
Other financial assets	9	(211,886)	(136,976)
		(645,250)	**(451,030)**
Disposals of (+)			
Investment property	8	450,671	17,054
		450,671	**17,054**
Total net cash flows from/(used in) investing activities		(194,579)	(433,976)

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of cash flows for the year ended 31 December 2017.

Thousands of euros

Cash flows in operations	Note	2017	2016
3. Cash flows from/(used in) financing activities			
Dividends paid (–)	11	(89,749)	(96,584)
Repayment of bank borrowings (–)	12	(572,925)	(292,657)
Repayment of debts with bondholders (–)	12	(300,700)	(530,799)
Interest paid (+/–)	17	(94,406)	(114,831)
Post–control transactions (+/–)	20	(266)	–
Treasury share transactions (+/–)	11	13,327	(48,883)
		(1,044,719)	**(1,083,754)**
New bank borrowings obtained (+)	12	609,968	597,412
New bondholder borrowings obtained (+)	12	800,000	650,000
Capital increases (+)	11	591,157	–
Expenses associated with capital increases	11	(6,691)	(1,905)
Other proceeds/(payments) for current financial assets and other (+/–)		(5,874)	(8,850)
		1,988,560	**1,236,657**
Total net cash flows from/(used in) financing activities		943,841	152,903
4. Net increase / decrease in cash and cash equivalents			
Cash flow for the year		999,401	(112,576)
Cash and cash equivalents at beginning of year	12	105,200	217,776
Cash and cash equivalents at end of year	12	1,104,601	105,200

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries
Notes to the consolidated financial statements for the year ended 31 December 2017

1. Colonial Group business activity

Group activity

Inmobiliaria Colonial, S.A., is a public limited company incorporated in Spain, for an indefinite period, on 8 November 1956. Its registered offices are at Paseo de la Castellana, 52 de Madrid (formerly Avenida Diagonal 532, in Barcelona).

On 29 June 2017, the shareholders at the Parent's Annual General Meeting resolved to adopt the SOCIMI (hereinafter, REIT) Tax Regime and to make the corresponding bylaw amendments to bring the Company's bylaws into line with the requirements stipulated in this regime, which includes changing the corporate name to Inmobiliaria Colonial, SOCIMI, S.A.

On 30 June 2017, the Parent submitted a request to the tax authorities to be included in the REIT Tax Regime, applicable as of 1 January 2017.

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

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

In addition to the economic activity relating to the main corporate purpose, the Parent may also carry on any other ancillary activities, i.e., those that generate income, which in total represents less than 20% of the Parent's income in each tax period, or those that may be considered ancillary activities under the legislation applicable at any time, including, in any case, the management, refurbishment and operation of properties and the performance of all manner of studies, reports, appraisals, valuations and surveys; and in general, the provision of real estate consulting and advisory services, property asset management, development and marketing services, and technical assistance through contracts with other public or private companies or entities.

Activities that by law are attributable exclusively to special purpose vehicles are expressly excluded from its corporate purpose.

All activities included in the corporate purpose will be carried out as authorised by current legislation any given time, expressly excluding its own activities that are exclusively granted by prevailing legislation to individuals or legal entities other than this Company.

The Parent may also carry out the aforementioned activities, in full or in part, indirectly through ownership interests in other companies with an identical or similar corporate purpose.

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries ("the Group") carry out their activities in Spain (mainly in Barcelona and Madrid) and in France (Paris) through the group of which it is the parent Société Foncière Lyonnaise, S.A. (hereinafter, the "SFL subgroup" or "SFL" for the subsidiary).

Inmobiliaria Colonial, SOCIMI, S.A. has been listed on the Spanish electronic trading system and Stock Exchange since 19 June 2017, when it was included on the benchmark stock market index, the IBEX-35.

In 2017, the Parent improved the credit rating obtained from Standard & Poor's Rating Credit Market Services Europe Limited, which is now a "BBB" long-term credit rating and an "A-2" short-term credit rating, both with a stable outlook. In addition, the Parent obtained a "Baa2" credit rating with a negative outlook from Moody's. In 2017, the subsidiary SFL also improved its credit rating, which is now "BBB+" with a stable outlook and maintained the "A-2" short-term credit rating.

In view of the business activity carried out by the Group, it has no environmental expenses, assets, provisions or contingencies that might be significant with respect to its equity, financial position or performance. Therefore, no specific disclosures relating to environmental issues are included in these explanatory notes. However, the Group does apply a proactive environmental policy in relation to urban development, construction, maintenance and the preservation of its property portfolio.

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (EU-IFRSs) as adopted by the European Union, taking into account all mandatory accounting policies and rules and measurement bases, the Spanish Code of Commerce, the Spanish Limited Liability Companies Law, the Spanish Securities Markets Law and other applicable company law, as well as regulations laid down by the Spanish National Securities Market Commission (CNMV), to present a true and fair view of the Colonial Group's consolidated equity and financial position at 31 December 2017 and of the comprehensive income from its operations, the changes in consolidated equity and the consolidated cash flows for the year then ended.

The consolidated financial statements of Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries for the year ended 31 December 2017 were prepared on the basis of the accounting records kept by the Parent and by the other companies comprising the Colonial Group and were authorised for issue by the Parent's directors at the Board of Directors meeting held on 22 February 2018.

However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements at 31 December 2017 may differ from those used by certain Group companies, the required adjustments and reclassifications were made on consolidation to unify the policies and bases used and to make them compliant with EU-IFRSs.

In order to present on a consistent basis the various items that make up the consolidated financial statements, the accounting principles and measurement bases used by the Parent were applied to all the companies included in the scope of consolidation.

The Group's consolidated financial statements for the year ended 31 December 2016 were approved by the shareholders of the Parent at the General Meeting held on 29 June 2017.

b) Adoption of International Financial Reporting Standards

The Colonial Group's consolidated financial statements are presented in accordance with EU-IFRSs, pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002. In Spain, the obligation to present consolidated financial statements under European IFRSs is also regulated in final provision eleven of Law 62/2003, of 30 December, on tax, administrative and social measures.

The main accounting principles and measurement bases adopted by the Colonial Group are detailed in Note 4.

Standards and interpretations effective this year

New accounting standards came into force in 2017 and were accordingly taken into account when preparing these consolidated financial statements. The new standards are as follows:

– IAS 7 (Amendment) "Disclosure initiative";

– IAS 12 (Amendment) "Recognition of deferred tax assets and unrealised losses".

– Annual improvements to IFRSs. 2014-2016 Cycle: The amendments affect IFRS 12 "Disclosure of interests in other entities" and relate mainly to a clarification on the scope of the standard.

The impact of the interpretation of these amendments has not been significant.

Standards and interpretations issued but not yet effective

At the date of authorisation for issue of these consolidated financial statements, the following standards, amendments or interpretations were published by the IASB but had not yet come into force, and although early application is permitted, the Group opted not to apply them early:

– IFRS 4 (Amendment) "Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts'"

– IFRS 9 "Financial instruments"

– IFRS 15 "Revenue from contracts with customers"

– IFRS 15 (Amendment) "Clarifications to IFRS 15 'Revenue from contracts with customers'"

– IFRS 16 "Leases"

– Annual improvements to IFRSs. 2014-2016 Cycle: The amendments affect IFRS 1 and IAS 28 and shall apply to annual periods beginning on or after 1 January 2018. The main amendments refer to:

  • IFRS 1 "First-time adoption of International Financial Reporting Standards": Deletion of short-term exemptions for first-time adopters.

  • IAS 28 "Investments in associates and joint ventures": Valuation of an investment

Based on the analysis carried out to date, Inmobiliaria Colonial considers that out of all these standards, interpretations and amendments, the only ones that may have an impact on the consolidated financial statements would be IFRS 9 and IFRS 15, the entry into force of which is set for 1 January 2018, and IFRS 16, the entry into force of which is set for 1 January 2019.

The main aspects identified by the Group for these standards are as follows:

IFRS 9 "Financial Instruments"

– Valuation of financial assets: The Colonial Group will measure its financial assets at amortised cost, with the exception of investments in equity instruments and derivative financial instruments, which will be measured at fair value. The measurement bases employed with respect to those used up until 31 December 2017 will not have a significant impact.

– Impairment of financial assets: The Colonial Group will apply the general expected loss model for financial assets, with the exception of trade receivables, for which Inmobiliaria Colonial will use the simplified expected loss model, regardless of the financial component that these assets may have. Considering the Group's credit risk management policies and the high credit rating of the receivables, it does not consider that the application of the expected loss model will have a significant impact.

The Colonial Group considers that the application of IFRS 9 will not have a significant impact on equity at 1 January 2018.

IFRS 15 “Revenue from contracts with customers”

In relation to the entry into force of IFRS 15, the Colonial Group considers that, based on the nature of the business, its application will not have a significant impact on the Group’s consolidated financial statements.

IFRS 16 “Leases”

The Colonial Group has begun to analyse the impacts of IFRS 16 “Leases”, which stipulates that right-of-use assets and liabilities arising from operating leases, with the exception of short-term lease agreements and those relating to assets with a low value, must be recognised on the consolidated statement of financial position. In addition, the criteria for recognising lease expenses will change, which will now be recognised as a depreciation charge for the asset or finance cost for discounting the lease liability.

The Colonial Group is gathering the data necessary for its operating lease agreements in order to assess the related impacts, however, it does not expect IFRS 16 to have a significant impact on the Group’s consolidated financial statements with regard to an associate or joint venture at fair value.

Accordingly, at the date of authorisation for issue of these consolidated financial statements, the following standards, amendments or interpretations were published by the IASB but had not yet come into force, and are subject to approval by the European Union:

- IFRS 10 (Amendment) and IAS 28 (Amendment) “Sale or contribution of assets between an investor and its associate or joint venture”
- IFRS 2 (Amendment) “Classification and measurement of share-based payment transactions”
- IAS 40 (Amendment) “Transfers of investment property”
- IFRIC 22 “Foreign currency transactions and advance consideration”
- FRS 17 “Insurance contracts”
- IFRIC 23 “Uncertainty over income tax treatments”
- IFRS 9 (Amendment) “Prepayment features with negative compensation”
- IAS 28 (Amendment) “Long-term interests in associates and joint ventures”
- Annual improvements to IFRSs. 2015-2017 Cycle: The amendments affect IFRS 3, IFRS 11, IAS 12 and IAS 23 and shall apply to annual periods beginning on or after 1 January 2019, all of which are subject to adoption by the EU. The main amendments refer to
  - IFRS 3 “Business combinations”: An investment previously held in a joint venture is measured again when control over the business is obtained.
  - IFRS 11 “Joint arrangements”: An investment previously held in a joint venture is not measured again when joint control over the business is obtained.
  - IAS 12 “Income taxes”: All tax consequences relating to the payment of dividends are recognised in the same manner.
  - IAS 23 “Borrowing costs”: Any specific loan originally obtained to develop a qualifying asset is considered part of general borrowings when the asset is ready for use or sale.
- IAS 19 (Amendment) “Plan amendment, curtailment or settlement”.

The application of new standards, amendments and interpretations will be considered by the Group once they have been ratified and adopted, where appropriate, by the European Union.

The Parent’s directors have reviewed the potential impacts of the future application of these standards and consider that their entry into force will not have a significant effect on the consolidated financial statements.

c) Functional currency

These consolidated financial statements are presented in the Group's functional currency, the euro, as this is the currency of the main economic area in which the Group operates.

d) Responsibility for the information provided and estimates and judgements made

The information in these consolidated financial statements is the responsibility of the Parent's directors. Management of the Parent has made estimates based on objective data in order to quantify certain assets, liabilities, income, expenses and commitments reported herein. These estimates and criteria relate to the following:

– The market value of properties for own use and investment property (Notes 7 and 8).

The market value was obtained from the appraisals periodically made by independent experts. Such appraisals were made on 30 June 2017 and 31 December 2017 in accordance with the methods described in Notes 4-b and 4-c.

– Classification, measurement and impairment of financial investments (Note 4-e).

– Estimate of the appropriate allowances for bad debts (Note 10).

– Measurement of deferred tax liabilities recognised in the consolidated statement of financial position (Notes 4-m and 16).

– Measurement of non-current assets held for sale (Notes 4-s and 21).

– The market value of certain financial assets (Note 9), including derivative financial instruments (Note 13).

– Evaluation of lawsuits, obligations, and contingent assets and liabilities at year-end (Note 15).

Although these estimates were made on the basis of the best available information at the date of authorising these consolidated financial statements for issue, events that take place in the future might make it necessary to modify these amounts (upwards or downwards). Changes in accounting estimates would be made prospectively, with the effects of the changes being recognised in the consolidated statement of comprehensive income.

e) Basis of consolidation

The main consolidation principles applied by the Parent's directors in preparing these consolidated financial statements were as follows:

1. The accompanying consolidated financial statements were prepared from the accounting records of Inmobiliaria Colonial, SOCIMI, S.A. and of the companies controlled thereby, whose financial statements were prepared by each Group company's management. The Parent is considered to have effective control in the circumstances outlined in point 6 below.

2. The results of the subsidiaries acquired or sold during the year are included in consolidated income from the effective date of acquisition and are no longer included from the date of disposal, as appropriate.

3. All accounts receivable and payable and other transactions between the consolidated companies have been eliminated on consolidation.

4. Where necessary, the financial statements of the subsidiaries are adjusted to ensure uniformity with the accounting policies applied by the Parent. All subsidiaries have the same reporting date as the Parent, i.e., 31 December.

5. The interest of non-controlling shareholders is established in proportion to the fair values of the identifiable assets and liabilities recognised. Non-controlling interest in:

   a. Investees' equity: recognised in equity under "Non-controlling interests" in the consolidated statement of financial position.

b. Profit or loss for the year: recognised under “Profit attributable to non-controlling interests” in the consolidated statement of comprehensive income.

6. The Group used the following criteria to determine the consolidation method applicable to the various companies comprising the Group:

   Full consolidation:

   – Subsidiaries are fully consolidated and are considered to be all entities in which the Group directly or indirectly controls the financial and operating policies such that power is exercised over the investee. This is generally accompanied by an ownership interest of more than half of an entity’s voting rights. In addition, to evaluate whether the Group controls another entity, it considers the power over the investee; the exposure or rights to variable returns of the investment; and the ability to use this power over the investee to affect the amount of the investor’s returns. When evaluating whether the Group exercises control over an entity, the existence and the effect of any potential voting rights, both those held by the Parent and by third parties, are taken into consideration, provided they are of a substantive nature.

   – Subsidiaries are accounted for using the acquisition method. The acquisition cost is the fair value of the assets delivered, the equity instruments issued and the liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and identifiable liabilities and contingencies incurred in a business combination are measured initially at fair value at the acquisition date, regardless of the effect of non-controlling interests. When the acquisition cost is higher than the fair value of the Group’s interest in the identifiable net assets acquired, the difference is recognised as goodwill. If the acquisition cost is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income (details of the companies consolidated at 31 December 2017 and 2016 are included in the Appendix).

7. The accompanying consolidated financial statements do not include the tax effect, if any, of transferring the reserves of the consolidated companies to the Parent’s equity, since it is considered that these reserves will be used to finance the operations of each company and any potential distributions will not represent a significant additional tax cost.

f) Changes in the scope of consolidation

The following changes occurred in the scope of consolidation in 2017:

– On 18 May 2017, the subsidiary Inmocol Torre Europa, S.A. (hereinafter, “Inmocol”) was incorporated. The initial share capital of 20,000 thousand euros was fully subscribed by the Parent and its shareholder as follows:

  • The shareholders subscribed 50% of the share capital through a non-monetary contribution of land located at Hospitalet del Llobregat, valued at 10,000 thousand euros, on which Inmocol will construct an office building.

  • The remaining 50% of the share capital was subscribed by the Parent, having only paid 25% of the capital subscribed, i.e., 2,500 thousand euros. The unpaid share capital subscribed will be paid by the Parent when agreed upon by the Board of Directors of Inmocol.

– During the first half of 2017, the Parent also acquired 4,700 shares in its subsidiary SFL, for a total of 265 thousand euros, thus increasing its interest in the share capital from 58.55% to 58.56%.

– On 27 September 2017, the Parent acquired all shares of the Spanish company LE Offices Arturo Soria, S.L. (currently Colonial Arturo Soria, S.L., and hereinafter, “Arturo”), the owner of an office building located in Madrid (Note 8). The acquisition price was 19,747 thousand euros, plus associated acquisition costs. Of this amount, 4,200 thousand euros were deferred for up to a maximum of 31 January 2018 and were recognised under “Trade payables” in the consolidated statement of financial position (Note 14). In addition, the loan held by Arturo Soria with a financial institution for 13,159 thousand euros, including interest, was repaid early, and was registered in the Property Registry on 26 November 2017.

– On 27 October 2017, the Parent acquired 61.51% of the share capital of the Spanish company Utopicus Innovación Cultural, S.L. (hereinafter, “Utopicus”), the head of the Utopic_US co-working platform. The acquisition price amounted to 2,633 thousand euros, including associated acquisition costs, and 205 thousand euros were deferred, which were recognised under “Trade payables” in the consolidated statement of financial position (Note 14). On this same date, Utopicus increased its share capital by 1,001 thousand euros, corresponding to 910 shares of one euro par value each, plus a share premium, which was subscribed and paid in full by the Parent, thus increasing its interest in the share capital of Utopicus to 69.60%.

– On 30 November 2017, after the previous tenant left, the subsidiary SFL acquired the Emile Zola property (Note 8) through (i) the acquisition of all share capital of the French company SAS Société Immobilière Victoria, which owns the land and a portion of the buildings of this property, directly from the subsidiary SFL, and (ii) the subsidiary SFL acquired the rest of the property that was not owned by SAS Société Immobilière Victoria. The acquisition cost totalled 165,000 thousand euros.

– On 20 December 2017, the Parent acquired all share capital of the Spanish companies Almacenes Generales Internacionales, S.A. (hereinafter, “Agisa”) and Soller, S.A., which own several plots of land located in Madrid (Note 8). The acquisition price was 178,220 thousand euros, plus associated acquisition costs. Of this amount, 41,335 thousand euros were deferred, to the latest, until 31 December 2018, and were recognised under “Trade payables” in the consolidated statement of financial position (Note 14). Several guarantees were extended as collateral for the deferred amount (Note 12-i).

– On 20 and 27 December 2017, Agisa acquired 64.60% of the share capital of the Spanish company Peñalvento, S.L. (hereinafter, “Peñalvento”), which owns a plot of land in Madrid (Note 8). The acquisition price was 12,127 thousand euros, plus associated acquisition costs. Of this amount, 632 thousand euros were deferred until 31 December 2018, and were recognised under “Trade payables” in the consolidated statement of financial position (Note 14). Several guarantees were extended as collateral for the deferred amounts (Note 12-i). In addition, in a single deed, the loan held by Peñalvento with a financial institution for 20,192 thousand euros, including interest, was cancelled early, which is expected to be registered in the Property Registry in February 2018. With the acquisition of the aforementioned ownership interest, together with the 35.40% interest in the share capital of Peñalvento owned by Agisa, the Parent now owns all share capital of Peñalvento.

The following changes arose in the scope of consolidation in 2016:

– On 25 May 2016, the Parent acquired 100% of the share capital of the Spanish company Moorage Inversiones 2014, S.L. (hereinafter, “Moorage”), which owns several plots of land in Barcelona (Note 8). The acquisition price was 44,745 thousand euros, plus associated acquisition costs. Of this amount, 15,680 thousand euros were deferred until 25 May 2018, and were recognised under “Other non-current liabilities” in the consolidated statement of financial position (Note 14). A guarantee was extended as collateral for the deferred portion (Note 12-i). At 31 December 2017, this amount was recognised under “Trade payables” in the consolidated statement of financial position (Note 14).

– On 29 June 2016, the Parent acquired 2,038,956 shares from Reig Capital Group Luxembourg Sàrl (hereinafter, Reig), representing 4.38% of the share capital of the subsidiary SFL. The acquisition was carried out through two transactions: (i) the contribution to the Parent of 1,019,478 shares in SFL in consideration for the subscription of 90,805,920 shares in Colonial (Note 11-a) valued at 63,564 thousand euros; and (ii) the sale to the Parent of 1,019,478 shares, at a price of 50.00 euros per share, for a total of 50,974 thousand euros. Following the transactions, the Parent held 26,765,356 shares in the subsidiary SFL (57.52% of its share capital). Accordingly, equity attributable to the Parent increased by 2,368 thousand euros.

– On 30 June 2016, the Parent acquired 100% of the share capital of the Spanish company Hofinac Real Estate, S.L. (hereinafter, “Hofinac”), owner of two properties in Madrid (Note 8). The acquisition was carried out through the non-monetary contribution of 100% of Hofinac’s shares to the Parent, in exchange for the subscription of 288,571,430 shares in Colonial (Note 11-a), valued at 202,000 thousand euros.

– On 4 August 2016, the Parent acquired from APG Strategic Real Estate Pool (hereinafter, “APG”) 475,247 shares in the subsidiary SFL (1.02% of its share capital). The acquisition was carried out through two transactions: (i) the contribution to the Parent of 237,463 shares in SFL in consideration for 2,116,508 shares in Colonial valued at 13,922 thousand euros (Note 11-f); and (ii) the sale to the Parent of 237,624 shares, at a price of 50.00 euros per share, for a total of 11,881 thousand euros. Accordingly, equity attributable to the Parent increased by 1,900 thousand euros.

– Lastly, on 29 December 2016, the Parent acquired from Fundación Amparo del Moral 100% of the share capital of the Spanish company Fincas y Representaciones, S.A. (hereinafter, Finresa), which owns a property in Madrid (Note 8), as well as other property, plant and equipment (Note 7), for 47,678 thousand euros and 8,842 thousand euros, respectively.

At 31 December 2017 and 2016, Colonial Invest, S.L.U., Colonial Tramit, S.L.U., SB2 SAS, SB3 SAS and SCI SB3 were inactive subsidiaries.

g) Comparative information

The information relating to 2017 included in these notes to the consolidated financial statements is presented, for comparison purposes, with the information relating to 2016.

h) Grouping of items

Certain items in the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows are grouped together to make them easier to understand; however, whenever the amounts involved are material, the information is broken down in the related notes to the consolidated financial statements.

i) Correction of errors

No significant errors have been found in the preparation of the accompanying consolidated financial statements that would require a restatement of the amounts included in the consolidated financial statements for 2016.

3. Distribution of profit of the Parent

The distribution of profit from 2017 proposed by the Board of Directors of the Parent and that will be submitted for approval at the General Annual Meeting is as follows:

Thousands of euros

Profit for the year of the Parent	**32,497**
To the legal reserve	3,250
To dividends	29,247

The Parent's Board of Directors will submit for approval at the Annual General Meeting a proposed distribution of dividends totalling 0.18 euros per share, which would give rise to a total maximum dividend of 78,357 thousand euros based on the current number of outstanding shares. The definitive amount of the dividend, as well as the nature of the reserves to be distributed, will be determined prior to its distribution based on the treasury shares held by the Parent (Note 11-f).

In the past 5 years, the Parent distributed the following dividends:

Thousands of euros

	2012	2013	2014	2015	2016
Dividends distributed	–	–	–	47,833	62,749

4. Accounting policies

The main accounting principles used to prepare the consolidated financial statements, in accordance with EU-IFRSs and the interpretations in force when these consolidated financial statements were prepared, are as follows:

a) Business combinations and intangible assets

Business combinations

The acquisition method of accounting is used for business combinations (Note 2-e).

The cost of the business combination is allocated at the acquisition date by recognising, at fair value, all assets, liabilities and contingent liabilities of the acquired entity that meet the criteria for recognition established in IFRS 3. The excess of the cost of a business combination over the acquiree's allocated assets, liabilities and contingent liabilities is recognised as goodwill, which, accordingly, represents advance payments made by the Colonial Group for future economic benefits generated by the assets of the acquiree that are not individually and separately identifiable and recognisable.

The negative different, if any, between the cost of the business combination and the allocation to assets, liabilities and contingent liabilities of the acquired entity, is recognised as profit or loss in the year in which it is incurred.

If a business combination is achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at fair value at the acquisition date and recognises any resulting gain or loss in the consolidated statement of comprehensive income or under other consolidated comprehensive income, where appropriate.

Intangible assets

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

b) Property, plant and equipment (Note 7)

Properties for own use, including other property, plant and equipment, are recognised at acquisition cost less any accumulated depreciation and any impairment.

Historical cost includes expenses directly attributable to the acquisition of the properties. Any potential impairment losses on the properties are recognised in accordance with the same valuation assumptions described in Note 4-c.

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset only when it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be determined reliably. Maintenance and upkeep expenses are charged to the consolidated statement of comprehensive income in the year incurred.

Group companies depreciate their property, plant and equipment for own use and other property, plant and equipment using the straight-line method, distributing the cost of the assets over the years of estimated useful life. The years of estimated useful life of property for own use located in Spain and France are as follows:

Years of estimated useful life

	Spain	France
Property for own use		
Buildings	50	50
Fixtures	10 to 15	10 a 50
Other property, plant and equipment	4 to 10	5 a 50

Gains or losses arising on the disposal (Note 17-g) or derecognition of an asset (Note 17-f) from this heading are determined as the difference between the sale price and its carrying amount and are recognised in the consolidated statement of comprehensive income.

c) Investment property (Note 8)

"Investment property" in the consolidated statement of financial position reflects the values of the land, buildings and other constructions held to earn rents or for capital appreciation upon disposals due to future increases in their respective market prices.

Investment property is presented at fair value at the end of the reporting period and is not depreciated.

Profit or loss arising from fluctuations in the fair value of investment property is included in income in the same period in which it occurs and recognised under "Changes in fair value of investment property" in the consolidated statement of comprehensive income. These gains or losses are not included in operating profit as the changes in valuation are not directly within the control of the Group's management.

Assets are transferred from investment property in progress to investment property when they are ready for use. The classification of an investment property to the investment property in progress heading takes place only when the refurbishment or reform project will exceed one year in length.

When the Group recognises as an increased fair value of an investment property the cost of an asset that substitutes another already included in such amount, the Group reduces the value of the property by the fair value of the asset replaced, recognising the impact under "Losses due to impairment of assets" in the consolidated statement of comprehensive income (Note 17-f). If the fair value of the assets replaced cannot be determined, it will be recognised by increasing the fair value of the property, and it will later be reassessed periodically on the basis of appraisals performed by independent experts.

In accordance with IAS 40, the Group calculates the fair value of its investment property on a regular basis. Fair value is determined based on the valuations made by independent experts (Jones Lang LaSalle and CB Richard Ellis Valuation in Spain, and Jones Lang La Salle and Cushman & Wakefield in France, in both 2017 and 2016) at the date of preparing the consolidated statement of financial position, so that the year-end fair 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 Group.

The Discounted Cash Flow (hereinafter, "DCF") method was primarily used to determine the market value of the Group's investment property in 2017 and 2016.

The DCF method applied over a 10-year horizon is used, in accordance with current market practices, unless the specific characteristics of the investment 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 to 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, their forecasts are prepared based on the quality and location of the building, and they will generally adopt an average lease period if there is no information about 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 final profitability or Terminal Capitalisation Rate (hereinafter, "TCR") adopted in each case refers not only to the market conditions forecast at the end of each cash flow period, but also to the leasing conditions that 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 reporting period. Buildings with unlet floor space were valued on the basis of future estimated rentals, net of an estimated letting period.

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 2017 and 2016 are set out in the tables below:

	Gross	
***Yields* (%) – Offices**	**31 December 2017**	**31 December 2016**
Barcelona – Prime Yield		
Leased out	4.92	5.10
Total portfolio	5.00	5.17
Madrid – Prime Yield		
Leased out	4.56	4.75
Total portfolio	4.57	4.77
Paris – Prime Yield		
Leased out	3.25	3.70
Total portfolio	3.26	3.70

Assumptions made at 31 December 2017

Rent increases (%) – Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Leased out	3.0	3.0	3.0	3.0	2.25
Total portfolio	3.0	3.0	3.0	3.0	2.25
Madrid –					
Leased out	3.0	3.0	3.0	3.0	2.5
Total portfolio	3.0	3.0	3.0	3.0	2.5
Paris –					
Leased out	1.0	1.5	2.0	2.0	2.0
Total portfolio	1.0	1.5	2.0	2.0	2.0

Assumptions made at 31 December 2016

Rent increases (%) – Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Leased out	2.5	2.5	2.5	2.25	2.25
Total portfolio	2.5	2.5	2.5	2.25	2.25
Madrid –					
Leased out	3.0	3.0	3.0	3.0	2.5
Total portfolio	3.0	3.0	3.0	3.0	2.5
Paris –					
Leased out	0.0	1.0	2.0	2.0	2.0
Total portfolio	0.0	1.0	2.0	2.0	2.0

In addition, developments in progress were valued using the Dynamic 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, 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 an implied 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 Group at 31 December 2017 and 2016 to determine the value of its investment property:

Thousands of euros

Sensitivity of valuations to a change of one quarter of a point in yields	Valuation	Decrease of one quarter of a point	Increase of one quarter of a point
December 2017	8,933,035	639,037	(551,470)
December 2016	7,927,918	518,842	(454,174)

A reconciliation between the valuations used by the Group and the carrying amounts of the headings of the consolidated statement of financial position where the valued assets are recognised, is as follows:

	31 December 2017	31 December 2016
Headings of the consolidated statement of financial position		
Property, plant and equipment	33,781	38,536
Investment property (Note 8)	8,792,396	7,762,627
Trade and other receivables – Lease incentives (Note 10-b)	78,746	103,125
Total headings of the consolidated statement of financial position	8,904,923	7,904,285
Unrealised gains on assets recognised under IAS 16	28,292	24,630
Assets not valued	(180)	(1,000)
Valuation	8,933,035	7,927,918

Although the sensitivity of other key variables was considered, such analysis was not carried out given that reasonable changes that could arise would not lead to a material change in the fair value of the assets.

The income earned in 2017 and 2016 from the lease of investment properties amounted to 283,287 thousand euros and 271,400 thousand euros, respectively (Note 17-a) and is recognised under "Revenue" in the accompanying consolidated statement of comprehensive income.

In addition, the bulk of repair and maintenance expenses incurred by the Colonial Group in connection with the operation of its investment properties is passed on to the respective tenants (Note 4-q).

d) Impairment of property, plant and equipment

At each reporting date, the Colonial Group assesses the carrying amounts of its property, plant and equipment to determine if there are indications that the assets have been impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of the fair value of the asset less costs to sell or otherwise dispose of the asset and value in use. Where the asset does not generate cash inflows that are independent of those from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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

e) Financial instruments (excluding derivative financial instruments)

Financial assets (Note 9)

Initial measurement

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

Classification and subsequent measurement

The financial assets held by the Group are classified into the following categories:

- Loans and receivables: this heading includes loans granted to third parties and associates. They are measured at face value and classified according to maturity. This heading also includes non-current deposits and guarantees granted, primarily in relation to deposits placed with official entities in connection with guarantees collected from lessees, in accordance with prevailing legislation.
- Investments held to maturity: this heading includes non-derivative financial assets, such as current and non-current fixed-income securities that are generally held until maturity and measured at amortised cost. Current fixed-income securities are recognised under "Current financial assets" in the consolidated statement of financial position. Interest income is calculated in the year in which it accrues, in accordance with financial criteria.
- Available-for-sale financial assets: this heading includes investments where the Group does not exercise significant influence or control. They are measured at fair value and the profit or loss on changes in this fair value is recognised under other consolidated comprehensive income.

Financial liabilities (Note 12)

Financial liabilities consist primarily of bank borrowings and bond issues and are recognised at amortised cost.

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.

Financial liabilities are derecognised when the obligations giving rise to them cease to exist. When a debt instrument swap takes place between the Group and a third party, as long as these instruments have substantially different conditions, the Group 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 attributable transaction costs, is recognised in the consolidated statement of comprehensive income.

The Group considers that the terms of the financial liabilities are substantially different if the present value of the discounted cash flows under the new terms, 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 remaining discounted cash flow from the original financial liability.

f) Receivables (Note 10)

Trade receivables are carried at recoverable value, i.e., net, where applicable, of the allowances recognised to cover balances of a certain age whose circumstances reasonably warrant their consideration as doubtful receivables.

g) Cash and cash equivalents (Note 12-j)

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

Financial investments that are readily convertible into a known amount of cash and that are not subject to any significant risk of changes in value are deemed to be cash equivalents.

Bank overdrafts are not considered to be cash and cash equivalents.

h) Own equity instruments (Note 11)

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

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

Any Parent shares acquired during the year are recognised as a deduction from equity at the value of the consideration paid. Any gains or losses on the purchase, sale, issue or cancellation of own equity instruments are recognised directly in equity and not in the consolidated statement of comprehensive income.

i) Provisions and contingent liabilities (Note 15)

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

– Provisions: payables that cover obligations arising as a consequence of past events which could give rise to liabilities at the Group companies, the nature of which is certain but the amount and timing of which cannot be determined, and

– Contingent liabilities: potential liabilities arising as a consequence of past events, the emergence of which depends on the occurrence of one or more future events which are beyond the control of the consolidated companies.

The consolidated financial statements include all the material 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 but are disclosed (Note 15).

The provisions, which are quantified taking into consideration the best information available concerning the consequences of the events on which they are based, and which are revised at each reporting close, are recognised in order to cover the specific and likely risks for which they were originally recognised and are fully or partially reversed if and when said risks cease to exist or are reduced.

j) Employee benefits

Termination benefits

Under current legislation, the Group is required to pay severance to employees terminated under certain conditions. Severance payments that 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 2017, the Parent did not record any provisions in this connection.

Pension obligations

In 2017 and 2016 the Parent assumed a commitment with executive directors and one member of senior management to make a defined contribution to an external pension plan that meets the requirements established by Royal Decree 1588/1999, of 15 October.

At 31 December 2017 and 2016, the SFL subgroup had several defined benefit pension plans. Defined benefit obligations are calculated on a regular basis by independent actuarial experts. The actuarial assumptions used to calculate these liabilities are adapted the situation and to applicable French legislation, in accordance with IAS 19. The actuarial cost recorded in the consolidated statement of comprehensive income in relation to said plans is the sum of the service costs for the period, the interest expense and actuarial gains and losses. At 31 December 2017, net liabilities for defined benefits amounted to 872 thousand euros (862 thousand euros at 31 December 2016).

Share-based payments (Note 18)

The Group 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 the goods and services received as of the date on which the recognition requirements are met.

k) Derivative financial instruments (Note 13)

The Group uses financial derivatives to manage its exposure to variations in interest rates. All derivative financial instruments, whether or not designated as hedging instruments, are carried at fair value: market value in the case of listed securities, or according to option valuation methods or discounted cash flow analysis for non-listed securities. The fair value of the derivative financial instruments is determined based on the valuations made by independent experts (Solventis in 2017 and 2016).

The following valuation criteria have been applied for accounting purposes:

- Cash flow hedges: fair value gains or losses arising on transactions which classify for hedge accounting are recognised, net of taxes, directly in other consolidated comprehensive income, under “Gains/(losses) on hedging instruments”, until the underlying or expected transaction occurs, at which point they are reclassified, where appropriate, to “Finance costs” or “Finance income” in the consolidated statement of comprehensive income. Any valuation gains and losses on the ineffective portion of the hedge are recognised directly as financial profit or loss in the consolidated statement of comprehensive income.

- Treatment of financial instruments that are not allocated to a specific liability and do not qualify for hedge accounting: gains or losses arising from the restatement at fair value of these financial instruments are recognised directly as financial profit or loss in the consolidated statement of comprehensive income.

In accordance with IFRS 13, the Group estimated its own credit risk and that of the counterparty in the measurement of its derivative portfolio.

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 recognised in other consolidated comprehensive income remain under this heading until the related transaction is performed. Once the related cash flow occurs, any cumulative gain or loss recognised in other consolidated comprehensive income is transferred to consolidated net profit or loss for the year. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other consolidated comprehensive income is transferred to consolidated net profit or loss for the year.

Prospective and retrospective calculation 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 historical interest rates already established.

The method used to determine the effectiveness of hedging instruments consists of calculating the statistical correlation between the benchmark interest rates at each measurement date for the derivative and the related hedged liability, taking into consideration that the hedging instrument is considered effective if this statistical correlation is between 0.80 and 1.

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

l) Current / non-current

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

The Group's primary business is the lease of assets and its normal business cycle is the calendar year and, therefore, assets and liabilities maturing in one year or less are classified as current assets and those maturing in more than one year are classified as non-current assets, except for receivables arising from the recognition of lease incentives (Notes 4-n and 10-b), which are applied on a straight-line basis over at least the term of the lease agreement and are considered to be current assets.

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

m) Income tax (Note 16)

General regime

The expense for Spanish corporate income tax and similar taxes applicable to consolidated foreign operations is recognised in the consolidated statement of comprehensive income, except when the tax expense is generated by a transaction whose gains or losses are taken directly to equity, in which case the corresponding tax is also recognised in equity.

Income tax expense is the sum of the tax payable on profit for the year and the variation in recognised deferred tax assets and liabilities.

Corporate income tax expense for the year is calculated based on taxable profit for the year, which differs from the net profit or loss presented in the consolidated statement of comprehensive income because it excludes certain taxable income and deductible expenses from prior years, as well as other exempt items. The Group's current tax liabilities are calculated using tax rates that have been approved at the reporting date.

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, all deferred tax assets that are not recognised in the consolidated statement of financial position are reassessed at the end of each reporting period and are recognised if it has become probable that they will be recovered through future tax benefits. In accordance with IAS 12, changes in deferred tax assets and liabilities caused by changes in tax rates or tax laws are recognised in the consolidated statement of comprehensive income for the year in which these changes are approved.

In accordance with that established in IAS 12, the measurement of the Group'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 that are measured using the IAS 40 fair value model, there is a refutable presumption that their carrying amount will be recovered through their sale. Consequently, the deferred tax liabilities arising from the Group's investment properties located in Spain were calculated by applying a tax rate of 25%, less any existing tax credits not recognised at 31 December 2017. The effective settlement rate was therefore 18.75%.

Until 31 December 2016, the Parent was the head of a group of companies filing consolidated tax returns under tax group no. 6/08.

REIT Regime

Effective as of 1 January 2017 (Note 1), the tax regime of the Parent and the majority of its subsidiaries is governed by Law 11/2009, of 26 October, as amended by Law 16/2012, of 27 December, governing listed real estate investment companies (REITs). Article 3 establishes the investment requirements of this type of company, namely:

1. REITs must have invested at least 80% of the value of their assets in urban properties earmarked for lease, in land to develop properties to be earmarked for that purpose, provided that development begins within three years following its acquisition, and in equity investments in other companies referred to in Article 2.1 of the aforementioned Law.

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

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

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

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

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

The period will be calculated:

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

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

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

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

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

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

SIIC regime – SFL subgroup

Since 1 January 2003, the SFL subgroup companies have filed tax returns under the French tax regime applicable to listed real estate investment companies ("the SIIC regime"). This regime enabled the assets allocated to the rental business to be recognised at market value at the date on which it availed itself of this tax regime, currently subject to a tax rate of 19% (hereinafter, "exit tax"), payable within a period of four years, on the capital gains recognised.

This regime affects only real estate activities and is not applicable to companies engaged in sales and services, such as Segpim, S.A. and Locaparis SAS in the SFL subgroup, to properties under finance leases (unless the lease is cancelled early) or to the subgroups and investees in conjunction with third parties.

This regime affords the SFL subgroup an exemption from taxes on earnings generated from its rental business and on capital gains obtained from the sale of properties, provided that 95% of profit from that activity and 60% of the capital gains obtained from property sales of companies under this regime are distributed each year in the form of dividends.

On 30 December 2006, a new amendment to the SIIC regime ("SIIC 4") was approved, which established, among other provisions, that dividends paid annually to shareholders that directly or indirectly hold more than 10% of the share capital of an SIIC and that are exempt from tax or subject to a tax rate that is less than two-thirds of the standard French income tax rate would be subject to a 20% levy, payable by the SIIC. This provision applies to the dividends distributed from 1 July 2007 onwards. At 31 December 2007, the Parent notified SFL that dividends distributed from 1 July 2007 would be taxed in Spain at a rate of over 11.11% as a result of the partial waiver of the exemption for these dividends. As a result, the 20% tax withheld at source described above was not applicable.

After the Parent adhered to the REIT Regime, the 20% tax withheld at source was no longer applicable.

On 18 December 2008, a new amendment to the SIIC regime ("SIIC 5") was approved, which established the requirement limiting the maximum holding of a single shareholder in an SIIC to 60% as of 1 January 2010. The Parent has an ownership interest of less than 60% in SFL.

n) Recognition of revenue and expenses (Note 17)

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.

However, in accordance with the accounting principles established in the EU-IFRS conceptual framework, the Group recognises revenue when it is earned together with all the necessary associated expenses. The sale of goods is recognised when the goods have been delivered and ownership transferred.

Interest income is accrued on a time proportion basis, according to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts the future cash receipts estimated over the expected life of the financial asset from the asset's carrying amount.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established, i.e. when shareholders at the Annual General Meetings of the subsidiaries approve the distribution of the corresponding dividend.

Property leases

In accordance with IAS 17, leases are classified as finance leases whenever their terms imply that all risks and rewards inherent to ownership of the leased asset have been substantially transferred to the lessee. All other leases are classified as operating leases. At 31 December 2017 and 2016, all of the Group's leases qualify as operating leases.

Revenue from operating leases is recognised as income on a straight-line basis over the term of the lease, and the initial direct costs incurred in arranging these operating leases are taken to the consolidated statement of comprehensive income on a straight-line basis over the minimum term of the lease agreement.

The minimum term of a lease is considered to be the time elapsed from the start of the lease to the first option for renewing the lease.

Specific lease terms and conditions: lease incentives

Lease agreements include certain specific conditions linked to incentives or rent-free periods offered by the Group to its customers. In accordance with SIC 15, the Group recognises the aggregate cost of incentives granted as a reduction in rental income of the lease agreement. The effects of the rent-free periods are recognised during the minimum term of the lease agreement on a straight-line basis.

The indemnity payments made by lessees to cancel their lease agreements prior to their minimum termination date are also recognised as income in the consolidated statement of comprehensive income on the date on which they are claimable by the Group.

o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of property developments (Note 8), which require preparation during a significant period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

p) Consolidated statement of cash flows (indirect method)

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

- Cash flows: inflows and outflows of cash and cash equivalents. Cash equivalents are highly liquid, low-risk short-term investments.
- Operating activities: the principal revenue-producing activities and other activities that are not investing or financing activities.
- Investing activities: the acquisition, sale or disposal by other means of non-current assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of equity and borrowings that are not part of the operating activities.

q) Costs passed on to lessees

In accordance with EU-IFRSs, the Group does not consider the costs incurred by lessees from its investment properties as income and they are recognised, less the corresponding costs, in the consolidated statement of comprehensive income. In 2017 and 2016, a total of 46,935 thousand euros and 48,400 thousand euros, respectively, were invoiced in this regard.

Direct operating expenses associated with investment properties which generated rental income in 2017 and 2016, included under "Operating profit" in the consolidated statement of comprehensive income, amounted to 65,841 thousand euros and 66,720 thousand euros, respectively, prior to deducting the costs passed on to the lessees. The expenses incurred in connection with investment properties that did not generate rental income were not significant.

r) Related party transactions

The Group's transactions with related parties are all carried out on an arm's length basis. Furthermore, the transfer prices applied are fully documented and supported and the Parent's directors therefore do not consider that transfer prices pose a significant risk that could give rise to a material liability in the future.

s) Non-current assets held for sale (Note 21)

Non-current assets held for sale are measured at the lower of their carrying amount in accordance with applicable measurement rules and fair value less costs to sell.

Non-current assets are classified as held for sale if it is estimated that their carrying amounts will be recovered principally 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 condition to be sold immediately 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 Colonial Group classifies non-current assets as assets held for sale when the Board of Directors or Executive Committee has made an official decision in this respect, and the sale is considered highly probable within a period of twelve months.

t) Fair value hierarchy

Financial assets and liabilities measured at fair value are classified according to the following hierarchy established in IFRS 7 and IFRS 13:

– Level 1: Inputs are based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

– Level 2: Inputs are based on quoted prices for similar assets or liabilities in active markets (not included in level 1), prices quoted for identical or similar assets or liabilities in markets that are not active, techniques based on valuation models for which all relevant inputs are observable in the market or can be corroborated by observable market data.

– Level 3: In general, inputs are unobservable and reflect estimates based on market assumptions to determine the price of the asset or liability. Unobservable data used in the valuation models are significant in the fair values of the assets and liabilities.

In accordance with IFRS 13, the Group estimated the bilateral credit risk in order to reflect both its own risk, as well as counterparty risk in the fair value of its derivatives (Note 4-k). Credit risk at 31 December 2017 and 2016 was not considered to be material.

The detail of the Group's financial assets and liabilities measured at fair value according to the aforementioned levels is as follows:

31 December 2017
Thousands of euros

	Level 1	Level 2	Level 3
Assets			
Non-current financial assets available for sale	419,277	–	–
Derivative financial instruments:			
Not classified as hedges	–	1,484	–
Total assets (Note 9)	419,277	1,484	–
Liabilities			
Derivative financial instruments:			
Classified as hedges	–	348	–
Not classified as hedges	–	153	–
Total liabilities (Note 13)	–	501	–

31 December 2016
Thousands of euros

	Level 1	Level 2	Level 3
Assets			
Non-current financial assets available for sale	–	–	138,293
Total assets (Note 9)	–	–	138,293
Liabilities			
Derivative financial instruments:			
Classified as hedges	–	2,757	–
Not classified as hedges	–	657	–
Total liabilities (Note 13)	–	3,414	–

5. Earnings per share

Basic earnings per share are calculated by dividing earnings for the year attributable to shareholders of the Parent (after tax and non-controlling interests) by the weighted average number of shares outstanding during that year.

At 31 December 2017 and 2016, there were no instruments that may have had a diluting effect on the Parent's average number of ordinary shares.

Thousands of euros

	31 december 2017	31 december 2016
Consolidated profit for the year attributable to shareholders of the Parent:	682,523	273,647
	No. of shares	No. of shares
Average number of ordinary shares (in thousands)	373,312	336,240
	Euros	Euros
Basic earnings per share:	1.83	0.81
Diluted earnings per share:	1.83	0.81

6. Segment reporting

Segmentation criteria

Segment reporting is organised, firstly, on the basis of the Group's business segments, and, secondly, by geographical segment.

The business lines described below have been defined in line with the Colonial Group's organisational structure at 31 December 2017 and 2016, which has been used by the Group's management to analyse the financial performance of the various operating segments.

Basis and methodology for business segment reporting

The segment information below is based on monthly reports prepared by Group management, generated using the same computer application that prepares all of the Group's accounting data.

Segment revenue comprises revenue directly attributable to each segment, as well as gains from the sale of investment properties. Segment revenue excludes both interest and dividend income.

Segment expenses comprise operating expenses directly attributable to each segment and losses on the sale of investment properties. Allocated expenses do not include interest, the income tax expense or general administrative expenses incurred in the provision of general services that are not directly allocated to any business segment.

Segment assets and liabilities are those directly related to the segment's operating activities. The Group has no set criteria for allocating borrowings or equity by business segment. Borrowings are attributed in full to the "Corporate Unit".

Segment information for these businesses is as follows:

2017 segment reporting

Thousands of euros

	Rentals						
	Barcelona	Madrid	Paris	Other	Total Rentals	Corporate Unit	Total Group
Income							
Revenue (Note 17-a)	34,871	52,270	195,780	366	283,287	–	**283,287**
Other income (Note 17-b)	7	69	2,145	–	2,221	493	**2,714**
Net gain/(loss) on sales of assets (Notes 17-g)	8	519	–	–	527	–	**527**
Profit / (Loss) from operations	33,497	46,300	188,513	260	268,570	(60,048)	**208,522**
Changes in fair value of investment property (Note 17-f)	78,155	139,404	715,421	455	933,435	–	**933,435**
Losses due to impairment of assets (Note 17-f)	(287)	(2,129)	–	–	(2,416)	(2,804)	**(5,220)**
Financial profit/(loss) (Note 17-h)	–	–	–	–	–	(79,445)	**(79,445)**
Profit before tax	–	–	–	–	–	1,057,292	**1,057,292**
Consolidated net profit	–	–	–	–	–	1,080,451	**1,080,451**
Net profit/(loss) attributable to non-controlling interests (Notes 17-j)	–	–	–	–	–	(397,928)	**(397,928)**
Net profit/(loss) attributable to shareholders of the Parent (Note 5)	–	–	–	–	–	682,523	**682,523**

There were no significant inter-segment transactions in 2017.

None of the Group's customers represented more than 10% of the income from ordinary activities.

Thousands of euros

	Rentals						
	Barcelona	Madrid	Paris	Other	Total rentals	Corporate Unit	Total Group
Assets							
Intangible assets, property, plant and equipment and investment property (Notes 7 and 8)	906,338	1,759,960	6,119,969	7,691	8,793,958	40,844	**8,834,802**
Financial assets	1,659	3,899	2,181	–	7,739	1,541,224	**1,548,963**
Other non-current assets	–	–	–	–	–	407	**407**
Trade receivables and other current assets	–	–	–	–	–	123,347	**123,347**
Total assets	907,997	1,763,859	6,122,150	7,691	8,801,697	1,705,822	10,507,519

Thousands of euros

	Rentals						
	Barcelona	Madrid	Paris	Other	Total rentals	Corporate Unit	Total Group
Liabilities							
Bank borrowings and other financial liabilities (Note 12)	–	–	–	–	–	896,587	**896,587**
Bonds and similar securities issued (Note 12)	–	–	–	–	–	3,321,207	**3,321,207**
Operating liabilities (suppliers and payables)	–	–	–	–	–	143,880	**143,880**
Other liabilities	–	–	–	–	–	466,147	**466,147**
Total liabilities	–	–	–	–	–	4,827,821	4,827,821

Thousands of euros

	Rentals						
	Barcelona	Madrid	Paris	Other	Total rentals	Corporate Unit	Total Group
Other disclosures							
Investments in intangible assets, property, plant and equipment and investment property	10,447	25,236	96,452	66	132,201	3,648	**135,849**
Depreciation and amortisation	(1)	(118)	(485)	–	(604)	(1,841)	**(2,445)**
Expenses that do not entail outflows of cash other than the depreciation and amortisation for the year:							
Changes in provisions (Note 17-e)	(61)	(24)	1,915	–	1,830	(7,534)	**(5,704)**
Changes in value of investment property (Note 17-f)	78,155	139,404	715,421	455	933,435	–	**933,435**
Losses due to impairment of assets (Note 17-f)	(287)	(2,129)	–	–	(2,416)	(2,804)	**(5,220)**

2016 segment reporting

Thousands of euros

	Rentals						
	Barcelona	Madrid	Paris	Other	Total rentals	Corporate Unit	Total Group
Income							
Revenue (Note 17-a)	30,343	42,558	198,137	362	271,400	–	**271,400**
Other income (Note 17-b)	8	11	2,640	–	2,659	398	**3,057**
Net gain/(loss) on sales of assets (Notes 17-g)	557	(706)	–	–	(149)	–	**(149)**
Operating profit/(loss)	28,357	35,209	190,522	207	254,295	(41,425)	**212,870**
Changes in value of investment property (Note 17-f)	44,673	77,130	438,040	934	560,777	–	**560,777**
Losses due to impairment of assets (Note 17-f)	(7,531)	–	–	–	(7,531)	3,158	**(4,373)**
Financial profit/(loss) (Note 17-h)	–	–	–	–	–	(104,883)	**(104,883)**
Profit before tax	–	–	–	–	–	664,391	**664,391**
Consolidated net profit	–	–	–	–	–	559,304	**559,304**
Net profit/(loss) attributable to non-controlling interests (Notes 17-j)	–	–	–	–	–	(285,657)	**(285,657)**
Net profit/(loss) attributable to shareholders of the Parent (Note 5)	–	–	–	–	–	273,647	**273,647**

There were no significant inter-segment transactions in 2016.

None of the Group's customers represented more than 10% of income from ordinary activities.

Thousands of euros

	Rentals						
	Barcelona	Madrid	Paris	Other	Total rentals	Corporate Unit	Total Group
Assets							
Intangible assets, property, plant and equipment and investment property (Notes 7 and 8)	807,984	1,349,566	5,605,423	6,761	7,769,734	39,503	**7,809,237**
Financial assets	1,081	1,250	699	–	3,030	253,287	**256,317**
Other non-current assets	–	–	–	–	–	454	**454**
Trade receivables and other current assets	–	–	–	–	–	161,643	**161,643**
Total assets	893,803	1,339,016	5,740,847	6,391	7,980,057	247,594	8,227,651

Thousands of euros

	Rentals						
	Barcelona	Madrid	Paris	Other	Total rentals	Corporate Unit	Total Group
Liabilities							
Bank borrowings and other financial liabilities (Note 12)	–	–	–	–	–	871,080	**871,080**
Bonds and similar securities issued (Note 12)	–	–	–	–	–	2,823,883	**2,823,883**
Operating liabilities (suppliers and payables)	–	–	–	–	–	69,760	**69,760**
Other liabilities	–	–	–	–	–	455,009	**455,009**
Total liabilities	–	–	–	–	–	4,219,732	4,219,732

Thousands of euros

	Rentals						
	Barcelona	Madrid	Paris	Other	Total rentals	Corporate Unit	Total Group
Other disclosures							
Investments in intangible assets, property, plant and equipment and investment property	49,147	47,782	67,990	–	164,919	–	**164,919**
Depreciation and amortisation	(4)	–	(489)	–	(493)	(2,416)	**(2,909)**
Expenses that do not entail of cash other than the depreciation and amortisation for the year:							
Changes in provisions	(1)	(1,545)	743	–	(803)	(1,952)	**(2,755)**
Changes in value of investment property (Note 17-f)	44,673	77,130	438,040	934	560,777	–	**560,777**
Losses due to impairment of assets (Note 17-f)	(7,531)	–	–	–	(7,531)	3,158	**(4,373)**

7. Property, plant and equipment

The changes in this heading of the consolidated statement of financial position in 2017 and 2016 were as follows:

Thousands of euros

	Properties for own use	Other property, plant and equipment	Total
Balance at 31 December 2015	27,780	5,338	33,118
Acquisition cost	43,112	11,980	**55,092**
Accumulated depreciation	(7,532)	(6,642)	**(14,174)**
Accumulated impairment	(7,800)	–	**(7,800)**
Additions	1,671	1,061	**2,732**
Additions to the scope of consolidation (Note 2-f)	–	8,842	**8,842**
Depreciation charge	(282)	(946)	**(1,228)**
Disposals	–	(2,632)	**(2,632)**
Transfers	–	70	**70**
Impairment (Note 17-f)	3,159	–	**3,159**
Balance at 31 December 2016	32,328	11,733	44,061
Acquisition cost	44,783	19,570	**64,353**
Accumulated depreciation	(7,814)	(7,837)	**(15,651)**
Accumulated impairment	(4,641)	–	**(4,641)**
Additions	2,077	982	**3,059**
Additions to the scope of consolidation (Note 2-f)	195	130	**325**
Depreciation charge	(434)	(1,033)	**(1,467)**
Disposals	(97)	(197)	**(294)**
Transfers	(13)	(3,886)	**(3,899)**
Impairment (Note 17-f)	(287)	(2,129)	**(2,416)**
Balance at 31 December 2017	33,769	5,600	39,369
Acquisition cost	42,697	12,814	**55,511**
Accumulated depreciation	(4,000)	(7,214)	**(11,214)**
Accumulated impairment	(4,928)	–	**(4,928)**

At 31 December 2017 and 2016, the Group used two floors of the building located at Avenida Diagonal, 530, in Barcelona, one floor of the building located at Paseo de la Castellana, 52, in Madrid and one floor of the building located at 42 rue Washington in Paris for its own use, while the rest of these buildings were destined for leasing purposes. The cost of buildings earmarked for the Group's own use is recognised under "Property for own use".

On 5 September 2017, the subsidiary Finresa sold an asset for 425 thousand euros, resulting in the disposal of 193 thousand euros and a profit of 190 thousand euros.

In 2017 a total of 3,899 thousand euros were reclassified to “Investment property” in the consolidated statement of financial position (Note 8), given that the Group expects to earn rental income or obtain a gain from its sale as a result of future increases in their market prices.

The additions to the scope of consolidation in 2016 amounting to 8,842 thousand euros related to land and two apartments located in Madrid owned by the subsidiary Finresa (Note 2-f). The disposals related to the sale of one of the apartments acquired from Finresa for 2,100 thousand euros, generating a loss of 706 thousand euros.

At 31 December 2017, it became evident that an impairment loss in the amount of 2,416 thousand euros had to be recognised, evidenced by the appraisals performed by independent experts (Note 17-f). In 2016, the impairment loss on the assets recognised in previous years in the amount of 3,159 thousand euros was reversed (Note 17-f).

Lastly, assets amounting to 101 thousand euros were derecognised due to being replaced in 2017 (Note 17-f).

8. Investment property

The movements in this heading of the consolidated statement of financial position in 2017 and 2016 were as follows:

Thousands of euros

	Investment property	Investment property in progress	Total
Balance at 31 December 2015	6,574,272	169,041	6,743,313
Additions	91,723	73,196	**164,919**
Additions to the scope of consolidation (Note 2-f)	270,050	31,866	**301,916**
Disposals (Note 17-g)	(7,532)	–	**(7,532)**
Transfers	(22,881)	22,572	**(309)**
Changes in fair value (Note 17-f)	557,296	3,024	**560,320**
Balance at 31 December 2016	7,462,928	299,699	7,762,627
Additions	74,277	57,175	**131,452**
Additions to the scope of consolidation (Note 2-f)	359,678	11,033	**370,711**
Disposals (Note 17-g)	(5,049)	–	**(5,049)**
Transfers (Notes 7 and 21)	(271,528)	(132,925)	**(404,453)**
Changes in value (Note 17-f)	925,082	12,026	**937,108**
Balance at 31 December 2017	8,545,388	247,008	8,792,396

Movements in 2017

The additions for the year relate to the following transactions:

– On 30 November 2017, the subsidiary SFL acquired the Emile Zola property through (i) the acquisition of all share capital of the French company SAS Société Immobilière Victoria, which owns the land and a portion of the buildings of this property, resulting in an addition to the scope of consolidation of 107,721 thousand euros, and (ii) the rest of the property that was not owned by SAS Société Immobilière Victoria directly from the subsidiary SFL, resulting in an addition of 62,289 thousand euros.

– The remaining additions relate to development and refurbishment projects, mainly at properties of the SFL subgroup, in the amount of 33,961 thousand euros, and at properties of other Group companies, in the amount of 35,202 thousand euros. The above amounts include 2,591 thousand euros in capitalised borrowing costs.

In addition, as indicated in Note 2-f, the following additions were made to the scope of consolidation:

– On 18 May 2017, the subsidiary Inmocol Torre Europa, S.A. was included in the scope of consolidation, resulting in the addition to the scope of consolidation of land contributed by the shareholder of this company in the amount of 10,000 thousand euros, plus 80 thousand euros in associated acquisition costs.

– On 27 September 2017, the Parent acquired all shares in Colonial Arturo Soria, S.L.U., resulting in the addition to the scope of consolidation of the office building owned by the subsidiary, for 32,579 thousand euros.

– As set forth above in the changes due to additions, on 30 November 2017, the subsidiary SFL acquired the Emile Zola property through the acquisition of all share capital of the French company SAS Société Immobilière Victoria, which owns the land and a portion of the buildings of this property, representing an addition to the scope of consolidation of 107,721 thousand euros.

– On 20 and 27 December 2017, the Parent acquired all shares in Agisa, Soller and Peñalvento, resulting in the addition to the scope of consolidation of the land owned by these companies for 220,331 thousand euros.

The derecognitions in 2017 relate to the following transactions (Notes 4-c and 17-g):

– On 12 January 2017, the Parent disposed of several of its properties located on calle Orense de Madrid, for a total of 5,600 thousand euros, resulting in the disposal of 4,650 thousand euros and a profit of 290 thousand euros.

– On 31 October 2017, Finresa sold an asset for 410 thousand euros, resulting in the disposal of 399 thousand euros and a profit of 11 thousand euros.

Transfers in 2017 relate to the following transactions:

– In the first half of the year, the subsidiary reclassified the In&Out property under non-current assets held for sale (Note 21) once the subsidiary's Board of Directors passed the resolution to sell this asset. The amount transferred totalled 408,352 thousand euros.

– Furthermore, several assets amounting to a total of 3,899 thousand euros were reclassified from "Property, plant and equipment" in the consolidated statement of financial position, given that the Group expects to earn rental income or obtain a gain from their sale as a result of future increases in their market prices (Note 7).

Movements in 2016

The additions in 2016 related to the following transactions:

– On 21 June 2016, the Parent acquired a building at calle José Abascal, 45, Madrid for 35,051 thousand euros, including acquisition costs.

– On 28 December 2016, the Parent acquired a building at calle Travesera de Gràcia, 47-49 in Barcelona for 42,043 thousand euros, including acquisition costs.

– The remaining additions related to development and refurbishment projects, mainly involving properties belonging to the SFL subgroup, in the amount of 67,990 thousand euros, and properties of other Group companies, in the amount of 19,835 thousand euros. The above amounts included 1,177 thousand euros in capitalised borrowing costs.

In addition, as indicated in Note 2-f, the following additions were made to the scope of consolidation:

– On 28 May 2016, the Parent acquired all the shares in Moorage, resulting in the addition in the scope of consolidation of land located on calle Ciudad de Granada in Barcelona, for 53,854 thousand euros.

– On 30 June 2016, the Parent acquired all the shares in Hofinac, resulting in the addition in the scope of consolidation of two properties located at calle Santa Hortensia, 26-28 and calle Serrano, 73, both in Madrid, for a combined amount of 200,384 thousand euros.

– On 29 December 2016, the Parent acquired all the shares in Finresa, resulting in the addition in the scope of consolidation of a property located in Madrid for 47,678 thousand euros.

Assets amounting to 7,532 thousand euros were derecognised due to being replaced in 2016 (Note 17-f).

Changes in value of investment property

“Changes in value of investment property” in the consolidated statement of comprehensive income includes the profit from the revaluation of the investment property for 2017 and 2016, in the amount of 937,108 thousand euros and 560,320 thousand euros (Note 17-f), respectively, in accordance with the appraisals of independent experts at 31 December 2017 and 2016 (Note 4-c).

Capitalised borrowing costs

The table below details the borrowing costs capitalised in 2017 and 2016 (Note 17-h):

Thousands of euros

	Amount capitalised during the period	Average interest rate
2017:		
Inmobiliaria Colonial, SOCIMI, S.A.	857	2.53%
Danieltown Spain S.L.U.	141	2.52%
Moorage inversions 2014, S.L.U.	84	2.53%
SFL subgroup	1,509	1.90%
Total 2017:	2,591	–
2016:		
Inmobiliaria Colonial, SOCIMI, S.A.	824	2.86%
Danieltown Spain S.L.U.	43	2.86%
Moorage inversions 2014, S.L.U.	19	2.82%
SFL subgroup	291	1.94%
Total 2016:	1,177	–

Other disclosures

The total surface area (above and under-ground) of investment property and projects in progress at 31 December 2017 and 2016 is as follows:

Minimum — **Total surface area (m²) of investment property**

	Investment property		Investment property in progress		Total	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Barcelona (*)	286,655	286,216	81,838	59,368	368,493	345,584
Madrid	385,461	355,779	153,165	38,263	538,626	394,042
Resto España	13,048	12,735	–	–	13,048	12,735
Paris (*)	377,426	415,174	64,867	45,855	442,293	461,029
	1,062,590	1,069,904	299,870	143,486	1,362,460	1,213,390

(*) Including 100% of the floor space of Washington Plaza (a property owned by the Group company SCI Washington, 66%-owned by SFL), the Haussmann, Champs Élysées, 82-88 and Champs Élysées, 90 buildings (owned by the Parholding subgroup, a company 50%-owned by SFL), the Torre del Gas property (owned by Torre Marenostrum, S.L., a company 55%-owned by the Parent) and the Torre Europa, 46-48 building (owned by Inmocol Torre Europa, S.A., a company 50%-owned by the Parent).

At 31 December 2017, the companies of the Parholding subgroup and Torre Marenostrum, S.L. pledged assets as collateral for mortgage loans, the carrying amount of which is 1,048,232 thousand euros, and as collateral for debts in the amount of 237,980 thousand euros (Note 12-e). At 31 December 2016, the corresponding balances totalled 862,787 thousand euros and 241,000 thousand euros, respectively.

In 2016, the subsidiary SFL exercised its 26,000 thousand euro call option on the last finance lease it held, thereby assuming ownership of the building located at Wagram, 131 and generating the related exit tax liability (Notes 4-m and 16).

9. Non-current financial assets

The changes in this heading of the consolidated statement of financial position in 2017 and 2016 were as follows:

Thousands of euros

	31 December 2016	Acquisitions or provisions	Additions to the scope of consolidation (Note 2-f)	31 December 2017
Deposits and guarantees given	12,383	4,616	6,590	23,589
Derivative financial instruments	–	1,484	–	1,484
Financial assets available for sale	138,293	280,984	–	419,277
Total	150,676	287,084	6,590	444,350

Thousands of euros

	31 December 2015	Acquisitions or provisions	31 December 2016
Deposits and guarantees given	8,954	3,429	12,383
Financial assets available for sale	–	138,293	138,293
Total	8,954	141,722	150,676

a) Deposits and guarantees given

Long-term deposits and guarantees basically comprise deposits made with the official bodies in each country for deposits collected from lessees, in accordance with prevailing legislation.

b) Available-for-sale financial assets – Interest in Axiare Patrimonio SOCIMI, S.A.

The movements in this interest in 2017 and 2016 are shown in the following table:

Thousands of euros

	2017	2016
Opening balance	**138,293**	–
Acquisitions	211,886	136,976
Adjustments to fair value through other comprehensive income	69,098	1,317
Closing balance	419,277	138,293

In 2016, the Parent acquired 10,846,541 shares of Axiare Patrimonio SOCIMI, S.A. (hereinafter, "Axiare"), representing 15.09% of its share capital.

In March 2017, the Parent acquired 1,404,000 shares of Axiare, representing 1.78% of the company's current share capital, for 18,801 thousand euros, obtaining an interest of 15.49% in Axiare.

In November 2017, the Parent acquired 10,511,523 shares of Axiare, representing 13.30% of Axiare's current share capital, for a total amount of 193,085 thousand euros, equivalent to 18.36 euros per share, obtaining an interest of 28.79% in Axiare.

In 2017, the Parent received 3,681 thousand euros in dividends from its interest in Axiare, which were recognised under "Finance income" in the consolidated statement of comprehensive income (Note 17-h).

At 31 December 2017, the Parent recognised its shareholding in Axiare Patrimonio SOCIMI, S.A. at the year-end share price of 18.42 euros per share, which represents a cumulative impact on the Parent's equity of 70,415 thousand euros (1,317 thousand euros at 31 December 2016).

The Parent's directors considered that the Parent did not exercise, nor could it exercise, a significant influence over Axiare at 31 December 2017 or 2016, and thus it has been considered to be a financial investment.

c) Voluntary takeover bid to acquire shares of Axiare Patrimonio SOCIMI, S.A. (Note 23-b)

On 28 December 2017, the Spanish National Securities Market Commission authorised the voluntary takeover bid to acquire shares of Axiare Patrimonio SOCIMI, S.A. submitted by the Parent on 24 November 2017, as it considered that its terms were in line with applicable laws and that the contents of the explanatory prospectus were sufficient.

The offer was made for 100% of the share capital of Axiare Patrimonio SOCIMI, S.A. consisting of 79,062,486 shares, admitted for trading on the Barcelona, Bilbao, Madrid and Valencia Stock Exchanges and included in the Spanish Stock Market Interconnection System, not including 22,762,064 shares, representing 28.79% of the share capital, which were blocked by the offeror. Consequently, the offer was effectively extended to the acquisition of 56,300,422 shares of Axiare Patrimonio SOCIMI, S.A., which represent 71.21% of the share capital.

The price offered was 18.36 euros per share; this amount arises through deducting the amount of the dividend paid by Axiare after the takeover bid was announced, of 0.14 euros per share, from the price initially offered of 18.50 euros per share.

On 28 December 2017, the first of the announcements referred to in article 22 of Royal Decree 1066/2007, of 27 July, for the takeover bid for Axiare Patrimonio SOCIMI, S.A. by Inmobiliaria Colonial, SOCIMI, S.A., was published. Consequently, in accordance with the terms set forth in the prospectus of the aforesaid offer, the acceptance period lasts from 29 December 2017 to 29 January 2018, both inclusive.

10. Trade and other receivables

The breakdown of this current asset heading in the accompanying consolidated statement of financial position at 31 December 2017 and 2016 is as follows:

Thousands of euros

	31 December 2017	31 December 2016
Trade receivables from sales and services	27,049	16,337
Accrual of lease incentives	78,746	103,125
Other receivables	86,564	85,810
Other current assets	386	776
Impairment of receivables		
Trade receivables from sales and services	(4,040)	(3,621)
Other receivables	(85,473)	(85,473)
Total trade and other receivables	103,232	116,954

a) Trade receivables from sales and services

This mainly includes the amounts receivable from customers, fundamentally from the Group's rentals business in France, that are billed monthly, quarterly or yearly. At 31 December 2017 and 2016, no material amounts were past due.

b) Accrual of lease incentives (Note 4-n)

This includes the amount of the incentives in the operating lease agreements (grace periods, etc.) that the Group offers its customers, which are recognised in the consolidated statement of comprehensive income during the minimum operating lease term. Of that amount, 61,300 thousand euros have a maturity of more than 1 year (87,596 thousand euros at 31 December 2016).

In 2017, a total of 40,321 thousand euros in lease incentives for the In&Out building recognised prior to the sale were derecognised as an increase to the sale price (Note 17-g).

c) Other receivables

At 31 December 2017 and 2016, the amounts owed by Nozar, S.A., resulting from the cancellation of the purchase agreements entered into in July 2007 as a result of failing to comply with the conditions precedent, were recognised under "Other receivables", and totalled 85,473 thousand euros, including accrued interest.

Nozar, S.A. is currently involved in bankruptcy proceedings; consequently, at 31 December 2017 and 2016, the accompanying consolidated statement of financial position included an impairment loss for the entire amount of this company's trade receivables.

d) Impairment of trade receivables

In 2017, impairment losses in the amount of 419 thousand euros (2,896 thousand euros in 2016) relating to accounts receivable were charged to “Net change in provisions” in the consolidated statement of comprehensive income for the year (Note 17-e).

At 31 December 2017 and 2016, the Group had no significant receivables past due but not impaired.

11. Equity

a) Share capital

At 31 December 2015, the Parent’s share capital was represented by 3,188,856,640 shares with a par value of 0.25 euros each, which were fully subscribed and paid.

The following changes in the Parent’s share capital occurred in 2016:

– At the Annual General Meeting held on 28 June 2016, the shareholders approved the issue of 288,571,430 new shares with a par value of 0.25 euros each, plus a share premium of 0.45 euros per share, as consideration for the non-monetary contribution of shares of Hofinac (Note 2-f). The total amount of the capital increase was 72,143 thousand euros plus 129,857 thousand euros for the share premium. This capital increase was registered with the Barcelona Mercantile Registry on 30 June 2016.

– On the same date, the shareholders also approved the issue of 90,805,920 shares with a par value of 0.25 euros each, plus a share premium of 0.45 euros per share, as consideration for the non-monetary contribution of 1,019,478 shares of SFL (Note 2-f). The total amount of the capital increase was 22,701 thousand euros plus 40,863 thousand euros for the share premium. This capital increase was registered with the Barcelona Mercantile Registry on 30 June 2016.

On 14 July 2016, the Company carried out the resolution calling for a reverse stock split whereby every 10 existing shares would be swapped for one newly-issued share, bringing the total number of shares to 356,823,399 and raising the par value of each share from 0.25 euros to 2.50 euros.

In 2017, the Parent carried out two capital increases, both with a charge to monetary contributions and the disapplication of pre-emption rights, through the accelerated bookbuild offering amongst qualified investors:

– The increase was registered with the Mercantile Registry on 5 May 2017. Its purpose is to reinforce the Parent’s equity in order to take full advantage of investment opportunities which are currently available, carry out repositioning and improvement investments to maximise the quality, occupancy and value of the assets that already form part of its portfolio, as well as consolidate its credit rating and possible improve it. As a result of the placement, 35,646,657 new shares were issued each with a par value of 2.50 euros, for a total amount of 253,092 thousand euros, prompting an increase in share capital and the share premium of 89,117 thousand euros and 163,975 thousand euros, respectively. The new shares were admitted to trading on 8 May 2017 on the Barcelona and Madrid stock exchanges.

– The increase aimed at ensuring and optimising the funding for the takeover bid for Axiare Patrimonio SOCIMI, S.A. (Note 9-c) not owned by Colonial was registered with the Mercantile Registry on 29 November 2017. As a result of the placement, 42,847,300 new shares were issued each with a par value of 2.5 euros, for a total amount of 338,065 thousand euros, prompting an increase in share capital and the share premium of 107,118 thousand euros and 230,947 thousand euros, respectively. The new shares were admitted to trading on 4 December 2017 on the Barcelona and Madrid stock exchanges.

As a result, the Company’s share capital at 31 December 2017, was represented by 435,317,356 fully subscribed and paid up shares with a par value of 2.50 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 Parent at 31 December 2017 and 2016 were as follows:

	31 December 2017		31 December 2016	
	Number of shares (*)	% shareholding	Number of shares (*)	% shareholding
Name or corporate name of the shareholder:				
Finaccess Group	79,378,647	18.23%	41,139,685	11.53%
Qatar Investment Authority	41,610,141	9.56%	41,593,367	11.66%
Aguila Ltd.	28,800,183	6.62%	21,800,184	6.11%
Inmo S.L.	20,011,190	4.60%	–	–
BlackRock Inc	10,955,962	2.52%	10,885,211	3.05%
Deutsche Bank A.G.	8,135,390	1.87%	8,135,390	2.28%
Joseph Charles Lewis	–	–	17,617,708	4.94%
Villar-Mir Group	–	–	11,906,969	3.34%
Fidelity International Limited	–	–	6,248,471	1.75%
Invesco Limited	–	–	3,540,788	0.99%

(*) Does not include certain financial instruments linked to shares in the Parent.

On 5 January 2018, BlackRock Inc. increased its interest to 11,308,788 shares, equivalent to 2.60% of the Parent's share capital.

At 31 December 2017, Blackrock Inc. and Deutsche Bank AG formally obtained financial instruments associated with the Parent's shares that, in the event the instruments are exercised, could give rise to an additional interest in the share capital of Colonial.

The Parent has no knowledge of other significant equity interests.

During the General Shareholders' Meeting held on 24 April 2015, the Board of Directors was authorised to issue, on behalf of the Parent, on one or several occasions, and for a period of five years, debentures and/or bonds convertible into new shares of the Parent and/or exchangeable for shares of the Parent or any other third-party entity, expressly providing for, in the case of convertible debentures and/or bonds, the power to disapply the pre-emption 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 another currency.

At the General Meeting held on 29 June 2017, the Parent's shareholders authorised the Board of Directors, in accordance with article 297.1 b) of the Spanish Limited Liability Companies Law, to increase share capital, through monetary contributions, by up to half the existing amount, in one or several issues and within a maximum period of five years, at the time and for the amount deemed appropriate. Within the limits indicated, the Board of Directors was also authorised to disapply pre-emption rights, limiting this authorisation to a maximum nominal amount of 20% of total share capital, taken as a whole.

b) Share premium

In 2017, as a result of the two aforementioned accelerated bookbuild offerings, the amount of the share premium increased by 163,975 thousand euros and 230,947 thousand euros, respectively.

As a result of the two capital increases carried out in 2016, the share premium increased by 129,857 thousand euros and 40,863 thousand euros, respectively.

c) Legal reserve

Under the Consolidated 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, the legal reserve amounted to 5,080 thousand euros. At 31 December 2016, taking into account the appropriation to the legal reserve included in the distribution of profit for 2015, the legal reserve reached 33,615 thousand euros. At 31 December 2017, taking into account the appropriation to the legal reserve included in the distribution of the Parent's profit for 2016 approved by the shareholders at the General Meeting held on 29 June 2017, the legal reserve amounted to 39,099 thousand euros, although it had not yet reached the stipulated level at the date of authorisation for issue of these consolidated financial statements.

d) Other reserves of the Parent

At 31 December 2015, the Parent had set aside voluntary reserves of 1,158,874 thousand euros, of which 169,439 thousand euros were not freely available.

The resolutions approved by the shareholders at the Annual General Meeting of 28 June 2016 included the distribution of profit for 2015, which included the appropriation of 28,535 thousand euros to the legal reserve and the distribution of 47,832 thousand euros in dividends, and 208,982 thousand euros were allocated to offset prior years' losses. At the General Meeting, the shareholders also approved the partial application of voluntary reserves to offset prior years' losses still existing after the offset included in the proposed distribution of 2015 profit, in the amount of 938,993 thousand euros.

As a result of the capital increases described in Note 11-a, costs of 6,691 thousand euros were reported in 2017 (1,905 thousand euros in 2016), under "Reserves of the Parent" in consolidated equity.

In 2017, the Parent carried out treasury share transactions, which gave rise to a gain of 10,371 thousand euros (a loss of 12 thousand euros in 2016), and which were registered directly in the Parent's equity. The income generated from the delivery of treasury shares to the beneficiaries of the long-term incentives plan (Note 18-a), calculated as the difference between the carrying amount of the shares delivered and the amount of the obligation assumed by the Parent (Note 4-j), which amounted to 1,286 thousand euros in 2017 (945 thousand euros in 2016) was also recognised in the Parent's reserves.

Following both offset exercises, voluntary reserves total 206,019 thousand euros, of which 169,439 thousand euros continue to be restricted.

e) Valuation adjustments recognised in other consolidated comprehensive income – financial instruments

This heading of the consolidated statement of financial position includes the sum of gains and losses arising from changes in the fair value of efficient financial derivatives classified as cash flow hedges (Note 13).

The changes in this heading are as follows:

Thousands of euros

	31 December 2017	31 December 2016
Opening balance	**(571)**	**(2,504)**
Changes in the fair value of hedges in the period	(39)	(101)
Transfers to consolidated net profit	51	2,168
Changes in the scope of consolidation (Note 2-f)	–	(134)
Closing balance	(559)	(571)

f) Treasury shares of the Parent

At 31 December 2017 and 2016, the number of the Parent's treasury shares and their acquisition cost were as follows:

	31 December 2017		31 December 2016	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Opening balance	**5,469,985**	**35,426**	**700,382**	**4,068**
Buyback plan 14 November 2016	6,837,328	46,787	3,162,672	20,249
Buyback plan 16 October 2017	2,260,000	17,797	–	–
Delivery of incentives plan shares (Note 18)	(380,116)	(2,537)	(365,116)	(2,114)
Other acquisitions	–	–	4,088,555	27,145
Other disposals	(9,907,257)	(68,052)	(2,116,508)	(13,922)
Closing balance	4,279,940	29,421	5,469,985	35,426

Parent share buyback plans

On 14 November 2016, the Parent's Board of Directors agreed to carry out a treasury share buyback programme. The purposes of the plan are to complete the coverage of the share plan approved by shareholders at the General Meeting held on 21 January 2014 and additional initiatives that the Board of Directors may consider advisable in the Company's business interest. The maximum monetary amount assigned to the programme amounts to 68,000 thousand euros and a maximum of 10,000,000 shares may be acquired, equivalent to 2.8% of the Parent's share capital as of that date. The maximum duration of the programme was six months, i.e., up to 15 May 2017. However, it would be ended early if the maximum number of shares or the maximum monetary amount was reached before said date. The buyback programme ended in 2017.

On 16 October 2017, the Parent's Board of Directors agreed to implement a new programme involving the repurchase of treasury shares in accordance with the authorisation granted by shareholders at the General Meeting held on 30 June 2014. The maximum monetary amount assigned to the programme amounts to 100,000 thousand euros and the maximum number of shares to be acquired is 12,000,000 shares, equivalent to 3% of the Parent's share capital as of that date. The maximum duration of the programme is six months, i.e., up to 17 April 2018.

However, it would be ended early if the maximum number of shares or the maximum monetary amount is reached before said date. On 3 November 2017, the Parent ended the share buyback programme early.

Deliveries of Parent shares deriving from the long-term Incentives Plan (Note 18)

Every year, the Parent settles the obligations to comply with the previous year's plan through the delivery of shares to the beneficiaries of the Remuneration Plan, once it has assessed the degree of attainment of the indicators included therein.

Other acquisitions

This heading comprises the Parent's acquisition, on 29 July 2016, of 3,801,417 shares of Mora Banc Grup, S.A. and Mora Assegurances, S.A.U., for 25,495 thousand euros, by virtue of the agreement signed between the two parties on 27 July 2016, and several acquisitions of the Parent's shares, totalling 287,138 shares in the amount of 1,650 thousand euros, to cover the long-term incentives plan (Note 18-a).

Other disposals

On 29 November 2017, the Parent sold 9,907,257 shares at a price equivalent to the issue price of the new shares issued in the framework of the accelerated bookbuild offering carried out on the same date (Note 11-a), i.e., at 7.89 euros per share.

On 4 August 2016, the Parent delivered 2,116,508 treasury shares to APG in exchange for 237,623 shares in the subsidiary SFL (Note 2-f).

g) Liquidity contracts

The Parent enters into liquidity contracts in order to enhance the liquidity of its transactions and the regularity of its quoted share price.

At 31 December 2017 and 2016, the Parent's treasury shares included in the liquidity contracts and their acquisition cost were as follows:

	31 December 2017		31 December 2016	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Opening balance	**209,603**	**1,329**	**148,701**	**945**
Liquidity contract dated 22 June 2015	30,480	482	60,902	384
Liquidity contract dated 11 July 2017	(10,583)	30	–	–
Closing balance	229,500	1,841	209,603	1,329

Liquidity contract dated 22 June 2015

On 22 June 2015, the Parent entered into a liquidity contract in order to enhance the liquidity of its transactions and the regularity of its quoted share price, as provided for under CNMV Circular 3/2007, of 19 December.

On 10 July 2017, on the issue of CNMV Circular 1/2017, of 26 April 2017, the Parent terminated the liquidity contract effective as of 10 July 2017.

Liquidity contract dated 11 July 2017

On 11 July 2017, the Parent entered into a new liquidity contract in order to enhance the liquidity of its transactions and the regularity of its quoted share price, as provided for under CNMV Circular 1/2017, of 26 April. The contract is valid for 12 months.

h) Treasury shares of SFL

In 2017 the treasury shares of SFL, amounting to 13,056 thousand euros, were reclassified from "Treasury shares" to "Consolidated reserves" in the consolidated statement of financial position.

i) Non-controlling interests

The movement in this heading of the consolidated statement of financial position is as follows:

Thousands of euros

	Torre Marenostrum, S.L.	Inmocol Torre Europa, S.A.	Utopicu Subgroup	SFL Subgroup	Total
Balance at 31 December 2015	22,715	–	–	1,589,333	1,612,048
Profit for the year	1,124	–	–	284,533	**285,657**
Dividends and other	(382)	–	–	(48,272)	**(48,654)**
Changes in the scope of consolidation (Note 2-f)	–	–	–	(144,378)	**(144,378)**
Financial instruments	505	–	–	1,027	**1,532**
Balance at 31 December 2016	23,962	–	–	1,682,243	1,706,205
Profit for the year	1,954	1,037	(65)	395,002	**397,928**
Dividends and other	(1,547)	(27)	11	(24,446)	**(26,009)**
Changes in the scope of consolidation (Note 2-f)	–	10,000	80	(343)	**9,737**
Financial instruments	9	–	–	–	**9**
Balance at 31 December 2017	24,378	11,010	26	2,052,456	2,087,870

The breakdown of the items included in “Dividends and other” at 31 December 2017 and 2016 is as follows:

Thousands of euros

	31 December 2017	31 December 2016
Dividend paid by the SFL subgroup to non-controlling interests	(19,909)	(42,435)
Dividend paid by Washington Plaza to non-controlling interests	(5,516)	(5,934)
Dividend paid by Torre Marenostrum to non-controlling interests	(1,575)	(382)
Other	991	97
Total	(26,009)	(48,654)

The SFL subgroup has the following shareholders agreements with Prédica:

– Agreement in SCI Washington, in which SFL holds 66%. In the event of a change of control of SFL, Prédica may consent to the change of control, or acquire or sell all of the shares and current accounts held by SFL in the common subsidiary, at a price agreed between the parties or on an arm’s length basis.

– Agreement in Parholding, in which SFL holds 50%. In the event of a change of control of SFL, Prédica may consent to the change of control, or acquire or sell all of the shares and current accounts held by SFL in the common subsidiary, at a price agreed between the parties or on an arm’s length basis.

12. Bank borrowings, other financial liabilities and issuance of bonds and other similar securities

The detail of these headings of the consolidated statement of financial position, by type of debt and maturity, at 31 December 2017 and 2016 is as follows:

31 December 2017

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	More than 5 years	Total non-current	Total
Bank borrowings:								
Lines of credit	33,459	–	–	–	–	–	–	**33,459**
Loans	4,087	154,151	14,218	79,280	197,217	199,383	644,249	**648,336**
Syndicated loans	–	–	–	150,000	13,400	–	163,400	**163,400**
Interest	1,180	–	–	–	–	–	–	**1,180**
Debt arrangement expenses	(2,276)	(2,085)	(1,742)	(1,458)	(441)	(469)	(6,195)	**(8,471)**
Total bank borrowings	36,450	152,066	12,476	227,822	210,176	198,914	801,454	**837,904**
Other financial liabilities:								
Current accounts	–	55,645	–	–	–	–	55,645	**55,645**
Interest on current accounts	56	–	–	–	–	–	–	**56**
Derivative financial instruments (Note 13)	363	–	–	–	–	138	138	**501**
Other financial liabilities	2,481	–	–	–	–	–	–	**2,481**
Total other financial liabilities	2,900	55,645	–	–	–	138	55,783	**58,683**
Total bank borrowings and other financial liabilities	39,350	207,711	12,476	227,822	210,176	199,052	857,237	**896,587**
Bonds and similar securities issued:								
Bond issues	–	375,000	–	500,000	500,000	1,950,000	3,325,000	**3,325,000**
Interest	17,348	–	–	–	–	–	–	**17,348**
Arrangement expenses	(3,774)	(3,404)	(3,148)	(3,105)	(2,702)	(5,008)	(17,367)	**(21,141)**
Total bonds and similar securities issued	13,574	371,596	(3,148)	496,895	497,298	1,944,992	3,307,633	**3,321,207**
Total at 31 December 2017	52,924	579,307	9,328	724,717	707,474	2,144,044	4,164,870	**4,217,794**

31 December 2016

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	More than 5 years	Total non-current	Total
Bank borrowings:								
Lines of credit	84,815	–	–	–	–	–	–	**84,815**
Loans	5,209	5,268	145,563	56,036	156,331	212,594	575,792	**581,001**
Syndicated loans	–	–	–	20,000	121,874	–	141,874	**141,874**
Interest	1,203	–	–	–	–	–	–	**1,203**
Debt arrangement expenses	(1,729)	(1,723)	(1,524)	(1,155)	(851)	(214)	(5,467)	**(7,196)**
Total bank borrowings	89,498	3,545	144,039	74,881	277,354	212,380	712,199	**801,697**
Other financial liabilities:								
Current accounts	–	63,346	–	–	–	–	63,346	**63,346**
Interest on current accounts	70	–	–	–	–	–	–	**70**
Derivative financial instruments (Note 13)	1,428	–	45	–	–	1,941	1,986	**3,414**
Other financial liabilities	2,553	–	–	–	–	–	–	**2,553**
Total other financial liabilities	4,051	63,346	45	–	–	1,941	65,332	**69,383**
Total bank borrowings and other financial liabilities	93,549	66,891	144,084	74,881	277,354	214,321	777,531	**871,080**
Bonds and similar securities issued:								
Bond issues	300,700	–	375,000	–	500,000	1,650,000	2,525,000	**2,825,700**
Interest	16,873	–	–	–	–	–	–	**16,873**
Arrangement expenses	(3,646)	(3,072)	(2,717)	(2,459)	(2,418)	(4,377)	(15,043)	**(18,689)**
Total bonds and similar securities issued	313,927	(3,072)	372,283	(2,459)	497,582	1,645,623	2,509,956	**2,823,883**
Total at 31 December 2016	407,476	63,818	516,367	72,422	774,936	1,859,944	3,287,487	**3,694,963**

The changes in net financial debt in 2017, which arose from cash flows and other, are detailed in the table below:

Thousands of euros

	31 December 2016	Cash flows	Changes in control of subsidiaries	31 December 2017
Lines of credit	84,815	(51,356)	–	33,459
Loans	581,001	66,906	429	648,336
Syndicated loans	141,874	21,526	–	163,400
Bond issues	2,825,700	499,300	–	3,325,000
Gross financial debt (gross nominal debt)	3,633,390	536,376	429	4,170,195
Cash and cash equivalents	(105,200)	(984,677)	(14,724)	(1,104,601)
Net financial debt	3,528,190	(448,301)	(14,295)	3,065,594

a) Issues of the Parent's straight bonds

The breakdown of the issues of straight bonds launched by the Parent at 31 December 2017 and 2016, is as follows (in thousands of euros):

Thousands of euros

Issue	Term	Maturity	Fixed-rate coupon payable annually	Amount of the issue	31 December 2017	31 December 2016
05/06/2015	5 years	05/06/2019	1.863%	750,000	375,000	375,000
05/06/2015	8 years	05/06/2023	2.728%	500,000	500,000	500,000
28/10/2016	8 years	28/10/2024	1.450%	600,000	600,000	600,000
10/11/2016	10 years	10/11/2026	1.875%	50,000	50,000	50,000
28/11/2017	8 years	28/11/2025	1.625%	500,000	500,000	–
28/11/2017	12 years	28/11/2029	2.5%	300,000	300,000	–
Total issues					2,325,000	1,525,000

The bonds were admitted for trading on the Irish Stock Exchange's main securities market.

At 31 December 2017 and 2016, the fair value of the bonds issued by the Parent was 2,378,881 thousand euros and 1,545,466 thousand euros, respectively.

European Medium Term Note Programme

On 5 October 2016, the Parent registered a 12-month European Medium Term Note programme for 3,000,000 thousand euros, which can be extended to 5,000,000 thousand euros, on the Irish Stock Exchange.

On 11 October 2017, the programme was renewed for a further 12 months.

Compliance with financial ratios

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 of the Colonial Group in the consolidated statement of financial position at each of these dates must at least be equal to the financial debt not guaranteed. This ratio had been met at 31 December 2017 and 2016.

b) Issue of SFL straight bonds

The breakdown of issues of non-convertible bonds by SFL is as follows:

Thousands of euros

Issue	Term	Maturity	Fixed-rate coupon payable annually	Amount of the issue	31 December 2017	31 December 2016
28/11/2012	5 años	28/11/2017	3.50%	500,000	–	300,700
20/11/2014	7 años	20/11/2021	1.875%	500,000	500,000	500,000
16/11/2015	7 años	16/11/2022	2.250%	500,000	500,000	500,000
Total issues					1,000,000	1,300,700

The bonds are unsubordinated obligations, all of which rank pari passu. They are traded on the Euronext Paris exchange.

At 31 December 2017 and 2016, the fair value of the bonds issued by SFL was 1,062,635 thousand euros and 1,371,985 thousand euros, respectively.

In November 2017, the subsidiary SFL settled the bonds maturing from the 2012 issue, with an outstanding nominal amount of 300,700 thousand euros.

In May 2016, the subsidiary SFL settled the bonds maturing from the 2011 issue, with an outstanding nominal amount of 155,800 thousand euros.

c) Syndicated financing of the Parent

The breakdown of the Parent's syndicated financing at 31 December 2017 and 2016 is detailed in the table below:

Thousands of euros

		31 December 2017		31 December 2016	
	Maturity	Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Loan facility	November 2021	350,000	150,000	350,000	121,874
Loan facility	March 2022	375,000	13,400	–	–
Total syndicated financing of the Parent		725,000	163,400	350,000	121,874

The variable interest rate has a spread tied to the EURIBOR.

The main purpose of this syndicated loan maturing in November 2021 is to finance possible acquisitions, as well as refurbishments and other investment requirements on the property assets of the Parent.

In March 2017, the Parent signed a new syndicated credit facility for 375,000 thousand euros, maturing at five years. This line of credit is intended to cover the Parent's general corporate needs. A total of 10 banks took part in the process, with Crédit Agricole acting as lead bank.

Compliance with financial ratios

The loans are subject to compliance with the following financial ratios on a quarterly basis:

Ratios
Loan-to-value ratio <= 55%
Interest coverage ratio >= 2x
Secured mortgage debt / Value of property assets <=15%
Secured non-mortgage debt / Value of non-property assets <=15%
Value of the consolidated assets >= 4.5 billion euros

At 31 December 2017 and 2016, the Parent complied with all financial ratios.

d) SFL syndicated loan

The breakdown of SFL's syndicated loan at 31 December 2017 and 2016 is as follows:

Thousands of euros

		31 December 2017		31 December 2016	
	Maturity	Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Loan facility	July 2020	400,000	–	400,000	20,000
Loan facility	October 2019	150,000	–	150,000	–
Total SFL syndicated loan		550,000	–	550,000	20,000

The variable interest rate has a spread tied to the EURIBOR.

Compliance with financial ratios

SFL syndicated loans must meet the following financial ratios every six months:

Ratios
Loan-to-Value Ratio<= 50%
Interest coverage ratio >= 2
Secured debt/equity value <= 20%
Appraisal value of unmortgaged properties >= 2 billion euros
Gross financial debt subsidiaries / Consolidated gross financial debt < 25%

At 31 December 2017 and 2016, SFL complied with the financial ratios stipulated in the respective financing agreements.

e) Mortgage-backed loans

At 31 December 2017 and 2016, the Group held the following mortgage-backed loans for certain investment properties:

Thousands of euros

	31 December 2017		31 December 2016	
	Mortgage debt	Market value of asset	Mortgage debt	Market value of asset
Investment property (Note 8)	237,980	1,054,197	241,000	868,866
Total	237,980	1,054,197	241,000	868,866

At 31 December 2017, 85% of the mortgage debt (203,320 thousand euros) corresponded to the SFL subgroup and accrues interest at a fixed rate (85% and 205,400 thousand euros, respectively, at 31 December 2016). The remaining mortgage debt corresponds to the subsidiary Torre Marenostrum, S.L., and is tied to the EURIBOR plus an additional spread.

Compliance with financial ratios

The Group's two mortgage-backed loans are subject to compliance with various financial ratios.

Ratios

SFL subsidiaries: Pargal, Parchamps and Parhaus	Loan-to-Value Ratio <= 55% individual and 50% consolidated for the subsidiaries. Annual compliance every 30 June. Debt service coverage ratio >= 1.5 individual and 1.7 consolidated for the subsidiaries. Quarterly compliance.
Torre Marenostrum, S.L.	Net financial debt / Shareholders' equity <=3. Annual compliance. Debt service coverage ratio >= 1.05. Annual compliance.

At 31 December 2017 and 2016, the Group complied with the financial ratios required in its financing agreements.

f) Other loans

At 31 December 2017 and 2016, SFL had five bilateral loans not secured by a mortgage guarantee, that were subject to compliance with various ratios. The total limits and balances drawn down are as follows:

Thousands of euros

		31 December 2017		31 December 2016	
	Maturity	Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Other loans:					
BECM	April 2019	150,000	150,000	150,000	140,000
Banco Sabadell	June 2020	70,000	10,000	50,000	50,000
BNP Paribas	May 2021	150,000	75,000	150,000	150,000
CADIF	June 2023	175,000	175,000	–	–
Banque Postale	June 2024	75,000	–	–	–
Total other loans		620,000	410,000	350,000	340,000

In 2017, the subsidiary SFL signed two new lines of credit with CADIF and Banque Postale for a total of 175,000 thousand euros and 75,000 thousand euros, maturing in 6 and 7 years, respectively. Furthermore, SFL increased the limit of the bilateral loan that it had taken out with Banco Sabadell by 20,000 thousand euros, which was set at 70,000 thousand euros.

In May 2016, the subsidiary SFL arranged a loan with BNP Paribas for a period of five years, with a floating interest rate and a spread tied to the EURIBOR.

Compliance with financial ratios

All these loans are subject to the following financial ratios on a half-yearly basis:

Ratios
Loan-to-Value Ratio<= 50%
Interest coverage ratio >= 2
Secured debt/equity value <= 20%
Appraisal value of unmortgaged properties >= 2 million euros
Gross financial debt subsidiaries / Consolidated gross financial debt < 25%

At 31 December 2017 and 2016, SFL complied with the financial ratios stipulated in the respective financing agreements.

Lastly, at 31 December 2017, the companies of the Utopicus subgroup had five loans drawn down for a total of 356 thousand euros (Note 2-f). These loans are not subject to compliance with any ratio.

g) Lines of credit

The Group has lines of credit of up to 33,459 thousand euros, which at 31 December 2017 were fully drawn down (84,815 thousand euros at 31 December 2016).

h) Other financial liabilities – Current accounts

At 31 December 2017, the Group had a current account in the amount of 55,645 thousand euros extended to the companies of the SCI Washington Group. This current account accrues an additional spread on the three-month Euribor. At 31 December 2016, the Group had two current accounts in the amount of 57,346 thousand euros and 6,000 thousand euros extended to two Group companies, SCI Washington and SAS Parholding, respectively.

i) Guarantees given

At 31 December 2017, the Parent had granted guarantees to government bodies, customers and suppliers in the amount of 1,102,474 thousand euros (27,013 thousand euros at 31 December 2016). These include the following guarantees granted to cover deferred payments deriving from acquisition transactions:

- A bank guarantee before the CNMV as collateral for the voluntary takeover bid for Axiare Patrimonio, SOCIMI, S.A. (Notes 9-c and 23), issued by Caixabank for 1,033,676 thousand euros (Note 12-j), and secured with a cash deposit.
- Bank guarantee for the transaction to buy Moorage (Note 2-f), for the sum of 15,680 thousand euros. The amount payable is recognised under “Trade payables” in the consolidated statement of financial position (Note 14).
- Bank guarantees for the transaction to buy Agisa, Soller and Peñalvento (Note 2-f), for the sum of 41,767 thousand euros. The amount payable is recognised under “Trade payables” in the consolidated statement of financial position (Note 14).

Of the remaining amount, the main guarantees provided are as follows:

- 4,946 thousand euros (5,097 thousand euros in 2016) granted to secure obligations acquired by Asentia. Accordingly, the Parent and this subsidiary have an agreement in place whereby if any of the guarantees are enforced, Asentia must compensate the Parent for any damages sustained within 15 days.

– 5,000 thousand euros granted to secure obligations acquired by the company DUE. In this regard, the Parent has a cash line of credit with BBVA to cover the obligations acquired with DUE (Note 15). The liabilities covered by these guarantees have been provided for in full under "Non-current provisions" in the consolidated statement of financial position.

j) Cash and cash equivalents

At 31 December 2017 and 2016, amounts of 1,104,601 thousand euros and 105,200 thousand euros, respectively, were recognised under "Cash and cash equivalents", of which 1,045,668 thousand euros and 13,715 thousand euros, respectively, were either restricted or pledged. The balance for 2017 includes 1,033,676 thousand euros corresponding to the necessary cash to be able to carry out the voluntary takeover bid for Axiare Patrimonio, SOCIMI, S.A. (Note 9-c and 23), and which is secured by the bank guarantee delivered to the CNMV as collateral for the takeover bid.

k) Debt arrangement expenses

At 31 December 2017 and 2016, the debt arrangement expenses assumed by the Group and not yet accrued amounted to 29,612 thousand euros and 25,885 thousand euros, respectively. These expenses are taken to the consolidated statement of comprehensive income during the term of the debt in accordance with financial criteria. In this regard, in 2017 and 2016 the Group recognised in the consolidated statement of comprehensive income 5,191 thousand euros and 5,384 thousand euros, respectively, corresponding to the costs paid during the year.

l) Interest rate on borrowings

The interest rate on the Group's borrowings, the Group's average credit spread, with and without accrual of the financing fees for 2017 and 2016, is shown in the table below:

Thousands of euros

	2017		2016	
Issue	Without accrual of fees	With accrual of fees	Without accrual of fees	With accrual of fees
Average interest rate of the Group	2.35%	2.49%	2.46%	2.63%
Average credit spread of the Group	1.56%	1.87%	1.62%	1.93%

The interest rate of the Group's outstanding debt at 31 December 2017 is 1.86% (1.96% at 31 December 2016).

The accrued interest outstanding recognised in the consolidated statement of financial position at 31 December 2017 and 2016 amounted to:

Thousands of euros

Issue	31 December 2017	31 December 2016
Parent Bonds	15,006	13,550
SFL Bonds	2,342	3,323
Bank borrowings	1,180	1,203
Other financial liabilities – Current accounts	56	70
Total	18,584	18,146

m) Capital management and risk management policy

Companies operating in the real estate sector need to make heavy upfront investments to ensure development of their projects and growth of their businesses through the purchase of rental properties and/or land.

The Group's financial structure requires its sources of financing to be diversified in terms of entities, products and maturity dates, in order to ensure the continuity of its companies as profitable businesses and to be able to maximise returns for shareholders.

On 5 October 2016, the Parent formally implemented a 12-month Euro Medium Term Note programme to issue bonds up to a maximum of 3,000,000 thousand euros, which may be expanded to 5,000,000 thousand euros, and which was extended in 2017.

The various bond issues launched in 2015, 2016 and 2017 have enabled the Parent to finance its corporate transactions and real estate asset acquisitions carried out during these years, to reduce the finance costs of its borrowings, and to extend and diversify the maturity dates thereof. The Parent's financing is granted entirely over the long term and structured in such a manner that it allows the performance of the underlying business plan.

Financial risk management policy

The Group efficiently manages its financial risks with the aim of having an adequate financial structure that allows it to maintain high levels of liquidity, minimise borrowing costs, reduce volatility due to changes in capital and ensure compliance with its business plans.

- Interest rate risk: The risk management policy is designed to limit and control the impact of interest rate fluctuations on profit and cash flows, to maintain the level of debt, and to keep overall borrowing costs at reasonable levels in accordance with the Group's credit rating.

  In order to attain these objectives, the Group enters into interest rate hedges to hedge against potential fluctuations in finance costs if necessary. The Group's policy is to arrange instruments that comply with accounting rules to be considered effective hedges and, therefore, to recognise changes in market value directly in the Group's other consolidated comprehensive income. At 31 December 2017, 93% of total debt in Spain and 85% in France was hedged or at fixed rates (92% and 77%, respectively, at 31 December 2016).

- Liquidity risk: Based on the annual cash budget, the Colonial Group draws up the monthly follow-up report on its cash forecasts to manage its liquidity risk and meet its various financing needs.

  The Group considers the following mitigating factors in managing liquidity risk: (i) recurring cash flow generation by the Group's core activities, (ii) its ability to renegotiate and obtain new financing on the basis of long-term business plans, and (iii) the quality of the Group's assets.

  Cash surpluses may eventually rise that enable the Group to have lines of credit available but not yet drawn down or highly-liquid deposits with no risk. At 31 December 2017, the Group had sufficient lines of credit available to meet its short-term maturities. The Group does not use high-risk financial products as a method for investing cash surpluses.

- Counterparty risk: the Group mitigates this risk by using top-tier financial institutions to arrange its financing and by accessing the debt market through bond issues.

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

13. Derivative financial instruments

The following table details the financial instruments and their fair values at 31 December 2017 and 2016:

					Thousands of euros	
Derivative financial instrument	**Company**	**Counterparty**	**Interest rate**	**Maturity**	**Nominal value**	**Fair value – Asset / (Liability)**
Swap	SFL	CA-CIB	0.23%	2022	100,000	(103)
Cap	SFL	CADIF	0.25%	2022	100,000	1,484
Swap (redeemed step-up)	Colonial	BBVA	4.40%	2018	4,212	(50)
Cap	Colonial	ING	1.25%	2018	300,000	–
Cap	Colonial	Morgan Stanley	1.25%	2018	130,000	–
Vanilla swap	Torre Marenostrum	Caixabank	0.94%	2032	27,728	(348)
Total at 31 December 2017					661,940	983
Swap (redeemed step-up)	Colonial	BBVA	4.40%	2018	21,870	(657)
Cap	Colonial	CA-CIB	1.25%	2018	350,000	–
Cap	Colonial	ING	1.25%	2018	300,000	–
Cap	Colonial	Morgan Stanley	1.25%	2018	130,000	–
Vanilla swap	Torre Marenostrum	CaixaBank	2.80%	2024	23,140	(2,757)
Total at 31 December 2016					825,011	(3,414)

At 31 December 2016, the Parent had arranged 3 CAPs, for a nominal amount of 780,000 thousand euros, with a coverage ratio of 1.25% (strike price) and maturing on 31 December 2018. The premiums paid amounted to 8,580 thousand euros and were recognised in full as hedging expenses in the consolidated statement of comprehensive income for 2014, whereby these CAPs were valued at 0 thousand euros in the consolidated statement of financial position. In 2017 the CA-CIB CAP was sold for 6 thousand euros, which was recognised as income under “Finance income” in the statement of comprehensive income.

The impact for 2017 and 2016 on the consolidated statement of comprehensive income as a result of the recognition of derivative financial instruments was a net finance cost of 322 thousand euros and 3,740 thousand euros, respectively (Note 17-h), corresponding primarily to SFL.

Hedge accounting

At 31 December 2017 and 2016, hedge accounting was only applied to that arising from the subsidiary Torre Marenostrum and, therefore, the mark-to-market (MtM) differences between the periods were recognised directly in other consolidated comprehensive income.

At 31 December 2017, the accumulated impact on other consolidated comprehensive income as a result of hedge accounting was a balance receivable of 559 thousand euros, net of the tax effect and consolidation adjustments. At 31 December 2016, a balance receivable of 571 thousand euros was recognised in other consolidated comprehensive income (Note 11).

Fair value of derivative financial instruments

The fair value of the derivatives was calculated by discounting estimated future cash flows based on an interest rate curve and on assigned volatility at 31 December 2017, using the appropriate discount rates established by an independent expert.

14. Trade payables and other non-current liabilities

The breakdown of these headings in the consolidated statement of financial position, by item and maturity, is as follows:

Thousands of euros

	31 December 2017		31 December 2016	
	Current	Non-current	Current	Non-current
Trade and other payables	26,487	–	27,326	–
Payables for the purchase of properties	72,636	4,600	15,373	20,280
Advances	17,047	–	17,995	–
Guarantees and deposits received	4,628	39,497	1,733	34,201
Payable to Social Security	2,292	–	1,752	–
Unearned income	4,657	–	2,243	–
Other payables and liabilities	16,133	265	3,338	149
Total	143,880	44,362	69,760	54,630

a) Trade and other payables

This heading includes primarily the amounts payable by the Group for business-related purchases and associated costs.

b) Payables for the purchase of properties

This heading includes the amounts payable arising from acquisitions of ownership interest and/or properties. At 31 December 2017, the amount included under this line item relates mainly to:

– the refurbishment or renovation work on various properties carried out by SFL, mainly the Louvre Saint-Honoré building, in the amount of 10,218 thousand euros (15,373 thousand euros at 31 December 2016).

– the amount payable for the acquisition of the ownership interest (Note 2-f) in Moorage (20,280 thousand euros, including the contingent price classified as non-current), in Agisa, Soller and Peñavento (41,967 thousand euros), and in Colonial Arturo Soria, S.L.U. (4,200 thousand euros).

The effect of the updated deferred payments was not material.

c) Advances

This heading includes primarily the amounts paid upfront by lessees for bi-monthly or quarterly rent.

d) Guarantees and deposits received

This heading includes mainly security deposits paid by lessees.

e) Unearned income

This heading includes the amounts received by SFL for rights of entry, which relate to the amounts invoiced by lessees to reserve a unique space, and that were recognised as income on a straight-line basis over the minimum term of the related lease agreement.

f) Average period of payment to suppliers and trade creditors

The table below sets forth the information on the various Spanish Group companies required by final provision two of Law 31/2014, of 3 December, amending the Spanish Limited Liability Companies Law to improve corporate governance, and amending additional provision three of Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, which establishes measures to combat late payment in commercial transactions, all in accordance with that established in the resolution of 29 January 2016 issued by the Spanish Accounting and Audit Institute (ICAC) on disclosures to be included in the notes to the consolidated financial statements with regard to the average period of payment to suppliers in commercial transactions involving the various Spanish companies pertaining to the Group.

	2017	2016
	Days	**Days**
Average supplier payment period	31	31
Ratio of payments made	31	32
Ratio of payments pending	31	23
	Amount (in thousands of euros)	**Amount (in thousands of euros)**
Total payments made	93,540	72,009
Total payments pending	5,212	6,715

The figures shown in the foregoing table in relation to payments to suppliers relate to suppliers that because of their nature are trade creditors for the supply of goods and services and, therefore, they include the figures relating to certain line items of “Trade payables” in the accompanying consolidated statement of financial position.

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.

With regard to 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.

15. Provisions and contingent assets and liabilities

Changes in “Current provisions” and “Non-current provisions” in the consolidated statement of financial position for 2017 are as follows:

Thousands of euros

	Non-current provisions		Current provisions
	Provisions for employee benefits	Provisions for contingencies and other provisions	Provisions for contingencies and other provisions
Balance at 31 December 2016	1,029	12,645	12,719
Charges	229	–	7,662
Disposals	–	(2,070)	–
Amounts used	(14)	(369)	(98)
Balance at 31 December 2017	1,244	10,206	20,283

a) Non-current provisions

Provisions for the outstanding urban development costs of UE-1

As a result of restructuring the financial debt of Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. (hereinafter, “DUE”), a former subsidiary, the Company granted a loan for a maximum of 85,000 thousand euros, the purpose of which, among others, is to finance the development of the project implemented by DUE and to cover the costs of the work yet to be carried out on the UE-1, up to an amount of no more than 20,000 thousand euros. The loan accrues contingent interest, based on compliance with certain conditions. At 31 December 2017 and 2016, no finance income was accrued in this connection. The Parent recognised a provision for the full amount of the loan granted to DUE.

The Parent has a restricted cash line of credit with BBVA to cover the outstanding execution costs of the UE-1, which is drawn when DUE shows that the development work has been carried out. At 31 December 2017, a total of 9,876 thousand euros had been drawn down (9,437 thousand euros at 31 December 2016).

Provisions for employee benefits

This line item includes the retirement benefits and seniority bonuses of employees of SFL (Note 4-j).

Other non-current provisions

In 2017, the subsidiary SFL reversed the provision for contingencies recognised in 2016 amounting to 2,070 thousand euros, given that a ruling was handed down on the lawsuit filed with one of its lessees in favour of the interests of the subsidiary SFL.

b) Current provisions

Additions to current provisions include 20,283 thousand euros, reflecting an estimate of the Parent's various future risks, which increased in 2017 by 7,662 thousand euros.

c) Contingent assets

In 2010, the Parent filed certain lawsuits against former directors for transactions carried out between June 2006 and December 2007 regarding the following corporate actions for liability, with the following currently in process:

– A corporate action for liability against certain former directors in relation to the purchase of assets by the Parent 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 for liability against certain former directors in connection with the losses caused by the acquisition of shares of Riofisa in 2007.

Given that the aforementioned lawsuits relate to claims filed against third parties in favour of Colonial, the only contingency that may arise is the payment of legal costs in the event that both cases are lost. At 31 December 2017, the appropriate provision had been recognised to meet any potential costs.

16. Tax matters

a) Adherence to the REIT Tax Regime and dissolution of the tax group, both effective as of 1 January 2017

Up until 31 December 2016, the Parent was the head of a group of companies filing consolidated tax returns since 1 January 2008. This consolidated tax group included only subsidiaries incorporated in Spain, in which the Parent either directly or indirectly owns at least 75% of their share capital (this threshold falls to 70% in the case of listed subsidiaries) and has the majority of the voting rights.

In addition to the Parent, the consolidated tax group for 2016 included Danieltown Spain, S.L.U., Colonial Invest, S.L.U. and Colonial Tramit, S.L.U.

On 30 June 2017, the Parent chose to operate within the REIT Tax Regime (Note 1-a). Adherence to this tax regime entailed the dissolution of the Parent's tax group at 31 December 2016, effective as of 1 January 2017, and the outstanding adjustments to be recovered from the tax group.

In addition to the Parent, the following subsidiaries also chose to operate under the REIT Tax Regime: Danieltown Spain, S.L.U., Moorage Inversions 2014, S.L.U., Hofinac Real Estate, S.L.U. and Fincas y Representaciones, S.A.U. Likewise, in 2017 the subsidiary Colonial Arturo Soria, S.L.U. was acquired, which had already chosen to operate under the REIT Tax Regime prior to 1 January 2017.

b) Tax receivables and tax payables

The breakdown of “Tax assets” in the accompanying consolidated statement of financial position is as follows:

Thousands of euros

	Current		Non-current	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Tax refunds receivable	2	45	–	–
Income tax refunds receivable	13,294	35,815	–	–
VAT refundable	6,819	8,829	–	–
Deferred tax assets	–	–	407	454
Total tax receivables	20,115	44,689	407	454

At 31 December 2016, “Income tax refunds receivable” included a balance in favour of the Parent of 35,625 thousand euros arising from minimum income tax prepayments made in 2016 and 2015. The amount of these prepayments corresponds to the minimum payment of 23% and 12% of the accounting result on the date of the prepayment, through the application of the temporary measures in effect for 2016 and 2015, respectively. In January 2017, the tax authorities refunded 23,512 thousand euros relating to the prepayments made by the Parent in 2015 that were included in the settlement for that year. In January 2018, the tax authorities refunded the remaining 12,113 thousand euros.

The breakdown of “Tax liabilities” in the accompanying consolidated statement of financial position is as follows:

Thousands of euros

	Current		Non-current	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Income tax payable	2,349	4,962	–	–
Other taxes payable	2,827	2,515	–	–
Exit tax payable (SFL Group)	8,437	6,159	21,390	9,314
VAT payable	5,206	3,692	–	–
Deferred tax liabilities	–	–	349,843	347,344
Total taxes payable	18,819	17,328	371,233	356,658

Exit tax SFL (Note 4-m)

In 2017, the subsidiary SFL acquired Emile Zola, which qualified for the SIIC regime in December 2017, thus generating exit tax in the amount of 21,138 thousand euros, which must be paid in four equal annual payments between 2018 and 2021.

In 2016, the subsidiary SFL executed the call option in the finance lease agreement that it held on the Wagram 131 property (Note 8). This asset was subject to the SIIC regime, giving rise to the corresponding obligation to pay the exit tax totalling 13,012 thousand euros, which must be paid to the French tax authorities in four equal annual payments between 2017 and 2020.

c) Reconciliation of the accounting profit to the taxable profit

The following table reconciles pre-tax accounting profit and taxable profit after temporary differences:

Thousands of euros

	2017	2016
Accounting profit before tax (aggregate of individual expenses)	882,811	623,112
SFL profit subject to the SIIC regime (Note 4-m)	(812,025)	(496,315)
REIT profit (Note 4-m)	(8,715)	(*)
Permanent differences	(17,532)	(52,233)
Temporary differences	(20,512)	(8,667)
Aggregate taxable profit before offsetting tax losses	24,027	65,897
Offset of tax losses	–	(1,344)
Aggregate taxable profit	24,027	64,554
Recognised taxable profit	28,846	65,871
Unrecognised tax loss	(4,819)	(1,317)

(*) As mentioned above, the adoption of the REIT regime is effective as of 1 January 2017.

d) Reconciliation of income tax expense

Income tax

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

The above-mentioned Royal Decree Law also established the limit for tax loss carryforwards at 25% of the tax base, prior to their offset, for companies whose revenue is equal to or greater than 60 million euros.

On 30 June 2017, the Parent chose to operate within the REIT Tax Regime, which is applicable effective as of 1 January 2017 (Note 1). After adhering to the REIT regime, the profit arising from REIT activities will be taxed at a rate of 0%, provided that the stipulated requirements are met (Note 4-m).

The breakdown of "Income tax expense" in the consolidated statement of comprehensive income for 2017 and 2016 is as follows:

Thousands of euros

	2017	2016
Corporate income tax expense	(9,842)	(22,322)
Deferred tax on the restatement of assets to their fair value (IAS 40)	(56,990)	(11,320)
Reduction in deferred liabilities due to the drop in the tax rate – France	13,779	–
Reduction in deferred liabilities due to reversal liability SIIC-4	72,159	–
New limit on tax loss carryforwards (Royal Decree Law 3/2016, of 2 December, on Corporate Income Tax)	–	(71,438)
Other non-primary components	4,053	(7)
Income tax expense	23,159	(105,087)

e) Deferred tax assets

The breakdown of the deferred tax assets recognised by the Group is as follows:

Thousands of euros

	Recognised for accounting purposes			
Deferred tax assets	31 December 2016	Additions	Derecognitions	31 December 2017
Valuation of financial instruments	346	24	(31)	339
Other	108	–	(40)	68
	454	24	(71)	407

Prior years' tax loss carryforwards

The Corporate Income Tax in force as of 1 January 2016 stipulates that previous years' tax loss carryforwards may be offset in future years without any time limit, although it generally establishes an offset limit of 70% of taxable income, with a minimum of 1 million. In the event that the revenues recognised by the Company or the tax group fall between 20 million euros and 60 million euros, the offset is limited to 50% of taxable income, while if revenues are equal to or exceed 60 million euros the offset limit is reduced to 25% of taxable income.

As indicated above, some of the Group companies formed part of consolidated tax group 6/08, which means that certain transactions among companies included in the tax group were eliminated from the aggregate sum of the individual tax loss balances; they are not included in consolidated taxable profit until the gain or loss on the respective transaction is realised with third parties. In addition, the consolidated tax regime allowed companies with taxable profit to make use of the tax losses generated by other companies within the same consolidated tax group.

The following table reconciles the aggregate of the individual tax losses and the consolidated tax loss for 2016, the difference being the result of application of the foregoing adjustments to companies in the consolidated tax group:

Thousands of euros

	At companies that make up the consolidated tax group	At other Group companies
Aggregate of the individual tax loss carryforwards:	**5,398,777**	**5,038**
Adjustments for transactions among companies that make up the consolidated tax group	(9,614)	–
Adjustments for the offset of taxable profit and tax loss carryforwards among companies that make up the consolidated tax group	(9,642)	–
Total tax loss carryforwards of the Group at 31 December 2016	5,379,521	5,038

Following the dissolution of the Parent's tax group at 31 December 2016, effective as of 1 January 2017, the outstanding adjustments for transactions among the companies of the extinguished consolidated tax group, amounting to 9,614 thousand euros, were recovered, and the resulting tax losses were assigned to each of the companies of the group based on how they contributed to incurring these losses.

The following table shows the aggregate tax loss carryforwards to be offset by Spanish companies following the aforementioned dissolution of the tax group:

Thousands of euros

Year	Companies forming part of the Group
2000	12,979
2001	5,468
2003	140
2004	38,516
2005	36
2006	25,053
2007	321,571
2008	1,200,383
2009	865,940
2010	530,185
2011	117,894
2012	88,977
2013	86,023
2014	16,624
2015	2,075,151
2016	996
2017	5,853
Total	5,391,789

Deferred tax asset for tax credit carryforwards

The nature and amount of unused tax credits at 31 December 2017 by the Group due to insufficient taxable profit in prior years, and the last years for offset are set out below:

Type	Year incurred	Amount Thousands of euros	Last year for use
Double taxation tax credit	2008	6,553	n.a.
	2009	238	n.a.
	2010	227	n.a.
	2011	295	n.a.
	2012	168	n.a.
	2013	69	n.a.
	2014	135	n.a.
Tax credit for donations	2010	4	2020
	2011	4	2021
	2012	4	2022
	2013	6	2023
	2014	6	2024
	2015	9	2025
	2016	22	2026
Tax credit for training	2008	1	2023
	2009	1	2024
	2010	1	2025
Tax credit for reinvestment	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
		23,884	

Tax credit for reinvestment

As set forth in prevailing legislation, for the tax credit for reinvestment of extraordinary gains to be applicable, the assets 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 Parent are as follows:

Thousands of euros

	2018	2019
Reinvested by the Parent	8,786	18,701
Associated profit	946	188

The Parent's directors consider that the Parent will comply with the stipulated timeframes.

f) Deferred tax liabilities

The breakdown of deferred tax liabilities and the changes therein are provided below:

Thousands of euros

Deferred tax liabilities	31 December 2016	Additions	Additions to the scope of consolidation (Note 2-f)	Derecognitions	31 December 2017
Asset revaluations	340,650	56,990	32,495	(86,046)	344,089
Asset revaluations (Spain)	106,630	7,096	32,495	(108)	146,113
Asset revaluations (France)	234,020	49,894	–	(85,938)	197,976
Deferral for reinvestment	6,308	–	–	(1,150)	5,158
Other	386	–	121	–	596
	347,344	56,990	32,616	(87,196)	349,843

Deferred tax liability for asset revaluations

This deferred tax liability relates mainly to the difference between the accounting cost of investment properties measured at fair value (under IFRS) and their tax cost (acquisition cost less depreciation and any impairment that may be deductible).

Asset revaluations (Spain)

This line item includes the deferred taxes associated with the Group's investment property located in Spain that would be accrued if these assets were transferred at the fair value at which they are recognised, using the effective rate that would be applicable to each of the companies taking into account applicable legislation and any unrecognised tax credits.

Following the adoption of the REIT Tax Regime, the changes in the deferred taxes recognised in 2017 relate mainly to the properties owned by the companies that did not choose to operate under this regime, i.e., Torre Marenostrum, S.L. and Inmocol Torre Europa, S.A., and to certain adjustments arising from corporate transactions. Accordingly, the deferred taxes associated with the investment property of Colonial Group companies, wholly owned by the Parent, were recognised at an effective rate of 18.75% (tax rate of 25% with a limit on tax loss carryforwards of 25%). Consequently, in calculating its deferred tax liabilities, the Group considers applying the deferred tax asset of 33,693 thousand euros arising from the tax losses (the difference between the 25% tax rate and the effective settlement rate applied of 18.75%).

Asset revaluations (France)

"Asset revaluations (France)" records the amount of the deferred taxes associated with the Group's investment property located in France, which would accrue if those assets are sold. It should be noted that practically all of the assets in France are subject to the SIIC regime (Note 4-m), and therefore no additional tax would arise at the time of their sale. Only the assets of the companies forming part of the Parholding subgroup would fall outside of that tax regime at 31 December 2017 and 2016.

The Colonial Group also recognised deferred tax under this heading in connection with the asset revaluations under the SIIC regime (the SIIC-4 liability), calculated as the minimum stipulated dividend under the regime, in the event that all capital gains on the investment properties recognised by the SFL Group are realised, taking into account an effective tax rate for the calculation of the deferred tax of 11.15% Following the adoption of the REIT Tax Regime, and given that the dividend distributed by the subsidiary SFL to the Parent will no longer be subject to this taxation, the deferred tax recognised in this connection amounting to 72,159 thousand euros was reversed.

In 2017 the subsidiary SFL recognised the impact of the gradual reduction in the French tax rate, which dropped from 33.33% to 25%, and which entailed a decrease in the deferred tax liabilities due to the adjustment made to assets of 13,779 thousand euros.

g) Years open to review and tax audits

The Group has the last four years open for review by the tax inspection authorities for all applicable taxes in Spain and France, except income tax of Spanish companies with tax loss carryforwards or unused tax credits, in which case the period under review for this tax is extended to ten years. In 2016 the Parent filed supplementary income tax returns for 2011 to 2014, breaking the statute of limitations for these years.

No additional material liability for the Group is expected to arise in the event of a new tax audit.

h) Disclosure requirements arising from REIT status, Law 11/2009, amended by Law 16/2012

The disclosure requirements arising from the status of the Parent and certain subsidiaries as REITs (Note 16-a) are included in the related notes to the individual financial statements.

i) 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.

17. Income and expenses

a) Revenue

Revenue comprises basically rental income from the Group's rental properties which are concentrated in the cities of Barcelona, Madrid and Paris. The breakdown of revenue, by geographical segment, in 2017 and 2016 is shown in the table below:

Thousands of euros

Rental segment	2017	2016
Barcelona	34,871	30,343
Madrid	52,270	42,558
Rest of Spain	366	362
Paris	195,780	198,137
	283,287	271,400

Revenue for 2017 and 2016 includes the effect of the lease incentives throughout the minimum term of the lease agreement (Note 4-n). Revenue also includes the accrued amounts received in connection to rights of entry (Note 14-e). At 31 December 2017 and 2016, these accruals increased revenue by 13,061 thousand euros and 33,908 thousand euros respectively.

At 31 December 2017 and 2016, the total minimum future lease payments receivable corresponding to the Group's non-cancellable operating leases, based on the leases currently in force at each date, without taking into account the impact of common expenses, future increases in the CPI or future contractual lease payment revisions based on market parameters, were as follows:

Thousands of euros

	Nominal amount	
Minimum operating lease payments	**31 December 2017**	**31 December 2016**
Within one year	**268,060**	**274,007**
Spain	83,567	75,618
France	184,493	198,389
1 to 5 years	**562,568**	**664,884**
Spain	124,389	122,155
France	438,179	542,729
More than five years	**141,118**	**247,678**
Spain	16,492	6,405
France	124,626	241,273
Total	971,746	1,186,569
Spain	**224,448**	**204,178**
France	**747,298**	**982,391**

b) Other operating income

This heading relates mainly to property services rendered, and amounted to 2,714 thousand euros and 3,057 thousand euros at 31 December 2017 and 2016, respectively.

c) Staff costs

The breakdown of “Staff costs” in the accompanying consolidated statement of comprehensive income is as follows:

Thousands of euros

	2017	2016
Wages and salaries	18,092	14,849
Social security costs	6,580	5,561
Other employee benefit expenses	4,710	2,278
Contributions to defined benefit plans	239	235
Internal reallocation	(686)	(630)
Total staff costs	28,936	22,293
Spain	**13,527**	**9,287**
France	**15,409**	**13,006**

“Other employee benefit expenses” includes amounts corresponding to costs accrued in 2017 under the Parent’s long-term remuneration plan (Note 18-a) and SFL’s share option plan detailed in Note 18-c, totalling 2,880 thousand euros (2,260 thousand euros in 2016).

The contributions made by the Parent in 2017 and 2016 to defined benefit plans amounted to 239 thousand euros and 235 thousand euros, respectively, and are recognised under “Staff costs” in the consolidated statement of comprehensive income. At year-end 2017 and 2016, there were no contributions payable to this pension plan.

The Group headcount at 31 December 2017 and 2016, and the average headcount in 2017 and 2016, by job category and gender, is as follows:

Number of employees

	2017		2016		Average headcount, 2017		Average headcount, 2016	
	Men	Women	Men	Women	Men	Women	Men	Women
General and area managers	14	6	12	5	13	5	12	5
Technical graduates and middle managers	32	37	29	32	33	32	27	30
Clerical staff	16	53	18	49	16	52	16	50
Other	5	3	4	1	4	2	1	1
Total employees	67	99	63	87	66	91	56	86

d) Other operating expenses

The breakdown of "Other operating expenses" in the consolidated statement of comprehensive income is as follows:

Thousands of euros

	2017	2016
External and other expenses	17,979	9,621
Taxes other than income tax	22,942	23,860
Total other operating expenses	40,921	33,481

Operating leases as lessee

At the end of 2017, the subsidiary Utopicus had agreed the following minimum lease payments with the lessors, based on the leases in force, without taking into account the charging of expenses, future increases in the CPI or other lease payment revisions:

Thousands of euros

	2017
Less than 12 months	282
1 to 5 years	832
More than 5 years	348
Total minimum operating lease payments as lessee	1,461

These amounts relate to the lease agreements signed by Utopicus for the premises at which it offers its co-working services.

e) Net change in provisions

The changes in "Net change in provisions" in the consolidated statement of comprehensive income during the year are as follows:

Thousands of euros

	2017	2016
Net charge to operating provisions (Note 15)	(5,592)	(1,929)
Net charge to provisions for doubtful debts and other	(112)	(826)
Total net change in provisions	(5,704)	(2,755)

f) Changes in the fair value of investment property and Losses due to impairment of assets

The breakdown of "Changes in fair value of investment property" in the consolidated statement of comprehensive income for 2017 and 2016, by types, is as follows:

Thousands of euros

	2017	2016
Investment property (Note 8)	937,108	560,320
Non-current assets held for sale – Investment property (Note 21)	(3,673)	457
Changes in fair value of investment property	933,435	560,777
Spain	**218,014**	**122,737**
France	**715,421**	**438,040**

The breakdown, by nature, of the impairment losses recognised under "Losses due to impairment of assets" in the consolidated statement of comprehensive income is as follows:

Thousands of euros

	2017	2016
Impairment / (Reversal of impairment) of properties for own use (Note 7)	(287)	3,159
Impairment of other property, plant and equipment (Note 7)	(2,129)	–
Other impairment	(2,703)	–
Derecognitions of replaced assets (Notes 7 and 8)	(101)	(7,532)
Losses due to impairment of assets	(5,220)	(4,373)

g) Net gain/(loss) on sales of assets

The breakdown of the Group's net gains/(losses) on sales of assets (Notes 7, 8 and 21), and their geographical distribution, is detailed as follows:

Thousands of euros

	Spain		France		Total	
	2017	2016	2017	2016	2017	2016
Sale price	6,435	17,054	445,000	–	451,435	17,054
Asset derecognition	(5,242)	(16,240)	(404,679)	–	(409,921)	(16,240)
Derecognition grace periods	–	–	(40,321)	–	(40,321)	–
Indirect costs and other	(666)	(963)	–	–	(666)	(963)
Net gain/(loss) on sales of assets	527	(149)	–	–	527	(149)

The carrying amount of the In&Out building sold by the subsidiary SFL already took into account the price of the sale commitment signed on 25 July 2017, which is the reason this sale did not generate any profit at the time of sale.

h) Finance income and costs

The breakdown of financial loss in 2017 and 2016, by type, is as follows:

Thousands of euros

	2017	2016
Finance income:		
Revenue from equity investments (Note 9-b)	3,681	–
Other interest and similar income	1,435	1,220
Income from derivative financial instruments (Note 13)	95	1,162
Capitalised borrowing costs (Note 4-c)	2,591	1,177
Total finance income	7,802	3,559
Finance costs:		
Interest and similar expense	(86,429)	(81,988)
Finance costs associated with the repurchase of bonds	–	(20,904)
Expense on derivative financial instruments (Note 13)	(417)	(4,902)
Total finance costs	**(86,846)**	**(107,794)**
Impairment of financial assets	**(401)**	**(648)**
Total financial loss	**(79,445)**	**(104,883)**

"Finance costs associated with the repurchase of bonds" in 2016 included the costs borne by the Parent to repurchase issued bonds.

i) Related party transactions

The main related party transactions undertaken in 2017 and 2016 were as follows:

Thousands of euros

	2017	2016
	Building leases	Building leases
Gas Natural, SDG, S.A. (*)	5,227	5,234
Total	5,227	5,234

(*) Gas Natural, SDG, S.A. is the shareholder of the Parent in the subsidiary Torre Marenostrum, S.L.

j) Results by company

The contribution of the consolidated companies to consolidated profit for the year was as follows:

Thousands of euros

	Consolidated net profit		Net profit attributable to non-controlling interests		Net profit for the year attributable to the Parent	
Company	2017	2016	2017	2016	2017	2016
Inmobiliaria Colonial, SOCIMI, S.A.	154,306	54,131	–	–	154,306	54,131
SFL Subgroup	868,431	511,645	(395,002)	(284,533)	473,429	227,112
Torre Marenostrum, S.L	4,505	2,658	(1,954)	(1,124)	2,551	1,534
Danieltown Spain, S.L.U.	3,311	3,548	–	–	3,311	3,548
Moorage Inversiones 2014, S.L.U.	5,194	(9,610)	–	–	5,194	(9,610)
Hofinac Real Estate, S.L.U.	32,494	(802)	–	–	32,494	(802)
Fincas y representaciones, S.A.U.	3,345	(2,265)	–	–	3,345	(2,265)
Inmocol Torre Europa, S.A.	1,993	–	(1,037)	–	956	–
Colonial Arturo Soria, S.L.U.	3,511	–	–	–	3,511	–
Agisa, S.A.U.	1,842	–	–	–	1,842	–
Soller, S.A.U.	2,421	–	–	–	2,421	–
Peñalvento, S.L.U.	2,019	–	–	–	2,019	–
Utopicu_US Subgroup	(2,917)	–	65	–	(2,852)	–
Colonial Invest, S.L.U.	(2)	(1)	–	–	(2)	(1)
Colonial Tramit, S.L.U	(2)	–	–	–	(2)	–
Total	1,080,451	559,304	(397,928)	(285,657)	682,523	273,647

18. Share option plans

a) Long-term remuneration plan linked to fulfilment of several management indicators

On 21 January 2014, shareholders at the Parent's General Shareholders' Meeting set up a long-term remuneration plan for the Chairman and the Managing Director of the Parent and for members of the Group's Management Committee, applicable from 2014 to 2018.

Between 1 and 15 April of each of the following periods, at the proposal of the Nomination and Remuneration Committee, the Board of Directors must determine the number of shares that correspond to each beneficiary of the plan based on fulfilment of the previous year's indicators. 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 of receiving them, except as required to pay any taxes chargeable in this regard.

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 to adapt the number of shares to be received by the beneficiaries in cases of dilution.

In 2017 and 2016, the Parent recognised 1,334 thousand euros and 1,146 thousand euros respectively under "Staff costs – Other employee benefit expenses" in the consolidated statement of comprehensive income to cover the incentive plan (Note 17-c).

On 26 April 2017, the Parent settled the outstanding obligations relating to compliance with the plan once the Board determined the number of shares to be delivered to the beneficiaries of the Plan in accordance with the level of fulfilment of indicators for 2016, which would be 380,116 shares (Note 11). The shares were delivered to the beneficiaries on this date. Of these shares, 175,814 shares were delivered to members of the Board of Directors and 138,140 shares to members of senior management, with a market value upon delivery of 1,257 thousand euros and 988 thousand euros, respectively.

On 11 April 2016, the Board determined the number of shares to be delivered to beneficiaries of the Plan in accordance with the level of fulfilment of indicators for 2015, which would be 365,116 shares (Note 11). The shares were delivered to the beneficiaries on 29 April 2016. Of these shares, 175,814 were delivered to members of the Board of Directors and 138,140 to members of senior management, with a market value upon delivery of 1,196 thousand euros and 939 thousand euros, respectively.

b) Extension of the term of the long-term remuneration plan linked to fulfilment of several management indicators

On 29 June 2017, the shareholders at the General Shareholders' Meeting agreed to extend the term for applying the share delivery plan approved at the General Shareholders' Meeting held on 21 January 2014 for an additional two years, in accordance with the terms and conditions thereof.

c) Share option plans on SFL shares

The subsidiary SFL had two bonus share plans at 31 December 2017, the breakdown of which is as follows:

	Plan 3	Plan 4	Plan 4
Meeting date	22/04/2015	13/11/2015	13/11/2015
Date of Board of Directors' Meeting	17/06/2015	26/04/2016	03/03/2017
Initial target number	27,328	32,036	33,376
Initial expected %	70.83%	70.83%	70.83%
Initial expected number	19,356	22,691	23,640
Amount per share (euros)	36.08	41.49	42.61
Options cancelled	(2,064)	(912)	(784)
Expected % at year-end	150.00%	100.00%	100.00%
Estimated number at year-end	37,895	31,124	32,592

Each allocation plan has been calculated based on the expected number of shares multiplied by the unit fair value of those shares. The expected number of shares is the total number of shares multiplied by the expected percentage of take-up in the grant. The resulting amount is charged on a straight-line basis over the grant period.

The fair value of the shares allocated is determined by the quoted price at the grant date, adjusted by the discounted value of future dividends paid during the acquisition period applying the Capital Asset Pricing Model (CAPM).

At 31 December 2017 and 2016, a total of 1,546 thousand euros and 1,114 thousand euros were recognised in the consolidated statement of comprehensive income relating to these bonus share plans (Note 17-c).

19. Balances with related parties and associates

At 31 December 2017 and 2016 the Group did not have any balances outstanding with related parties and associates.

20. Remuneration and other benefits to the Board of Directors and senior management

a) Composition of the Parent's Board of Directors

The Parent's Board of Directors was made up of nine men and one woman at 31 December 2017, and 10 men and 1 woman at 31 December 2016.

At 31 December 2017, the composition of the Parent's Board of Directors is as follows:

Director	Position	Type of director
Juan José Brugera Clavero	Chairman	Executive
Pedro Viñolas Serra	Chief Executive Officer	Executive
Carlos Fernández González	Director	Proprietary
Sheikh Ali Jassim M. J. Al-Thani	Director	Proprietary
Adnane Mousannif	Director	Proprietary
Juan Carlos García Cañizares	Director	Proprietary
Carlos Fernández-Lerga Garralda	Lead Director	Independent
Ana Sainz de Vicuña	Director	Independent
Javier Iglesias de Ussel Ordís	Director	Independent
Luis Maluquer Trepat	Director	Independent

In 2017, Juan Villar-Mir de Fuentes resigned from his position as director.

Carlos Fernández González and Adnane Mousannif were appointed as directors in 2016. Directors Francesc Mora Sagués and Grupo Villar Mir, S.A.U. left the Board in 2016, and Luis Maluquer Trepat was reclassified from other director to independent 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 Parent.

b) Remuneration of Board members

The breakdown of the remuneration received in 2017 and 2016 by the members of the Board of Directors of the Parent, by item, is as follows:

31 December 2017
Thousands of euros

	Parent	Other Group companies	Total
Remuneration earned by executive directors (*):	4,866	150	5,016
Attendance fees of non-executive directors:	**580**	**95**	**575**
Directors' attendance fees	557	95	**652**
Additional attendance fees of the Chairman and Deputy Chairman	23	–	**23**
Attendance fees of executive directors:	–	50	50
Fixed remuneration of non-executive directors:	**780**	**100**	**880**
Directors' remuneration	495	60	**555**
Additional remuneration of the Audit and Control Committee	135	40	**175**
Additional remuneration of the Nomination and Remuneration Committee	150	–	**150**
Fixed remuneration of executive directors:	–	70	70
Total 2017	6,226	465	6,691
Remuneration earned by executive directors (*):	4,866	270	**5,136**

(*) Does not include the amount corresponding to expenses accrued in relation to the long-term incentive plan described in Note 18.

31 December 2016
Thousands of euros

	Parent	Other Group companies	Total
Remuneration earned by executive directors (*):	2,610	150	2,760
Attendance fees of non-executive directors:	**535**	**–**	**535**
Directors' attendance fees	521	–	**521**
Additional attendance fees of the Deputy Chairman	14	–	**14**
Attendance fees of executive directors:	–	–	–
Fixed remuneration of non-executive directors:	**897**	**90**	**987**
Directors' remuneration	546	90	**636**
Additional remuneration of the Executive Committee	66	–	**66**
Additional remuneration of the Audit and Control Committee	150	–	**150**
Additional remuneration of the Nomination and Remuneration Committee	135	–	**135**
Fixed remuneration of executive directors:	–	60	60
Total 2016	4,042	300	4,342
Remuneration earned by executive directors (*):	2,610	210	**2,820**

(*) Does not include the amount corresponding to expenses accrued in relation to the long-term incentive plan described in Note 18.

At 31 December 2017 and 2016, the Parent had a civil liability insurance policy covering all of its directors, executives and staff, with a premium of 393 thousand euros and 302 thousand euros, respectively. The aforementioned amount includes for the insurance premium paid for both periods for civil liability insurance to cover damages caused by acts or omissions.

The shareholders at the General Shareholders' Meeting held on 28 June 2016 approved the granting of a defined-contribution scheme for executive directors covering retirement and, when applicable, disability and death. At 31 December 2017 and 2016, the Parent recognised 178 thousand euros and 175 thousand euros, respectively, in this connection under "Staff costs" in the consolidated statement of comprehensive income.

In addition to the matters indicated in the preceding paragraph, the Group has not granted any loans and has not taken out any pension plans or life insurance for former or serving members of the Board of Directors of the Parent.

At 31 December 2017 and 2016, 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.

In 2017 and 2016, there were no finalisations, modifications or early terminations of contracts outside of the normal business activities between the Parent and the members of the Board of Directors or any other person acting on their behalf.

c) Remuneration of senior management

The Parent's senior management team is formed by senior executives and other persons responsible for the management of the Company, reporting to the CEO. The Company's senior management team was made up of two men and two women at 31 December 2017 and 2016.

Monetary compensation earned by senior management in 2017 amounted to 1,918 thousand euros. Furthermore, they received 988 thousand euros corresponding to the long-term incentives plan (1,081 thousand euros and 939 thousand euros, respectively, in 2016).

At its meeting held on 27 July 2016, the Board of Directors approved the granting of a defined-contribution scheme for a member of senior management covering retirement and, when applicable, disability and death. At 31 December 2017 and 2016, the Parent recognised 61 thousand euros and 60 thousand euros, respectively, in this connection under "Staff costs" in the consolidated statement of comprehensive income.

At 31 December 2017 and 2016, one member of senior management had signed a golden parachute clause, in the event of termination under certain circumstances or a change of control.

21. Non-current assets held for sale

The movements under this heading in 2017 and 2016 were as follows:

Thousands of euros

	Investment property
Balance at 31 December 2015	**12,727**
Additions	60
Disposals (Note 17-g)	(13,550)
Transfers	306
Changes in value (Note 17-f)	457
Balance at 31 December 2016	**–**
Transfers (Note 8)	408,352
Disposals (Note 17-g)	(404,679)
Changes in value (Note 17-f)	(3,673)
Balance at 31 December 2017	**–**

Investment property (Note 8)

Movements in 2017

In the first half of 2017, the subsidiary SFL transferred the In&Out building from "Investment property" in the consolidated statement of financial position amounting to 408,352 thousand euros. The value of the property at 30 June 2017 took into consideration the price of the sale commitment signed by the subsidiary SFL on 25 July 2017, which amounted to 445,000 thousand euros, less transaction costs. In September 2017, the sale commitment was executed for the aforementioned amount (Note 17-g).

"Changes in value of investment property" in the consolidated statement of comprehensive income includes the loss of 3,673 thousand euros and the profit of 457 thousand euros from the revaluation of the non-current assets held for sale for 2017 and 2016 (Note 17-f), respectively, in accordance with the appraisals of independent experts at 31 December 2017 and 2016 (Note 4-c).

Movements in 2016

The Company's directors re-evaluated the sale assumptions for the assets recognised under this heading of the consolidated statement of financial position and, therefore, their carrying amount was transferred to "Investment property" in the consolidated statement of financial position.

On 21 September 2016, the Parent sold the asset located at calle Ausias March in Barcelona for 15,000 thousand euros, obtaining profit net of costs totalling 557 thousand euros (Note 17-g).

22. Auditors' fees

Fees incurred for auditing services in 2017 and 2016 provided to the various companies composing the Colonial Group by the principal auditor and other auditors are set forth below:

Thousands of euros

	2017		2016	
Description	Principle auditor	Other auditors	Principle auditor	Other auditors
Audit services	569	239	535	323
Other attest services	91	3	137	–
Total audit and related services	660	242	672	323
Tax advisory services	–	–	–	–
Other services	135	542	161	20
Total professional services	135	542	161	20

The principal auditor of the Colonial Group for 2017 was PricewaterhouseCoopers Auditores, S.L., whereas the Group's principal auditor for 2016 was Deloitte, S.L.

The fees for other attest services include 88 thousand euros relating to services provided to the Parent for issuing comfort letters and agreed-upon procedure reports on ratios linked to financing agreements.

The principal auditor's fees represent less than 1% of the Group's billings in Spain.

23. Events after the reporting date

From 31 December 2017 to the date on which these consolidated financial statements were authorised for issue, no significant events took place and there were no additional matters worthy of mention apart from the following:

a) Acquisition of LE Offices Egeo, S.A.U.

On 16 January 2018, the Parent acquired 100% of the share capital of the Spanish company LE Offices Egeo, S.A.U. (hereinafter "Egeo"), the owner of an office building located in Madrid. The acquisition price was 49,098 thousand euros, plus associated acquisition costs. In addition, in 2018, the loan held by Egeo with a financial institution for 30,182 thousand euros, including interest, was cancelled early.

b) Business combination between Inmobiliaria Colonial SOCIMI, S.A. (acquiring company) and Axiare Patrimonio SOCIMI, S.A. and subsidiaries (acquired companies)

As indicated in Note 9-c to these consolidated financial statements, the Parent launched a takeover bid for all share capital of Axiare Patrimonio SOCIMI, S.A., the acceptance period of which was from 29 December 2017 to 29 January 2018, both inclusive.

On 2 February 2018, the Spanish National Securities Market Commission published the result of the takeover bid, which was accepted for 45,912,569 shares, representing 81.55% of the shares targeted by the takeover bid and 58.07% of the share capital of Axiare Patrimonio SOCIMI, S.A., which entailed the payment of 842,955 thousand euros.

With this expenditure, the value of the ownership interest in Axiare Patrimonio SOCIMI, S.A. amounted to 1,262,232 thousand euros, including the value of the ownership interest at 31 December 2017, which totalled 419,277 thousand euros (Note 9-b).

Accordingly, taking into consideration the shares already held by the Parent, it now holds 68,674,633 shares, representing the 86.86% of the share capital of Axiare Patrimonio SOCIMI, S.A., and may not exercise the rights of forced sale and purchase.

Reason for the business combination

As explained in the prospectus of the takeover bid, with the acquisition of Axiare, the Colonial Group consolidated its position as the European platform in the prime office market of Paris, Madrid and Barcelona. Axiare's asset portfolio at 30 September 2017, with 74% relating to offices, of which 93% are located in Madrid, clearly complements the Colonial Group's strategy, which consists of investing in the office markets of Madrid, Barcelona and Paris, with a focus on high-quality buildings. The acquisition of Axiare will enable Colonial to increase the value of its current portfolio and therefore obtain a real estate asset portfolio valued at approximately 10,000 million euros, thus increasing the Group's exposure in Spain. Furthermore, the synergies with the acquisition of Axiare may represent a savings in operating costs. Accordingly, it will potentially enable Axiare's financing structure to be optimised as a result of its inclusion in the Group with a credit rating of BBB by Standard & Poor's and Baa2 by Moody's.

Financial information of Axiare Patrimonio SOCIMI, S.A.

In accordance with the consolidated financial statements authorised for issue on 14 February 2018, the consolidated equity of Axiare Patrimonio SOCIMI, S.A. and subsidiaries at 31 December 2017 amounts to 1,242,244 thousand euros.

At the date of preparation of these consolidated financial statements, there was no financial information available relating to the date of acquisition and, therefore, the effect of the business combination could not be calculated and the value of the assets and liabilities acquired could not be determined.

The most recent financial information available relates to the consolidated statement of financial position of Axiare Patrimonio SOCIMI, S.A. and subsidiaries at 31 December 2017, which is as follows:

Asset	31 December 2017	Liabilities	31 December 2017
		Equity	1,242,244
Intangible assets	1,783		
Property, plant and equipment	663		
Investment property	1,722,655		
Non-current financial assets	21,916		
Deferred tax assets	7,528	Bank borrowings and other financial liabilities	636,414
Other non-current assets	470	Other non-current liabilities	11,388
Non-current assets	1,755,015	Non-current liabilities	647,802
Trade and other receivables	11,335	Bank borrowings and other financial liabilities	37,711
Tax assets	7,282	Trade payables	11,979
Cash and cash equivalents	167,979	Tax liabilities	1,875
Current assets	186,596	Current liabilities	51,565
Total assets	1,941,611	Total equity and liabilities	1,941,611

The net consolidated profit of Axiare Patrimonio SOCIMI, S.A. and subsidiaries for 2017 amounted to 218,238 thousand euros.

24. Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 2-a). 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

Companies included in the scope of consolidation

At 31 December 2017 and 2016, the fully consolidated subsidiaries and the information thereon were as follows:

	% shareholding					
	Direct		Indirect			
	31/12/17	31/12/16	31/12/17	31/12/16	Shareholder	Line of business
Torre Marenostrum, S.L. (*) Avda. Diagonal 532 08006 Barcelona (Spain)	55%	55%	–	–		Real estate
Colonial Invest, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	–	–		Real estate
Colonial Tramit, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	–	–		Real estate
Danieltown Spain, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	–	–		Real estate
Moorage Inversiones 2014, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	–	–		Real estate
Hofinac Real Estate, S.L.U. (*) Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	–	–		Real estate
Fincas y representaciones, S.A.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	–	–		Real estate
Inmocol Torre Europa, S.A. (*) Avda. Diagonal 532 08006 Barcelona (Spain)	50%	–	–	–		Real estate
Colonial Arturo Soria, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	–	–	–		Real estate
Almacenes Generales Internacionales, S.A.U. Pº de la Castellana, 52 28046 Madrid (Spain)	100%	–	–	–		Real estate
Soller, S.A.U. Pº de la Castellana, 52 28046 Madrid (Spain)	100%	–	–	–		Real estate
Peñalvento, S.L.U. Pº de la Castellana, 52 28046 Madrid (Spain)	–	–	100%	–	Almacenes Generales Internacionales, S.A.U.	Real estate

	% shareholding					
	Direct		Indirect			
	31/12/17	31/12/16	31/12/17	31/12/16	Shareholder	Line of business
Utopicus Innovación Cultural, S.L. Duque de Rivas, 5 28012 Madrid (Spain)	69.60%	–	–	–		Co-working
Zincshower, S.L.U. Duque de Rivas, 5 28012 Madrid (Spain)	–	–	100%	–	Utopicus Innovación Cultural, S.L.	Co-working
Colaboración e Innovación Tecnológica, S.L. Duque de Rivas, 5 28012 Madrid (Spain)	–	–	100%	–	Utopicus Innovación Cultural, S.L.	Co-working
Société Foncière Lyonnaise, S.A. (SFL) 42, rue Washington 75008 Paris (France)	58.56%	58.55%	–	–		Real estate
Condorcet Holding SNC (**) 42, rue Washington 75008 Paris (France)	–	–	100%	100%	SFL	Real estate
Condorcet PROPCO SNC (**) 42, rue Washington 75008 Paris (France)	–	–	100%	100%	Condorcet Holding SNC	Real estate
SCI Washington (*) 42, rue Washington 75008 Paris (France)	–	–	66%	66%	SFL	Real estate
SCI 103 Grenelle (*) 42, rue Washington 75008 Paris (France)	–	–	100%	100%	SFL	Real estate
SCI Paul Cézanne (*) 42, rue Washington 75008 Paris (France)	–	–	100%	100%	SFL	Real estate
Segpim, S.A. (*) 42, rue Washington 75008 Paris (France)	–	–	100%	100%	SFL	Sale of real estate and provision of services
Locaparis, SAS (*) 42, rue Washington 75008 Paris (France)	–	–	100%	100%	Segpim	Sale of real estate and provision of services
Maud, SAS (*) 42, rue Washington 75008 Paris (France)	–	–	100%	100%	SFL	Real estate
SAS Société Immobilière Victoria (*) 42, rue Washington 75008 Paris (France)	–	–	100%	–	SFL	Real estate
SB2, SAS (*) 42, rue Washington 75008 Paris (France)	–	–	100%	100%	SFL	Real estate

	% shareholding					
	Direct		Indirect			
	31/12/17	31/12/16	31/12/17	31/12/16	Shareholder	Line of business
SB3, SAS (*) 42, rue Washington 75008 Paris (France)	–	–	100%	100%	SFL	Real estate
SCI SB3 42, rue Washington 75008 Paris (France)	–	–	100%	100%	SFL	Real estate
SAS Parholding (*) 42, rue Washington 75008 Paris (France)	–	–	50%	50%	SFL	Real estate
SCI Parchamps (*) 42, rue Washington 75008 Paris (France)	–	–	100%	100%	SAS Parholding	Real estate
SCI Pargal (*) 42, rue Washington 75008 Paris (France)	–	–	100%	100%	SAS Parholding	Real estate
SCI Parhaus (*) 42, rue Washington 75008 Paris (France)	–	–	100%	100%	SAS Parholding	Real estate

(*) Company audited in 2017 by PricewaterhouseCoopers.
(**) Company audited in 2017 by Deloitte & Associés.

At 31 December 2017, the Colonial Group companies were audited by PricewaterhouseCoopers Auditores, S.L., with the exception of the SFL Group, which was audited jointly by Deloitte and PricewaterhouseCoopers.

At 31 December 2016, the Colonial Group companies were audited by Deloitte, S.L., with the exception of the SFL Group, which was audited jointly by Deloitte and PricewaterhouseCoopers.

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries
Consolidated Management Report
for the year ended 31 December 2017

1. Company situation

Macroeconomic context

According to activity data from the fourth quarter of 2017, certain continuity is expected regarding the growth acceleration of the global economy. This growth acceleration can be seen in both the advanced and emerging economies due to increased confidence by companies and consumers.

The Eurozone continues to show solid growth, exceeding initial expectations, coupled with increased confidence. Again, private consumption is the driving force of economic growth, thanks to favourable credit conditions; improvements in the labour market; and global economic recovery. On a political front, the first phase of Brexit negotiations has successfully concluded, with a pre-agreement between the EU and the UK. This breakthrough heralds the second phase of negotiations on the future trade agreement.

The Spanish economy continues to maintain positive growth, growing at rates above 3%.

In France, with the episode of risk aversion relating to the presidential elections safely behind them, the markets operate in a stable environment, and are driving business sentiment indicators. In this regard, France is leading the PMI Index in the Eurozone with 59.2 points.

Source: "La Caixa" monthly report.

Rental market situation

Barcelona

During the fourth quarter of 2017, a total of 73,000 sq m of offices were signed in Barcelona, an increase of 42% compared to the previous quarter, with an amount of 51,514 sq m. The year 2017 closed with a cumulative take-up of 332,000 sq m. This represents an increase with respect to the previous year, confirming the positive trend of the Barcelona office market. Particularly worth mentioning is the 22@ district, the most sought after area in the city, resulting in a significant increase in the number of contracts.

In addition, it is worth mentioning the number of transactions above 5,000 sq m in the last quarter of 2017, with technology and pharmaceutical companies leading the demand. This dynamic resulted in the average vacancy rate in Barcelona continuing its downward trend, decreasing from 12.8% to 7.7% this last year. The vacancy rate in the CBD stood at 5.4%, at historically low levels.

It is important to point out that, due to the lack of large, quality spaces, especially in the city centre, there has been an increase in the number of pre-let transactions, which is quite unusual in the office market in Spain. Therefore, the immediate supply of new product continued to decline in all of the submarkets. As a consequence, maximum rents in the CBD during the fourth quarter of 2017 continued the positive trend which commenced in 2013, reaching rental levels of €23.3/sq m/month.

Madrid

During the fourth quarter of 2017, the take-up in Madrid was 213,000 sq m, with a significant increase with respect to the previous quarter, during which the take-up volume was 94,116 sq m. The cumulative figure reached in 2017 exceeds 560,000 sq m. This figure is the highest it has been in the last decade.

A good level of demand during the last three months of 2017, especially coming from the Public sector, substantially decreased available supply in the city centre. Demand was particularly high for quality refurbished buildings, mainly within the M-30.

Large transactions above 10,000 sq m, compared to the absence of these during the first nine months of the year, led to a vacancy rate decrease at 10.9%, compared to the previous quarter. In particular, the vacancy rate in the CBD was 7.0%.

From a supply point of view, in 2017, 238,000 sq m were made available on the market, of which 163,000 sq m related to refurbishments, upon completion of the works being carried out on 18 properties. Currently 255,000 sq m are under construction and refurbishment, and will be completed during 2018-2019. This figure is below the average of 300,000 sq m constructed during the previous cycle.

Prime rents during the fourth quarter of 2017 continued to increase, reaching €31.25/sq m/month, a figure 2.5% higher than the previous quarter and 10% higher than the previous year, thereby continuing a growing trend.

Paris

During the fourth quarter of 2017, take-up in the Paris region (Ile-de-France) exceeded 853,000 sqm, an historic high. The year 2017 had a cumulative take-up of 2,619,000 sq m, an 8% year-on-year increase and 15% higher than the average over the last ten years.

In terms of the transactions carried out, of special mention are the number of large transactions (from 5,000 sq m), reaching a total of 88 transactions in 2017, registering 23 transactions more than the previous year. Also worth mentioning is the transaction of SNCF at the SFR campus in Saint-Denis for 43,000 sq m. Demand remains strong from large companies as 52% of the spaces over 5,000 sq m transacted were for buildings pending construction.

Immediate supply of available office space fell below 3.4 million sq m, resulting in a vacancy rate of 6.4%. This decline in supply reached levels similar to the summer of 2009. Due to the lack of supply, a large part of the deliveries continues to be for pre-let spaces.

The vacancy rate in the CBD area stood at 3%, while the area with most availability is the Western Crescent with a vacancy rate of 11.8%.

Prime rental prices in the Paris CBD reached €775/sq m/year at the close of the fourth quarter of 2017, with several transactions above €760/sq m/year and one transaction over €800/sq m/year. Rents in La Défense reached €510/sq m/year.

Sources: Reports by Jones Lang Lasalle, Cushman & Wakefield, CBRE & Savills.

Organisational structure and functioning

Colonial is the benchmark SOCIMI in the quality office market in Europe and since the end of June 2017 it is listed on the IBEX 35, the index of reference in the Spanish stock exchange.

The Company has a market capitalization of approximately Euro 3,800 million, with a free float of around 60%. It manages assets exceeding Euro 9,000 million.

The Company's strategy focuses on the generation of industrial value through the creation of a prime product of the highest quality through repositioning action and the transformation of property assets.

In particular, the strategy is based on the following pillars:

- A business model focusing on the transformation and creation of offices of the highest quality in prime locations, principally in CBD's (Central Business District).
- Maximum commitment to the creation of offices that respond to the highest demands of the market, placing special emphasis on efficiency and sustainability.
- A diversified pan- European strategy in the office markets in Barcelona, Madrid and Paris.
- An investment strategy that combines "Core" and "Prime Factory" acquisitions with "value added" components.
- A clearly industrial real estate approach to create value that exceeds the average in the market.

Colonial is now the European Company that most focuses on center city areas and leads the Spanish real estate market in terms of quality, sustainability and efficiency in its office portfolio.

An integral approach for all areas of Corporate Social Responsibility has been adopted and aspires to the highest standards of (1) sustainability and energy efficiency, (2) corporate governance and transparency as well as (3) excellence in HR and social actions, making them an integral part of the Group's strategy.

Over the past three years the Group has successfully executed its acquisition program and made investments exceeding Euro 1,500 million (committed amounts including future Capex). All acquisitions involve assets in good locations with good fundamentals, potential for additional returns through property repositioning, while always maintaining maximum financial discipline.

The capital structure is solid, with an LTV below 40% (one of the lowest in the sector) and one of the best ratings in the Spanish sector.

The Company's strategy involves consolidation as the prime office leader in Europe, placing special emphasis on the markets in Barcelona, Madrid and Paris:

- A solid capital structure with a clear vocation towards maintaining maximum credit rating standards-Investment-grade.
- Attractive yields for shareholders based on recurring profitability combined with the creation of property value through "value added" initiatives.

2. Business performance and results

Introduction

Revenue totalled 283 million euros at 31 December 2017, and was generated by the Group's recurring business (property rentals).

Profit from operations amounted to 209 million euros.

According to the independent year-end appraisals by CB Richard Ellis, Jones Lang Lasalle and Cushman & Wakefield, the Group's investment property was revalued by 933 million euros in the year. This revaluations, which was registered in France as well as in Spain, is the result of a +12.2% increase Like-for-Like in the appraisal values of the assets in operation with respect to December 2016 (11.4% in Spain and 12.6% in France).

The Group capitalised 2.6 million euros of borrowing costs related to developments in progress.

The net finance cost amounted to 79 million euros, including 2.6 million euros relating to the finance costs of developments in progress that were capitalised.

Once the results attributable to the minorities of (398) million euros were deducted, the results after taxes attributable to the Group amounted to 683 million euros.

Annual results

The highlights of rental business are as follows:

2017 was an excellent year for the Colonial Group with a Total Shareholder Return of +21% due to an increase in the EPRA Net Asset Value per share of +19% in combination with a dividend yield of +2%.

This return is a consequence of a strategy of specialization on prime offices in the markets of Barcelona, Madrid and Paris, with an approach of real estate value creation – "Prime Factory" –, that priorities quality of return maintaining highest financial discipline.

The Group's successful strategy is reflected in all aspects of the financial and operating results for 2017:

1. Very solid operative parameters:
   - 99 signed contracts corresponding to more than 134,000 sq m and €48m in annual rental income.
   - EPRA vacancy at minimum levels of 4%. Barcelona stands out with 1%.
   - Maximum level of signed rental contract prices in all markets, setting the reference for prime rents.
   - Capturing rental price increases: +9% vs. ERV December 2016 and +13% of release spreads.
2. A +4% Like-for-Like increase in rental income driven by rental price increases.
3. An increase of +22% in recurring income, up to €83m, +14% on EPS.
4. Disposal of the IN/OUT asset in Paris for €445m, a premium of +27% on 2016 valuation.
5. An increase in asset value of +15% (+12% Like-for-Like), reaching €9,282m.
6. An increase in the net attributable result of +149%, reaching €683m.
7. An increase of +19% in Net Asset Value per share reaching €8.60/share.
8. A robust capital structure with an LTV of 31%, €2,427m of liquidity and a solid investment grade rating by Standard & Poor's and Moody's.

Increase in the recurring results

The recurring earnings amounted to €83m, an increase of 22%, compared to the previous year, mainly due to three factors:

1. A solid 4% year-on-year increase in rental income.
2. An improvement in financial results.
3. A lower corporate tax expense due to the conversion to SOCIMI.

Growth in rental income

The Colonial Group achieved a +4% Like-for-Like growth in rental income compared to the close of the previous year. This increase is among the highest in the sector.

In Spain, the rental income increased +5% Like-for-Like, thanks to the strong performance of the Barcelona portfolio with an increase of +10% Like-for-Like. The Paris portfolio increased +4% Like-for-Like, with contracts signed on the Edouard VII, #Cloud and Percier buildings.

Real estate value creation

At the close of 2017, the asset value of the Colonial Group amounted to €9,282m (€9,741m including transfer costs), an increase of 12% Like-for-Like. Including the impact of the new acquisitions and the net sale of IN/OUT, the increase was 15% year-on-year.

The value of the assets in Spain increased by +11% Like-for-Like in the last 12 months. The portfolios in Madrid as well as Barcelona had +11% year-on-year growth each. It is important to highlight that more than half of the increase in asset values in Spain (+8% in Barcelona and +7% in Madrid) is a result of the increase in market rents on the properties. This increase in prices is based on the Colonial Group's capacity to capture the rental cycle growth with its prime portfolio.

The asset value of the Paris portfolio has increased +13% Like-for-Like in the last 12 months. An increase in prices makes up +2% of the growth. However, the majority of the value creation is due to projects of real estate transformation. Among these, the Galerie Champs Elysées, Louvre Saint Honoré, Edouard VII and Washington Plaza buildings are highlighted.

In general terms, the increase in asset values is a consequence of three factors:

1. A growing interest by investors in prime assets, driving down yields, especially in the Paris CBD market, which is one of the core markets that attracts the most investors on a global level

2. Rental price increases captured in recent quarters by the Colonial Group's portfolio in the three markets

3. The Group's industrial approach that enables superior value creation through portfolio repositioning and Prime Factory projects

Solid fundamentals in all segments

The Colonial Group's business has had an excellent performance with strong volumes of lettings, maintaining levels close to full occupancy.

Lettings with significant growth in rental prices

The Colonial Group has signed 99 rental contracts, corresponding to 134,831 sq m and an annual rental income of €48m. More than 59,000 sq m correspond to new contracts, mainly concentrated in the Barcelona market.

The Colonial Group's portfolio has captured significant increases in rental prices: +9% versus the ERV at December 2016 (Barcelona +10%, Madrid +8% & Paris +8%). In addition, the increase in renewals (Release Spread) was in the double digits in Spain (Barcelona +19% Madrid +11%).

In the Barcelona portfolio, close to 51,000 sq m were let. It is worth highlighting the 10,000 sq m signed in the fourth quarter corresponding to "pre-let" transactions by international technology companies. The maximum rental price signed was €23.5/sq m/month, establishing the prime benchmark rate.

In the Madrid portfolio, more than 62,000 sq m were let. The maximum rental price of €32/sq m/month was signed on a 5,000 sq m transaction for the Castellana 43 building.

In the Paris portfolio, more than 21,000 sq m were let in 28 transactions. The maximum office rental price in 2017 was €884/sq m/year signed in a transaction of more than 3,000 sq m on the Ozone building.

High occupancy levels

The excellent letting performance has enabled Colonial to achieve solid ratios close to full occupancy, clearly above the market average in the three cities in which the Group operates.

At the close of 2017, the EPRA vacancy of the Colonial Group was 4%. It is worth highlighting the Barcelona portfolio with only 1% vacancy. The Paris property portfolio had a 3% vacancy.

Vacancy in the Madrid portfolio reached 7%, mainly due to the entry into operation of the recently delivered Discovery project. Excluding this new product, the rest of the Madrid portfolio had a vacancy rate of 2%.

Active portfolio management and growth drivers

The growth strategy of the Colonial Group involves annual organic investments of around €400m in acquisitions of new assets, prioritizing “off-market” transactions, and identifying assets with value-added potential in market segments with solid fundamentals.

Alpha II acquisitions – achieving the 2017 investment objective

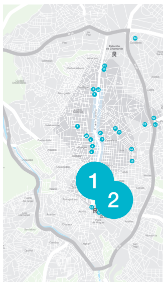
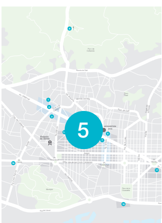
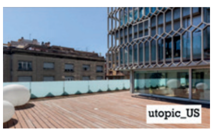
During the first quarter of 2017, the Colonial Group executed the Alpha II acquisition program, corresponding to the purchase of four assets for a total investment volume of almost €400m (acquisition price + future capex). Specifically, three development projects were acquired: Plaza Europa 34 in Barcelona, Paseo de la Castellana 163 in Madrid and 112-122 Av. Emile Zola in Paris, as well as the Spanish headquarters for the Bertelsmann Group, located in the Barcelona CBD.

Alpha III acquisitions – acceleration of the 2018 investment objective

Colonial commenced 2018 with the execution of the Alpha III project, which includes the acquisition of five assets, four in Madrid and one in Barcelona, with a total expected investment of €480m. The investment in Madrid consists of the development of more than 110,000 sq m of offices in the south of the CBD and of the acquisition of two top quality assets in new business areas in the capital. Additionally, Colonial has acquired an asset located in the CBD in Barcelona, where a complete refurbishment will be carried out with the objective of strengthening coworking initiatives.

The main characteristics of the Alpha III acquisitions are as follows:

Project Alpha III

Madrid - City Center		1 Méndez Álvaro Campus Madrid - Inside M-30		Value Added – Prime factory GLA: 89,871m^2	Total investment[1]: €272m – €287m Yield on Cost[2]: 7%-8%
		2 Méndez Álvaro office Scheme Madrid - Inside M-30		Value Added – Prime factory GLA: 20,275m^2	Total investment[1]: €68m Yield on Cost[2]: 7%-8%
Madrid		3 EGEO Madrid - Campo de las Naciones		Core with value added potential GLA: 18,254m^2	Total investment[1]: €79m Yield on Cost[2]: 5%
		4 Arturo Soria Madrid - New Business Area		Core with value added potential GLA: 8,663m^2	Total investment[1]: €33m Yield on Cost[2]: 6%
Barcelona		5 Gal·la Placídia Barcelona CBD		Value Added – Prime factory GLA: 4,312m^2	Total investment[1]: €17m Yield on Cost[2]: ≥7%

(1) Acquisition price + total estimated project capex.
(2) *Potential running yields on cost* for the next years.

The Arturo Soria building and the two Méndez Álvaro plots were purchased in 2017, while the EGEO and Gala Placídia assets were purchased in Barcelona in the first quarter of 2018.

Rotation of mature assets

The Colonial Group regularly reviews the potential of future value creation for each one of its assets in the portfolio. As a consequence of this analysis, in September 2017, the disposal of the In&Out office complex in Paris was completed for a price of €445m, representing a premium of +27% on the appraisal valuation prior to the disposal commitment. This sale represents the culmination of the process of real estate value creation for this asset: (1) the transformation of the building through a development project, (2) the signing of a long-term contract for the OECD headquarters, and finally (3) the disposal of the asset at one of the highest prices in this market segment.

The sale proceeds of this mature asset will be reinvested in new projects of the Group, such as the creation of the Emile Zola office complex in the 15th arrondissement in Paris with an approximate investment amount of €265m (purchase price + future capex).

Project portfolio – important source of future value creation

To date, Colonial has a project portfolio of more than 240,000 sq m to create top quality products that offer high returns and therefore future value creation with solid fundamentals.

In Madrid, two projects are highlighted which will be carried out on the plots of land acquired at Méndez Álvaro south of the Madrid CBD, as well as two projects, Príncipe de Vergara 112 and Castellana 163, in the Madrid CBD. In Barcelona, the Parc Glories and Plaza Europa 34 projects are highlighted.

In December 2017, the Discovery project was delivered with more than 10,000 sq m. This asset, located in the CBD, is currently in the commercialization phase.

In the Paris portfolio, it is important to mention three large projects: Emile Zola, Louvre St. Honoré and Iéna. All of them are located in the best areas of the French capital and together make up more than 44,000 sq m of new spaces with enormous value creation potential in the coming years.

Initiatives in the Proptech field

The Colonial Group's strategy involves taking advantage of initiatives in the Proptech field, which enable the Group to maximize the service provided to its clients and to be a leader in emerging trends in the offices sector.

1. In October 2017, Colonial formalised the acquisition of a controlling stake in the Spanish platform Utopic_US, a leader in the field of flexible spaces and Coworking in Spain. With this acquisition, the Colonial Group has positioned itself in a new strategic line with the objective to complement and reinforce the user strategies of the Group, offering flexibility, integrated services and content.

2. In August 2017, Colonial incorporated Aleix Valls, the former Managing Director of Mobile World Capital Barcelona, as Digital Senior Advisor to boost initiatives and strategies in the Proptech area of the company.

3. Colonial is part of a "think-tank" created by six European companies specialized in the office business line in order to develop and boost best practices in the Proptech, Flexible Office Space, Digitalization and Sustainability fields.

Maximum standards in Corporate Social Responsibility (CSR) and Reporting

The Colonial Group maintains the maximum standards in Financial Reporting as well as Sustainability Reporting. For the third consecutive year, it has obtained the EPRA Gold Award in Financial Reporting, as well as the EPRA Gold Award in Sustainability Reporting for the second consecutive year. The Colonial Group is the only Spanish REIT company (SOCIMI) with the maximum rating in both categories.

Regarding the ratings in relation to CSR, the Colonial Group has achieved the "GREEN STAR" rating by GRESB, a benchmark institution in CSR ratings in the real estate sector on a global scale.

In addition, the SFL subsidiary has been awarded with the "BREEAM Awards 2017" for the responsible management of its portfolio and the strong commitment of its teams in sustainable development.

It is important to highlight that 93% of the Group's portfolio in operation has maximum Sustainability certificates (BREEAM/LEED), clearly positioning Colonial as a leader in the European offices sector.

Corporate Social Responsibility is an integrated part of Colonial's Group strategy to offer long-term sustainable returns.

Capital structure and share price performance

Active balance sheet management

The year 2017 was characterized by the proactive management of the capital structure to guarantee a solid balance sheet with sufficient flexibility at all times. In this respect, the following milestones are highlighted:

- April: Improvement in Colonial's rating to BBB with stable outlook and its French subsidiary to BBB+ in the following months.
- May: Capital increase in the amount of €253m at €7.1/share, with a minimum discount on the share price and a neutral impact with respect to the last reported NAV.
- May: Colonial's conversion to a SOCIMI (REIT) with a positive impact on recurring results and expanding Colonial's access to "REIT-only" investors, improving the liquidity of the share price on the stock exchange.
- June: Inclusion of Colonial on the el IBEX35, the Spanish benchmark market index, increasing the liquidity of the security on the stock exchange.
- October: Share buyback in the amount of €18m at an average price of €7.86/share (a discount of 3% over NAV at June).
- November: Announcement of the takeover bid on Axiare prior to acquisition of shares to hold a 28.8% stake before the takeover bid.
- November: Bond issuance in the amount of €800m in two tranches: €500m at 8 years with a coupon of 1.625% and €300m at 12 years with a coupon of 2.5%.
- November: Share placement for a volume of €416m at €7.89/share, a premium of +2% over the share price: €338m through the issue of new shares and €78m through the sale of treasury shares.
- December: Approval of the takeover bid prospectus on Axiare and start of the acceptation period.

The capital market has clearly supported the successful execution of the fulfilment of all of the milestones of the announced Business Plan. The value creation in terms of NAV per share and dividend return is clearly reflected in the share price performance with an annual revaluation of +26%, reaching a price of €8.3/share at the end of 2017, and outperforming the benchmark indices.

Successful takeover bid on Axiare

Colonial successfully executed a takeover bid on Axiare on 13 November 2017, reaching a stake of 87%.

It is important to highlight the following milestones in the process:

- 13/11/2017: Announcement of the takeover bid on Axiare prior acquisition of shares to obtain 28.8%, pre-takeover bid.
- 28/12/2017: Approval of the takeover bid prospectus by the CNMV.
- 29/12/2017: Start of the acceptance period.
- 08/01/2018: Opinion of the Board of Directors of Axiare on the takeover bid.
- 29/01/2018: End of the acceptance period of the takeover bid.

The acquisition positions Colonial as a European office leader, with almost €10,000m of asset value, a portfolio of 1.7 million sq m of surface area in use and 330,000 sq m under development.

In addition, Colonial reinforces its bet on the office market in Spain, strengthening its positioning in Madrid.

With an 87% majority share in Axiare, the Colonial Group strengthens its growth strategy for the coming years offering an attractive return for the shareholders based on the combination of both companies.

3. Liquidity and capital resources

See “Capital management and risk management policy” under Note 12-m to the consolidated financial statements for the year ended 31 December 2017.

The average payment period (APP) of the Group’s Spanish companies to its suppliers was around 31 days in 2017. With regard to 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 Group has established two payment days per month to comply with the requirements set forth in Law 11/2013, of 26 July. Accordingly, invoices are received 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

Risk Management

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 Control and Risk Management System 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 that prompted them. The risks associated with the Group’s activities are described below.

Strategic risks:

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

- **Risks associated with the industry climate:** The Colonial Group pays special attention to the economic, political, legal and social risks related to the countries in which it operates (Spain and France). The European real estate sector has maintained the dynamism of the previous year in spite of the political uncertainty and economic policies of the last year, characterised by reaching very significant investment levels. The maturity of the French real estate sector and the high level of investment in the Spanish real estate sector in recent years have enabled the Group to have a more optimistic outlook over the coming years in terms of increased returns from its investments and sustainable growth.

- **Risks associated with a competitive sector:** The real estate sector is characterised as being highly competitive, reaching high levels of investment in recent years, and was driven by specialised international investment funds and by listed real estate investment companies (REITs). The Colonial Group, which in 2017 chose to adhere to the special REIT tax regime, has maintained a benchmark position in the European real estate sector as a result of the high quality and value of its assets and its strategy of focusing mainly on its office rental activities in prime or “Central Business District” (CBD) areas. The successful investment and growth strategy implemented by the Colonial Group in 2015, 2016 and 2017, and the successful takeover bid for Axiare at the beginning of 2018 have strengthened the Group’s position in the sector.

– **Risks related to the value of assets:** Every six months the Group 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 risk and risks concerning social commitment:** The Colonial Group's corporate social responsibility policy sets out the principles and bases of the Group's voluntary commitment to its stakeholders. Management of these expectations forms part of the Group's objectives in terms of sustainability and creating value for these stakeholders.

– **Corporate governance risk:**The Group's management of corporate governance focuses on maintaining its commitment to continue making progress on a model based on the principles of efficiency, regulatory compliance and transparency, that are in line with the main international regulations and standards.

– **Anticipation of new trends:** As is the case with other sectors, the real estate sector requires continuous adaptation to emerging trends. The growing implementation of digitalisation in all sectors, the new technology supplied in the real estate sector, and the increase in co-working spaces results in constant changes that specifically affect the real estate sector. In 2017 the Colonial Group assigned specific resources and activities for the purpose of implementing these trends through the acquisition of a co-working platform and the development of digitalisation and new technologies in developing services and new business models the real estate sector.

Operational risks:

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

– **Financial risks:** The Group efficiently manages its financial risks with the aim of maintaining adequate levels of liquidity and debt, minimising borrowing costs and ensuring compliance with its business plans:

- Risk of exposure to interest rate fluctuations: The management of this risk 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. The Colonial Group analyses the arrangement of financial instruments to hedge interest rate fluctuations. A high percentage of the Group's gross financial debt is at fixed rates.

- Risks relating to financing and debt: The Group's financial structure calls for diversification of its sources of financing, both by entity and by product and maturity. In 2017 the new bond issue amounting to 800 million euros, the improvement in the credit rating that is now BBB with a stable outlook and the arrangement of the new loan represented an improvement in the Group's financial structure, thus extending and diversifying the maturity of its debt. The Colonial Group's net financial debt is held at suitable levels, measured using the "loan-to-value ratio", providing the Group with sufficient financial capacity to carry out both its projects and to take on important growth targets for the coming years.

- Liquidity risk: As mentioned in the preceding paragraph, the Group has the necessary sources of financing to undertake its current projects in addition to those laid down in its business plan. The Group increased its capacity to attract capital and obtain liquidity and new lines of financing, whereby in 2017 it carried out two accelerated bookbuild offerings, launched a new bond issue and arranged a new loan.

– **Asset management risks:** Sustainable property management requires that the Group allocate a significant portion of its investments to acquiring, constructing, renovating and maintaining the high quality of its properties, which stand out as a result of their high energy efficiency. This property management strategy is a key part of the Group's organisation and business plan.

– **Risk of loss or damage to property assets:** The Colonial Group's properties are exposed to general risks of damage as a result of fires, 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 to third parties.

– **Security risk of information systems:** The digital revolution brought about great benefits in innovation and growth, however, it also constitutes a source of new threats. The Group, aware of these growing threats, reviews the control measures to secure its information systems and to undertake and mitigate this risk.

Compliance risks:

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

– **Regulatory compliance risks:** The process of identifying and assessing risks of regulatory or contractual breach that may give rise to legal proceedings against the Group allows it to take the appropriate corrective measures to mitigate these risks or, where applicable, any possible impact thereof, through the controls established in the crime prevention model defined and implemented by the Group. The Company has also taken out insurance to cover any legal costs or possible damage against directors and executives.

– **Tax risks:** The Colonial Group must adhere to the general tax legislation of the countries in which it operates, as well as any specific regulations for the REIT regime. Accordingly, Colonial has a tax policy, a tax strategy and a tax risk management system, establishing adequate measures to control and monitor the management of risks in this connection.

Reporting risks:

In order to cover any reporting risks that may arise from errors or a failure to comply with requirements concerning the public information to be disclosed by the Group, and to ensure the reliability of this public information, Colonial has developed an Internal Control over Financial Reporting (ICFR) Organisational and Monitoring Model. Internal Audit is responsible for performing the necessary tests to verify compliance with the ICFR policies, manuals and procedures, validating the efficacy of the controls in place in these processes.

5. Events after the reporting period

From 31 December 2017 to the date on which these financial statements were authorised for issue, no significant events took place and there were no additional matters worthy of mention apart from the following:

a) Acquisition of LE Offices Egeo, S.A.U.

On 16 January 2018, the Parent acquired 100% of the share capital of the Spanish company LE Offices Egeo, S.A.U. (hereinafter “Egeo”), the owner of an office building located in Madrid. The acquisition price was 49,098 thousand euros, plus associated acquisition costs. In addition, in 2018, the loan held by Egeo with a financial institution for 30,182 thousand euros, including interest, was cancelled early.

b) Business combination between Inmobiliaria Colonial SOCIMI, S.A. (acquiring company) and Axiare Patrimonio SOCIMI, S.A. and subsidiaries (acquired companies)

As indicated in Note 9-c to these consolidated financial statements, the Parent launched a takeover bid for all share capital of Axiare Patrimonio SOCIMI, S.A., the acceptance period of which was from 29 December 2017 to 29 January 2018, both inclusive.

On 2 February 2018, the Spanish National Securities Market Commission published the result of the takeover bid, which was accepted for 45,912,569 shares, representing 81.55% of the shares targeted by the takeover bid and 58.07% of the share capital of Axiare Patrimonio SOCIMI, S.A., which entailed the payment of 842,955 thousand euros.

With this expenditure, the value of the ownership interest in Axiare Patrimonio SOCIMI, S.A. amounted to 1,262,232 thousand euros, including the value of the ownership interest at 31 December 2017, which totalled 419,277 thousand euros (Note 9-b).

Accordingly, taking into consideration the shares already held by the Parent, it now holds 68,674,633 shares, representing the 86.86% of the share capital of Axiare Patrimonio SOCIMI, S.A., and may not exercise the rights of forced sale and purchase.

Reason for the business combination

As explained in the prospectus of the takeover bid, with the acquisition of Axiare, the Colonial Group consolidated its position as the European platform in the prime office market of Paris, Madrid and Barcelona. Axiare's asset portfolio at 30 September 2017, with 74% relating to offices, of which 93% are located in Madrid, clearly complements the Colonial Group's strategy, which consists of investing in the office markets of Madrid, Barcelona and Paris, with a focus on high-quality buildings. The acquisition of Axiare will enable Colonial to increase the value of its current portfolio and therefore reach a real estate asset portfolio valued at approximately 10,000 million euros, thus increasing the Group's exposure in Spain. Furthermore, the synergies with the acquisition of Axiare may represent a savings in operating costs. Accordingly, it will potentially enable Axiare's financing structure to be optimised as a result of its inclusion in the Group with a credit rating of BBB by Standard & Poor's and Baa2 by Moody's.

Financial information of Axiare Patrimonio SOCIMI, S.A.

In accordance with the consolidated financial statements authorised for issue on 14 February 2018, the consolidated equity of Axiare Patrimonio SOCIMI, S.A. and subsidiaries at 31 December 2017 amounts to 1,242,244 thousand euros.

At the date of preparation of these consolidated financial statements, there was no financial information available relating to the date of acquisition and, therefore, the effect of the business combination could not be calculated and the value of the assets and liabilities acquired could not be determined.

The most recent financial information available relates to the consolidated statement of financial position of Axiare Patrimonio SOCIMI, S.A. and subsidiaries at 31 December 2017, which is as follows:

Asset	31 December 2017	Liabilities	31 December 2017
		Equity	1,242,244
Intangible assets	1,783		
Property, plant and equipment	663		
Investment property	1,722,655		
Non-current financial assets	21,916		
Deferred tax assets	7,528	Bank borrowings and other financial liabilities	636,414
Other non-current assets	470	Other non-current liabilities	11,388
Non-current assets	1,755,015	Non-current liabilities	647,802
Trade and other receivables	11,335	Bank borrowings and other financial liabilities	37,711
Tax assets	7,282	Trade payables	11,979
Cash and cash equivalents	167,979	Tax liabilities	1,875
Current assets	186,596	Current liabilities	51,565
Total assets	1,941,611	Total equity and liabilities	1,941,611

The net consolidated profit of Axiare Patrimonio SOCIMI, S.A. and subsidiaries for 2017 amounted to 218,238 thousand euros.

6. Future outlook

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

Barcelona and Madrid

In the Spanish economy, it has been following a positive trend in certain aspects which have driven growth in the Spanish economy in recent years, in particular these are: 1) a favourable evolution of economic activity, positively impacting the employment market; 2) gains in competitiveness; 3) low interest rates and 4) a good outlook for bank credit. In addition, the labour market maintains a positive trend with 1,500,000 more registered workers affiliated to Social Security in the last 3 years.

In the Barcelona market, it is important to point out that, due to the lack of large, quality spaces, especially in the city centre, the forecasts suggest that many projects are going to be delivered already partially or totally pre-let. As a consequence, long-term forecasts remain positive, positioning Barcelona as one of the top European cities in terms of expected rental growth, with an annual growth above 3% between 2017 and 2022. On the other hand, Madrid is positioned as one of the European cities with the best rental growth forecast over the coming years until 2021.

Paris

The Paris market is one of the most important markets worldwide. The last few quarters saw clear signs of an improvement in demand, especially in CBD areas, where there is an apparent lack of prime rentals.

Consequently, leading consultants expect the positive trend that began at the end of 2014 to be consolidated for prime property rentals in CBD areas.

Regarding growth expectations, the main analysts have revised their forecasts upwards and growth is expected to reach 1.8 both in 2017 and 2018, compared to 1.1% in 2016.

Strategy for the future

The investment market showed record high take-up volumes. In the current climate of low interest rates, expectations are that investors will continue to be interested in the Paris market, as one of the Eurozone's major fields of office operations.

In this market context, Colonial is implementing a selective investment policy, in order to maximise value for its shareholders.

In particular, it has focused its efforts on acquiring top-quality properties in high-potential market areas, including assets with the wherewithal to become prime rentals through repositioning.

7. Research and development activities

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

8. Treasury shares

At 31 December 2017, the Company had 4,509,440 treasury shares with a nominal value of 11,274 thousand euros, which represents 1.04% of the Parent's share capital.

9. Other relevant information

On 10 December 2015, the Parent 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.

10. Alternative Performance Measures (European Securities and Markets Authority)

Below follows a glossary of the Alternative Performance Measures, including their definition and relevance for Colonial, in accordance with the recommendations of the European Securities and Markets Authority (ESMA) published in October 2015 (ESMA Guidelines on Alternative Performance Measures). These Alternative Performance Measures have not been audited or reviewed by the Parent.

Alternative Performance Measure	Calculation method	Definition/Relevance
EBIT (Earnings before interest and taxes)	Calculated as the *"Operating profit"* plus *"Changes in fair value of investment property"* and *"Losses due to impairment of assets".*	Indicator of the profit generating capacity of the Group, considering only its productive activity less debt and tax effects.
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)	This calculated as the *"Operating profit"* adjusted for "*Amortisation"* and the *"Net change in provisions"*.	Indicator of the profit generating capacity of the Group, considering only its productive activity, eliminating any provisions for amortisation, debt and tax effects.
Gross financial debt (GFD)	Calculated as the sum of the items *"Bank borrowings and other financial liabilities"* and *"Issuance of bonds and other similar securities"*, excluding *"Interest"* (accrued), *"Arrangement expenses"* and *"Other financial liabilities"* of the consolidated statement of financial position.	Relevant indicator for analysing the financial position of the Group.
EPRA[1] NAV (EPRA Net Asset Value)	Calculated based on the equity of the Company and adjusting specific items according to EPRA recommendations.	Standard analysis ratio for the real estate sector, recommended by EPRA.
EPRA[1] NNNAV (EPRA "triple net")	Calculated by adjusting the following items in the EPRA NAV: The market value of the financial instruments, the market value of the financial debt, any taxes that would be accrued with the sale of assets at market value, applying the reinvestment tax rebate and the tax credit recognised in the statement of financial position taking into account the going concern criteria.	Standard analysis ratio for the real estate sector and recommended by EPRA.
Market Value excluding transaction costs or Gross Asset Value (GAV) excluding Transfer costs	Appraisal of all the assets in the Group's portfolio carried out by external appraisers to the Group, deducting the transaction costs or transfer costs.	Standard analysis ratio for the real estate sector.

(1) EPRA (European Public Real Estate Association) which recommends the standards for best practices to follow in the property sector. The calculation method of these APM has been carried out following the instructions established by EPRA.

Alternative Performance Measure	Calculation method	Definition/Relevance
Market Value including transaction costs or GAV including Transfer costs	Appraisal of all the assets in the Group's portfolio carried out by external appraisers to the Group, before deducting the transaction costs transfer costs.	Standard analysis ratio for the property sector.
Like-for-Like Rentals	Amount of rental income from leases included in the item *"Revenue"* comparable between the two periods. To obtain these, the rental income from investments or divestments made between both periods are excluded, together with those from assets included in the portfolio of projects and renovations, as well as other atypical adjustments (for example, compensation for early termination of lease agreements).	This permits the comparison, on a Like-for-Like basis, of the changes in the rental income of an asset or group of assets.
Like-for-Like Appraisal	Market Value excluding transaction costs or the Market Value including transfer costs, comparable between the two periods. To obtain these, the rental income from investments or divestments made between both periods are excluded.	This permits the comparison, on a Like-for-Like basis, of the changes in the Market Value of the portfolio.
Loan-to-Value Group or LtV Group	Calculated as the result of dividing the Gross financial debt less the amount of the item *"Cash and cash equivalents"* between the Market Value, including transaction costs, of the Group's portfolio of assets.	This permits an analysis of the relation between the net financial debt and the appraisal value of the Group's asset portfolio.
LtV Holding or LtV Colonial	Calculated as the result of dividing the Gross financial debt less the amount of *"Cash and cash equivalents"* of the Parent and the Spanish subsidiaries wholly owned thereby between the sum of the market value, including transaction costs of the asset portfolio of the head of the Group and the Spanish subsidiaries wholly owned thereby, and the EPRA NAV of the rest of the financial investments in subsidiaries.	This permits an analysis of the relation between the net financial debt and the appraisal value of the portfolio of assets of the parent company of the Group.

The *Alternative Performance Measures* included in the above table are based on items in the consolidated annual financial statements of Inmobiliaria Colonial or in the breakdown of the items (sub-items) included in the corresponding notes to the financial statements, unless otherwise indicated below.

Below follows a reconciliation of those alternative performance measures whose origin does not fully derive from items or sub-items in the consolidated annual financial statements of Inmobiliaria Colonial, as provided for in paragraph 28 of the aforementioned recommendations.

EPRA NAV (EPRA Net Asset Value)

Millions of euros

	31/12/2017	31/12/2016
"EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT"	3,592	2,302
Includes:		
(i.a) Revaluation of investment assets	13	11
(i.a) Revaluation of assets under development	n.a.	n.a.
(i.c) Revaluation of other investments	(58)	51
(ii) Revaluation of finance leases	n.a.	n.a.
(iii) Revaluation of assets held for sale	n.a.	n.a.
Excludes:		
(iv) Market value of financial instruments	(1)	2
(v.a) Deferred taxes	198	221
(v.b) Goodwill resulting from deferred assets	n.a.	n.a.
Includes/excludes:		
Adjustments of (i) to (v) in relation to the interests of strategic alliances	n.a.	n.a.
EPRA NAV	3,744	2,587

EPRA NNNAV (EPRA “triple net”)

Millions of euros

	31/12/2017	31/12/2016
EPRA NAV	3,744	2,587
Includes:		
(i) Market value of financial instruments	1	(2)
(ii) Market value of the debt	(117)	(79)
(iii) Deferred taxes	(200)	(222)
EPRA NNNAV	3,428	2,284

Market Value excluding transaction costs or GAV excluding transfer costs

Millions of euros

	31/12/2017	31/12/2016
Barcelona	836	761
Madrid	1,497	1,273
Paris	6,064	5,736
Operating portfolio	**8,398**	**7,771**
Projects	**519**	**144**
Other	**16**	**14**
Shareholding value in Axiare	**349**	**141**
Total Market Value excluding transaction costs	9,282	8,069
Spain	3,053	2,333
France	6,229	5,736

Market Value including transaction costs or GAV including transfer costs

Millions of euros

	31/12/2017	31/12/2016
Total Market Value excluding transaction costs	9,282	8,069
Plus: transaction costs	459	409
Total Market Value including transaction costs	9,741	8,478
Spain	3,121	2,387
France	6,619	6,092

Like-for-Like Rentals

Millions of euros

	Barcelona	Madrid	Paris	Total
Rental income 2015	27	35	169	231
Like-for-Like	3	1	11	15
Projects and additions	0	(1)	15	14
Investments and divestments	0	7	1	8
Others and compensation	(0)	0	3	3
Rental income 2016	30	43	198	271
Like-for-Like	3	1	6	10
Projects and additions	0	0	(5)	(5)
Investments and divestments	2	8	(3)	7
Others and compensation	0	0	0	0
Rental income 2017	35	52	196	283

Like-for-Like Appraisal

Millions of euros

	31/12/2017	31/12/2016
Valuation at 1 January	8,069	6,913
Like-for-Like Spain	265	151
Like-for-Like France	679	494
Acquisitions	625	524
Divestments	(356)	(13)
Valuation at 31 December	9,282	8,069

Loan-to-Value Group or LtV Group

Millions of euros

	31/12/2017	31/12/2016
Gross financial debt	4,170	3,633
Less: "Cash and cash equivalents"	(1,104)	(105)
(A) Net financial debt	3,066	3,528
Market Value including transaction costs	9,741	8,478
Plus: Treasury shares of the Parent valued at EPRA NAV	39	41
(B) Market Value including transaction costs and Parent treasury shares	9,780	8,519
Loan-to-Value Group (A)/(B)	31.3%	41.4%

LtV Holding or LtV Colonial

Millions of euros

Holding Company	31/12/2017	31/12/2016
Gross financial debt	2,488	1,647
Less: "Cash and cash equivalents" of the Parent and Spanish subsidiaries wholly owned thereby	(1,085)	(80)
(A) Net financial debt	1,403	1,567
(B) Market Value including transaction costs	5,562	4,439
Loan-to-Value Holding (A)/(B)	25.2%	35.3%

11. 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 2017 is included in this Management Report in a separate section.

3. Annual corporate governance report 2017

Inmobiliaria Colonial, S.A.
Annual corporate governance report of listed companies

A. Ownership structure

A.1 Fill in the following table on the company's share capital:

Date of last change	Share capital (€)	Number of shares	Number of voting rights
30/11/2017	1,088,293,390	435,317,356	435,317,356

Indicate whether there are different types of shares with different associated rights:

No

Class	Number of shares	Par value each	Voting rights per share	Different rights
–	–	–	–	–

A.2 State the direct and indirect holders of significant ownership interests in the Company at year-end, excluding directors:

Name or company name of the shareholder	Number of direct voting rights	Number of voting rights	% of total voting rights
Qatar Investment Authority	–	41,610,141	9.559
Aguila LTD	–	28,800,183	6.616
Inmo, S.L.	–	20,011,190	4.597
Deutsche Bank, A.G.	8,135,389	–	1.869
BlackRock Inc.	–	11,055,142	2.540

Name or company name of the indirect holder of an ownership interest	Through: Name or company name of the direct holder of an ownership interest	Number of voting rights
Qatar Investment Authority	QH Netherlands BV	41,610,141
Aguila LTD	Park, S.A.R.L.	28,800,183
Inmo, S.L.	Trudonba XXI, S.L.U.	20,011,190
BlackRock Inc.	BlackRock Holding	11,055,142

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

Name or company name of the shareholder	Transaction date	Description of the transaction
BlackRock, Inc	20/01/2017	Ownership interest has fallen below 3% of share capital
BlackRock, Inc	24/04/2017	Ownership interest has exceeded 3% of share capital
BlackRock, Inc	09/05/2017	Ownership interest has fallen below 3% of share capital
BlackRock, Inc	11/05/2017	Ownership interest has exceeded 3% of share capital
BlackRock, Inc	19/12/2017	Ownership interest has fallen below 3% of share capital
BlackRock, Inc	28/12/2017	Ownership interest has exceeded 3% of share capital
Inmo, S.L.	05/05/2017	Ownership interest has exceeded 5% of share capital
Inmo, S.L.	24/04/2017	Ownership interest has exceeded 3% of share capital
Inmobiliaria Espacio, S.A.U.	12/01/2017	Ownership interest has fallen below 3% of share capital
Invesco Limited	15/03/2017	Ownership interest has fallen below 1% of share capital
Invesco Limited	28/04/2017	Ownership interest has exceeded 1% of share capital
Invesco Limited	02/05/2017	Ownership interest has fallen below 1% of share capital
Invesco Limited	12/06/2017	Ownership interest has exceeded 1% of share capital
Invesco Limited	13/09/2017	Ownership interest has fallen below 1% of share capital
Fidelity International Limited	18/01/2017	Ownership interest has fallen below 1% of share capital
Fidelity International Limited	29/11/2017	Ownership interest has exceeded 1% of share capital
Fidelity International Limited	04/12/2017	Ownership interest has fallen below 1% of share capital
Joe Lewis	24/04/2017	Ownership interest has fallen below 3% of share capital

A.3 Fill in the following tables on the members of the company's board of directors who own voting shares in the company:

Name or company name of the director	Number of direct voting rights	Indirect voting rights	% of total voting rights
Mr Juan José Brugera Clavero	148,049	–	0.034
Mr Pedro Viñolas Serra	236,898	–	0.054
Mr Carlos Fernández González	–	79,378,647	18.235
Ms Ana Sainz de Vicuña Bemberg	1,550	–	0.000
Mr Carlos Fernández-Lerga Garralda	6,361	5,670	0.003
Mr Javier Iglesias de Ussel Ordís	1,820	–	0.000
Mr Luis Maluquer Trepat	20,000	2,500	0.005

Name or company name of the indirect holder of an ownership interest	Through: Name or company name of the direct holder of an ownership interest	Number of voting rights
Mr Carlos Fernández González	Grupo Far-Luca, S.A. de C.V.	79,378,647
Mr Carlos Fernández-Lerga Garralda	EUR Consultores, S.L.	5,670
Mr Luis Maluquer Trepat	Ms Marta Maluquer Domingo	2,500

% of total voting rights held by the board of directors	18.331

Fill in the following tables on the members of the company's board of directors who hold rights over shares in the company:

		Indirect rights			
Name or company name of the director	Number of direct rights	Direct holder	Number of voting rights	Number of equivalent shares	% of total voting rights
Mr Juan José Brugera Clavero	148,049	–	–	148,049	0.034
Mr Pedro Viñolas Serra	236,898	–	–	236,898	0.054
Mr Carlos Fernández-Lerga Garralda	6,361	EUR Consultores, S.L.	5,670	12,031	0.003
Mr Carlos Fernández González	–	Grupo Far-Luca, S.A. de C.V.	79,378,647	79,378,647	18.235
Ms Ana Sainz de Vicuña Bemberg	1,550	–	–	1,550	0.000
Sheikh Ali Jassim M.J. Al-Thani	–	–	–	–	0.000
Mr Adnane Mousannif	–	–	–	–	0.000
Mr Carlos García Cañizares	–	–	–	–	0.000
Mr Javier Iglesias de Ussel Ordís	1,820	–	–	1,820	0.000
Mr Luis Maluquer Trepat	20,000	Ms Marta Maluquer Domingo	2,500	22,500	0.005

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:

Name or company name of the related party	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:

Name or company name of the related party	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. If so, provide a brief description and list the shareholders that are party to the agreement:

No

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

No

Expressly indicate any amendments to or termination of such covenants, agreements or concerted actions during the year:

N/A

A.7 Indicate whether any individual or legal entities currently exercise control or could exercise control over the company pursuant to Article 5 of the Securities Market Law. If so, identify them:

No

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

At year-end:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
4,509,440	–	1.04%

(*) Through:

Name or company name of the direct holder of an ownership interest	Number of direct shares
Total:	

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

Explain the significant changes

During 2017, the Company's portfolio of treasury shares suffered some changes. In January 2017, it held 1.703% and ended the year with a percentage equal to 3.413% of the share capital. To this end, the Company notified the Spanish Securities Market Commission (CNMV) of the changes in treasury shares on 10 January, 27 February and 8 November.

In 2017, two buyback programmes were established and reported to the market through regulatory announcements (registration no 244738/registration no 250082/registration no 257437/registration no 258438). Under the aforementioned programmes, the Company acquired shares representing approximately 2.8% of the current share capital. These acquisitions were also reported to the market through the corresponding regulatory announcements.

Within the context of the takeover operation of Axiare Patrimonio SOCIMI, S.A., on 28 November 2017, the Company's Board of Directors agreed to sell a maximum number of 13,575,000 of its treasury shares under certain conditions with the purpose of financing said operation appropriately. 9,907,257 treasury shares were placed.

On the other hand, the Company signed a liquidity agreement in 2017, the movements of which have also been reported to the market through regulatory announcements.

A.9 Give details of the applicable conditions and current timeline for the general meeting to authorise the board of directors to issue, buy back or transfer treasury shares.

The General Meeting of Shareholders of Inmobiliaria Colonial, SOCIMI, S.A. (the "**Company**" or "**Inmobiliaria Colonial**") granted authorisation to the Board of Directors, as item five on its agenda, for the derivative acquisition of treasury shares on 29 June 2017 and revoked the authorisation granted through the resolution of 30 June 2014. With respect to the terms and conditions of the authorisation: i) the nominal value of the shares acquired, directly or indirectly, in addition to those already held by the Company and its subsidiaries, may not exceed 10% of the share capital subscribed or any maximum amount that may be legally established; ii) the minimum price or consideration for acquisition shall be €0.01 per share and the maximum price or consideration for acquisition shall be the equivalent of the listing price of treasury shares acquired on an official regulated secondary market at the time of acquisition; iii) the procedure for acquisition may be purchase/sale, swap or any other method against payment, as circumstances advise, and iv) the duration of the authorisation is 5 years. The authorisation granted expressly provides that the shares acquired may be used in whole or in part for delivery or transfer to the directors, executives or employees of the Company or Group companies, directly or as a result of their option rights, within the scope of the Company's share price-based remuneration systems.

With regard to the authorisation to issue shares, the General Meeting of Shareholders of Inmobiliaria Colonial, SOCIMI, S.A. resolved to authorise the Board of Directors on 29 June 2017 and pursuant to Article 297.1 b) of the Spanish Limited Liability Companies Law to increase share capital through monetary contributions, within a maximum period of 5 years, up to half the amount of share capital, on one or several occasions, at the time and in the amount it deems appropriate, revoking the general authorisation granted through resolution nine of the Company's Ordinary General Meeting of Shareholders on 28 June 2016. Within this maximum amount, the Board of Directors was empowered to disapply preferential subscription rights, limited to a maximum overall nominal amount equal to 20% of the share capital.

A.9 bis Estimated floating capital:

	%
Estimated floating capital	55.45%

A.10 Give details of any restrictions on the transfer of securities and/or voting rights. Indicate, in particular, the existence of any restrictions that may hinder a takeover of the company by means of share acquisitions on the market.

No

A.11 Indicate whether the general meeting has resolved to adopt neutralisation measures to address a takeover bid by virtue of the provisions of Law 6/2007.

No

If applicable, explain the measures approved 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.

No

Where applicable, state the various classes of shares, and the rights and obligations attached to each class.

B. General Meeting

B.1 Indicate and state, if any, the differences with respect to the minimums stipulated in the Spanish Limited Liability Companies Law (LSC) with regard to the quorum required for the constitution of the general meeting.

No

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

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the Spanish Limited Liability Companies Law (LSC):

No

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

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 the bylaws are amended.

Under the Bylaws, for the General Meeting to validly resolve to increase or reduce share capital or make any other amendment to the Company Bylaws, shareholders holding at least 50% of the subscribed capital with voting rights must be present or represented on first call. On second call, shareholders representing 25% of share capital shall be sufficient. As regards the adoption of resolutions, the Bylaws establish that issues that are substantially independent shall be voted on separately, in particular the amendment of any article or group of articles in the Company Bylaws, which stand alone. Also, a vote in favour by more than 50% of the share capital present in person or by proxy shall be sufficient to adopt resolutions with an absolute majority, whereas a vote in favour by two thirds of the share capital present in person or by proxy at the General Meeting shall be necessary when, on second call, the shareholders present represent 25% or more of the subscribed capital with voting rights, but less than 50%.

B.4 Indicate the attendance figures for the general meetings held during the year and those of the previous fiscal year:

	Attendance information				
			% distance voting		
Date of General Meeting	% attendance	% attendance by proxy	Electronic voting	Other	Total
28/06/2016	26.00%	45.69%	0.00%	1.63%	71.69%
29/06/2017	36.82%	41.17%	0.00%	10.52%	77.99%

B.5 Indicate whether the bylaws contain any restrictions with respect to a minimum number of shares required to attend general meetings:

Yes

Number of shares required to attend general meetings	500

B.6 Deleted

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

https://www.inmocolonial.com/accionistas-inversores/gobierno-corporativo/juntas-generales

C. Structure of company Management

C.1 Board of Directors

C.1.1 The maximum and minimum number of directors stipulated in the Company Bylaws:

Maximum number of directors	15
Minimum number of directors	5

C.1.2 Fill in the following table with the directors' particulars:

Name or company name of the director	Repres.	Category of the Director	Position on the board	Date of first appointment	Date of last appointment	Appointment procedure
Mr Juan José Brugera Clavero		Executive	Chairman	19/06/2008	30/06/2014	Resolution by the General Meeting of Shareholders
Mr Pedro Viñolas Serra		Executive	CEO	18/07/2008	30/06/2014	Resolution by the General Meeting of Shareholders
Mr Carlos Fernández González		Proprietary	Director	28/06/2016	28/06/2016	Resolution by the General Meeting of Shareholders
Mr Juan Carlos García Cañizares		Proprietary	Director	30/06/2014	30/06/2014	Resolution by the General Meeting of Shareholders
Mr Adnane Mousannif		Proprietary	Director	28/06/2016	28/06/2016	Resolution by the General Meeting of Shareholders
Sheikh Ali Jassim M. J. Al-Thani		Proprietary	Director	12/11/2015	28/06/2016	Resolution by the General Meeting of Shareholders
Mr Carlos Fernández-Lerga Garralda		Independent	Coordinating Independent Director	19/06/2008	30/06/2014	Resolution by the General Meeting of Shareholders
Ms Ana Sainz de Vicuña Bemberg		Independent	Director	30/06/2014	30/06/2014	Resolution by the General Meeting of Shareholders
Mr Luis Maluquer Trepat		Independent	Director	31/07/2013	30/06/2014	Resolution by the General Meeting of Shareholders
Mr Javier Iglesias de Ussel Ordís		Independent	Director	19/06/2008	30/06/2014	Resolution by the General Meeting of Shareholders

Total number of directors	10

Indicate any board members who stepped down during the period considered:

Name or company name of the director	Category of director at date of departure	Date of departure
Mr Juan Villar-Mir de Fuentes	Proprietary	22/05/2017

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

Executive directors

Name or company name of the director	Position in the company organisation chart
Mr Juan José Brugera Clavero	Chairman
Mr Pedro Viñolas Serra	CEO

Total number of executive directors	2
% of the total board	20.00%

External proprietary directors

Name or company name of the director	Name or company name of the significant shareholder represented or proposing appointment
Mr Carlos Fernández González	Mr Carlos Fernández González
Mr Juan Carlos García Cañizares	Aguila, LTD
Mr Adnane Mousannif	Qatar Investment Authority
Sheikh Ali Jassim M. J. Al-Thani	Qatar Investment Authority

Total number of proprietary directors	4
% of the total board	40.00%

External Independent Directors

Name or company name of director

Ms Ana Sainz de Vicuña Bemberg

Profile

Graduate in Agricultural Economics from Reading University in the UK, with a Programme for Management Development from Harvard University.

She worked at Merrill Lynch in Spain for 18 years (1984-2003). She began her career in Private Banking, and worked in this sector for 12 years. She then joined Sociedad de Valores y Bolsa, which was constituted following the acquisition of FG, a process she headed together with Mr Claudio Aguirre, and subsequently headed Operations, Systems, HR and Finance. She was then appointed General Manager of Merrill Lynch International Bank's Spanish subsidiary.

She now sits on the Foundational Committee of the ARPE Foundation (Foundation for Art Research Partnership and Education). Since 2004, she has been a member of the Board and member of the Management Committee of Corporación Financiera Guadalmar (CFG), a Family Office with assets in Spain and Latin America, mainly Argentina and Chile. She supervises the Financial Assets Committee, which manages the securities portfolios and the family's investments in the Security Group -of which she is also a Director- and the Awasi and W Santiago hotel group.

In 2011, she was appointed Director of Terold Invest, S.L., and in July 2015, she was appointed Director of Acciona, S.A., where she also sits on the Audit Committee. In February 2017, she was appointed Director of Prosegur Cash, S.A., and also sits on the Appointments and Remuneration Committee.

Name or company name of director

Mr Carlos Fernández-Lerga Garralda

Profile

Law degree from the University of Navarra, master's degree in European studies from the University of Louvain (Belgium) and PhD courses in Law at Universidad Complutense de Madrid and commercial law specialisation courses for post-graduates at the Bank of Spain's Training Centre. He completed his studies in international law at the Academy for International Law at The Hague, in comparative law and international organisations in Strasbourg and at the *Collège Universitaire d´études fédéralistes*, Nice, Val d'Aoste.

From 1978 to 1983 he was an Advisory Member of the Minister and Secretary of State for Relations with the European Community, participating in negotiations for Spain's accession to the European Union. From 1984 to 1986, he held the position of General Manager of the European Union Advisory Service at the Banco Hispano Americano Group. He has also been a director of Abantia Corporación. He has also been Coordinating Director and chairman of the Appointments and Remuneration Committee at Gamesa Corporación Tecnológica, S.A. (Lead Independent Director) and General Director of La Caixa. Member of the International Secretariat of World Federalist Youth (Amsterdam, the Netherlands); Secretary of the European League for Economic Cooperation (ELEC), Madrid; Secretary of the Foundation for Progress and Democracy, Deputy (Treasurer) of the Governing Board of the Madrid Bar Association, member of the Executive Committee of Real Instituto Elcano and Trustee of the Spain/US and Spain/China Council Foundations. He has also taught extensively in the School of Political Science at the Complutense University and the Institute of European Studies at the University of Alcalá de Henares, among other institutions, and has authored numerous publications on legal issues.

He is currently Chairman of Iberdrola Ingeniería y Construcción, S.A. and continues to practise law at his law firm, Carlos Fernández-Lerga Abogados, mainly focusing on legal advice in commercial and civil law. He is currently a member of the Board of Directors at SFL.

External Independent Directors

Name or company name of director

Mr Luis Maluquer Trepat

Profile

He holds a degree in Law from the University of Barcelona and a Diploma in International Institutions from the University of Geneva.

Throughout his career at the law firm Maluquer Advocats, SCP, he has advised different national and international institutions, providing his services in the fields of consultancy, legal advice and lawsuits, arbitration and mediation procedures. He also has teaching experience at various institutions, such as the Barcelona Chamber of Commerce, and worked as director at the European Society for Banking and Financial Law (AEDBF Paris).

He is the founding partner of Despacho Maluquer Advocats, SCP, and is a board member and secretary to a number of companies, including SFL, where he sits on the board. In addition, he has special powers of attorney and is secretary to the board of various subsidiaries of French and Swiss companies, especially in the infrastructure and agri-food industries. He is currently Chairman of the Argentinian Chamber of Commerce in Spain.

Name or company name of director

Mr Javier Iglesias de Ussel Ordís

Profile

Javier Iglesias de Ussel y Ordís has a wealth of experience in financial circles. In 1974, he joined Lloyds Bank International in London, where he held different positions of responsibility for Corporate Banking in Dubai, São Paulo, Asunción and Madrid over 21 years. In 1995, he joined The Bank of New York and was appointed Country Manager for the Iberian Peninsula. He moved to New York in 2002, and was appointed Division Head for Latin America. From 2008 to December 2013, he ran the Representation Office of Chilean bank Banco de Crédito e Inversiones. Mr Iglesias de Ussel has been an Independent Director of Inmobiliaria Colonial since 2008, and has also been an Independent Director of Aresbank since March 2015.

Mr Iglesias de Ussel holds a degree in modern history from the University of Barcelona and throughout his career has been involved in numerous business administration, marketing, risk analysis and money laundering prevention courses. He lived outside Spain for 22 years, and speaks English, French and Portuguese.

Total number of independent directors	4
Total % of the Board	40.00%

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 officer of an entity which maintains or has maintained this relationship.

No

If applicable, include a statement from the board detailing the reasons why it believes this director may carry out duties as an independent director.

Other External Directors

Identify the other external directors and explain why these directors may not be considered proprietary or independent directors, and what their connection is with the Company, its managers or its shareholders:

Name or company name of the director	Reasons	Company, director or shareholders to which this person is linked
–	–	–

Total number of other external directors	0
Total % of the board	0

Indicate any changes in the status of each director that may have occurred during the year:

Name or company name of the director	Date of change	Prior category	Current category
–	–	–	–

C.1.4 Complete the following table with the information on the number of female directors over the past 4 years and their category:

	Number of female board members				% of total directors of each category			
	2017	2016	2015	2014	2017	2016	2015	2014
Female Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	0	0	0	1	0.00%	0.00%	0.00%	20.00%
Independent	1	1	1	1	25.00%	25.00%	33.33%	33.33%
Other External Female Directors	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	1	1	1	2	10.00%	9.09%	9.09%	18.18%

C.1.5 Explain any measures that have been adopted to have a number of female board members that would produce a balanced ratio between women and men.

Explanation of the measures

The Board Regulations provide for, among the various obligations of the Board of Directors, the obligation to ensure that the procedures for selecting its members promote diversity of gender, experience and knowledge and do not contain any implicit bias that may entail discrimination and, in particular, facilitate the selection of female directors. In this regard, in 2016 the Board of Directors approved a Selection Policy for Candidates to the Board of Inmobiliaria Colonial, S.A. (the "**Selection Policy**"), which expressly sets a target for a number of female members that is at least 30% of the total number of Directors on the Board by the year 2020.

No new member has joined the Board of Directors during 2017.

C.1.6 Explain any measures that may have been agreed by the appointments committee to prevent any implicit bias in selection procedures to hinder the selection of female board members, and for the company to deliberately strive to include women with the professional profile sought as candidates:

Explanation of the measures

Both the Board of Directors and the Appointments and Remuneration Committee (the "**ARC**") have ensured, pursuant to the Company Bylaws and Board Regulations, that the candidates proposed as Board members meet the requirements relating to experience, technical competence and suitability, and the fact that no female directors have been appointed is not due to the existence of any implicit bias in the procedure which prevents them from being selected. In this regard, it should be pointed out that, inter alia, the ARC has the following functions: i) assess competences, knowledge and experience on the Board of Directors, defining the functions and aptitudes necessary in the candidates to fill each vacancy and assess the time and dedication necessary for members to carry out their tasks efficiently; ii) establish a representation target for the less-represented gender on the Board of Directors and; iii) table proposals to the Board to appoint independent directors and/or report proposals for the appointment of other Directors to be appointed by co-opting or submission for a decision by the General Meeting, and proposals to the General Meeting for the re-election or removal of the Directors.

No appointment proposals for new directors have been submitted in 2017.

When, despite any measures adopted, there are few or no female directors, explain the reasons:

Explanation of the reasons

No new appointment of directors has been approved in 2017.

C.1.6.bis Explain the conclusions of the appointments committee on the verification of compliance with the director selection policy. And, specifically, how this policy addresses the objective of female directors accounting for at least 30% of the total number of members of the Board of Directors by 2020.

Explanation of the conclusions

The ARC submitted the Selection Policy to the Board of Directors for approval on 11 April 2016. This policy, which was approved by the Board of Directors on the same date, included the criteria of the ARC in this connection and, in particular, set a goal of having at least 30% of total Board seats occupied by female directors by 2020.

The members of the ARC also provided a favourable report on the Company's corporate governance policy during the first semester of 2017. This report provides that the Board must ensure that the procedures for selecting its members promote diversity of gender, experience and knowledge and do not contain any implicit bias that may entail discrimination and, in particular, facilitate the selection of female directors.

C.1.7 Explain the procedure for representation of major shareholders on the board.

In accordance with Colonial's Board regulations, in exercising its powers of proposal to the shareholders at the General Meeting of Shareholders and of co-opting to fill directorship vacancies, the Board of Directors shall ensure that there is an ample majority of independent and proprietary directors on the Board and that the number of executive directors is as small as possible, based on the Company's shareholding structure. The following shall be considered proprietary directors:

a) Those who have a shareholding greater than or equal to that legally understood as significant, or who have been designated because of their shareholder status, although their shareholding is smaller than this amount.

b) Those representing shareholders as stated in the preceding paragraph. For the purposes of this definition, it shall be assumed that a director represents a shareholder when: (i) The director has been appointed in exercise of the right to proportional representation on the Board of Directors; (ii) The person concerned is a director, senior officer, employee or non-occasional provider of significant services for said shareholder, or for companies forming part of the shareholder's group; (iii) It transpires from corporate documentation that the shareholder understands that the director has been appointed by the shareholder or represents the shareholder; (iv) The person is the spouse or a person with a similar sentimental relationship, or a relation of a significant shareholder to the second degree of consanguinity.

C.1.8 Explain any reasons for which proprietary directors have been appointed at the behest of shareholders accounting for less than 3% of share capital:

Provide details of any rejections of formal requests for board representation from shareholders whose shareholding 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 granted.

No

C.1.9 State whether a director has stepped down from the post prior to the expiry of the term, whether the director has given any reasons for doing so to the board and by which means and, if the director has done so in writing to the entire board, state at least the reasons given by the director:

Name of director	Reason for departure
Mr Juan Villar-Mir de Fuentes	Mr Villar-Mir de Fuentes notified his resignation as director of Colonial in a letter to the Chairman of the Board of Directors dated 22 May 2017, since the shareholding in Colonial had fallen below 3%

C.1.10 State any powers delegated to the CEO or CEOs:

Name or company name of the director	Brief description
Mr Pedro Viñolas Serra	He has been attributed all the powers that may be delegated under law or the bylaws.

C.1.11 Identify any Board members working as directors or managers at other companies forming part of the listed company's group:

Name or company name of the director	Group company name	Position	Does the member have executive functions?
Mr Carlos Fernández-Lerga Garralda	Société Foncière Lyonnaise	Director	No
Mr Luis Maluquer Trepat	Société Foncière Lyonnaise	Director	No
Sheikh Ali Jassim M.J. Al-Thani	Société Foncière Lyonnaise	Director	No
Mr Adnane Mousannif	Société Foncière Lyonnaise	Director	No
Mr Juan José Brugera Clavero	Société Foncière Lyonnaise	Director	No
Mr Pedro Viñolas Serra	Société Foncière Lyonnaise	Director	No
Mr Pedro Viñolas Serra	Inmocol Torre Europa, S.A.	Director	No
Mr Pedro Viñolas Serra	Utopicus Innovación Cultural, S.L.	Director	No

C.1.12 Identify any directors at your company who are members of the board of directors at other companies listed on official securities markets outside your group, which have been notified to the company:

Name or company name of the director	Company name of listed company	Position
Mr Carlos Fernández González	Banco Santander, S.A.	Director
Mr Carlos Fernández González	AmRest Holding, S.E.	Director
Ms Ana Sainz de Vicuña Bemberg	Acciona, S.A.	Director
Ms Ana Sainz de Vicuña Bemberg	Prosegur Cash, S.A.	Director
Mr Juan Carlos García Cañizares	Valorem, S.A.	Director

C.1.13 State, and where applicable explain, whether the Company has established rules with respect to the number of boards to which its directors may belong:

Yes

Explanation of the rules

The Board Regulations state that directors may not sit on more than 3 boards of other Spanish listed companies besides Colonial. The Board of Directors may dispense with this ban in exceptional circumstances. It should also be pointed out that Board Regulations establish, as part of the general duties of directors, that they must carry out their functions and meet the obligations imposed on them by law, the Company Bylaws and other internal regulations with the diligence of an orderly entrepreneur, in due consideration of the nature of the post and the functions assigned to them; their dedication must be appropriate at all times, and they must take the necessary measures for proper management and control of the Company.

C.1.14 Deleted

C.1.15 State the total remuneration paid to the Board of Directors:

Remuneration of the Board of Directors (thousands of euros)	8,057
Amount of pension rights accumulated by the current directors (thousands of euros)	353
Amount of pension rights accumulated by the former directors (thousands of euros)	–

C.1.16 List any members of senior management who are not also executive directors and state the total remuneration accrued to them during the year:

Name or corporate name	Position(s)
Mr Alberto Alcober Teixidó	Business Director
Mr Carlos Escosa Farga	Internal Auditor
Ms Nuria Oferil Coll	Legal Director
Ms Carmina Ganyet Cirera	Corporate General Manager

Total remuneration of senior management (thousands of euros)	2,123

C.1.17 List, if applicable, directors who are also members of the boards of directors of companies with significant holdings and/or in Group companies:

Name or company name of the director	Company name of significant shareholder	Position
Mr Carlos Fernández González	Grupo Finaccess S.A.P.I. de C.V.	Chairman
Mr Carlos Fernández González	AmRest Holdings, S.E.	Director
Mr Juan Carlos García Cañizares	Bevco Lux, S.A.R.L.	Director
Mr Juan Carlos García Cañizares	SNI International Holdings, S.A.R.L.	Director
Mr Juan Carlos García Cañizares	Park, S.A.R.L.	Director
Sheikh Ali Jassim M.J. Al-Thani	Nurabank	Vice President and Director
Sheikh Ali Jassim M.J. Al-Thani	Qatar Navigation Company	Chairman
Sheikh Ali Jassim M.J. Al-Thani	Qatar Abu Dhabi Investment Company	Chairman
Mr Adnane Mousannif	Elypont	Director

List any relevant relationships, other than those included under the previous heading, that link members of the board of directors to significant shareholders and/or their group companies:

Name or company name of related director	Name or company name of related significant shareholder	Description of the relationship
–	–	–

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

Yes

Description of changes

The reasons for the changes made to Board Regulations in 2017 were as follows: i) to adapt them to the new corporate name “Inmobiliaria Colonial, SOCIMI, S.A.”, and ii) to establish the maximum number of company boards on which Directors of the Company may sit, pursuant to Recommendation 25 of the *Good Governance Code of listed companies*.

C.1.19 Indicate the procedures for the selection, appointment, re-election, evaluation and removal of directors. Give details of the competent bodies, the formalities to be fulfilled and the criteria to be used in each of the procedures.

The procedures for selection, appointment and re-election of directors are governed by the Board Regulations and set out in the Selection Policy approved by the Board at the behest of the ARC. Pursuant to this selection policy, discrimination shall be avoided in the selection process, and the overruling principle is the evaluation of the merits and abilities of each of the candidates, while seeking in all cases the most qualified candidates. The directors are appointed by the General Meeting or, in the event of early vacancies, by the Board, exercising its power to co-opt. The ARC makes proposals for the appointment or re-election of independent directors. In all other cases, the Board is responsible for making proposals. Proposals must be accompanied by a supporting report from the Board that assesses the competence, experience and merits of the proposed candidates, which will be attached to the minutes of the General Meeting or the Board meeting. The proposal for the appointment or re-election of any non-independent director should also be preceded by an ARC report.

In order for the shareholders at the General Meeting to have the information necessary for the appointment of directors, from the publication of the call notice and until the General Meeting is held, the Company must continuously post on its corporate website the following information, at least, on the persons proposed for appointment, ratification or re-election as Board members: their identity, CV and category to which each belongs, and the aforementioned proposal and reports and ARC explanatory report containing the findings of the analysis performed beforehand of the Board’s needs. For legal entities, information should be included on the individual designated for the permanent exercise of the functions of the post. The procedure to evaluate directors is also governed by Board Regulations. In this regard, a plenary session of the Board shall evaluate, once a year, and adopt, where applicable, an action plan to correct any deficiencies identified with respect to: (i) the quality and efficiency of the Board of Directors; (ii) the operations and the composition of its Committees; (iii) the diversity of the composition and competences of the Board of Directors; (iv) the performance of the Chairman of the Board and the chief executive officer of the Company; and (v) the performance and contribution of each director, paying particular attention to those who are in charge of the various Committees of the Board. The evaluation of the Chairman of the Board shall be directed by the Coordinating Director. Regarding the removal of directors, Board Regulations stipulate that directors may be removed from office at any time by the shareholders at the General Meeting even if their removal is not on the agenda.

In addition, directors must tender their resignation to the Board if the Board of Directors deems it appropriate subsequent to a report from the ARC in the cases specified in the Board Regulations, which are detailed in section C.1.21 below.

The Board of Directors shall not propose the removal of any independent directors before the expiry of their tenure as mandated by the Company Bylaws, except where just cause is found by the Board, based on a report by the ARC. It shall be understood that there is just cause when the director takes up a new post or takes on new duties that prevent him/her from devoting the necessary time to the performance of the duties associated with the directorship, when the director fails to carry out the duties inherent to his/her post or when the director is involved in circumstances which cause him/her to lose his/her independent status in accordance with the provisions of the legislation applicable. The removal of independent directors may also be proposed following a takeover bid, merger or similar corporate operation entailing changes in the Company’s capital structure, when these changes have been propitiated by the proportionality criterion. Without prejudice to the foregoing, the Board Regulations stipulate that independent directors may not retain their status as such for a continuous period of more than 12 years.

Also, the Board of Directors may propose the removal of other directors prior to expiry of the statutory period for which they were appointed for exceptional and justifiable reasons as approved by the board, subsequent to a report by the ARC. When, as a result of their resignation or for some other reason, directors leave their post before their term has expired, they shall explain the reasons in a letter submitted to all Board members, notwithstanding notification of the departure as a regulatory announcement, and reporting of the reason for the departure in the Annual Corporate Governance Report.

C.1.20 Explain to what extent the annual evaluation of the Board has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of changes
No changes have taken place because the self-assessment was satisfactory

C.1.20.bis Describe the evaluation process and areas evaluated by the board of directors, assisted, as the case may be, by an external consultant, in respect of the diversity of its composition and competences, the operation and composition of its committees, the performance of the chairman of the board and chief executive of the company and the performance and contribution of each director.

The Board of Directors evaluated its composition and competences, the operation and composition of committees and the performance of the Chairman, CEO, Coordinating Independent Director and the Secretary to the Board. In this regard, questionnaires were sent to all directors for these evaluations, covering various matters and collecting general recommendations for improvement. Once the responses were received, the ARC prepared the related reports evaluating the Board of Directors, Chairman, CEO, Lead Independent Director, other Company directors and the Board Secretary, as well as its own composition, competences and operation, for submission to the Board. The ACC also prepared a report evaluating its own composition, competences and functioning.

The ARC commissioned the services of the Spencer Stuart as an external consultant in this evaluation process. It issued a report on the adequacy of the procedure and methodology applied by Colonial in the evaluation process and its conclusions regarding the evaluation.

Following the valuation, the Board of Directors approved the assessment reports on the Board, its committees, the Chairman, the CEO, the Coordinating Independent Director and the Secretary, concluding that: (i) the Board of Directors has the proper composition and exercises the functions and competences attributed to it by the Company Bylaws and Board Regulations in an efficient manner, at all times prioritising the interest of the Company and maximising its economic value; (ii) the Executive Committee, the ARC and the Audit and Control Committee ("ACC") each have the proper composition, and they undertake and carry out in an efficient manner the competences attributed to them by the regulations applicable and by the Company's corporate documentation; (iii) the Chairman and the CEO, have carried out the functions entrusted to them in an satisfactory and appropriate manner; and (iv) the Coordinating Independent Director and the Secretary to the Board have carried out their functions in an effective and diligent manner.

C.1.20.ter Detail, as appropriate, any business dealings that the consultant or any company in its group have with the Company or any company in its group.

Business dealings with the consultant or any company in its group are listed in section C.1.20 bis above, i.e. as an external consultant in relation to the evaluation of the Board of Directors, its committees, the Chairman of the Board and the CEO, the Coordinating Independent Director and the secretary to the Board and as external adviser on the remuneration policy of the Board of Directors.

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

Under the Board Regulations, directors must tender their resignation to the Board of Directors and resign if the latter deems it appropriate subsequent to a report from the ARC, in the following cases:

1. When they become subject to any incompatibility or prohibition established by law.
2. When they cease to discharge the executive functions associated with their appointment as directors or when the reasons for their appointment cease to exist. Specifically, proprietary directors shall tender their resignation when the shareholder they represent sells off the entire shareholding in Colonial or when the number of shares held requires a reduction in the number of proprietary directors.

   In events in which, notwithstanding the foregoing paragraph, the Board of Directors considers that there are reasons that justify that the director remains in office, the impact that the new circumstances may have on the qualification of the director will be taken into account.
3. When they have been seriously reprimanded by the ARC for having infringed any of their obligations as directors.
4. When their remaining as board member may adversely affect the operation of the Board or jeopardise the credit or reputation of the Company 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, if a director were prosecuted or had a court order issued against him or her initiating trial proceedings for any of the offences defined in the law, the Board shall examine the case as soon as practicable and, in view of the particular circumstances, decide whether or not he or she should remain in office, providing reasonable reasons therefor in the Annual Corporate Governance Report.

C.1.22 Deleted

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

No

If applicable, describe the differences.

C.1.24 State whether there are any specific requirements, apart from those relating to the directors, to be appointed chairman of the board of directors.

No

C.1.25 Indicate whether the chairman has the casting vote:

Yes

Areas in which there is a casting vote
There are no specific areas in which there is casting vote of the Chairman, to the extent that he has such vote in the event of a tie in any of the votes submitted to the board of directors.

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

No

C.1.27 Indicate whether the Bylaws or the board regulations set a limited term of office for independent directors other than that established in law:

No

C.1.28 Indicate whether the Bylaws or board regulations stipulate specific rules for proxy votes on the board of directors, the procedures thereof and, in particular, the maximum number of proxy votes a director may hold. Also indicate whether there is any limit as to the categories in which it is possible to delegate votes, beyond the limits provided in law. If so, give brief details.

Under Board Regulations, proxy shall be granted in writing and specifically for each meeting, and only in favour of another member of the Board. However, non-executive directors may only assign proxy to another non-executive director. Furthermore, Board Regulations stipulate that when votes are delegated to proxies, the directors must give specific instructions to the proxy on how to vote on the items being discussed.

C.1.29 Indicate the number of board meetings held during the fiscal year. Also state, if applicable, the number of occasions on which the board met without its chairman in attendance. Attendance shall also include proxies appointed with specific instructions.

Number of board meetings	13
Number of board meetings not attended by the chairman	0

If the chairman is an executive director, indicate the number of meetings held without the attendance or representation of any executive director and chaired by the coordinating director

Number of meetings	0

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

Number of executive or delegate committee meetings	0
Number of audit committee meetings	10
Number of appointments and remuneration committee meetings	8

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

Attendance of directors	13
Number of attendances as % of the total votes during the year	100%

C.1.31 Indicate whether the consolidated and individual annual financial statements submitted for approval by the board are certified previously:

Yes

Identify, where applicable, the person(s) who certified the company's individual and consolidated annual financial statements to be drawn up by the board:

Name	Position
Ms Angels 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 prepared by it from being submitted to the general meeting with reservations in the audit report.

The Board Regulations stipulate that the ACC shall strive to ensure that the Board of Directors submits the financial statements to the General Meeting of Shareholders without limitations or reservations in the audit report. In any exceptional cases where these reservations exist, the Chairman of the ACC and, in exceptional circumstances, the auditors shall give a clear account to shareholders of the contents and scope of these limitations or reservations. In any case, based on the functions granted to it in this regard by Board Regulations, the ACC performs ongoing monitoring in the process of preparing the individual and consolidated financial statements to prevent them from being prepared with reservations in the audit report.

C.1.33 Is the secretary to the board a director?

No

If the secretary is not a director, complete the following table:

Name or company name of the secretary	Representative
Mr Francisco Palá Laguna	–

C.1.34 Deleted

C.1.35 Indicate the specific mechanisms, if any, established by the company to preserve the independence of the external auditors, financial analysts, investment banks and rating agencies.

Among the obligations of the ACC is to preserve the independence of the external auditor in the performance of its duties. It also corresponds to the ACC to:

(i) Examine the circumstances behind the resignation of the external auditor, if this were to occur;

(ii) Ensue that the compensation for the external auditor for their work does not compromise their integrity or independence;

(iii) Oversee that the Company notifies the change of auditor as a regulatory announcement to the Spanish Securities Market Commission (CNMV) and that this notification is accompanied by a statement citing any disagreements the Company may have had with the outgoing auditor and, if there were such disagreements, to discuss them;

(iv) Ensure that the Company and the external auditor adhere to current regulations regarding the provision of non-audit services as well as the limits on the auditor's business concentration and, in general, the other rules on auditor independence.

It is also a function of the ACC to establish the necessary relations with the external auditor in order to receive information on any matters that might jeopardise the auditors' independence, for examination by the Committee, any other matters related to the financial audit process and, when appropriate, to authorise non-prohibited services on the terms provided in current legislation relating to independence and to communicate with the auditors as provided for in the financial audit legislation and auditing standards. In any case, each year the external auditors shall be required to furnish a statement of their independence with respect to the Company or entities related directly or indirectly thereto, as well as detailed and separate information on any manner of additional services of any kind provided and the related fees received from these entities by the external auditor or entities related thereto in accordance with the financial audit regulations. The ACC shall also issue, prior to the audit report, an annual report expressing an opinion on whether the independence of the auditors or audit companies has been compromised. This report shall, in any case, contain the evaluation of the provision of each and every additional service referred to in the preceding section, 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.

Additionally, the ACC has an authorisation procedure of the external auditor's services other than the prohibited ones.

A draft regulation regarding the Audit and Control Committee has also been worked on in 2017 (having been approved by the Board of Directors in a session dated 22 February 2018) in line with the *Technical Guide 3/2017 on audit committees for public interest entities* of the CNMV of 27 June 2017, which established the procedure and specific criteria that define the ACC's activity to preserve, among other things, the independence of external auditors.

C.1.36 Indicate whether the company changed its external auditors during the fiscal year. If so, identify the incoming auditor and the outgoing auditor:

Yes

Outgoing auditor	Incoming auditor
Deloitte, S.L.	PricewaterhouseCoopers Auditores, S.L.

Explain any disagreements with the outgoing auditor and the reasons for same:

No

C.1.37 Indicate whether the audit firm performs other non-audit work for the company and/or its group, and if so, state the amount of fees received for such work and the percentage they represent of the fees billed to the company and/or its group:

Yes

	Company	Group	Total
Amount for non-audit work (thousands of Euros)	170	56	226
Amount of other non-audit work/total amount billed by the audit firm (as a %)	43.25%	13.87%	28.40%

C.1.38 Indicate whether the audit report for the annual financial statements of the previous fiscal year included any reservations or qualifications. Indicate the reasons given by the chairman of the audit committee to explain the content and scope of the reservations or qualifications.

No

C.1.39 Indicate the number of consecutive years that the current audit firm has been auditing the annual financial statements of the company and/or the group. Likewise, indicate for how many years the current firm has been auditing the annual 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	1	1
Number of years audited by the current audit firm/number of years the company has been audited (as a %)	3.23%	3.23%

C.1.40 Indicate whether there is a procedure for directors to gain access to external advisory services, and if so, give details:

Yes

Detail of the procedure

In accordance with Board Regulations, the Company shall establish 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. In this regard, in view of the functions of the Board Chairman, the directors shall send the Chairman requests for external assistance when they deem this necessary. The Chairman is responsible for duly transmitting this request to external advisers. Board Regulations also establish that the committees may engage external advice, when they feel this is necessary to enable them to carry out their functions, following the same procedure outlined above.

C.1.41 Indicate whether there is a procedure for the directors to be able to receive the necessary information to prepare for meetings of the management bodies sufficiently in advance, and if so, give details:

Yes

Detail of the procedure

In accordance with Board Regulations, in the discharge of their duties, directors must request and are entitled to obtain from the Company any information they need to meet their obligations. In this respect, directors are invested with the broadest powers to obtain information on any aspect of the Company and to examine its books, records, documents and any other records of corporate operations and to inspect all the company's facilities. Accordingly, unless the Board of Directors has been convened or called for reasons of urgency, the Board Chairman, with the assistance of the Secretary, shall 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. Furthermore, the Company has set up a portal, the "Director Portal", where all the necessary information and documentation is available for directors to prepare meetings of the Board and its committees, as well as the documentation from previous sessions.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to report and, where applicable, resign in any circumstances that might jeopardise the company's credit or reputation:

Yes

Explain the rules

Board Regulations stipulate that directors must tender their resignation to the Board of Directors and resign if the latter deems it appropriate subsequent to a report from the ARC when their continuation as a Board member may adversely affect the operation of the Board or jeopardise the credit or reputation of the Company 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, if a director were prosecuted or had a court order issued against him or her initiating trial proceedings for any of the offences defined in the law, the Board shall examine the case as soon as practicable and, in view of the particular circumstances, decide whether or not he or she should remain in office, providing reasonable reasons therefor in the Annual Corporate Governance Report.

C.1.43 Indicate whether any of the members of the Board of Directors have informed the company of any indictments or the commencement of oral proceedings against him/her for any of the offences specified in Article 213 of the Spanish Limited Liability Companies Law:

No

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, state the action taken by the Board of Directors or the action it intends to take, up to the date of this report.

C.1.44 Detail any significant resolutions taken by the company which will come into force, are amended or terminated in the event of a change of control of the company following a takeover bid and the effects thereof.

Colonial has arranged a syndicated loan amounting to €350 million, which contains an early maturity clause in the event of a change of control. On 29 March 2017, Colonial arranged a new syndicated loan in the amount of €375 million, which also contains an early maturity clause in the event of a change of control.

Also, on 2 June 2015, a bond issue was launched in the amount of €1,250 million which, in the event of a change of control as defined in Article 42 of the Spanish Code of Commerce, provides for the mandatory early repayment both of the tranche maturing in June 2019 and the tranche maturing in June 2023, provided the change of control entails a loss of the Investment Grade rating.

Finally, in 2016 and 2017, the following fixed-income issues were carried out as “non-participating securities” on the Euro Medium Term Note programme (“**EMTN Programme**”), which stipulates early maturity of the bonds, at the choice of bondholders, in the event of a change of control: (i) on 21/10/2016, a bond issue in the total nominal amount of €600 million, maturing on 28/10/2024; (ii) on 09/11/2016, an ordinary bond issue in the total nominal amount of €50 million, maturing on 10/11/2026; (iii) on 28/11/2017, an ordinary bond issue in the total nominal amount of €800 million.

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

Number of beneficiaries	3
Type of beneficiary	Chairman, CEO and Corporate General Manager

Description of the resolutions

Executive directors, pursuant to their service provision contracts approved by the Board of Directors, would receive termination benefits in the event of unjustified termination or non-renewal of their positions, or a substantial reduction of their respective functions. This would also accrue (i) in the event of a waiver or departure from their posts due to a change of control at the Company or significant change in the composition of the Board and (ii) in the event of amendment of the terms and conditions agreed in their employment contracts without their consent, among other scenarios established by the Board. The compensation consists of, (a) in relation to the Chairman, a gross amount equivalent to two years' fixed and variable remuneration, with a minimum of €1,650,000, and (b), in relation to the CEO, a gross amount equivalent to two years' fixed and variable remuneration, with a minimum of €1,920,000. The amounts shown are automatically renewed on an annual basis by applying the CPI or any another official benchmark that may ultimately replace it. In the case of the Corporate General Manager, the guarantee or golden parachute clause triggered in the event of termination under certain circumstances or change of control gives rise to compensation for termination of functions for an amount equal to 3 years' salary.

There is also a long-term incentive plan approved by the General Meeting, which entails the delivery of ordinary shares of the Company contingent on meeting certain targets each year. The beneficiaries of the plan are the Chairman of the Board, the CEO and the members of Colonial's Management Committee, which includes the Corporate General Manager. The plan provides that the Board of Directors shall agree early settlement of the plan and the award of a maximum number of outstanding shares to each beneficiary if a "substantial liquidity event" occurs. "Substantial liquidity events" shall occur (i) when a takeover bid is authorised to acquire all Colonial's share capital, or (ii) when refinancing of all Colonial's debt is authorised. In the latter case, early settlement of the Plan is subject to the ARC's ratification.

If, during the term of the Plan, the Chairman or CEO were unfairly dismissed, the General Meeting did not extend their term or they were dismissed from their positions without just cause, they shall be entitled to early settlement of the Plan and to delivery of the maximum number of shares outstanding in the years remaining until the end of the Plan. Beneficiaries shall lose their right to the delivery of shares in the event of justified dismissal, termination for cause or if they resign on their own initiative, and in case of breach of contract in respect of confidentiality, non-solicitation of services or competition. In these cases, the beneficiaries shall lose any rights to shares that have been granted.

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

	Board of Directors	General Meeting
Body which authorises the clauses	Yes	No

Is the general meeting informed of the clauses?	No

C.2 Board committees

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

Executive or delegate committee

Name	Position	Category
Mr Juan José Brugera Clavero	Chairman	Executive
Mr Pedro Viñolas Serra	Member	Executive
Mr Carlos Fernández González	Member	Proprietary
Mr Juan Carlos García Cañizares	Member	Proprietary
Mr Adnane Mousannif	Member	Proprietary
Mr Carlos Fernández-Lerga Garralda	Member	Independent

% of executive directors	33.33%
% of proprietary directors	50.00%
% of independent directors	16.67%
% of other external directors	0.00%

Explain the functions attributed to this committee, describe the procedures and rules of its organisation and functioning, and summarise its major activities during the year.

The Executive Committee shall be made up of at least three and not more than eight members. The Chairman and Secretary to the Committee shall be the Chairman and Secretary to the Board of Directors. The Executive Committee may appoint from among its members a Deputy Chairman who shall act as Chairman in the event of absence. The Board of Directors shall appoint the members of the Executive Committee, ensuring that its membership structure reflects the various types of directors in a similar manner to that of the Board. To be valid, the appointment of directors who constitute the Executive Committee shall require a vote in favour by two thirds of the members of the Board, and shall not be effective until it has been entered in the Commercial Registry.

The members of the Executive Committee shall cease to be members when they cease to be directors or when the Board so resolves.

The Executive Committee shall be called by its Chairman on his/her own initiative or when this has been requested by two of its members. The meeting must be convened by letter, telegram, e-mail or fax addressed to each of its members at least 48 hours in advance of the date of the meeting; however, it may be called with immediate effect for reasons of urgency. The meetings shall be held at the Company's registered office or at any location designated by the Chairman and indicated in the notice.

For an Executive Committee meeting to be validly constituted, the majority of its members must attend, either physically present or represented by proxy. The absolute majority of the members of the Committee shall adopt the resolutions. In the event of a conflict of interest, the directors concerned shall refrain from participating in the transaction to which the conflict refers. The votes of the directors who are affected by such a conflict of interests and who must abstain shall be deducted for the purposes of calculating the necessary majority of votes. In the event of a tie, the matter shall be submitted to the Board of Directors.

Through its Chairman, the Executive Committee shall report to the Board on the business transacted and the resolutions adopted by the Committee. All Board members must receive a copy of the minutes of Executive Committee meetings. The Executive Committee did not meet in 2017.

Indicate whether the composition of the delegate or executive committee reflects the breakdown of the various directors according to their category:

Yes

Audit committee

Name	Position	Category
Ms Ana Sainz de Vicuña Bemberg	Chairman	Independent
Mr Javier Iglesias de Ussel Ordís	Member	Independent
Mr Carlos Fernández-Lerga Garralda	Member	Independent
Mr Luis Maluquer Trepat	Member	Independent

% of proprietary directors	0.00%
% of independent directors	100.00%
% of other external directors	0.00%

Explain the functions attributed to this committee, describe the procedures and rules of its organisation and functioning, and summarise its major activities during the year.

The ACC comprises a minimum of 3 and a maximum of 8 directors, all of which must be non-executive directors, appointed by the Board. The ACC shall also include the number of independent directors stipulated by law at any given time, and at least one of them shall be appointed in due consideration of the director's knowledge and experience in accounting and/or auditing. The ACC members shall have relevant technical knowledge in relation to the Company's sector of activity. The ACC shall appoint (i) a Chairman, who must be an independent director and shall be replaced every 4 years, and may be re-elected after 1 year has elapsed from the date on which his/her term of office expired; and (ii) a Secretary, who may be Secretary to the Board. The members shall be relieved of their duties once their directorships expire, or when the Board agrees so.

The ACC shall have the following functions, among others:

1. Report to the General Meeting on any questions posed in relation to those matters for which the Committee is responsible, particularly the result of the audit.

2. Supervise the effectiveness of internal control, the internal audit and the risk management systems, and discuss with the auditor any significant weaknesses detected.

3. Supervise the drawing up and presenting of required financial information and submit recommendations and proposals to the Board to safeguard its integrity.

4. Propose to the Board the selection, appointment, re-election and replacement of the auditor, taking responsibility for the selection process, as well as the terms of its engagement, and regularly gather information from it regarding the audit plan and the implementation thereof, and preserve its independence.

5. Establish appropriate relationships with the auditor to receive information on any issues which may jeopardise its independence and issues relating to the audit process, and, as appropriate, the authorisation of non-prohibited services, among others. In any event it must, on an annual basis, receive from the auditor a statement of its independence with respect to the Company or entities directly or indirectly related thereto, as well as information

on any type of additional services provided and the related fees received by the auditor or by persons or related entities.

6. Issue, on an annual basis and prior to the issuance of the annual audit report, a report expressing an opinion on whether the independence of the auditor or audit companies has been jeopardised, which must in all cases contain a reasoned evaluation of the provision of additional non-audit services in respect of the independence rules or audit standards.

7. Inform the Board of all matters established by law, the Bylaws and Board Regulations.

8. Prepare an annual report on its activities, which must be included in the directors' report.

The ACC meets whenever requested to do so by at least 2 of its members, or at the behest of the Chairman, who is responsible for convening it. The notice shall be valid provided it is sent by any means that allows acknowledgement of its receipt. The ACC is 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 the member or a person related thereto has a conflict of interest. In the event of a tie, the Chairman has the casting vote. Minutes are taken of ACC meetings and are made available to the Board.

The major activities of the ACC in 2017 were as follows:

– Act as a communication channel between the Board and the external auditor, assessing the results of each audit.

– Issue a report, prior to the release of the accounts auditing report, in which an opinion is expressed on whether the independence of the accounts auditors or the auditing firms has been compromised.

– Supervise the effectiveness of the internal control, the internal audit and the risk management systems, and discuss with the auditor any significant weaknesses detected in the internal control system during the audit.

– Approve the risk management and control policy, corporate governance and treasury share reports to be submitted to the board.

– Monitor the Company's corporate social responsibility policy.

– Monitor compliance with the rules of the internal codes of conduct and its corporate social responsibility policy.

– Oversee the preparation and filing of required financial information.

– Inform about the Annual Corporate Governance Report to be submitted to the Board of Directors for their approval as part of the financial statements.

– Evaluate its own performance within the framework of the self-evaluation of the performance of the Board and its internal Committees.

– Analyse and report on treasury share transactions to be submitted to the Board, and in particular, issue a favourable report on the share buyback plan and monitoring thereof.

– Inform the Board, via the Chairwoman, of the contents of the ACC meetings.

– Review the Company's power structure.

– Update the Company's maps of risks and processes and reviewed and assessed the risk inventory.

– Analyse the impact that the special tax regime for listed real estate investment trusts has had on the Company's activity, as well as its financial impact, according to the reports made by external advisors that were submitted to the Committee by the corporate general manager.

– Also, report on the other corporate operations planned by the Company in that year.

– Report on the issuance of bonds under the "Euro Medium Term Note" programme.

– Oversee compliance with the measures agreed within the framework of the action plan to improve cybersecurity.

– Analysis of the Regulations of the Audit and Control Committee.

Identify the director who is a member of the audit committee appointed with regard to his or her knowledge and experience in accounting, auditing or both, and indicate the number of years that the Chairman of the committee has held that office.

Name of director with experience	Ms Ana Sainz de Vicuña Bemberg
Nº of years during which the chairman has held the post	2

Appointments and remuneration committee

Name	Position	Category
Mr Carlos Fernández-Lerga Garralda	Chairman	Independent
Mr Adnane Mousannif	Member	Proprietary
Mr Juan Carlos García Cañizares	Member	Proprietary
Mr Javier Iglesias de Ussel Ordís	Member	Independent
Mr Luis Maluquer Trepat	Member	Independent

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

Explain the functions attributed to this committee, describe the procedures and rules of its organisation and functioning, and summarise its major activities during the year.

The ARC comprises a minimum of 3 and a maximum of 8 directors, all of which must be non-executive directors, appointed by the Board. The ARC also includes the number of independent directors stipulated by law. The ARC shall appoint from among its members (i) a chairman, who, in any case, shall be an independent director, and (ii) a secretary, or it may designate the Secretary to the Board. The ARC may appoint a deputy chairman, who shall also be an independent director. The members of the ARC shall leave office when they cease to be directors or when the Board so resolves.

The ARC shall have the following functions, among others:

1. Evaluate the skills, knowledge and experience required of the Board, define the roles and capabilities required of the candidates and decide on the time and dedication necessary for them to effectively discharge their duties.

2. Establish a target representation rate for the less-represented gender on the Board, laying down guidelines to achieve it.

3. Make appointment proposals to the Board of independent Directors to be co-opted or, if applicable, for submission to a decision by the shareholders at the General Meeting, and proposals for re-election and removal thereof by the General Meeting.

4. Report on proposals for appointment of other Directors to be co-opted or, if applicable, for submission to a decision by the shareholders at the General Meeting, and proposals for re-election and removal of those directors by the General Meeting.

5. Report the proposals for the appointment and removal of senior officers and the basic conditions of their contracts.

6. Examine and organise the succession of the Board Chairman and of the chief executive officer of the Company and, where applicable, make recommendations to the Board to ensure a well-planned and orderly succession.

7. Make recommendations to the Board on remuneration policy for directors and general managers or other members of senior management reporting directly to the Board, for executive committees or the CEO, and for individual remuneration and other contractual conditions of Executive Directors, and ensure compliance with this policy.

The ARC meets whenever requested by at least 2 of its members or as resolved by its Chairman, who is responsible for calling meetings. The call notice shall be valid provided it is sent by any means that allows acknowledgement of its receipt. The ARC shall be considered validly constituted when a majority of its members are present in person or by proxy. Its resolutions shall be adopted by a majority of those present in person or by proxy, and the Chairman will have the casting vote in the event of a tie. Proxies are granted in writing specifically for each meeting, and solely to another member of the ARC. Members of the ARC shall refrain from taking part in deliberations or voting on any resolutions or decisions in which they or any persons related thereto may have a direct or indirect conflict of interest. Minutes are taken of all ARC meetings and are made available to all Board members.

The major activities of the ARC in 2017 were as follows:

– Coordinate and submit to the Committee the reports assessing the performance of thereof, the ARC and the performance of the Chairman, the CEO, the Coordinating Director and the Secretary to the Board, with the advice of Spencer Stuart.

– Oversee that the compensation policy established by the Company was being complied with and, in particular, propose variable compensation for the Chairman and CEO.

– Examine the qualifications of the Board members in accordance with their corporate documents, the Spanish Limited Liability Companies Law and the corporate governance recommendations.

– Issue a favourable report and propose to the Board the approval of the annual report on remuneration for the directors.

  Ensure compliance with the rules on corporate governance. In particular, it has carried out the following tasks: (i) ensure compliance with the Company's rules on corporate governance; and (ii) assess the suitability of the Company's corporate governance system.

– Recorded the appointment of an independent Director, in the subsidiary company, Société Foncière Lyonnaise, and proposed an increase in the set compensation, commissions and attendance allowances for the directors of such subsidiary.

– Propose, based on the achievement of the indicators, the number of shares owed to the beneficiaries of the share allocation plan approved at the General Meeting on 21 January 2014 (the "**Plan**").

– Analyse and monitor possible modifications to the Plan, and report on proposals made by PricewaterhouseCoopers, S. L.

– Agree, in order to motivate and retain the talent of the management team, an extension to the Plan under the same terms that were approved by the General Meeting on 21 January 2014, to remain in force in 2019 and 2020.

– Propose to the Board that the General Meeting set the number of Board members as ten due to the resignation tendered by the director, Mr Juan Villar-Mir de Fuentes.

– Implement and develop the update plan for directors in relation with, among other aspects, the new trends in the sector that are causing disruptions to the property business, with special focus on the "*PropTech*" and "*CoWorking*" phenomena.

– Furnish the Board with a favourable report on the resignation of Sheikh Ali Jassim J.M. Al-Thani as member of the ARC and the appointment of Mr Adnane Mousannif as a new member.

C.2.2 Complete the following table with information concerning the number of female directors on board committees over the last four years:

	Number of female board members							
	2017		2016		2015		2014	
	Number	%	Number	%	Number	%	Number	%
Executive committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Audit committee	1	25.00%	1	20.00%	1	20.00%	1	20.00%
Appointments and remuneration committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%

C.2.3 Deleted

C.2.4 Deleted

C.2.5 State any regulation of board committees, the location at which they are available for consultation, and any amendments made during the year. Also state whether any voluntary annual reports have been produced on the activities of each committee.

Board committees are governed by Board Regulations, which are available on the Company's website (www.inmocolonial.com) in the "Corporate governance" section, and on the website of the Spanish Securities Market Commission (www.cnmv.es). Amendments were made to board regulations in 2017 in order to adapt them to the new corporate name Inmobiliaria Colonial, SOCIMI, S.A. and to establish the maximum number of listed company boards on which Colonial directors may sit, pursuant to Recommendation 25 of the Good Governance Code of listed companies. Likewise, in 2017, the Audit and Control Committee Regulations were analysed and worked on, in line with *Technical Guide 3/2017 on audit committees of public interest entities*, which was approved by the Board of Directors at its meeting held on 22 February 2018.

C.2.6 Deleted

D. Related-party transactions and intragroup transactions

D.1 Explain any procedures for the approval of related-party transactions and intragroup transactions.

Procedure for the approval of related-party transactions

In accordance with 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 ACC, in the following cases, among others:

- Provision of professional services by a director to Colonial companies. The employment or any other type of relationship that executive directors have with the Company is exempt for these purposes.
- For a director, a significant shareholder or his/her representative on the Board, or a related person to sell or otherwise transfer supplies, materials, goods or rights, in general, to Colonial or other companies in its Group in exchange for any type of economic compensation.
- For the companies in the Group to transmit supplies, materials, goods or rights, in general, on behalf of a Director, a significant shareholder or his/her representative on the Board, or a related person that are outside the transferor company's normal business.
- 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 a related person, 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 a related person has a direct or indirect interest.

The aforementioned approval by the Board of Directors shall not be necessary when such transactions have the following three characteristics simultaneously: 1. They are carried out under contracts with standard terms and conditions and are applicable across-the-board to many customers; 2. They are carried out at market prices, generally set by the person supplying the goods or services; and 3. The amount of the operation does not exceed 1% of the Company's annual revenue.

D.2 State any operations which are significant in terms of their value or relevant due to their contents, carried out between the company or companies in its group, and significant shareholders of the company:

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

D.3 State any operations that are significant in terms of their value or relevant due to their contents, carried out between the company or companies in its group, and company directors or managers:

Name or company name of the directors or managers	Name or company name of the related party	Link	Nature of transaction	Amount (thousands of euros)
–	–	–	–	–

D.4 State any significant transactions carried out by the company with other companies in the same group, provided they are not eliminated during the process of drawing up the consolidated financial statements and do not form part of the company's usual business in terms of its corporate purpose and conditions.

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

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

D.5 State the amount of the transactions carried out with other related parties.

0 (in thousands of euros).

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

Under the Company Bylaws, directors shall refrain from taking part in discussions or voting on any resolutions or decisions in which the directors or any persons who are related parties may have a direct or indirect conflict of interests. The votes of the directors who are affected by such a conflict of interests and who must abstain shall be deducted for the purposes of calculating the necessary majority of votes. Resolutions or decisions that affect directors in their capacity as directors, 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. Board Regulations also stipulate that the duty of loyalty requires that directors refrain from taking part in discussions or voting on any resolutions or decisions in which the directors or any persons who are related parties may have a direct or indirect conflict of interests.

Likewise, 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 scantly relevant, which is understood to mean those transactions whose disclosure 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 shall also be applicable if the beneficiary of the actions or prohibited activities is a person related to the director.

The persons stipulated in the Spanish Limited Liability Companies Law shall be considered related persons. In all cases, directors must notify the Board of Directors of any direct or indirect conflict that they or any related persons may have that could affect 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.

The authorisation must be approved by 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 the value of which is greater than 10% of the Company's assets. The Board of Directors may grant authorisation in other cases, 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 it is carried out under market conditions and that the process is transparent. A non-compete obligation may only be waived in the event that no damages are expected for the Company or when damages are expected to be offset by the potential benefits. The General Meeting shall grant dispensation through an express and separate resolution.

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

No

Identify the listed subsidiaries in Spain:

State whether the respective areas of activity and business relations between them, and those of the listed subsidiary with the other group companies, have been accurately defined in a public manner;

Yes No

Define any business relations between the parent company and the listed subsidiary, and between the subsidiary and other group companies

Identify the mechanisms in place to resolve any conflicts of interest between the subsidiary and other group companies:

Mechanisms to resolve any conflicts of interest

E. Risk management and control systems

E.1 Describe the Risk Management System in place at the company, including tax risks.

Risk management is a key aspect of Colonial's organisational culture and, for this reason, the Company has developed a Risk Management and Control System (hereinafter "RMCS"), which establishes certain bases to efficiently and effectively manage risk throughout the organisation, including tax risks.

In order to meet these corporate objectives, the risks to which Colonial is exposed are identified, analysed, assessed, managed, controlled and updated. In order to maintain an effective and updated RMCS, Colonial prepares a corporate risk map, which identifies the main risks affecting the Group, and evaluates them in terms of impact and likelihood of occurrence. This map is reviewed and updated every two years. Also, Colonial's RMCS establishes monitoring activities by the owners of risk by updating the records of the risks in order to verify the effectiveness of the management of risks.

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.

E.2 Identify the bodies responsible for preparing and implementing the Risk Management System, including tax 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 reporting and control systems in order to ensure the future viability and competitiveness of the Company, adopting the decisions best suited to its implementation. The Audit and Control Committee (ACC) assists the Board of Directors in managing this policy. The ACC performs, inter alia, the following functions relating to risk control and management:

- Submitting a report on risk policy and management for approval by the Board.
- Conducting a regular review of risk control and management systems, in such a way that the main risks are identified, managed and notified properly.
- Overseeing the preparation, completeness and filing of regulated public information (financial and non-financial).

In addition, the Company has set up a Regulatory Compliance Division (RCD) and Internal Audit Unit to reinforce this objective. The RCD is responsible for ensuring compliance with any laws and regulations that 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 evaluate the effectiveness of the risk management and control processes implemented to mitigate risk.

The main responsibilities assigned in relation to the RMCS correspond to the Board of Directors, the Audit and Control Committee and the Internal Audit Unit. The RMCS also explicitly sets out the responsibilities of senior management, operational managers and owners of the risks in relation to risk management.

E.3 Indicate the main risks, including tax risks, which may prevent the company from achieving its business targets.

The main risks faced by Colonial in achieving its targets include:

- Corporate and sectoral risks arising from political and macroeconomic situations in the countries in which it operates, since the property sector is cyclical by nature, realisation of its activity through the acquisition of other companies or businesses and management of subsidiaries, management of reputation and the corporate image.
- Strategic risks arising from the specific nature of its activity, in relation to the increase in competition and complexity of investments, keeping ahead of new trends in the sector, the high concentration of office rental activities in the "*Central Business Districts*" of Barcelona, Madrid and Paris, anticipation of the real estate cycle in the event of a potential lower appraisal of real estate assets.

– Operating risks arising from management of property assets, the high concentration of customers, damage to real estate assets, management of information systems, maintenance and repair of these systems, liability for action taken by contractors and subcontractors, management of licences for operation of real estate assets, and judicial and extrajudicial claims.

– Risks of a financial nature relating to restrictions in capital markets and in financial debt markets, levels of debt, the drop in credit ratings and interest rate fluctuations.

– Risks arising from compliance with all the regulations and contractual obligations applicable, including tax risks concerning loss of Colonial's REIT status and loss of its French subsidiary Société Foncière Lyonnaise's status as a listed property investment company ("SIIC"), limitations on the offsetting of negative taxable amounts.

E.4 State whether the company has a risk tolerance level, including tax risks.

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 potential likelihood of the risk occurring over time.

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 action/controls; 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 tax risks, which have occurred during the year.

The risks that arose in 2017, the circumstances that caused them and the functioning of the control systems are as follows:

i. Concentration of group activities in Spain and France

Colonial focuses its business activity on the rental business of properties in Barcelona, Madrid and Paris. The Group is, therefore, exposed to changes in the political or economic situation in the countries in which it operates.

Control systems: The level of the Group's rental income comes from property rentals located mainly in CBD areas of these cities. This strategy of focusing its business mainly in CBD areas and its high-quality standards have positioned the Group as a benchmark in the sector. In 2017, the Company also increased its ownership interest in Axiare Patrimonio Socimi, S. A., and also submitted a takeover bid for all the remaining shares of this company, which was accepted in January 2018.

ii. Increased competition in the real estate sector

Heavy investment continued in 2017 in the real estate sector. This situation entails the continuation of a considerable amount of competition between companies in the sector, which could generate 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.

iii. Impairment of real estate assets

The holding and acquisition of real estate assets imply certain risks, including the possibility that returns on investment shall be lower than estimated or that estimates and valuations performed could prove to be inaccurate or wrong. In addition, the market value of the assets may decline or be adversely affected in certain cases.

Control systems: To mitigate this risk factor, Colonial engages independent experts to appraise all its assets on a six-monthly basis. The Group also regularly reviews the future value creation potential of each of the properties in its portfolio. The Group allocates a significant portion of its resources to investing in and maintaining its real estate assets in order to enhance their value and position on the market and the income obtained from these assets. In this regard, the Group invested €69 million in 2017 in new projects and projects to renovate and improve its real estate assets.

iv. Anticipation of new trends

The property sector, like other sectors, calls for constant adaptation to emerging trends. Increasing development of digitalisation in all sectors, the new technology applied in the property sector and the increase in co-working spaces entail constant changes that specifically affect the real estate sector.

Control systems: The Colonial Group allocates resources and carries out specific activities in order to analyse and, where appropriate, implement these trends in the activities carried out by the Group. In this regard, in 2017, Colonial engaged a digital senior advisor to drive Company initiatives and strategies in relation to 'Proptech' (Property Technologies), a segment that studies the impact of technology and digitalisation on the development of services and new business models in the property sector. Also in 2017, the Colonial Group purchased a controlling stake in the Spanish co-working platform Utopic_US, taking up a position in a new strategic line to enhance and boost the strategy of Group users, offering flexibility and integrated contents and services.

v. Financing of real estate assets. Financial structure and level of debt

Companies operating in the property sector require a considerable amount of investment to guarantee their projects and business expansion through the acquisition of buildings and/or land.

Control systems: In 2017, Colonial carried out a new bond issue in the total amount of €800 million. Colonial also raised the Standard & Poor's credit rating to BBB in the long term and A-2 in the short term, both with outlook stable; and the rating for SFL to BBB+ in the long term and A-2 in the short term, with outlook stable. Moody's, meanwhile, rated Colonial as Baa2 with outlook negative. Colonial also carried out two share capital increases and sold treasury shares in the total amount of €591 million in 2017. As a result, the Group obtained additional funds to acquire high-quality real estate assets to boost its stake in Axiare and undertake the Axiare takeover bid, while diversifying and increasing the average maturity of its debt, and continuing to optimise its financial costs. At 31 December 2017, the Group's net financial debt amounted to €3,066 million, with an LtV ratio of 31.3%.

vi. Application of the SOCIMI special tax regime

In December 2016, an amendment to Spain's Corporation Tax Law reduced the thresholds for offsetting negative taxable amounts from previous years, thereby increasing the theoretical effective tax rate.

Control systems: In the wake of this amendment, following an analysis of the impacts and requirements for the structure of the Group and its shareholders, in 2017, Colonial undertook the special Spanish REIT tax system, establishing the necessary control mechanisms to secure compliance with this system.

E.6 Indicate the plans in place for responding to and supervising the company's main risks, including tax risks.

Risks are classified into four levels according to their impact and probability, ranging from the most to the least serious, and are then placed in one of the following categories according to the Company's response to each:

Avoid: This entails abandoning activities that generate risks where no response has been identified that could reduce their impact and/or likelihood to an acceptable level.

Reduce: This entails taking action to reduce the likelihood and/or impact of the risk, thereby reducing residual risk so that it is in line with the Company's risk tolerance.

Share: The likelihood or impact of a risk is reduced by transferring or sharing part of the risk to reduce residual risk so that it is in line with the Company's risk tolerance.

Accept: No action is taken which may affect the likelihood or impact of the risk as residual risk is already within the Company's risk tolerance.

The owners of each risk are responsible for preparing the records of risks in order to report the treatment established to mitigate and/or maintain the level of risk at the tolerance threshold accepted by the Company. Risk records state: (i) the objective pursued by the action plan, (ii) description of the course of action, (iii) the owner of the risk, (iv) the cutoff date for taking action, (v) details of the action to be taken with those responsible for implementation, and start and finish dates.

Internal audit supervises the response plans that are the responsibility of the risk owners.

F. Internal risk management and control systems in relation to internal control over financial reporting (ICFR)

Describe the mechanisms that comprise the risk control and management systems in relation to internal control over financial reporting (ICFR) at your company.

F.1 The company's control environment

Provide information, stating the main features, on at least the following:

F.1.1. Which bodies and/or functions are responsible for (i) the existence and maintenance of a proper ICFR system; (ii) its implementation; and (iii) its supervision.

The Board of Directors, as stipulated in the Regulations, is ultimately responsible for the existence and updating of a suitable and effective ICFR system.

Specifically, Article 5 of the Board Regulations ("General Functions and Competences") stipulates, inter alia, the following functions:

1. Determine the Company's general policies and strategies, approve the investment and financing policy, the strategic or business plan, the annual management targets and annual budgets, and the treasury share policy, determine the corporate governance policy of the Company and the Group and the dividend policy, and approve the corporate social responsibility policy. The Board of Directors also determines the Company's risk management and control policy, including tax risks, identifying its main risks, and implementing and supervising the internal reporting and control systems in order to ensure the future viability and competitiveness of the Company, adopting the decisions best suited to its ideal development.

   To this end, Colonial has published an Internal Risk Management and Control Manual for its ICFR system, approved by the ACC, detailing the methodology for establishing the materiality of risks, as well as methodologies for documenting, classifying and assessing risks and associated control activities.

2. Approval of the financial information that all listed companies must periodically disclose.

   To this end, Colonial has published a Manual for Disclosure of Regulated Information that covers the aspects mentioned in this section and has been approved by the ACC.

3. Monitor the effective functioning of the Committees created by the Board and the performance of the delegated bodies and executives designated by the Board.

4. Approve and amend Board Regulations.

The ICFR Organisation and Supervision Model, approved by the ACC, establishes the mechanism that the Board of Directors, and by delegation, the ACC, deems appropriate 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 ACC. In particular, the ACC is tasked with the following functions, among others, regarding the ICFR organisational model:

1. Submit to the Board for approval a report on the risk control and management policy, which identifies at least: (i) types of financial and non-financial risks faced by the Company, including financial and economic risks, contingent liabilities and other off-balance sheet risks; (ii) the level of risk that the Company considers acceptable; (iii) the measures planned to mitigate the impact of identified risks, should they materialise; (iv) and the information and internal control systems to be used to control and manage these risks, including contingent liabilities and off-balance sheet risks.

2. Oversee the preparation and filing of required financial information.

3. In relation to the information and internal control systems: (i) supervise the preparation process and the integrity of financial information on the Company and, where applicable, on the Group, review compliance with the

regulatory requirements, the proper delimitation of its scope of consolidation and the correct application of accounting principles; (ii) ensure the independence and effectiveness of the internal audit processes, propose the election, appointment, re-election and removal of the head of the internal audit unit in addition to proposing the budget for this unit, approve both orientation and its operating plans, ensure that the activity is focused mainly on the risks that are relevant to the Company, receive regular information on activities and verify that senior management takes account of the conclusions and recommendations of reports; and (iii) establish and supervise a method that allows employees to make confidential and, if possible and appropriate, anonymous, declarations on any irregularities, especially financial and accounting irregularities, that may potentially be important to the company.

4. Act as a communications channel between the Board of Directors and the Company's external auditor, assessing the results of each audit. It also receives regular information from the auditor on the audit plan and its execution.

5. Inform the Board of Directors of all matters established by law, the Company Bylaws and Board regulations beforehand, in particular regarding:

   a) The financial information that the Company must make public on a periodic basis.

Minutes shall be taken of all Committee meetings and made available to all board members.

The internal audit function is responsible for drawing up the annual Internal Audit Plan and submitting it to the ACC. 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 ACC, 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. Whether the following exist, especially in connection with the financial reporting process:

- **Departments and/or mechanisms tasked with: (i) devising and reviewing the organisational structure; (ii) clearly defining the boundaries of responsibility and authority, with proper distribution of tasks and functions; and (iii) ensuring that sufficient procedures are in place to spread awareness of this throughout the company.**

The responsibility for developing Colonial's ICFR organisational model lies with the Internal Audit Department and the Operations-Finance Department, as they are the two departments most involved in drawing up and subsequently supervising the financial information to be reported.

Nevertheless, all Departments involved to a lesser or greater degree in preparing the financial information must also take responsibility for correctly carrying out the tasks, processes and controls in which they are involved.

The organisational model of Colonial's ICFR system is structured as follows:

a) Establishment of a general environment of appropriate control, setting out the main guidelines of operation of the ICFR and senior-level roles and responsibilities.

b) Identification of major risk events, which, if they occur, may materially affect financial information.

c) For risks identified in the relevant processes, specific mitigating controls are implemented to reduce these risks to acceptable levels. The operational Departments concerned are responsible for adequately implementing these procedures.

d) The Operations-Finance Department is responsible for maintaining documentation on and keeping Colonial's accounting policies and manuals up to date and maintaining an environment of general controls of the IT systems.

e) Lastly, the Internal Audit function and the ACC are responsible for overseeing ICFR in order to ensure its operational efficiency.

- **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.**

The Company's Board of Directors approved Colonial's 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 undertakes as a guiding principle for its corporate behaviour with shareholders, investors, analysts and the market in general, to disclose true and complete information which expresses a true and fair view of the Company and the Group, its corporate activities and its business strategies.

This information shall always be disclosed in accordance with regulations and within the timeframes established by prevailing legislation. Corporate action 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 at its companies and the strict compliance with prevailing regulations in this matter."

Colonial's Regulatory Compliance Unit, which reports to the ACC, is responsible for disseminating the Code of Ethics both internally and externally.

The Code has been distributed to all employees.

The Regulatory Compliance Unit is responsible for compiling any irregularities or breaches of the Code, and informing the Human Resources department to take the necessary disciplinary action based on the fines and sanctions detailed in the collective bargaining agreement or employment legislation applicable.

The ACC is responsible for assessing the degree of compliance with the Code and preparing an annual report based on its findings.

The Board of Directors is responsible for reviewing and updating the Code of Ethics based on the report drawn up by the ACC.

- **Whistleblowing channel to report any financial and accounting irregularities to the audit committee, in addition to any breaches of the code of conduct and irregular activities within the organisation, reporting whether this is confidential, as the case may be.**

Under Article 32 of Colonial's Board Regulations, the ACC is responsible, inter alia, for:

"In relation to information systems and internal control: ... (iv) for establishing and supervising a method that allows employees to make confidential and, if possible and appropriate, anonymous statements on any irregularities, especially financial and accounting irregularities, that may potentially be important to the company."

As noted in the preceding point, the Regulatory Compliance Division, which reports to the ACC, 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 whistleblowing channel on its intranet where employees can report any irregularities and breaches identified at the Company.

This channel is managed by the Regulatory Compliance Division and is regularly reviewed to guarantee its confidentiality and compliance with the regulations applicable.

- **Training programmes and regular refresher courses for personnel involved in the preparation and review of financial information and the assessment of ICFR, covering at least accounting standards, audit, internal control and risk management.**

Colonial has a Training Plan covering all business areas according to the specific needs of each. However, the functional business areas themselves, under the coordination and supervision of the Human Resources department, are responsible for devising and proposing specific training plans for their areas.

For staff involved in preparing and reviewing financial information, training is structured around attending events concerning regulatory updates of financial, accounting and tax regulations, as well as receiving, distributing and analysing documentation from external advisors regarding regulatory developments.

In addition, the Regulatory Compliance Division, together with the functional areas, is responsible for identifying and distributing regulatory developments that affect Colonial, so that these can be analysed and implemented.

In the event of any regulatory changes of special relevance to Colonial's financial, accounting or tax departments, the Operations-Finance Department proposes the need for specific training.

Also, personnel from the Internal Audit Department attended thematic courses and forums outside the Company related to the evaluation of certain internal control and risk management aspects.

F.2 Assessment of risks in relation to financial information

Report, at least, on:

F.2.1. The main characteristics of the process for identification of risks, including the risk of error or fraud, as follows:

- **Whether the process exists and is documented.**

Colonial has a Risk Management and Control System (RMCS), as indicated in section E.1 of this report.

The basic function of the ACC, as delegated by the Company's Board of Directors, is to monitor and control risk. To this end the managers of the various operating units cooperate in identifying and correcting risk by applying the RMCS, as indicated in sections F.1.1 and F.1.2 of this report.

Colonial's ICFR Organisational and Monitoring Model, as well as its ICFR Internal Control and Risk Management Manual, which aim to ensure the preparation and issuance of reliable financial information, are aligned with and form part of Colonial's general risk policy, the RMCS, which have been approved by the ACC.

- **Whether the process covers all financial reporting objectives (existence and occurrence, completeness, measurement, presentation, disclosure and comparability, and rights and obligations), whether it is updated and how often.**

The ICFR Internal Control and Risk Management Manual provides for the following seven types of risk:

1) Integrity: Transactions, events, assets, liabilities or equity interests that are "not" identified and, consequently, are "not" included in the Company's accounting records. Data entries "not" captured in the ledgers or rejected data entries. Disclosures "not" identified and, consequently, "not" included in the notes to the financial statements or deliberately omitted.

2) Existence: Transactions "not" authorised that are entered into the company's accounting software. Duplicated transactions. Erroneous adjustments in ledgers.

3) Disclosures 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 arising from a liability or a contract/agreement.

5) Measurement: Incorrect determination of the value of an asset, liability, income or expense, and which could generate the recording of adjustments in the determination of market values, amortised values, value in use or due to a depreciation error, as well as adjustments made and not properly justified.

6) Presentation: Incorrect presentation of financial transactions in the financial statements (assets vs. liabilities, income vs. expense, current vs. non-current etc.).

7) Transaction cut-off: Incorrect recording of transactions in the proper accounting period.

Colonial's ICFR 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 arising from its reviews. The ACC must approve any amendments to the Manual, while Internal Audit and the Operations-Finance Department must be notified and review them in advance.

- **The existence of a process to identify the scope of the consolidated group, considering aspects such as the possibility of complex corporate structures or special-purpose vehicles.**

Colonial's Board Regulations and, specifically the section regarding the responsibilities of the ACC, stipulate that the responsibilities of the Committee include, among others:

"In relation to information systems and internal control: (i) to supervise the preparation process and completeness of financial information on the Company and, where applicable, the Group, reviewing compliance with regulatory requirements, the composition of the consolidated group and the correct application of accounting criteria ..."

In this regard, Colonial has a consolidation process that stipulates, as a basic procedure, the determination of the Group's scope of consolidation at the end of every reporting period.

This procedure is implemented by the Accounting, Consolidation and Tax Department, which reports to the Operations-Finance Department. The ACC is notified when the scope of consolidation changes.

- **Whether the process takes account of other types of risks (operational, technology, financial, legal, tax, reputational, environmental risk etc.), which may affect the financial statements.**

As described in the first item of section F.2.1, the basic function of the ACC, as delegated by the Company's Board of Directors, is to monitor and control risk. To this end, the managers of the various operating units work together to identify and correct risks.

Colonial's ICFR Organisation and Supervision Model, 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 of this report), and have been approved by the CAC.

In the process of identifying risks involving financial information within the ICFR system, all the areas of risk identified in Colonial's risk map have been considered.

- **Which of the entity's governing bodies supervises the process.**

Colonial's Board Regulations and, specifically the section regarding the responsibilities of the ACC, stipulate that the responsibilities of the Committee include, among others:

"In relation to information systems and internal control: ... (ii) to conduct a periodic review of the internal control and risk management systems in such a way that the main risks are identified, managed and notified properly."

In this regard, the ACC is responsible for approving Colonial's ICFR Internal Control and Risk Management Manual.

As indicated in section F.1.1 and F.1.2 of this report, the Internal Audit function is responsible for monitoring the ICFR system in order to ensure operational effectiveness. The internal auditor shall carry out these tests and report on the conclusions to the ACC, 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.3 Control activities

Provide information, indicating salient features, if available, on at least the following:

F.3.1. Procedures to review and authorise financial information and the ICFR system description to be published on the securities markets, stating those responsible, as well as documentation describing the flow of activities and controls (including those relating to fraud risk) for the different kinds of transactions that may have a material impact on the financial statements, including the procedure for the accounting closure and the specific review of relevant judgments, estimates, measurements and projections.

In relation to procedures for reviewing and authorising the financial information and description of ICFR to be disclosed in the securities markets, as mentioned above, the ACC 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 that regulates the procedure for preparing and approving this information.

Colonial's ICFR Internal Control and Risk Management Manual establishes the criteria for identifying the relevant public financial information as follows:

a) Periodic Public Information (PPI) obligations of issuers:

   1) Quarterly Financial Report.

   2) Half-yearly Financial Report.

   3) Annual Financial Report and Annual Corporate Governance Report (ACGR).

b) Annual Report on Directors' Remuneration (IAR).

c) Registration document.

d) Regulatory Announcements.

There are preparation and review procedures in place for all relevant statutory financial information to be reported 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, ending with the CEO, Board of Directors or the General Meeting of Shareholders 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 auditor.

In terms of the documentation describing activity flows and controls (including those relating to the risk of fraud) of the various types of transaction that may materially affect the financial statements, Colonial has an ICFR Organisational and Monitoring Model approved by the ACC. This structures specific internal control mechanisms that have been deployed to maintain an internal control environment conducive to comprehensive, reliable and timely financial information and which looks to foresee the possible existence of irregularities and the means to detect and correct them.

The Organisational Model of Colonial's ICFR system is based on two distinct areas:

a) The general control environment, where the main guidelines of operation of the ICFR and high-level roles and responsibilities are developed.

b) Specific ICFR controls, where the operating procedures relating to the preparation of financial information are developed.

In addition, Colonial has an ICFR Internal Control and Risk Management Manual that sets out the specific controls established with regard to the risks relating to financial information and formal documentation. The Organisational Model details the high-level controls and mechanisms.

Colonial has determined what 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 and supervision.

Once the relevant financial information has been determined, the cycles and business processes are identified, which, in both preparation and issue, may have a material impact on the information. Once the processes have been identified, the relevant functional areas and internal auditing then identify the implicit risks of 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 ensures that the identified risks are consistent with the corporate risk model.

The scope of the processes selected ensures that, by complying therewith, complete and reliable financial information is obtained.

The Operations-Finance Department and Internal Audit are jointly responsible for identifying the ICFR processes, risks and relevant controls, which are then approved by the ACC. In this process, the Company has specifically considered the potential risk of fraud and has control activities in place to prevent this risk.

The key processes identified at Colonial relating to the ICFR system are:

a) Closing of accounts, including the process of judgements, estimates, measurements and projections.

b) Consolidation and reporting of subsidiaries.

c) Revenue recognition.

d) Asset valuation (determination of the fair value of investment property).

e) Cash, debt and derivatives.

f) Manual for Disclosure of Statutory Information.

g) Procedure for maintaining the Group's accounting policies and the Accounting Policies Manual.

h) Taxes.

i) Reporting systems, including capture and preparation mechanisms for supporting financial information to be issued.

j) Investments and asset acquisitions.

k) Purchases of goods and services.

l) Human resources.

All key processes are documented and are updated annually to include any potential changes. The key processes at Colonial that have a significant influence on the preparation of financial information are documented through the following:

a) Flow charts of the activities of the processes.

b) Descriptions of the processes, risks and controls in place.

c) Risk and control matrices.

The ICFR Internal Control and Risk Management Manual is an internal regulation that 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 is responsible for ensuring that the processes and controls are correctly applied and documented for each accounting period.

In this regard, Colonial has software to monitor the responses to the controls defined in each accounting period for the key processes. Internal audit monitors and supervises compliance with these controls.

Any transactions with a substantial weight of critical judgments, estimates, measurements and projections are specifically monitored, as is the case with real estate asset valuations, the preparation of impairment tests and the preparation of effectiveness tests for derivative financial instruments.

F.3.2. Internal control policies and procedures for IT systems (including access security, control of changes, system operation, continuity and separation of duties) giving support to key Company processes involved in the preparation and publication of financial information.

The 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 supporting financial reporting are outsourced. 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 from the outsourcing of the IT systems.

All Spanish Colonial Group companies operate under one transactional system, SAP. 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 security of equipment and data processing centres (in coordination with the external provider).

b) Logical security of the applications (in coordination with the external supplier).

c) Monitoring of Service Level Agreements (SLAs) and Service Level Objectives (SLOs) with external suppliers.

d) Project management, rollouts, developments and upgrades of current systems.

e) Management of operations.

f) Management of infrastructure and communications.

g) Management of 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 IT systems.

F.3.3. Internal control policies and procedures designed to supervise the management of third party subcontracted activities, in addition to any evaluation, calculation or appraisal tasks entrusted to independent experts that may have a material impact on the financial statements.

As described in section F.3.1, Colonial has identified the key processes that 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 that are fully outsourced.

In this regard, the relevant processes involving significant third-party participation are as follows:

a) Valuation of real estate assets: determination of fair value.

b) Financial hedging instruments: effectiveness tests and obtainment of the fair value.

c) IT systems: maintenance and operation.

All processes with substantial third-party involvement have been documented, identifying the risks and controls implemented. The functional areas involved in the various processes are responsible for monitoring them and for implementing the appropriate controls.

The internal audit's annual plan includes the monitoring activities needed to ensure the processes described are correctly executed.

F.4 Information and reporting

Report, indicating salient features, if available, on, at least:

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 Company's operating units.

Colonial's ICFR Organisational and Monitoring Model, which has been approved by the ACC, stipulates that the Operations-Finance Department is responsible for maintaining documentary records of Colonial's accounting policies and keeping the Group accounting policies manual up to date, which entails settling doubts or disputes over their application.

Colonial has a Group Accounting Policies Manual, which has been approved by the ACC, and which must be adhered to by all Group companies. The Operations-Finance Department is responsible for preparing and maintaining this manual.

F.4.2. Mechanisms to capture and prepare the financial information with consistent formats, to be implemented and used by all units in the Company or group, which support the main financial statements and the notes, in addition to any information provided on the ICFR.

Colonial has implemented a computer tool to facilitate the financial consolidation and financial and operating budget planning of the Group. This guarantees greater control and security in the process of capturing and preparing financial information.

The Group Accounting Policies Manual establishes a chart of accounts and templates of financial statements that 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 separate 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 details required to prepare this financial information is obtained directly from the IT tool, since it has been customised to do so. For those cases where certain 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.

Also, Colonial uses a GRC (Governance, Risk and Compliance) IT tool in order to monitor the information specific to ICFR management relating to compliance with the controls established for key procedures defined by the Company for the ICFR systems. Internal audit monitors and supervises the operation of this tool.

F.5 Supervision of system operation

Provide information, stating the main features, on at least:

F.5.1. ICFR supervisory activities conducted by the Audit Committee and whether the entity has an internal audit department whose competences include supporting the committee in its oversight of 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 Company 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 ACC in relation to the ICFR system in 2017 consisted of approving the Internal Audit Plan for 2017, which includes monitoring ICFR and being apprised of the related degree of implementation, compliance and effectiveness.

The ACC also met with the Company's external auditors to assess the internal control weaknesses encountered during the course of their work, as well as the relevant aspects or incidents.

Lastly, the ACC has performed the following main activities relating to the financial information:

1. Review of the public financial information disclosed to the markets.
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 half-yearly financial statements concerning related-party transactions.
5. Monitoring the effectiveness of the processes, risks and relevant controls relating to ICFR.

Regarding the internal audit function, Colonial's Regulations of the Board of Directors, and, specifically the section regarding the responsibilities of the ACC, stipulate that the responsibilities of the Committee include, among others:

"The Audit and Control Committee, with respect to the information and internal control systems, shall:

(iii) monitor the independence and efficacy of the internal audit function, proposing the selection, appointment, re-election and removal of the head of internal audit; propose the department's budget, receiving regular report-backs on its activities and verifying that senior management are acting on the findings and recommendations of its reports".

In July 2009, the ACC approved Colonial's internal audit regulations. The main responsibilities of this function include periodically verifying the degree of application of the approved policies and procedures that comprise the internal control system, offering suggestions for improvement.

The ACC has already approved the Internal Audit Plan for 2018, including the necessary actions necessary to guarantee monitoring and evaluation of the internal control procedures, the performance of one-off work to verify the operational effectiveness of Colonial's ICFR. Any incidents detected and the necessary corrective measures are reported on a regular basis, as well as their potential impact on the financial information, once these have been confirmed with the audited areas.

F.5.2. Whether the Company has a discussion procedure whereby the accounts auditor (in accordance with what is set forth in the NTAs), the Internal Audit staff and other experts are able to inform senior management and the Audit Committee or Company directors of any significant weaknesses in internal control identified during the processes of review of annual financial statements or any others entrusted to them. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

Article 8 of Colonial's Board Regulations provides as follows:

"Dealings of the Board of Directors with the external auditor will be through the Audit and Control Committee."

In this regard, Article 32 of the Board Regulations governs the functioning of the ACC and, inter alia, establishes the following functions:

1. Act as a communications channel between the Board of Directors and the Company's external auditor, assessing the results of each audit. Also, in connection with the external auditor, the ACC has the duty to receive regular information from the external auditor on the audit plan and the implementation thereof;

2. Establish the necessary relations with the external auditor in order to receive information on any matters that might jeopardise the auditors' independence, for examination by the Appointments Committee, and any other matters related to the financial audit process and to communicate with the auditors as provided for in the financial audit legislation and auditing standards.

3. Supervise the effectiveness of the Company's internal control, the internal audit and the risk management systems, and discuss with the auditor any significant weaknesses detected in the internal control system during the conduct of the audit.

All these monitoring activities of the Board of Directors and the ACC are conducted throughout the year and included in the agenda of the various sessions based the schedule established for each year.

F.6 Other significant information

No additional issues to disclose have been identified.

F.7 External auditor report

Report by:

F.7.1. If the ICFR information supplied to the market has been reviewed by the external auditor, the corresponding report should be attached. If this is not the case, it should explain why.

The ACC and internal audit department performed the ICFR monitoring activities, which complement the contributions of the external auditor regarding the identification, as appropriate, of the internal control weaknesses identified in the course of their external audit.

These monitoring activities are considered to be appropriate and sufficient and, therefore, it is not considered necessary to submit the ICFR information to additional external review.

G. Extent to which the corporate governance recommendations are followed

Please indicate the extent to which the Company has followed the recommendations of the Code of Good Governance.

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 acquiring shares on the market.

Compliant

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

a) Their respective areas of activity and possible business relations between them, as well as those of the subsidiary listed company with other companies belonging to the same group.

b) The mechanisms in place to resolve any conflicts of interest that may arise.

Compliant

3. During the ordinary 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) Of the changes that have occurred since the last ordinary general meeting.

b) Of the specific reasons why the Company is not following any recommendations of the Code of Corporate Governance and, if any, the alternative rules applied to this matter.

Compliant

4. The Company shall define and promote a policy of communication and contact with shareholders, institutional investors and proxy advisors, respecting the rules on market abuse and treating shareholders who are in the same position equally.

And that the Company should make this policy public via its website, including information on the way it has been put in practice and identifying the interlocutors or persons responsible for carrying this out.

Compliant

5. That the Board of Directors does not submit to the general meeting a proposal of delegation of powers to issue shares or convertible securities excluding the right to preferential purchase, for an amount above 20% of the share capital at the time of delegation.

And that when the Board of Directors approves any issue of shares or convertible securities excluding the right to preferential purchase, the Company should immediately publish on its website the reports on this exclusion as laid down in the companies laws.

Compliant

6. The listed companies which produce the reports listed below, either in mandatory or voluntary form, publish them on their website well in time before the ordinary general meeting is held, although their dissemination is not mandatory:

a) Report on external auditor independence.

b) Reports of proceedings of the audit committees and the Appointments and Remuneration Committee.

c) Audit Committee Report on Related Party Transactions.

d) Report on the corporate social responsibility policy.

Compliant

7. The Company broadcasts live, via its website, the holding of general meetings of shareholders.

Compliant

8. The Audit Committee ensures that the Board of Directors should seek to present the accounts to the General Meeting of Shareholders without limitations or qualifications in the audit report and, in exceptional cases where there are qualifications, both the chairman of the Audit Committee and the auditors should clearly explain to shareholders the contents and scope of such limitations or qualifications.

Compliant

9.The Company should make public on its website, permanently, the requirements and procedures it will accept to prove ownership of shares, the right to attend the general meeting of shareholders and the exercise or delegation of voting rights.

And such requirements and procedures facilitate the shareholders' attendance and the exercise of their rights and are applied in a non-discriminatory manner.

Compliant

10. Where any legitimate shareholder has exercised, prior to the holding of the general meeting of shareholders, the right to complete the agenda or to submit new resolution proposals, the Company:

a) Immediately disseminates such additional items and new resolution proposals.

b) Makes public the attendance card model or form of proxy or remote voting with the changes required so that the new items on the agenda and alternative resolution proposals can be voted on, on the terms proposed by the Board of Directors.

c) Submits all these items or alternative proposals to vote and the same voting rules are applied to them as those made by the Board of Directors, including, in particular, presumptions or inferences about the meaning of the vote.

d) Announces, after the general meeting of shareholders, the breakdown of the vote on such additional points or alternative proposals.

Compliant

11. In the event that the Company plans to pay premiums to attend the general meeting of shareholders, it will previously establish a general policy on such premiums and this policy is stable.

Not applicable

12. The Board of Directors shall perform its duties with unity of purpose and independent judgment and it shall treat all shareholders who are in the same position equally and guide itself by the Company's interests which are understood as achieving a profitable and sustainable long-term business, to promote the Company's continuity and maximize its economic value.

In pursuing the Company's interests, in addition to complying with laws and regulations and acting in good faith, ethically and respecting the commonly accepted uses and good practices, the Board of Directors shall endeavour to reconcile the Company's interests with, where applicable, the legitimate interests of its employees, its suppliers, its customers and those of other stakeholders that may be affected, as well as the impact of the Company's activities on the community as a whole and in the environment.

Compliant

13. The Board of Directors has enough members in order to implement efficient and participative proceedings, which makes it advisable that the Board should have from five to fifteen members.

Compliant

14. The Board of Directors approves a policy of selection of directors that:

a) Is specific and verifiable.

b) Ensures that proposals for appointment or reappointment are based on a preliminary analysis of the needs of the Board of Directors.

c) Promotes the diversity of knowledge, experience and gender.

The result of the previous analysis of the needs of the Board of Directors is collected in the committee's report justifying the appointments to be published when the general meeting of shareholders is called, in which the ratification, appointment or re-election of each director is submitted.

And the selection policy promotes the goal that by 2020 the number of female directors will represent no less than 30% of the total members of the Board of Directors.

The Appointments Committee shall annually verify compliance with the policy of selection of directors and inform thereof in the annual corporate governance report.

Compliant

15. The proprietary directors and independent directors constitute a significant majority of the Board of Directors and the number of executive directors is kept to the minimum necessary, having regard to the complexity of the corporate group and the percentage shareholding of the executive directors in the Company's share capital.

Compliant

16. The percentage of proprietary directors over the total of non-executive directors is not higher than the proportion between the capital represented by such directors and the remainder of the Company's share capital.

This criterion may be reduced:

a) In highly capitalized companies where the shareholdings legally considered significant are low.

b) In companies where there is a diversity of shareholders represented on the Board of Directors and there are no links between them.

Compliant

17. The number of independent directors represents at least half of all directors.

However, where the Company is not highly capitalized or where, still being so, it has a shareholder or several acting together, who control more than 30% of the share capital, the number of independent directors should represent at least one-third of all directors.

Explain

During the first half of 2017, the Company complied with the recommendation insofar as it was not considered a highly capitalised company. At 31 December 2017, the Company, considered a highly capitalised company, did not comply with the recommendation, although the percentage of independent directors is almost half of the total number of directors, as there are 4 independent directors over a total of 10 directors. In this regard, the number of independent directors of Colonial is equal to the number of proprietary directors and, in any case, greater than the number of executive directors.

Thus, although the percentage of independent directors does not reach the 50% required by the recommendation, the Company estimates that the representation of this type of Directors is high, so all interests are duly represented in the board of directors.

18. Companies should post the following director particulars on their websites, and keep them permanently updated:

a) Professional and biographical profile.

b) Other boards of directors on which they sit, whether or not these belong to listed companies, as well as other remunerated activities in which they may be involved.

c) The category to which he belongs, where applicable, stating, in the case of proprietary Directors, the shareholder to whom he owes his/her office and with whom he is associated.

d) Date when they were first appointed as a director of the Company, as well as the dates of any subsequent reappointments.

e) Their holdings of Company shares and their stock options.

Compliant

19. The Annual Corporate Governance Report, with prior verification by the Appointments Committee, explains the reasons for the appointment of proprietary directors at the request of shareholders whose shareholding is less than 3% of the share capital; and reasons are given why formal requests for a seat on the board from shareholders with a stake equal to or greater than that of others, at whose request proprietary directors were appointed, have not been respected.

Not applicable

20. Proprietary directors tender their resignation when the shareholders they represent sell their entire shareholding. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Compliant

21. The Board of Directors shall not propose the removal of any independent Director before the statutory period for which they were appointed, except where just cause is found by the Board of Directors following a report from the Appointments Committee. It shall be understood that there is just cause when the Director occupies a new position or takes on new duties that prevent him/her from devoting the necessary time to the performance of the duties associated with the office of Director, when the director fails to fulfil the duties inherent to his/her office or when the director is involved in circumstances which cause him/her to lose his/her independent status in accordance with the provisions of the applicable legislation.

The removal of independent directors from office may also be proposed as a result of public buy-outs, mergers or other similar enterprise-level transactions implying a change in the structure of the Company's capital, where such changes in the Board are due to the proportionality criterion in Recommendation 16.

Compliant

22. Companies establish rules obliging directors to provide information and, where appropriate, tender their resignation in cases where it is alleged they could prejudice the good name and reputation of the Company and, in particular, oblige them to inform the Board of Directors of any criminal lawsuits they may be involved in, as well as any subsequent legal proceedings.

In any event, if a Director were prosecuted or had a court order issued against him or her initiating trial proceedings for any of the offences defined in corporate law, the Board of Directors shall examine the case as soon as practicable and, in view of the particular circumstances, decide whether or not he/she should remain in office And the Board of Directors gives a reasoned account of such circumstances in the Annual Corporate Governance Report.

Compliant

23. All directors clearly express their opposition when they consider that a proposal submitted to the Board for Directors for decision could be contrary to the Company's interests. Moreover, independent and other directors in particular, who are not affected by potential conflict of interest, do the same in the case of decisions that could be detrimental to shareholders not directly represented on the Board of Directors.

And when the Board of Directors adopts significant or repeated decisions on matters with regard to which the director has expressed serious reservations and subsequently opts to resign, the ensuing conclusions drawn and reasons for the resignation are explained in the letter referred to in the following recommendation. This recommendation also affects the Secretary to the Board of Directors, even where he/she does not have the status of director.

Compliant

24. When, whether due to resignation or any other reason, a director leaves his or her position before the end of the term, the reasons are explained in a letter sent to all the members of the Board of Directors. Irrespective of whether such resignation is filed as a regulatory announcement, the motive for the same must be explained in the Annual Corporate Governance Report.

Compliant

25. In addition, the Appointments and Remuneration Committee shall ensure that non-executive directors have sufficient time to properly perform their duties.

And that the Board regulations sets the maximum number of boards of which the directors may form part.

Compliant

26. The Board of Directors holds meetings as frequently as required in order to carry out its role effectively, at least eight times a year, following the programme and agenda established at the start of the financial year, with each director able to propose for inclusion alternative items not originally on the agenda.

Compliant

27. A Director's absence should be limited to the bare minimum and quantified in the Annual Corporate Governance Report. And, when they must occur, instructions are given to proxies.

Compliant

28. When the directors or the Company secretary express concerns about a particular proposal or, in the case of the directors, about the Company's progress and such concerns are not resolved within the Board of Directors, this is recorded in the minutes at the request of whoever expressed such concerns.

Compliant

29. The Company shall establish 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

30. In addition, regardless of the knowledge required of the Directors to perform their duties, the Company will also offer Directors refresher programs when circumstances so warrant.

Compliant

31.The agenda of the sessions clearly indicates those points on which the Board of Directors shall adopt a decision or agreement so that directors can study or seek, in advance, the information required for its adoption.

When exceptionally, for reasons of urgency, the Chairman wants to submit to the approval of the Board of Directors any decisions or agreements not included in the agenda, this will require the express prior consent of the majority of the directors present, which will be duly recorded in the minutes.

Compliant

32. Directors should be regularly informed of the movements in shareholders and of the opinion that significant shareholders, investors and rating agencies have on the Company and its group.

Compliant

33. The Chairman, as responsible for the effective proceedings of the Board of Directors, in addition to exercising the functions legally and statutorily assigned to him/her, prepares and submits to the Board of Directors a program of dates and issues to be addressed; organizes and coordinates the periodic evaluation of the board and, where appropriate, the chief executive officer of the Company; is responsible for the management of the board and the effectiveness of its operation; ensures that sufficient time is devoted to discussion on strategic issues, and arranges and reviews refresher programs for each director, when circumstances so require.

Compliant

34.When there is a coordinating director, the Bylaws or regulations of the Board of Directors, in addition to the powers legally entitled, attribute him/her the following: chairing the Board of Directors in the absence of the Chairman and Vice-Chairmen, if any; echoing the concerns of non-executive directors; maintaining contacts with investors and shareholders to ascertain their views in order to form an opinion about their concerns, particularly in relation to the corporate governance of the Company; and coordinate the Chair´s plan of succession.

Compliant

35. The Secretary to the Board of Directors shall also ensure that the Board of Directors is aware of recommendations on good governance that apply to the Company and that are part of the Code of Good Governance for listed companies.

Compliant

36. The complete Board of Directors will evaluate, once a year, and adopt, where applicable, an action plan to correct the deficiencies identified with respect to:

a) the quality and efficiency of the Board of Director's operation;

b) the operations and the composition of its committees;

c) the diversity of Board membership and competences;

d) the performance of the Chairman of the Board of Directors and the Chief Executive Officer of the Company;

e) the performance and contribution of each Director, paying particular attention to those who are in charge of the various board committees.

The evaluation of the various committees will be based on the reports they submit to the Board of Directors, and for the latter, evaluation will be based on the one submitted by the Appointments Committee.

Every three years, the Board of Directors will be assisted to carry out the evaluation by an external consultant, whose independence will be verified by the Appointments Committee.

Business relationships that the consultant or any Company in its group have with the Company or any Company of its group should be detailed in the annual corporate governance report.

The process and the evaluated areas will be further described in the annual corporate governance report.

Compliant

37. When an Executive Committee exists, the framework for the participation of the different categories of directors will be similar to that of the Board of Directors itself, and its Secretary will be the secretary to the board.

Compliant

38. The Board of Directors is always aware of matters dealt with and decisions adopted by the Executive Committee and all the members of the board receive a copy of the minutes of the meetings of the Executive Committee.

Compliant

39. The members of the Audit Committee, and especially its chairman, are appointed taking into account their knowledge and expertise in the field of accounting, audit or risk management, and the majority of such members are independent directors.

Compliant

40. To supervise the division that fulfils the internal audit duties to ensure the proper functioning of the information and internal control systems, which are functionally dependent on the non-executive Chairman of the Board or the Audit Committee.

Compliant

41. The head of the division that fulfils the internal audit duties shall present its annual work plan to the Audit Committee in which it directly reports any incidents that may have arisen during its implementation, submitting this information at the end of each year in an activity report.

Compliant

42. In addition to those as legally established, the Audit Committee is responsible for the following:

1. With regard to information systems and internal control:

   a) Supervise the process of preparing and the integrity of the financial information on the Company and, where applicable, to the Group, reviewing compliance with the regulatory requirements, the proper delimitation of its scope of consolidation and the correct application of accounting principles.

   b) Ensure the independence and effectiveness of the internal audit processes, proposing the election, appointment, re-election and removal of the head of the internal audit division in addition to proposing the budget for this service, approving both orientation and its operating plans, ensuring that their activity is focused mainly on the risks that are relevant to the Company, receiving regular information on their activities and verifying that senior management is taking into account the conclusions and recommendations of the Committee's reports.

   c) Establish and supervise a method that allows employees to make confidential and, if possible and appropriate, anonymous statements on any irregularities, especially financial and accounting irregularities, that may potentially be important to the Company.

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) Ensuring that the compensation for the external auditor for their work does not compromise their integrity or independence.

   c) Overseeing that the Company notifies the change of auditor as a regulatory announcement to Spain's National Securities Market Commission (CNMV) and that this notification is accompanied by a statement citing any disagreements the Company may have had with the outgoing auditor and, if there were such disagreements, to discuss them.

   d) Ensure that the external auditor annually holds a meeting with the full Board of Directors to report on the work done and the evolution of the Company´s accounting and risk situation.

   e) Ensure that the Company and the external auditor adhere to current regulations regarding the provision of non-audit services as well as the limits on the auditor's business concentration and, in general, the other rules on auditor independence.

Compliant

43. Audit Committee may summon any employee or executive of the Company; this includes appearances without the presence of any other executive.

Compliant

44. The Audit Committee is informed about the operations of structural and corporate changes that the Company plans to carry out, for analysis and preliminary report to the Board of Directors on their economic conditions and their accounting impact, and especially, if any, on the proposed swap equation.

Compliant

45. Control and risk management policy should specify at least:

a) The different types of financial and non-financial risks (including operational, technological, legal, business, environmental, political and reputational) that the Company faces, including financial and economic risks, contingent liabilities and other risks not found on balance sheets;

b) Setting the level of risk that the Company considers acceptable;

c) The measures planned to mitigate the impact of identified risks, should they materialize;

d) The information and internal control systems to be used to control and manage the abovementioned risks, including contingent liabilities and off-balance sheet risks.

Compliant

46. Under the direct supervision of the Audit Committee or, if any, of a specialized committee of the Board of Directors, there is an internal function of risk control and management exercised by a unit or internal department of the Company that has expressly attributed the following functions:

a) To ensure the proper functioning of the control and risk management systems and, in particular, that all the important risks that affect the Company are adequately identified, managed and quantified;

b) To actively participate in the development of a risk strategy and to take part in the important decisions concerning risk management;

c) To ensure that the control and risk management systems in place adequately mitigate the risks within the framework of the policy defined by the Board of Directors.

Compliant

47. Members of the Appointments and Remuneration Committee – or both Committees if they were separate – are designated by ensuring that they have the knowledge, skills and experience appropriate to the duties that they are to perform and that most of these members are independent directors.

Compliant

48. Highly-capitalized companies have an Appointments Committee and a separate Remuneration Committee.

Compliant

During the first half of 2017, the recommendation was not applicable to the Company insofar as it was not considered a highly capitalised company. At 31 December 2017, having acquired the status of a highly-capitalised entity, the Company did not comply with this recommendation, although, given the current structure of the Company, it is considered appropriate for it to maintain one single appointments and remuneration committee.

49. The Appointments Committee should consult with the Company's Chairman of the Board of Directors and chief executive officer of the company, especially on matters relating to executive directors.

Any Director may request that the Appointments Committee take into consideration potential candidates to fill director vacancies if he/she feels that they are suitable.

Compliant

50. The duties of the remuneration committee must be exercised with independence and include, in addition to those indicated by law, the following:

a) Propose to the Board of Directors the standard conditions for senior officer employment contracts.

b) Oversee compliance with the remuneration policy set by the company.

c) To periodically review the remuneration policy applied to Directors and senior officers, as well as the compensation systems which include shares and how they are implemented, in addition to guaranteeing that their individual compensation is proportional to that which is paid to other Directors and senior officers of the Company.

d) To ensure that any conflicts of interest does not interfere with the independence of the external advice given to the Appointments and Remuneration Committee.

e) To verify the information on Directors and senior officers' remuneration found in various corporate documents, including the annual report on Director compensation.

Compliant

51. The Remuneration Committee should consult with the Chairman and chief executive officer of the Company, especially on matters relating to executive directors and senior officers.

Compliant

52. The rules regarding the composition and proceedings of the supervising and control committees are listed in the Board Regulations, are consistent with those applicable to the legally mandatory committees under the foregoing recommendations, and include the following:

a) These committees are composed exclusively of nonexecutive directors, with a majority of independent directors.

b) The chairmen of these committees are independent directors.

c) The Board of Directors appoints the members of these committees, taking into account the knowledge, skills and experience of the directors and the responsibilities of each committee; deliberates on its proposals and reports; and, at the first plenary session of the board after their meetings, receives an account of their activity and a report on the work carried out.

d) The Committees may seek outside advice when they deem it necessary to perform their duties.

e) Minutes are taken for all their meetings and copies are sent to all directors.

Not applicable

53. The supervision of compliance with the rules of corporate social responsibility policy, the internal codes of conduct and the corporate governance policy is attributed to one or more committees within the Board of Directors; these committees may be the Audit Committee, the Appointments Committee, or the corporate social responsibility committee, if any, or a specialised committee created specifically for such duties by the Board of Directors; and these committees will have the following minimum duties:

a) Overseeing compliance with the Company's internal codes of conduct and its rules of corporate governance.

b) Supervising the Company's communication strategy and its relations with shareholders and investors, including small and medium shareholders.

c) Regular assessment of the adequacy of the Company's corporate governance system so that it may fulfil its mission of promoting its business activity and keep the legitimate interests of other stakeholders in mind.

d) Reviewing the Company's corporate responsibility policy, ensuring that it is aimed at creating value.

e) Monitoring the Company's social responsibility strategy and practices and assessing its degree of compliance.

f) Supervising and evaluating relations with different stakeholders.

g) Evaluating all matters that relate to the Company's non-financial risks, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinating the process of reporting non-financial information and information on diversity, in accordance with applicable regulations and international reference standards.

Compliant

54. The corporate social responsibility policy includes the principles or commitments, which the Company voluntarily assumes in its relationship with the different stakeholders and identify at least:

a) The objectives of the corporate social responsibility policy and the development of support tools.

b) The corporate strategy related to sustainability, the environment and social issues.

c) Specific practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, tax responsibility, respect for human rights and the prevention of illegal conducts.

d) Methods or systems monitoring the results of the implementation of the specific practices identified in the previous point, the associated risks and their management.

e) The mechanisms for monitoring non-financial risk, ethics and business conduct.

f) The channels of communication, participation and dialogue with stakeholders.

g) Responsible communication practices that prevent manipulation of information and protect the integrity and honour.

Compliant

55. The company should report in a separate document or in the management report on matters related to corporate social responsibility, using any of the internationally accepted methodologies.

Compliant

56. The compensation of the Directors is what is necessary to attract and retain Directors with a desirable profile, to compensate them for the dedication, qualifications and responsibility that the position entails, and to ensure that to the amount does not interfere with the independence of Non-Executive Directors' decisions.

Compliant

57. Executive Directors are restricted to variable remuneration linked to the performance of the Company and to their personal performance, as is the compensation in the form of shares, stock options or rights to shares or instruments that are referenced to the value of the stock and long-term savings systems such as pension plans, retirement schemes or other social security systems.

Delivery of shares as remuneration can be contemplated for non-executive directors on condition that they hold them until they cease to be directors. The foregoing shall not apply to shares that the director needs to dispose of, if appropriate, to meet the costs related to acquisition.

Compliant

58. In the case of variable remuneration, remuneration policies should include precise limits and technical safeguards to ensure they reflect the professional performance of the recipients and not only the general progress of the markets or the company's activity sector or circumstances of this kind.

And in particular, the variable components of remunerations:

a) Are linked to performance criteria that are predetermined and measurable and that these criteria consider the risk taken to obtain a result.

b) Promote the sustainability of the Company and include non-financial criteria that are suitable for creating long-term value, such as compliance with internal rules and procedures of the Company and its policies for control and risk management.

c) Are set on the basis of a balance between fulfilling short-, medium- and long-term goals, to remunerate the results from continued performance over a sufficient period of time to appreciate their contribution to sustainable value creation, so that the elements that measure the results do not revolve solely around specific, occasional or extraordinary events.

Compliant

59. The payment of a significant part of the variable components of remuneration is deferred for a period sufficient to ensure that the previously established minimum performance conditions have been met.

Compliant

60. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Compliant

61. A significant percentage of the variable remuneration of executive directors is linked to the delivery of shares or financial instruments referenced to its value.

Compliant

62. Once the shares or options or rights over shares corresponding to the remuneration systems are allocated, directors will not be able to transfer ownership of a number of shares equivalent to twice their fixed annual remuneration, or to exercise the options or rights until at least three years the allocation thereof have elapsed.

The above shall not apply to shares that the director needs to dispose of, if appropriate, to meet the costs related to acquisition.

Compliant

63. Contractual agreements include a clause that allows the Company to claim reimbursement of variable components of remuneration when payment has not been adjusted to the return conditions or when they have been paid based on data that are subsequently credited with inaccuracy.

Compliant

64. Payments for contract termination do not exceed the established amount equivalent to two years of total annual remuneration and they are not paid until the Company has been able to verify that the director has met the performance criteria previously established.

Compliant

H. Other information of interest

1. If there are any relevant points regarding the corporate governance of the Company or entities of the group that are not contained in the rest of the sections of this report, but which should be included in order to present a more complete and reasoned view of the governance structure and practices of the Company or its group, describe them briefly.

   On Colonial joined the Ibex 35 on 19 June 2017, which meant that in the middle of the year it was considered a highly capitalised company in accordance with the recommendations of the *Code of Good Governance for Listed Companies*, approved by the CNMV in February 2015.

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 to that required by this report.

   A.2. As regards Mr Carlos Fernández González, additionally, and as "other close connections" of directors is the following information:

	Indirect rights			
Name or company name of the director	**Close connection(*)**	**Number of voting rights**	**Number of equivalent shares**	**% of total voting rights**
Mr Carlos Fernández González	Finaccess México, S.A. de C.V., Sociedad Operadora de Fondos de Inversión(**)	4,239,062	4,239,062	0.974

(*) Legal entity or fiduciary legal business whose economic interests are largely equivalent to those of the officer or director.
(**) The holder of the share is Latin 10, SA de CV, a fund independently managed by Finaccess Mexico, SA de CV (a subsidiary of Grupo Finaccess, which has availed itself of article 26 of Royal Decree 1362/2007).

A.9. bis. The calculation was based on the instructions contained in *Circular 5/2013, dated 12 June, issued by the Spanish Securities Market Commission (CNMV), which establishes the annual corporate governance report models for listed companies, savings banks and other entities that issue securities admitted to trading on official stock markets,* reflecting the share capital that is not held by significant shareholders, the members of the Board of Directors and the members of the Board of Directors, as well as treasury shares.

C.1.11. The Company is the sole director of Colonial Tramit, S.L., Colonial Invest, S.L., Morage Inversiones 2014, S.L. and Danieltown Spain, S.L., and Mr Pedro VIñolas Serra, in his capacity as CEO of Colonial, is the physical representative of the Company, in his capacity as sole director of these entities.

C.1.15. In relation to the amount of the total remuneration of the Board of Directors indicated in the aforementioned section, it is reported that the Directors, in their capacity as such, receive up to a maximum remuneration of €1,900,000, in accordance with the remuneration policy approved by the General Meeting of Shareholders of 29 June 2016. This remuneration dos not apply to directors holding executive positions or functions (Chairman and CEO) do not participate, in accordance with the aforementioned policy.

Consequently, the information contained in the aforementioned section of the Annual Corporate Governance Report includes the total remuneration of directors, both executive and directors who hold only the status of directors.

C.1.45. Although the contracts of the directors do not have to be approved by the shareholders at the General Meeting, the general terms and conditions thereof are included in the remuneration policy, which they do approve.

In relation to the functions of the Company's Coordinating Director, during 2017, said director has held three preparatory meetings with the independent directors, attending both to the functions that the Coordinating Director is legally entrusted with (article 529 septies of the Spanish Limited Liability Companies Law), as well as the recommendations on good governance established for this purpose in the Code of Good Governance of Listed Companies, approved in February 2015 by the CNMV (recommendation 34).

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, it will mention whether the Company has adhered to the Code of Good Tax Practice of 20 June 2010.

   On 10 December 2015, the Board of Directors of the Company resolved to adhere to the Code of Good Tax Practices. This resolution was communicated to the tax authorities on 8 January 2016.

This annual corporate governance report was approved by the Company's Board of Directors at its meeting held on 22 February 2018.

List whether any directors voted against or abstained from voting on the approval of this Report.

Yes No

Name or company name of director who did not vote in favour of this Report	Reasons (against, abstention, non-attendance)	Explain the reasons

Glossary and APM

Glossary

Earnings per share (EPS)	Profit from the year attributable to the shareholders divided by the basic number of shares.
BD	Business District.
Market capitalisation	The value of the company's capital obtained from its stock market value. It is obtained by multiplying the market value of its shares by the number of shares in circulation.
CBD	Central Business District (prime business area).
Property company	Company with rental property assets.
Portfolio (surface area) in operation	Property/surfaces with the capacity to generate rents at the closing date of the report.
EBIT	Calculated as the operating profit plus variance in fair value of property assets as well as variance in fair value of other assets and provisions.
EBITDA	Operating result before net revaluations, amortizations, provisions, interests and taxes.
EPRA	European Public Real Estate Association: Association of listed European property companies that sets best market practices for the sector.
Free float	The part of share capital that is freely traded on the stock market and not controlled in any stable way by shareholders.
GAV excl. transfer costs	Gross Asset Value of the portfolio according to external appraisers of the Group, after deducting transfer costs.
GAV incl. transfer costs	Gross Asset Value of the portfolio according to external appraisers of the Group, before deducting transfer costs.
GAV Parent Company	Gross Asset Value of directly-held assets + NAV of the 55% stake in the Torre Marenostrum SPV + Value JV Plaza Europa + NAV of 58.5% stake in SFL. + NAV stake in Axiare value of the portfolio.
Holding	A company whose portfolio contains shares from a certain number of corporate subsidiaries.
IFRS	International Financial Reporting Standards.
JV	Joint Venture (association between two or more companies).

Like-for-Like valuation	Data that can be compared between one period and another (excluding investments and disposals).
LTV	Loan to Value (Net financial debt/GAV of the business).
EPRA Like-for-Like rents	Data that can be compared between one period and another, excluding the following: 1) investments and disposals, 2) changes in the project and refurbishment portfolio, and 3) other extraordinary items, for example, indemnities from tenants in case of anticipated leave. Calculation based on EPRA Best Practices guidelines.
EPRA NAV	EPRA Net Asset Value (EPRA NAV) is calculated based on the consolidated equity of the company and adjusting some items following the EPRA recommendations.
EPRA NNNAV	The EPRA NNNAV is calculated adjusting the following items in the EPRA NAV: the fair market value of the financial instruments, the fair market value of the debt, the taxes that would be accrued with the sale of the assets at their market value applying tax benefits for reinvestments and the tax credit on balance, considering a going concern assumption.
EPRA Cost Ratio	Administrative & operating costs (including & excluding costs of direct vacancy) divided by gross rental income.
Physical Occupancy	Percentage: occupied square metres of the portfolio at the closing date of the report/surfaces in operation of the portfolio.
Financial Occupancy	Financial occupancy according to the calculation recommended by the EPRA (occupied surface areas multiplied by the market rental prices/ surfaces in operation at market rental prices).
EPRA Vacancy	Vacant surface multiplied by the market rental prices/surfaces in operation at market rental prices. Calculation based on EPRA Best Practices guidelines.
Reversionary potential	This is the result of comparing the rental revenues from current contracts (contracts with current occupancy and current rents in place) with the rental revenues that would result from 100% occupancy at market prices, estimated by independent appraisers. Projects and refurbishments are excluded.
Projects underway	Property under development at the closing date of the report.
RICS	Royal Institution of Chartered Surveyors.

SFL	Société Foncière Lyonnaisse.
Take-up	Materialized demand in the rental market, defined as new contracts signed.
TMN	SPV of Colonial (55%) and Gas Natural (45%) related to the Torre Marenostrum building.
Valuation Yield	Capitalization rate applied by the independent appraisers in the valuation.
Yield on cost	Market rent 100% occupied/Market value at the start of the project net of impairment of value + invested capital expenditure.
Yield occupancy 100%	Passing rents + vacant spaces rented at the market prices/market value.
EPRA Net Initial Yield (NIY)	Annualised rental income based on passing rents as at the balance sheet date, reduced by the non-recoverable expenses, divided by the market value, including transfer costs (estimated purchasing costs).
EPRA Topped-Up Net Initial Yield	EPRA Net Initial Yield adjusted in respect of the expiration of rent-free periods.
Gross Yield	Gross rents/market value excluding transfer costs.
Net Yield	Net rents/market value including transfer costs.
€m	In millions of euros.

Alternative performance measures

Alternative performance measure	Method of calculation	Definition/Relevance
EBIT (Earnings before interest and taxes)	Calculated as the "Operating profit" plus "Changes in the value of property investments" and the "Profit/(loss) due to changes in the value of assets".	Indicates the Group's capacity to generate profits, only taking into consideration its economic activity, less the effect of debt and taxes.
EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)	Calculated as the "Operating profit" adjusted by "Depreciation/ Amortization" and "Net changes in provisions".	Indicates the Group's capacity to generate profits only taking into account its economic activity, eliminating allocations to depreciation/amortization, and the effect of debt and taxes.
Gross financial debt	Calculated as the total of all items under "Bank borrowings and other and other financial liabilities" and "Issues of debentures and similar securities", excluding "Interest (accrued), "Origination fees" and "Other financial liabilities" from the consolidated statement of financial position.	Relevant figure for analysing the financial situation.
EPRA[1] NAV (EPRA Net Asset Value)	Calculated based on the Company's capital and reserves, adjusting certain items in accordance with EPRA recommendations.	Standard analysis ratio in the real estate sector and recommended by EPRA.
EPRA[1] NNNAV (EPRA triple net asset value)	Calculated adjusting the following items in the EPRA NAV: the market value of financial instruments, the market value of financial debt, the taxes that would be accrued with the sale of the assets at their market value, applying the tax benefits for reinvestments and the tax credit recognized in the balance sheet, considering a going concern assumption.	Standard analysis ratio in the real estate sector recommended by EPRA.

(1) EPRA (European Public Real Estate Association) or European Association of listed property companies which recommend the standards of best practices to be followed in the real estate sector. The method of calculation of these APMs is carried out following the indications established by EPRA.

Alternative performance measure	Method of calculation	Definition/Relevance
Market value excluding transaction costs or Gross Asset Value (GAV) excluding Transfer costs	Measurement of the totality of the Group's asset portfolio carried out by independent appraisers of the Group, less transaction or transfer costs.	Standard analysis ratio in the real estate sector.
Market value including transaction costs or GAV including Transfer costs	Measurement of the totality of the Group's asset portfolio carried out by external appraisers of the Group, before deducting the transaction or transfer costs.	Standard analysis ratio in the real estate sector.
Like-for-Like rental income	Amount of the rental income included in the item "Revenues" comparable between two periods. To obtain the calculation, the income from investments or disposals carried out in both periods are excluded, as well as the income deriving from assets included in the projects and refurbishments portfolio and other atypical adjustments (for example, penalties for early termination of rental contracts).	It enables a homogeneous comparison of the evolution of rental income of an asset or group of assets.
Like-for-Like measurement	Market measurement (valuation) amount, excluding transaction costs, or market valuation, including transaction costs, comparable between two periods. To obtain the calculation, the rental income coming from investments or disposals carried out between both periods is excluded.	It enables a homogenous comparison of the evolution of the market valuation of the portfolio.
Loan to Value, Group or LTV Group	Calculated as the result of dividing the gross financial debt (reduced by the amount in the item "Cash and cash equivalents") by the market valuation including the transaction costs of the Group's asset portfolio.	It enables the analysis of the ratio between the net financial debt and the valuation of the Group's asset portfolio.

Alternative performance measure	Method of calculation	Definition/Relevance
LTV Holding or LTV Colonial	Calculated as the result of dividing the gross financial debt (less the amount in the item “Cash and cash equivalents”) by the market valuation total, including transaction costs, of the parent company’s asset portfolio and the EPRA NAV of all financial stakes in subsidiary companies.	It enables the analysis of the ratio between the net financial debt and the valuation of the parent company’s asset portfolio.

Editing and layout: www.cegeglobal.com
Maps: BC Maps

Contact details

Investor Relations
Tel. +34 93 404 7898
inversores@inmocolonial.com

Shareholders Office
Tel. +34 93 404 7910
accionistas@inmocolonial.com

Website
www.inmocolonial.com

Capital Market registry data
Stock market
Bloomberg: COL.SM
ISIN Code: ES0139140042
Indices: MSCI, EPRA (FTSE EPRA/NAREIT Developed Europe
and FTSE EPRA/NAREIT Developed Eurozone), IBEX35,
Global Property Index 250 (GPR 250 Index) & índice Ibex Medium Cap.

Colonial

Castellana Av. 52
28046 Madrid
Tel. +34 91 782 08 80

Diagonal Av. 532
08006 Barcelona
Tel. +34 93 404 79 00

inmocolonial.com