Colonial Annual Report 2016

Colonial

Annual Report
2016

Main Figures 2016

20%
Total Shareholder Return

+73%
EPS Growth[1]

€7.25/ share
EPRA NAV

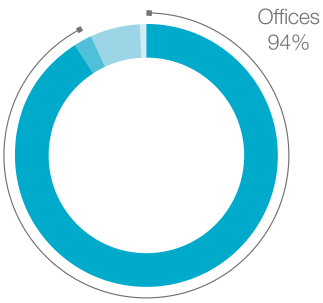
€2,845m
Market capitalization[2]

€8,069m
GAV Group

865,653 sq m
above ground

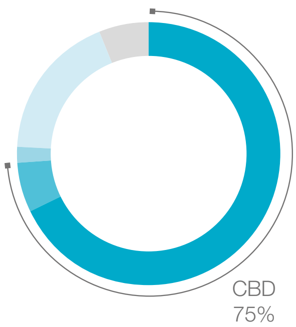
3%
EPRA Vacancy

+7%
GRI var EPRA like-for-like



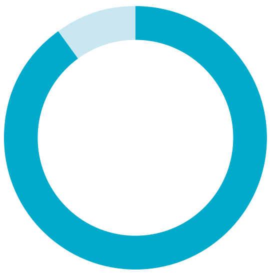
By use

- Offices
- Axiare
- Retail
- Others



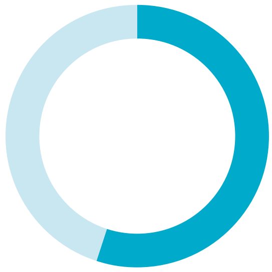
By area

- Prime CBD
- CBD
- Axiare
- BD
- Others



Energy efficiency

- 90% with energy certification



Valuation - by market

- 55% Spain
- 45% France

(1) Recurring EPS.
(2) On 9 May 2017.


Paris
20 assets
Barcelona
18 assets
Madrid
23 assets

EPRA Performance Measures

As at 31 December	2016		2015	
	€m	€ per share	€m	€ per share
EPRA Earnings	63	0.18	33	0.10
EPRA NAV	2,587	7.25	1,966	6.16
EPRA NNNAV	2,284	6.40	1,835	5.75

As at 31 December (%)	2016	2015
EPRA Net Initial Yield	3.1%	3.0%
EPRA "topped-up" Net Initial Yield	3.7%	3.8%
EPRA vacancy rate	3.3%	6.5%
EPRA Cost ratio (incl. vacancy costs)	18.6%	23.3%
EPRA Cost ratio (excl. vacancy costs)	16.9%	19.1%

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 Clavero and Pere Viñolas Serra

Colonial closed the year 2016 with very good results in all areas, yet again. What are the main aspects to highlight?

J.J. BRUGERA

The year 2016 was excellent for the Colonial Group and all of its shareholders.

Our rental revenues increased 17% (+7% like-for-like) to reach €271 million and we obtained occupancy levels of 97% in each of the markets in which we operate: Barcelona, Madrid and Paris.

If we compare these figures with the industry average and that of our main competitors, the Colonial Group is positioned as the indisputable leader in the offices sector. This leadership is based on our top quality prime portfolio together with our real estate know-how, accumulated over many years as a leading player in offices.

Currently we manage a prime offices portfolio of more than €8,000 million, an increase of +9% like-for-like compared to the previous year: +10% in Madrid, +8% in Barcelona and +9% in Paris. This increase in value is based on a real estate asset management that permits to maximize returns.

In November 2016, we carried out a bond issue for €600 million with 8 years maturity and a financial cost of 1.45%, a record low. This operation has enabled us to optimize our financial structure, reducing the average financing cost of the Group below 2% and extending the maturity term of our financing.

All of the above has enabled us to obtain a net profit of €274 million in 2016 and to pay a dividend of €48 million to our shareholders.

P. VIÑOLAS

In our Business Plan and, in particular for the year 2016, we set ourselves some challenging objectives and we are very satisfied, as we have exceeded on all metrics.

On an operational level we have signed 93 contracts corresponding to a total surface of more than 116,000 sq m with top quality clients, and more importantly, we have captured rental growth in each of our markets. We have buildings and projects in the most sought-after areas by the majority of companies. These prime products combined with high occupancy levels are key factors in us being able to negotiate high rents. In this respect, in the markets in which we operate, we represent the leading market indicator for growth in rental prices.

Within our acquisition programme, which we began over two years ago, we are fulfilling the established objectives. During the year 2016, under the framework of Project Alpha I we have made committed investments for €580 million. Likewise, in 2017 we began with the investment programme Alpha II, with a committed investment volume of almost €400 million.

All of these acquisitions comply with our requirements for financial discipline and target returns. All of the investments offer a substantial value creation potential based on: (1) real estate transformation of the assets to convert them into top quality prime offices and (2) the ability to identify market segments with solid fundamentals.

All of this progress has enabled us to increase the EPRA net asset value by 18% to reach €7.25/share.

In 2016, the Total Shareholder Return, understood as increase in NAV per share plus the dividend paid in July 2016, reached 20%, positioning it among the highest returns both in the listed sector in Spain as well as in Europe.

What is the outlook for the year in progress and the medium term?

J.J. BRUGERA

We have begun the year 2017 with excellent results which consolidate the positive trend of the operating business, as well as with an improvement in our credit rating by Standard & Poors to reach BBB with a stable outlook, one of the highest ratings in the Spanish real estate sector. In addition, the rating of SFL was changed from BBB with a stable outlook to BBB with a positive outlook.

We are backed by the capital markets, who understand our strategy well and favors more and more value creation through real estate workout.

We continue to be an active investor in the three cities in which we operate and we also analyse asset rotation of properties where we have already completed our work.

P. VIÑOLAS

We are focused on maximising the return for our shareholders, in particular in providing attractive risk-adjusted returns.

In this respect, we prioritise value added acquisitions, where we can obtain additional returns on top of the market cycle. Likewise, we believe we are well positioned in the three markets in Europe which feature amongst the most attractive in rental growth for the coming 24 months.

In addition, we currently have a project portfolio of more than 130,000 sq m which will enable us to create unique prime products with an attractive return.

Therefore, based on strong business pillars and strong positioning in attractive markets, we believe we can achieve interesting returns for our shareholders.

J.J. BRUGERA

We are committed to all of our stakeholders (shareholders, investors, clients, employees, lenders, suppliers and the society in general) and therefore we aspire to the highest standards in Corporate Social Responsibility.

We are the only Spanish company with an EPRA GOLD rating in sustainability reporting and 90% of our property portfolio has energy efficient certificates such as LEED or BREEAM.

The essence of our strategy consists in delivering an attractive return for all our shareholders underpimed by a growth strategy that prioritizes quality and long term sustainable results.

In this respect, we sincerely appreciate the trust placed in us by all of our shareholders who support our vision, management and results. With them, and thanks to them, every day we lay the foundations for the future.

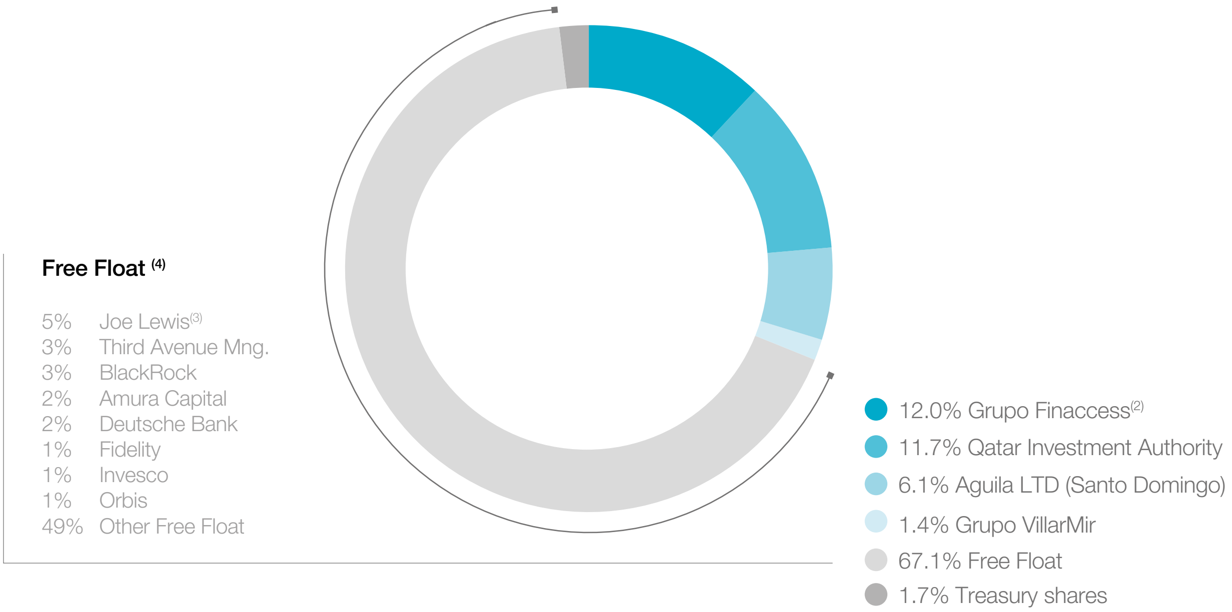
Shareholders structure and Corporate Governance


P
LIBRE

Company shareholder structure

Colonial's shareholder structure is as follows:

SHAREHOLDER STRUCTURE AT 10/02/2017[1]



(1) According to reports in the CNMV and notifications received by the company.
(2) Through Hofinac BV.
(3) Through Joseph Charles Lewis.
(4) Free float: shareholders with minority stakes and without representation on the Board of Directors.

Corporate Governance

Board of Directors

NAME	TITLE		COMMITTEE ROLE	
Juan José Brugera Clavero	Chairman	Colonial	Chairman	Executive Committee
Pere Viñolas Serra	Chief Executive Officer	Colonial	Member	Executive Committee
Juan Villar-Mir de Fuentes	Director	Villar Mir	Member	Audit and Control Committee
Sheikh Ali Jassim M. J. Al-Thani	Director	QIA	Member	Nominations and Remuneration Committee
Adnane Moussanif	Director	QIA	Member	Executive Committee
Juan Carlos García Cañizares	Director	Aguila LTD (Santo Domingo)	Member	Executive Committee, Nominations and Remuneration Committee
Carlos Fernández González	Director	finaccess	Member	Executive Committee
Ana Sainz de Vicuña	Independent Director		Chairman	Audit and Control Committee
Carlos Fernández-Lerga Garralda	Independent Director		Member	Executive Committee, Audit and Control Committee
			Chairman	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	Secretary - Non-Director		Secretary	Executive Committee, Nominations and Remuneration Committee, Audit and Control Committee
Nuria Oferil Coll	Vice-secretary - Non-Director		Vice-secretary	Executive Committee, Nominations and Remuneration Committee, Audit and Control Committee

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

Management Team

Juan José Brugera
Chairman

Carmina Ganyet
Corporate Managing Director

Pere Viñolas
Chief Executive Officer

Albert Alcober
Chief Operating Officer

Núria Oferil
Chief Legal Officer

Carlos Krohmer
Chief Corporate
Development Officer

Àngels Arderiu
Chief Financial Officer

Juan Manuel Ortega
Chief Investment Officer

Highlights
2016

Highlights 2016

2016 was an excellent year for the Colonial Group and its shareholders.

The company has increased its rental revenues by 17% vs. previous year and 7% in like-for-like terms, up to a total amount of €271m, with a 97% occupancy of its portfolio. The progress in rental income resulted in an increase of 24% in recurring EBITDA which, together with the improvement in financial costs, led to a net recurring profit of 83% up to €68m.

Colonial's Group Gross Asset Value amounted to €8,069m at the close of 2016, resulting in an increase of +9.4% like-for-like, mainly due to a combination of property repositionings and increases in occupancy that have led to improved yields and rental income.

The Net Asset Value at 31 December 2016 amounted to €7.25 per share, resulting in an annual increase of 20%, including the dividend paid in July 2016. This return is among the highest in the sector in Spain and Europe.

The attributable net profit including the impact of the variance in fair value of assets and financial liabilities as well as the tax impacts amounted to €274m.

In a rental market with clients demanding increasingly higher standards, the Colonial Group signed 93 transactions corresponding a rental contract volume of 116,045 sq m with an annualized income of €39m.

The Colonial Group has been able to attract top tier clients who demand unique locations signing prices in the high end of the market.

The excellent letting performance has enabled Colonial to achieve and maintain high levels of occupancy that clearly exceed those of the competitors in Spain, as well as in France, and significantly improve the negotiation position to obtain further rental price increases in the coming quarters.

In 2016, the Group invested more than €86m in development projects and asset repositioning.

In 2016, the Colonial Group successfully executed its acquisition program:

Acquisitions 2016 – Alpha I

In the framework of the Alpha-I Project, three prime assets were acquired in Madrid, one project in Barcelona, and a 5.5%[1] stake in SFL. In addition, in November 2016, a 15.1% stake was acquired in Axiare for €12.5/share resulting in a significant discount to NAV. The volume of this investment program amounts to €580m (including future capex of development projects).

Beginning of 2017 – Alpha II

Accelerating the fulfilment of growth objectives in the strategic plan, Colonial commenced 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).

All of the acquisitions in 2016, as well as the Alpha II project in 2017, offer a substantial upside potential of industrial value creation based on: (1) the real estate transformation of the buildings into top quality products and (2) the location in market segments with solid fundamentals. Moreover, the acquisitions were made under very attractive terms, which shows the capacity of the Colonial Group to identify and capture opportunities of real estate value creation.

During 2016 the Colonial Group carried out an active balance sheet management. In particular the Group carried out an issuance of senior unsecured notes for the nominal amount of €600m with a maturity of 8 years and an annual coupon of 1.45% and Colonial issued a private placement of €50m with a ten year maturity and an annual coupon of 1.875%. In parallel, Colonial launched a repurchase offer on its bonds maturing in 2019, which closed on 28 October with a final take up rate of 50%, successfully completing this process.

All these transactions have been very well received by the market and have allowed the Company to reduce the financial costs and improve the credit profile of the group.

In a year 2016 characterized by volatile capital markets, Colonial's shares were revaluated by 3%, outperforming the benchmark indices and its main peers in Spain.

In September 2016, Colonial was rated for its excellence and transparency in the communication of capital market information with the "EPRA Gold Award – Financial Reporting" and the "EPRA Gold Award – Sustainability Reporting", being the only listed Spanish company with the highest rating in both categories.

(1) 4.4% acquired in June 2016 and 1.1% in August 2016, in the equal terms as the June acquisition.

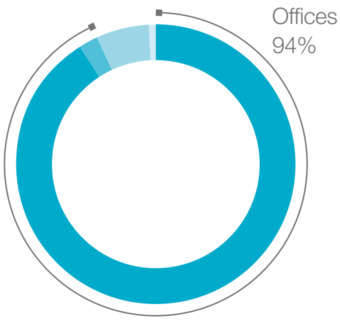
Return - € per share	2016	YoY Var
Total shareholder return 2016		+20%
EPRA NAV per share	7.25	+18%
EPS Recurring[2]	0.20	+73%
FFO per share[2, 3]	0.22	+61%
DPS	0.165[1]	+10%

Profit & Loss - €m	2016	YoY Var
Gross Rental Income	€271m	+7% LFL
EBITDA Recurring	€220m	+10% LFL
Recurring Net Profit	€68m	+83%
Net Profit	€274m	na

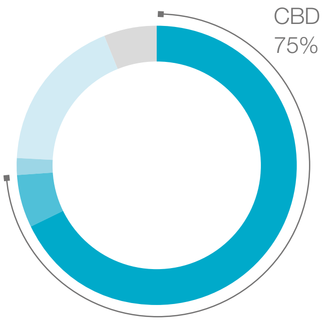
Balance Sheet - €m	2016	YoY Var
GAV	€8,069m	+9% LFL
Group LTV	41.4%	(4pp)
Maturity Group	5 years	0.2 years
Cost of Debt	1.96%	(31bp)

(1) Dividend 2016 subject to AGM approval.
(2) Recurring EPS & FFO per share based on average NOSH.
(3) Recurring FFO: Recurring Net Profit excluding amortisations and accrual of share remunerations.

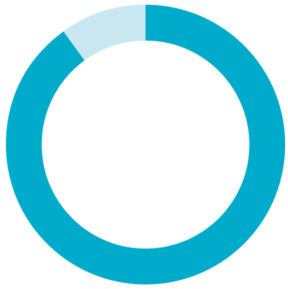
BUSINESS MIX – GAV GROUP



- Offices
- Axiare
- Retail
- Others



- Prime CBD
- CBD
- Axiare
- BD
- Others



- 90% BREEAM / LEED[1]

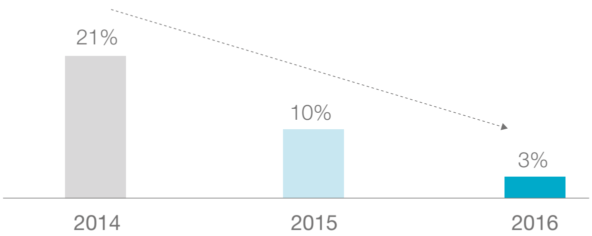
Rating Standard & Poors
BBB Stable Outlook[2]

Operational performance	**2016**
# Transactions signed	93
Volume of sq m signed	116,045
Financial Occupancy	97%
Rental prices signed vs ERV 12/15 - Barcelona	+6%
Rental prices signed vs ERV 12/15 - Madrid	+9%
Rental prices signed vs ERV 12/15 - Paris	+3%
Capex on portfolio	€86m
Alpha I – Project[3, 4]	€580m

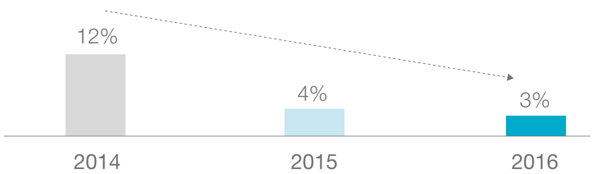
(1) Portfolio in operation.
(2) On 19 April 2017.
(3) Total expected investment amount: acquisition price + capex of future development projects.
(4) Includes acquisition of 15.1% stake in Axiare.

EPRA VACANCY

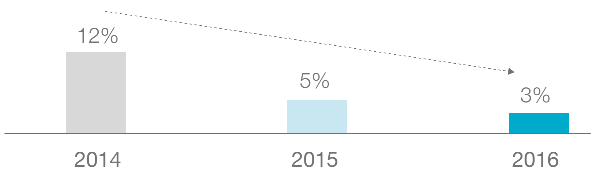
Barcelona



Madrid

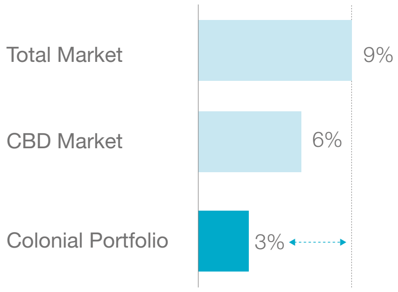


Paris

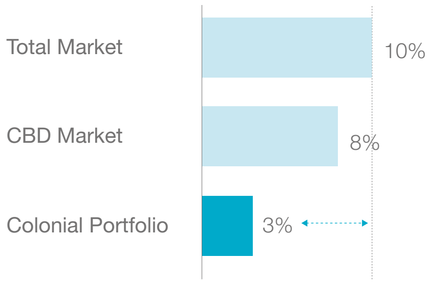


VACANCY COLONIAL VS. MARKET

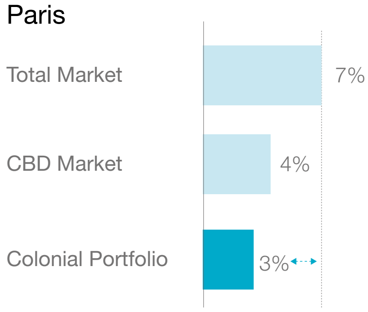
Barcelona

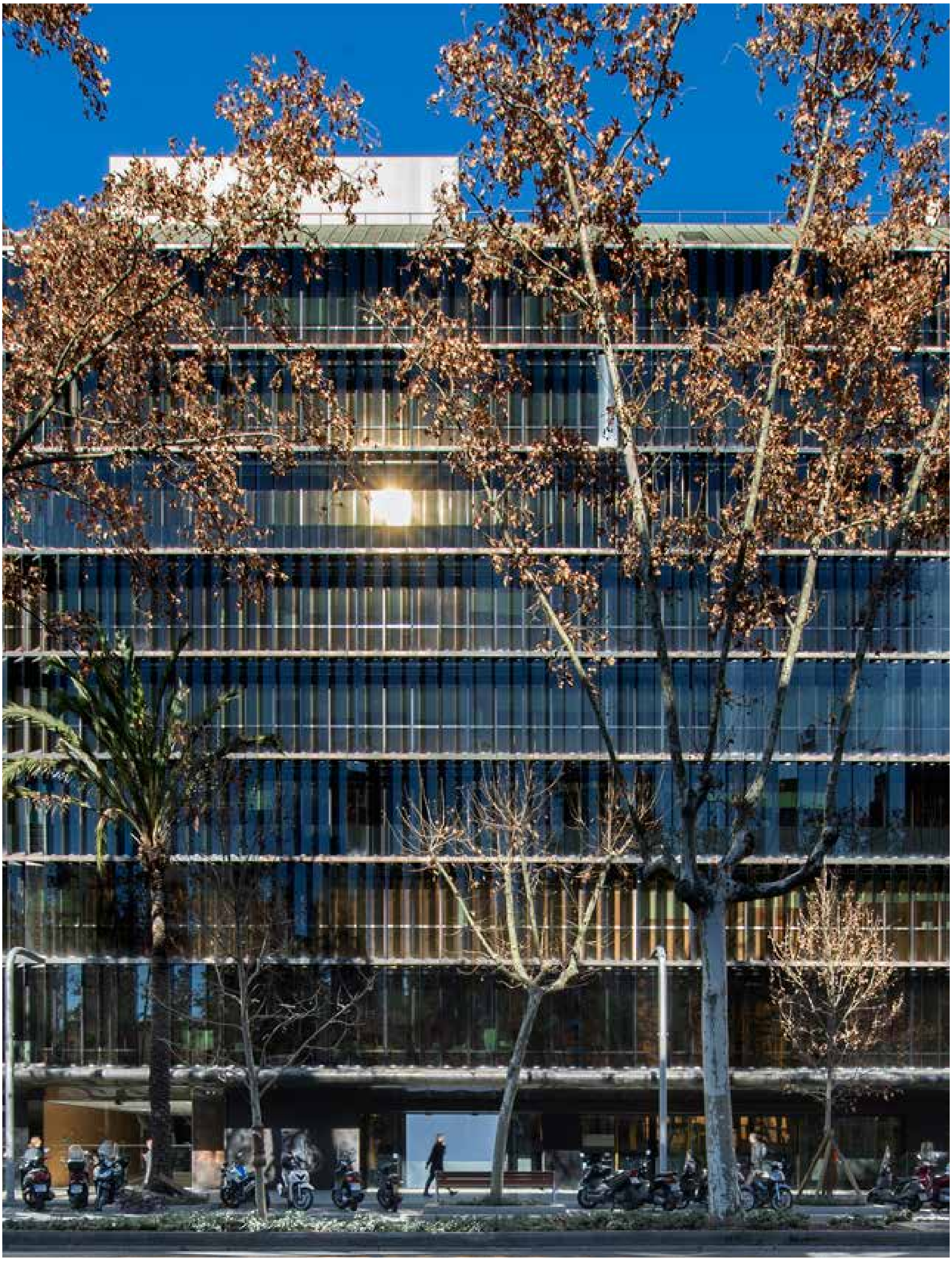


Madrid



Paris





Business performance

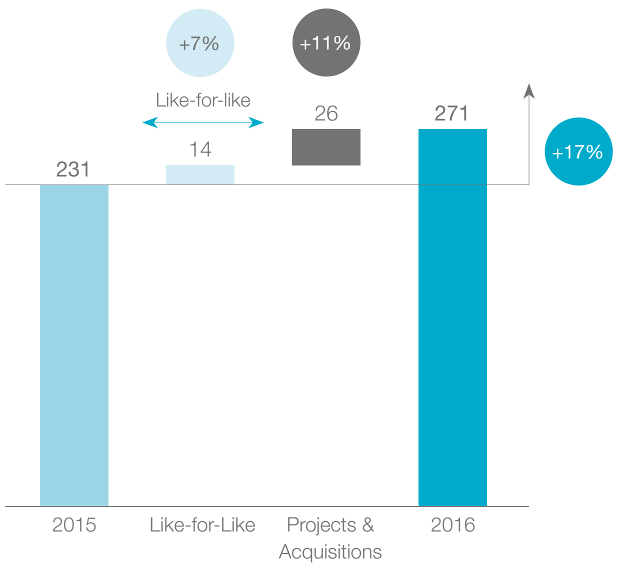
Rental revenues and EBITDA of the portfolio

Rental revenues reached **€271m, 17% 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 increased by 7% like-for-like**.

In **Paris, the rental revenues rose by 7% like-for-like**. In **Spain, the rental revenues increased by 6% like-for-like**, 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. Rental revenues in the **Madrid** portfolio went up **3% like-for-like**.

The like-for-like increase in rental revenues mainly corresponds to the contracts signed on the Alfonso XII, José Abascal 56 and Castellana 52 properties in Madrid, Travessera-Amigó, Diagonal 609-615 and Sant Cugat in Barcelona, and the In&Out, Washington Plaza, Louvre Saint Honoré and Condorcet properties in Paris.

GROSS RENTAL INCOME - €M



PROJECTS & ACQUISITIONS

	Like-for-like	Projects & Acquisitions(1)	TOTAL
BARCELONA	+10%	+2%	+12%
MADRID	+3%	+18%	+22%
PARIS	+7%	+10%	+17%
TOTAL	+7%	+11%	+17%

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

Of special mention are two additional sources of growth in gross rental income:

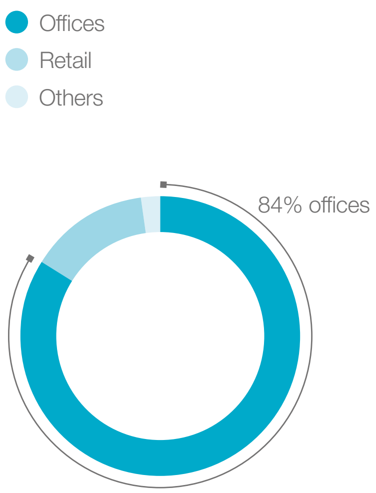
1. The successful delivery of projects has resulted in a growth of 6% (+€14m) out of the total rental revenues, mainly due to the #Cloud property located in the Paris market.
2. The new acquisitions have resulted in a growth of €8m in rental revenues.

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%).

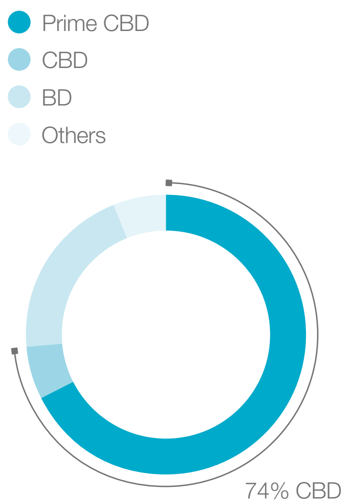
In consolidated terms, 73% of the rental revenues (€198m) came from the subsidiary in Paris and 27% were generated by properties in Spain. In attributable terms, 59% of the rents were generated in France and the rest in Spain.

CONSOLIDATED GROUP

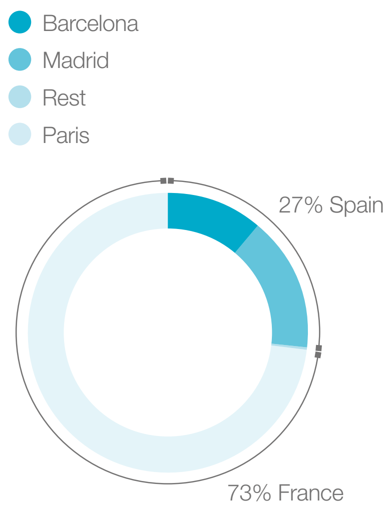
Revenues - by use



Revenues - by area

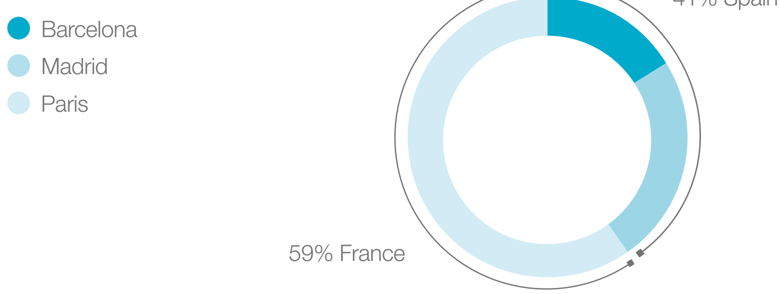


Revenues - by market



ATTRIBUTABLE

Revenues - by market



Net rental income reached €253m, a 10% increase in like-for-like terms, with an EBITDA margin of 93%.

PROPERTY PORTFOLIO - December cumulative - €m	**2016**	**2015**	**Var. %**	**Like-for-like**	
				€m	**%**
Rental revenues - Barcelona	30	27	12%	3	10%
Rental revenues - Madrid	43	35	22%	1	3%
Rental revenues - Paris	198	169	17%	11	7%
Rental revenues	**271**	**231**	**17%**	**14**	**7%**
Net Rental income Barcelona	28	23	21%	3	14%
Net Rental income Madrid	38	31	21%	0	5%
Net Rental income Paris	188	155	21%	15	11%
Net Rental income	**253**	**209**	**21%**	**19**	**10%**
Net Rental income/Rental revenues - Barcelona	*92%*	*85%*	*6.9 pp*		
Net Rental income/Rental revenues - Madrid	*88%*	*88%*	*(0.4 pp)*		
Net Rental income/Rental revenues - Paris	*95%*	*92%*	*3.1 pp*		
Net Rental income/Rental revenues	***93%***	***90%***	***3.0 pp***		

Pp: percentatge points.

Portfolio letting performance

Signed contracts

During 2016, the Group signed contracts for a **total of 116,045 sq m**. Out of the total contracts, 71% (82,043 sq m) were signed in Barcelona and Madrid, and the rest (34,002 sq m) were signed in Paris.

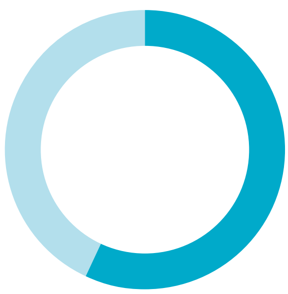
New lettings: Out of the total commercial effort, 57% (66,353 sq m) related to new contracts, highlighting almost 40,000 sq m signed in Barcelona and Madrid.

Renewals: Contract renewals were carried out for 49,692 sq m, highlighting 34,000 sq m refurbished in Barcelona.

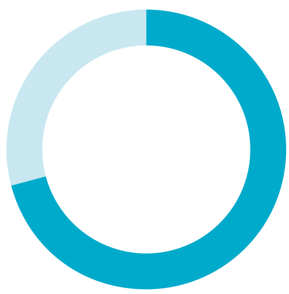
New rents are slightly below vs previous rents due to the renewal of the Gas Natural contract. Excluding this contract, new rents were 2% above than previous rents, in particular new rents were in Barcelona up +9% and in Madrid up 5%.

			% New rents vs. previous	
LETTING PERFORMANCE - December cumulative - sq m	**2016**	**Average maturity**	**Total**	**Exc. Torre Marenostrum**
Renewals & revisions - Barcelona	34,276	3	(8%)	9%
Renewals & revisions - Madrid	7,430	2	5%	5%
Renewals & revisions - Paris	7,986	8	(2%)	(2%)
Total renewals & revisions	**49,692**	**3**	**(4%)**	**2%**
New lettings - Barcelona	27,814	4		
New lettings - Madrid	12,523	4		
New lettings - Paris	26,016	8		
New lettings	**66,353**	**6**	**na**	**na**
Total commercial effort	**116,045**	**5**	**na**	**na**

57% new lettings
43% renewals & revisions



71% Spain
29% France



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

MAIN ACTIONS

BARCELONA

Building	Tenants	Surface (sq m)
Torre Marenostrum	Gas Natural	22,394
Sant Cugat	Schibsted Iberica, Business Service for Information, Accenture, Banc Sabadell, Europastry & IPB	11,884
Parc Glories	International Media Group	9,338
Diagonal, 609-615 (Dau/Prisma)	Grant Thornton, Caixabank & others	4,883
Berlín, 38-48 / Numancia, 46	Multinational consulting firm & Schibsted Ibérica	3,517
Diagonal, 682	International Media Group & others	2,399
Travessera, 11	Multinational consulting firm & others	1,620
Illacuna	Altran Innovación & others	1,374

MADRID

Building	Tenants	Surface (sq m)
Recoletos, 37-41	Pharmaceutical company & Thomson Reuters	4,603
Serrano, 73	Allen & Overy	4,242
Agustín de Foxá, 29	Agencia madrileña Atención Social Comunidad de Madrid, Medical investigation company, Rosendo Mila & others	3,810
Francisco Silvela, 42	Teleassistance services, LVMH Relojería y Joyería España & others	2,857
Alfonso XII	Groupon & others	1,388

PARIS

Building	Tenants	Surface (sq m)
Washington Plaza	Lagardère Ressources, Indeed France & others	9,404
Louvre Saint Honoré	Financial institution	6,364
103 Grenelle	Molotov, Portfolio Management & others	4,334
Cezanne Saint-Honoré	Quartus Group & others	3,115
#Cloud	Cosmetics & Fragance Group	2,990
9 Percier	ARP Astrance, T.Mark Conseils & others	2,060

In Spain, in 2016, more than 82,000 sq m were signed, corresponding to 60 contracts. In particular, more than 62,000 sq m were signed in **Barcelona**, particularly the renewal of more than 22,000 sq m by Gas Natural on the Torre Marenostrum building, as well as the signing of more than 11,000 sq m on the Sant Cugat building, among others. Of special mention is the pre-let of more than 9,000 sq m on the Parc Glories office project by Schibsted Iberica. The contract will come into effect in 2018 when the project is expected to enter into operation.

In **Madrid**, of particular mention is the new contract of more than 4,000 sq m on the Serrano 73 building with Allen & Overy, as well as the signing of various contracts on the Agustín de Foxá 29 property and Francisco Silvela 42, among others. In addition, it is worth highlighting the refurbishment of more than 4,500 sq m on the Recoletos 37-41 building.

In **Paris**, more than 26,000 sq m of new contracts were signed. It is particularly important to highlight the signing of almost 6,000 sq m on the Louvre Saint Honoré building with Proparco, as well as more than 4,000 sq m on the Grenelle 103 building with various companies. It is also worth mentioning the signing of almost 3,000 sq m on the #Cloud building with a cosmetics and fragrance company, reaching 100% occupancy. This transaction is another example of Colonial's ability to design and develop top quality offices for leading companies in a wide range of sectors. Additionally, more than 6,000 sq m were refurbished and more than 3,000 sq m were signed on the Washington Plaza building.

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

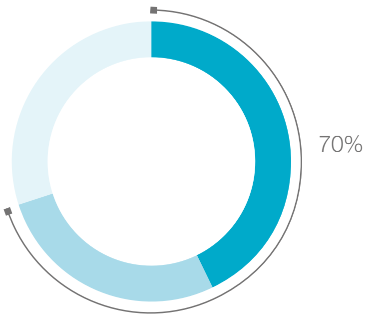
Analysis of the tenant portfolio

The capacity of the Colonial Group to retain clients is reflected in the length of time the tenants stay, as 70% of the main tenants have been clients of the Group for more than 5 years.

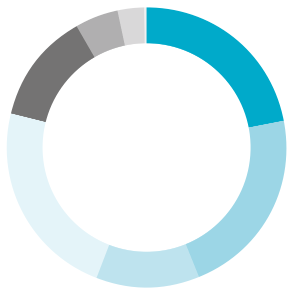
It is important to point out that Colonial has a solvent and diversified client base.

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

TOP TENANTS - BREAKDOWN BY ECONOMIC SECTOR[1]



- 43% > 10 years
- 27% between 5 and 10 years
- 30% < 5 years



- 22% professional services
- 22% financial / insurance
- 12% telecoms / information technology
- 23% consumer goods & industry
- 13% government bodies
- 5% media and communication
- 3% leisure / restoration
- 0,1% others

(1) Calculated based on the entire portfolio.

Portfolio occupancy

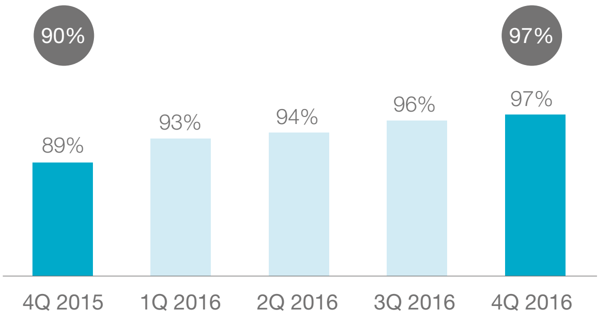
At the close of 2016, the Colonial Group's financial[1] occupancy for the office portfolio reached 97%, up 319 bps compared to the previous year. **The total financial occupancy[1] for the portfolio including all uses also reached 97%** (up 272 bps vs the close of 2015).

FINANCIAL OCCUPANCY[1]

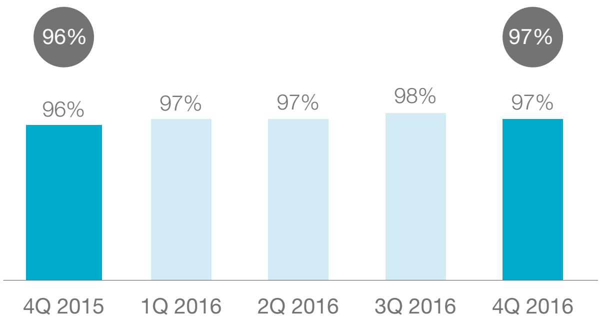
Office & Total Occupancy – Evolution of Colonial's Portfolio

Office Occupancy
Total Occupancy

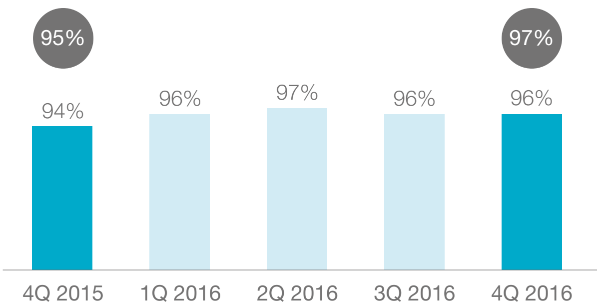
Barcelona



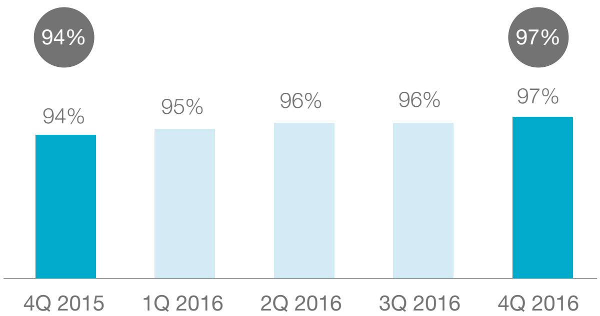
Madrid



Paris



Total



(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 +745 bps compared to the previous year, reaching a ratio of 97%. This increase is mainly due to the contracts signed on the Travessera de Gràcia / Amigó, Avinguda Diagonal 609-615, Sant Cugat, and Berlín Numància buildings, among others.

In **Madrid**, the financial occupancy[(1)] of the office portfolio was 97%, 192 bps above the same period of the previous year. This increase is mainly due to new leases on the Agustín de Foxá 29 and Jose Abascal 45 buildings, among others, as well as the acquisition of Santa Hortensia building, 100% let.

In **Paris**, the financial occupancy[(1)] of the office portfolio increased by 269 bps compared to the same period of the previous year, reaching a ratio of 96%, mainly due to the new lettings on the #Cloud building.

Currently, Colonial has more than 21,000 sq m of available GLA which corresponds to 3% of EPRA vacancy over the total portfolio.

EPRA
EUROPEAN PUBLIC REAL ESTATE ASSOCIATION

VACANCY SURFACE OF OFFICES

Surface above ground (sq m)	Entries into operation [(2)]	BD area and others	CBD area	2016	EPRA vacancy Offices
Barcelona	1,555	2,877	1,222	5,654	**3%**
Madrid	0	2,647	3,219	5,866	**3%**
Paris	0	2,972	6,646	9,618	**4%**
Total	**1,555**	**8,496**	**11,087**	**21,138**	**3%**

(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

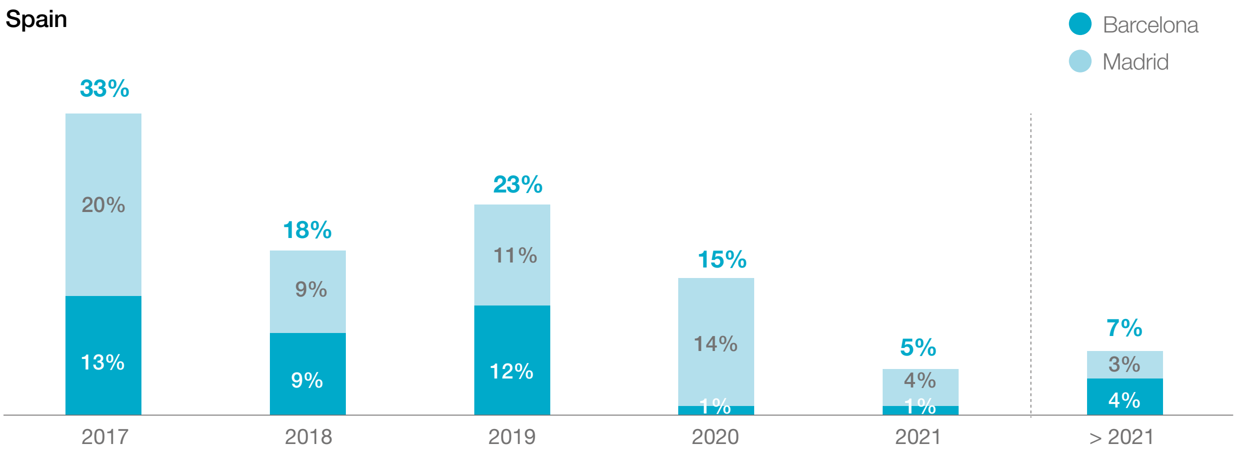
The following graphs show the contractual rent roll for the coming years in the portfolios in Spain and France.

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).

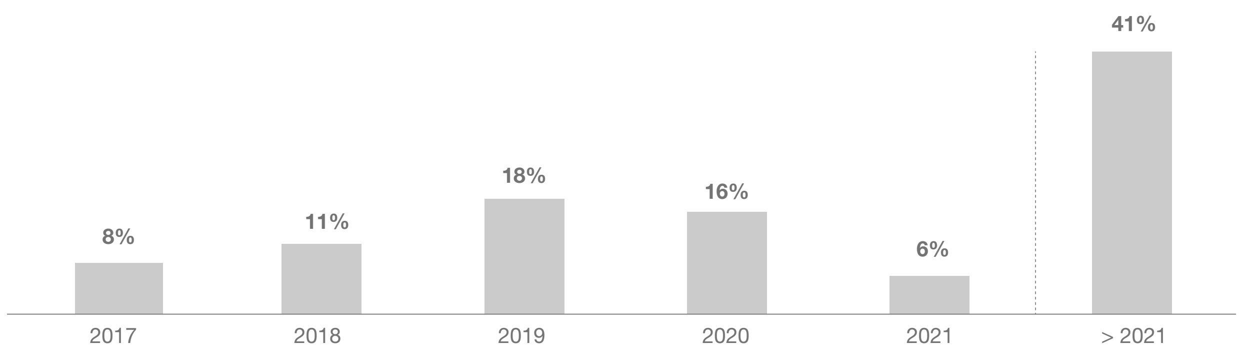
COMMERCIAL LEASE EXPIRY DATES IN ECONOMIC TERMS[1] - FIRST POTENTIAL EXIT[2]

(% passing rent of surfaces to be leased)

Spain



France



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

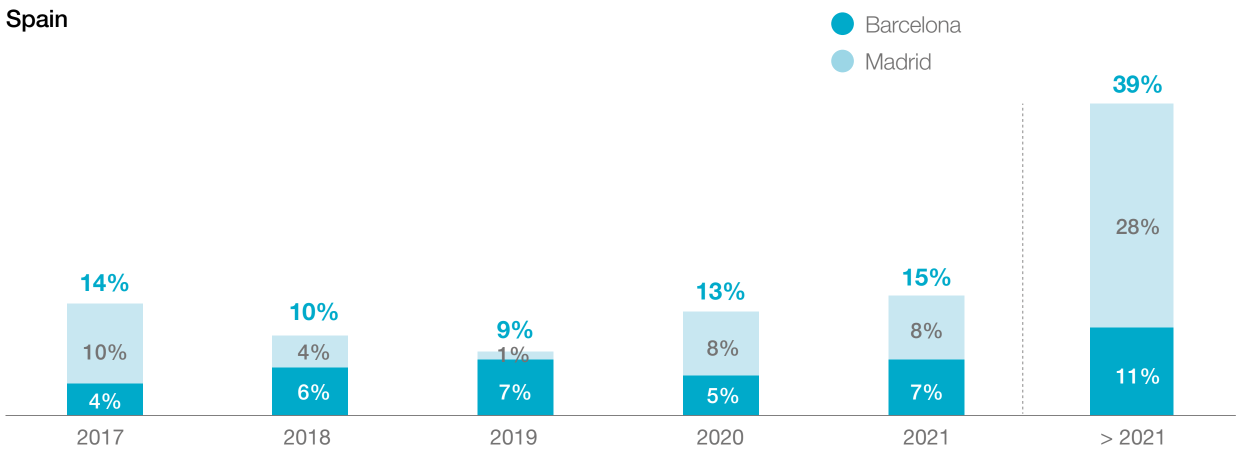
In this context, in the Spanish portfolio, approximately 33% of contracts could be renewed in the next year, which would enable the company to capture the rental growth cycle with one of the best products available in the market.

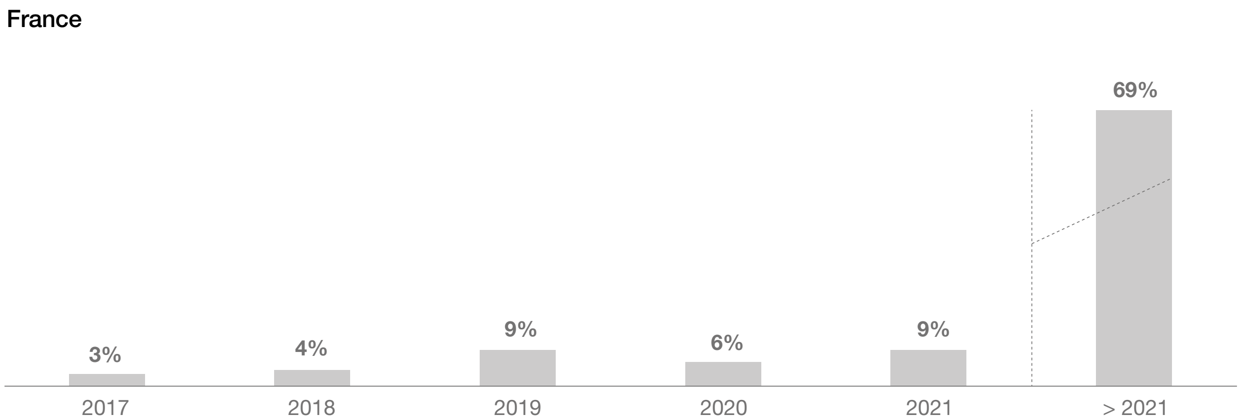
In France, the contract structure is longer term, in line with the behaviour of the players in that market.

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(1) - EXPIRY DATE(2)

(% 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.

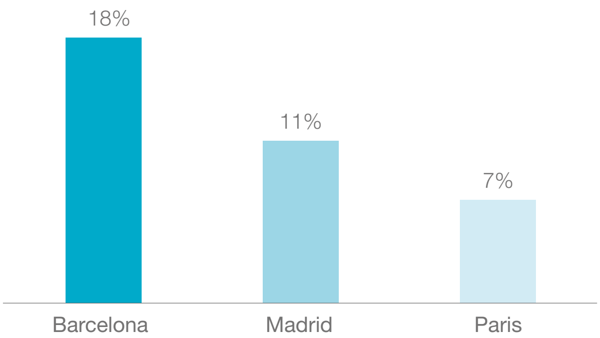
This reversionary potential is the result of comparing the rental revenues of the current contracts (contracts with current occupancy and current rents) with the rental revenues that would result from letting the total surface at the market prices estimated by independent appraisers at December 2016 (not including the potential rents from the substantial projects and refurbishments underway).

At the close of 2016, 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) saw increases of 18% in Barcelona, 11% in Madrid and 7% in Paris.

Specifically, the static reversionary potential[1] in the current portfolio would result in approximately €26m in additional annual rental revenues.

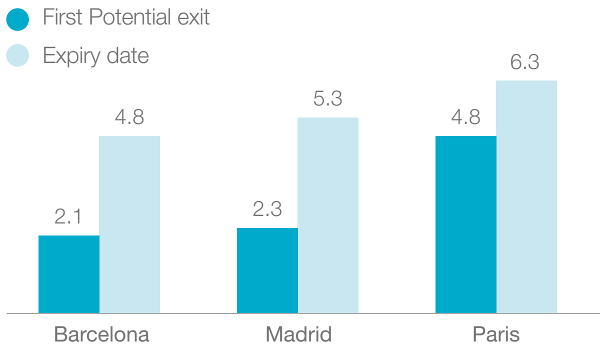
FIGURES AT DECEMBER 2016

Reversionary potential-rental income[2]



Current Rent[3]

Average maturity of the contracts (years)



Reversionary potential-rental income

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

Acquisitions and Project portfolio

New acquisitions

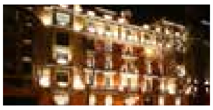
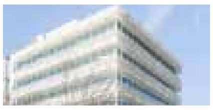
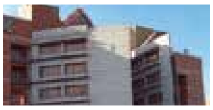
Acquisitions 2016 – Alpha I

In 2016, the Colonial Group successfully executed its acquisition program. In the framework of the Alpha I project, three prime assets were acquired in Madrid, one project in Barcelona, and a 5.5%[1] stake in SFL.

In addition, in November 2016, Colonial acquired a 15.1% share in Axiare at a price of €12.5 per share, which represented an important discount to NAV.

The volume of this investment program amounts to €580m (including the future capex of development projects) and fits perfectly with the objectives set, regarding asset type, location as well as value creation potential and therefore return expectations.

ALPHA-I PROJECT

BARCELONA	**Prime Factory**		1	Parc Glories Project Barcelona 22@ Area	GLA: 24,551 sq m	Price: €77m[2] Cash
MADRID	**Core + Value added**		2	José Abascal Madrid Prime CBD	GLA: 5,326 sq m	Price: €35m Cash
	Core + Value added		3	Serrano 73 Madrid Prime CBD	GLA: 4,242 sq m	Price: €48m New Col. shares
	Core + Value added		4	Corporate HQ - Sta. Hortensia 26-28 Madrid BD	GLA: 46,928 sq m	Price: €154m New Col. shares
PARIS	**Core + Value added**		5	5,5%[1] stake in SFL Paris		Price: €130m New Col. shares + Cash
MADRID	**Value added**	axiare PATRIMONIO	6	15.1% stake in Axiare Madrid		Price: €136m

(1) 4.4% acquired in June 2016 and 1.1% in August 2016, under the same conditions as the June purchase.
(2) Including capex of the full development project.

Beginning of 2017 – Alpha II

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 a total investment volume of almost €400m (total investment volume including future capex of development projects).

Specifically, three development projects were acquired, one in each of the markets in which the Colonial Group is present: Barcelona, Madrid and Paris. In addition, Colonial purchased the headquarters of the Spanish Group Bertelsmann, located in the CBD in Barcelona.

ALPHA-II PROJECT

MADRID	**Core + Value added**		1	Paseo de la Castellana, 163 Madrid Prime CBD	GLA: 10,910 sq m	Total Investmen[1]: €51m
BARCELONA	**Core**		2	Travessera de Gràcia, 47-49 Barcelona Prime CBD	GLA: 8,939 sq m	Total Investmen[1]: €41m
	Value added		3	Plaza Europa, 46-48 Barcelona Barcelona BD	GLA: 14,000 sq m	Total Investmen[1]: €32m
PARIS	**Value added**		4	112-122 Av. Emile Zola Paris South Center	GLA: 20,340 sq m	Total Investmenl[1]: €245m - €265m

(1) Acquisition price and total project capex.

The purchase of the Paseo de la Castellana, 163 and Travessera de Gràcia, 47-49 buildings was formalized at the end of December 2016.

The main characteristics of these assets are as follows:

1. **Paseo de la Castellana, 163:** An office building located in Madrid's CBD with a surface area above ground of more than 10,000 sq m, divided among 11 floors of office space and a ground floor allocated for commercial premises. Additionally, there are 2 basement floors. The building also has an access from Capitán Haya 50. Currently, the building is 98% let by prestigious companies, generating income from day one. The investment amounts to €51m (including the budget for future works).

2. **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, 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. This purchase implies an increase in Colonial's market share in the prime area of Barcelona with a

building of unique characteristics. The investment amounts to €41m.

3. **Plaza Europa, 46-48:** Colonial is strengthening 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 14,000 sq m 21-storey building. The asset was acquired through an off-market transaction, and the total investment amounts to €32 million. 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.

4. **112-122 Avenue Emile Zola:** The Colonial Group has 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 the 15 district 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 will restructure the building to transform it into one of the largest office complexes in the South of the French capital.

All the 2016 acquisitions, as well as the Alpha II project in 2017, offer a substantial potential of industrial value creation based on: (1) the real estate transformation of the buildings into top quality products and (2) the location in market segments with solid fundamentals.

All the acquisitions were made under very attractive terms, which show the capacity of the Colonial Group to identify and capture opportunities of real estate value creation.

Disposals: During 2016, the Ausias March 148 building in Barcelona was sold for €15m. The sale was carried out with an 11% premium on the June 2016 appraisal value.

Projects delivered

Projects delivered in 2016

In 2016, more than €86m were invested, mainly in France, in projects and Prime Factory refurbishments to optimize the positioning of the property portfolio.

In France, it is worth highlighting the reorganization of the common areas in the office complex Cézanne Saint Honoré and the refurbishment of various floors in Percier. In Spain, various actions have been carried out, for example the reorganization of the common areas and floors in the Berlín 38-48/Numància 46 and Via Augusta 21-23 buildings in Barcelona. In the Madrid portfolio, common areas and office floors have been refurbished in the Castellana 52, José Abascal 45 and Miguel Ángel 11 assets, and the José Abascal 56 carpark has been repositioned. In addition, it's important to mention the transformation project underway on the Santa Engracia building, which has enabled the obtention of 234 sq m of additional gross lettable area to date.

Cézanne Saint Honoré

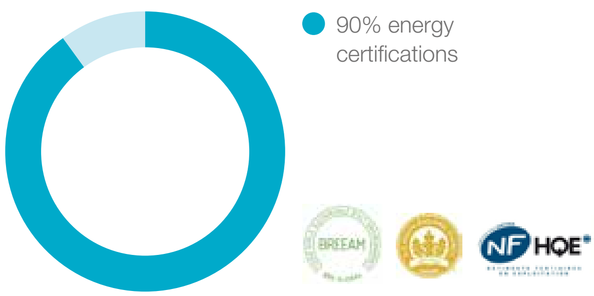
Berlín Numància

Castellana, 52

In relation to the energy certificates, it is worth mentioning that during these last months, Leed Gold and BREEAM Very Good certificates have been obtained on a series of buildings in Barcelona and Madrid. In particular, of special mention, is the BREEAM Very Good certificate obtained on the Sant Cugat, Diagonal Glories and Illacuna buildings in Barcelona and the Martinez Villergas and Recoletos buildings in Madrid. Additionally, the building in Paseo de los Tilos in Barcelona obtained the LEED Gold certificate in April 2016. In Paris, of special mention is the upgrade in the BREEAM rating from Very Good to Excellent for the Iena, Charles de Gaulle and In&Out assets.

Currently the 90% of the buildings have top quality energy certificates. This fact gives the Colonial Group a competitive advantage in attracting top tier demand and maximising the value creation of the portfolio.

% BUILDINGS WITH ENERGY CERTIFICATION[1]



(1) Buildings in operation with energy certificates.

Project portfolio

As of the close of 2016, Colonial owns a portfolio of development and refurbishments projects of more than 104,000 sq m above ground, with significant potential for value creation. Including the projects acquired under the scope of Alpha II, the entire portfolio of projects and refurbishments amounts to 139,249 sq m year to date.

Current ongoing projects correspond to the Estebanez Calderon and Principe de Vergara assets, acquired in 2015, and the Parc Glories project in the 22@ district in Barcelona, acquired during this year. It is also worth highlighting the Louvre Saint Honoré project, the creation of a prime space in the centre of Paris in front of the Louvre. Unique Prime Factory development projects will be carried out on all of this assets, with very attractive returns.

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]
Estébanez Calderón, 3-5	2H 2017	100%	–	Madrid	Offices	10,152
Príncipe de Vergara, 112	2018	100%	–	Madrid	Offices	11,368
Parc Glòries	2018	100%	38%	Barcelona	Offices	24,551
Louvre Saint Honoré	2021	100%	–	Paris	Retail	16,000
Plaza Europa, 46-48 (acquired in 2017)	>2020	50%	–	Barcelona	Offices	14,000
112-122 Avenue Emile Zola (acquired in 2017)	>2020	100%	–	Paris	Offices	20,340[3]
Projects in development						**96,411**
Yield on cost [2]						**7%**
Castellana, 43	2017	100%	–			5,998
Serrano, 73	2017	100%	100%			4,242
Cezanne Saint-Honoré	2017	100%	–			5,465
Washington Plaza	2017	66%	–			3,775
Rest			na			**8,621**
Surface in refurbishment						**28,101**
Parc Central 22@	na	100%	na			14,737
Solar Parc Central 22@						**14,737**
TOTAL PROJECTS & REFURBISHMENTS						**139,249**

(1) Surface area of completed project.
(2) Yield on cost: market rent 100% rented/market value at start of project net of impairment in value + capex.
(3) Current surface. The project targets a GLA increase of 10%-15% of additional surface.

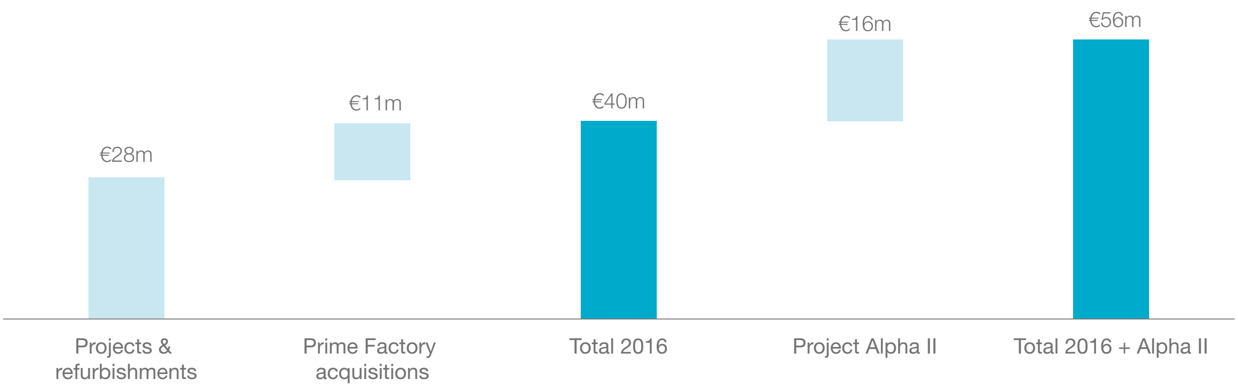
In addition to these development projects in development, the Colonial Group is currently carrying out substantial refurbishments on more than 28,000 sq m above ground, with the aim of optimizing the positioning of these assets in the market. These include refurbishments on the Castellana 43, Serrano 73, Cézanne Saint-Honoré & Washington Plaza 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.

At 31 December 2016, more than 9,000 sq m have been pre-let on the Parc Glòries asset to Schibsted Iberica and the entire Serrano, 73 building (4.242 sq m) to Allen & Overy.

In 2017, after the execution of the Project Alpha II, the assets acquired in Plaza Europa, 46-48 in Barcelona and 112-122 Avenue Emile Zola will be included in the project portfolio, in Paris. In addition, during the next years, 10,900 sq m will be refurbished in Paseo de la Castellana, 163 in Madrid.

The project portfolio, as well as the new acquisitions, will result in additional rental revenues of approximately €56m annually.

ADDITIONAL RENTAL INCOME OF PROJECTS AND SIGNIFICANT REFURBISHMENTS - €M



Financial and economic situation

Analysis of the Consolidated Profit and Loss Account

ANALYSIS OF THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

December cumulative - €m	2016	2015	Var.	Var. %(1)
Rental revenues	271	231	40	17%
Net operating expenses(2)	(18)	(23)	4	19%
Net Rental Income	253	209	44	21%
Other income	3	2	0	19%
Overheads	(36)	(33)	(3)	(9%)
EBITDA recurring business	**220**	**178**	**42**	**24%**
EBITDA - asset sales	**(0)**	**0**	**(0)**	**–**
Exceptional items	**(1)**	**(4)**	**(5)**	**60%**
Operating profit before revaluation, amortizations and provisions and interests	**219**	**175**	**44**	**25%**
Change in fair value of assets	561	720	(159)	(22%)
Amortizations & provisions	(10)	(7)	(3)	(34%)
Financial results	(105)	(131)	26	20%
Profit before taxes & minorities	**664**	**756**	**(92)**	**(12%)**
Income tax	(105)	(53)	(52)	(99%)
Minority Interests	(286)	(288)	2	1%
Profit attributable to the Group	**274**	**415**	**(142)**	**(34%)**

(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 rose to €271m at the close of 2016, 17% higher than the same period of the previous year.

This increase is mainly due to a 7% like-for-like growth in rental income, as well as an increase of 11% due to the successful delivery of Prime Factory projects and new acquisitions carried out.

The recurring EBITDA of the Group reached €220m, 24% higher than the same period of the previous year.

As a consequence, the operating profit before the net revaluations, amortizations, provisions and interests was €219m at the close of the year, 25% higher than the amount reached in the same period of the previous year.

The impact on the profit and loss account due to the change in fair value of property investments at 31 December 2016 reached €561m. This revaluations, which was registered in France as well as in Spain, is the result of a +9% increase like-for-like in the appraisal values of the assets in 12 months.

The net financial results amounted to €(105)m, 20% lower than the same period of the previous year.

The recurring financial results of the Group amounted to €(80)m, 4% lower than the same period of the previous year.

This saving is mainly due to the impact in 2015 generated by the cancellation of Colonial's old syndicate

Results analysis - €m	2016	2015	Var.	Var. % (1)
Rental revenues	271	231	40	17%
Net operating expenses(2) & other income	(15)	(20)	5	23%
Overheads	(36)	(33)	(3)	(9%)
Recurring EBITDA	220	178	42	24%
Recurring financial result	(80)	(83)	3	4%
Income tax expense & others - recurring result	(12)	(12)	0	1%
Minority interest - recurring result	(61)	(46)	(15)	(32%)
Recurring net profit - post company-specific adjustments (3)	**68**	**37**	**31**	**83%**
EPRA Earnings - pre company-specific adjustments(4)	**63**	**33**	**30**	**91%**
Profit attributable to the Group	**274**	**415**	**(142)**	**(34%)**

(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.

loan, as well as the liability management operations carried out in Spain and France in the last 18 months.

The result before taxes and minority interests at the close of 2016 amounted to €664m, 12% lower than that reached during the same period of the previous year, mainly as a result of the 22% decrease in the impact on the Profit and Loss Account due to net revaluations of real estate investments.

Corporate tax amounted to €(105)m and was mainly due to the registering of deferred taxes associated with the asset revaluation in 2016, as well as the impact of €(70)m derived from the regulation changes introduced by the Spanish tax authorities, limiting the percentage of use of losses carried forward as tax shield from 70% to 25%. This has led to the regularization of tax liabilities registered previous to aforementioned regulation change. It is important to point out that this impact does not imply a cash outflow.

Finally, and once the results attributable to the minorities of €(286)m were deducted, the results after taxes attributable to the Group amounted to €274m.

Financial structure

Main debt figures

GROUP COLONIAL	12/2016	Var. *vs* 12/2015
Gross financial debt	3,633	13%
Net financial debt	3,528	18%
Undrawn balances	873	(21%)
% debt fixed or hedged	82%	(12%)
Average maturity of the debt (years)	5.0	0.2
Cost of current debt	1.96%	(31 p.b.)
LtV Group (including transfer costs)	41.4%	(4 p.p.)

Colonial took advantage of the exceptional market situation in the last quarter of the year (due to the high levels of liquidity, as well as to interest rates at historic lows) to carry out the following transactions:

- On 5 October, Colonial registered a European Medium Term Note (EMTN) program on the Irish Stock Exchange for €3,000m.
- Under this program, two bond issues were carried out: 1) on 28 October an issue of senior unsecured notes was carried out for €600 million, maturing in 8 years, with an annual coupon of 1.45%, issued under par at 99.223% of its nominal value. The issue was very well received by the market, with an oversubscription of almost three imes; 2) on 10 November, a private placement was carried out for €50m, with a 10 year maturity and an annual coupon of 1.875%, issued at 97.866% of its nominal value.
- In parallel, Colonial launched a repurchase offer on 50% of its bonds maturing in 2019 (liability management), which was closed on 28 October.
- In addition, Colonial renegotiated the syndicate loan signed on 12 November 2015 for €350m, extending its maturity until 2021.

With these operations Colonial reduced its financing risk in 2019 which concentrated more than 60% of the maturities of its undrawn debts, extending the average life of its debt which went from 5.0 to 6.0 years in Spain (from 4.8 to 5.0 years for the Group) and improving its financial costs which went from 2.14% to 1.96% (2.27% to 1.96% for the Group).

Other transactions carried out in 2016 included the following:

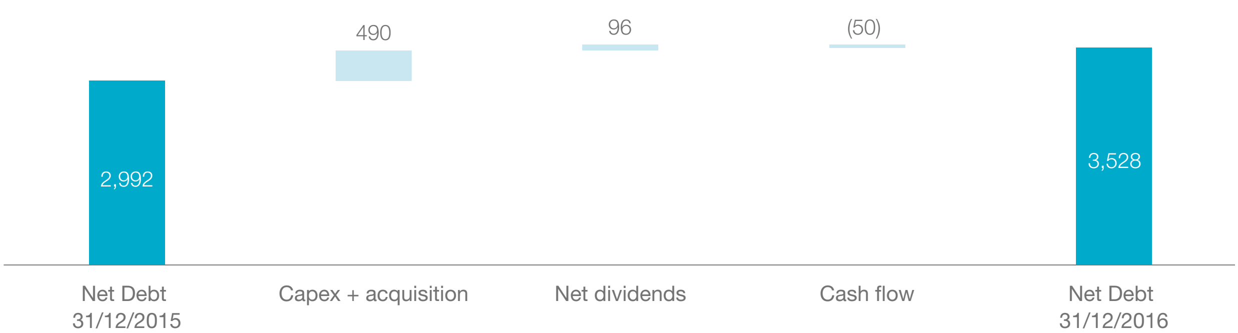
- In May 2016, the bonds issued by SFL in May 2011 matured, the pending amount of which was €156m with a coupon of 4.625%.
- On 24 May 2016, a loan was signed with BNP Paribas for €150m, maturing in five years, with a floating interest rate (Euribor with an applicable spread).
- In June 2016, SFL exercised the option to purchase the financial leasing agreement related to the 131 Wagram property, for €26m.

The financial net debt of the Group stood at €3,528m at 31 December 2016, as shown in the table below:

Breakdown of the consolidated net financial debt	**December 2016**			**December 2015**			**Var.**
	Spain	**France**	**Total**	**Spain**	**France**	**Total**	**Total**
Syndicate loan	122	20	142	67	0	67	75
Mortgage debt/leases	36	205	241	39	234	273	(32)
Unsecured debt and others	0	425	425	0	162	162	263
Bonds	1,525	1,301	2,826	1,250	1,457	2,707	119
Total gross debt	**1,682**	**1,951**	**3,633**	**1,356**	**1,853**	**3,209**	**424**
Cash & cash equivalents	(85)	(20)	(105)	(205)	(12)	(217)	111
Group Net Debt	**1,597**	**1,931**	**3,528**	**1,151**	**1,841**	**2,992**	**536**
Average maturity of drawn debt (years)	6.0	4.1	5.0	5.0	4.8	4.8	0.2
Cost of debt % (without arrangement fees)	1.96%	1.95%	1.96%	2.14%	2.36%	2.27%	(31pb)

The evolution of the Group's net debt during 2016 is as follows:

NET DEBT MOVEMENT €M - DECEMBER 2016



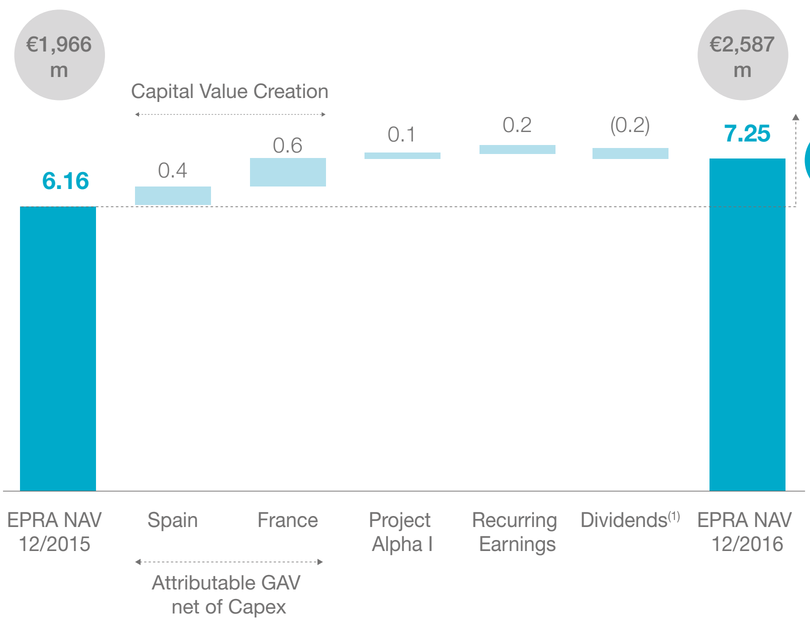
EPRA Net Asset Value (NAV)

At the close of 2016, the EPRA NAV of the Colonial Group amounted to €7.25/share, a year-on-year increase of 18%.

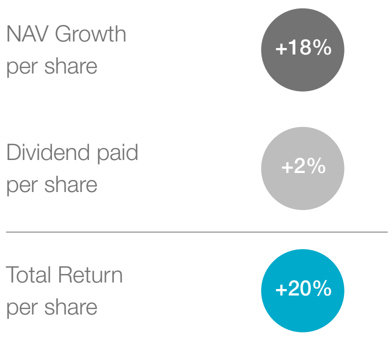
The total shareholder return in 2016, which is understood as NAV growth per share plus the dividend received in July 2016, amounted to 20%[2], positioning it among one of the highest returns in the listed sectors in Spain as well as in Europe.

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 a value creation above market average.

EPRA NAV €/SHARE



TOTAL SHAREHOLDER RETURN[2]



(1) Dividends paid and other effects.
(2) Total return understood as NAV growth per share + dividends.

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

EPRA Net Asset value - €m	12/2016	12/2015
NAV per the Consolidated financial statements	**2,302**	**1,837**
Include:		
(i.a) Revaluation of investment properties (if IAS 40 cost option is used)	11	8
(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	51	17
(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	2	4
(v.a) Deferred tax	221	100
(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	**2,587**	**1,966**
EPRA NAV - Euros per share	***7.25***	***6.16***
Basic Nº of shares (m)	*356.8*	*318.9*

Note: 2015 figures adjusted by the number of shares post reverse split.

Calculation of the EPRA NAV: Following the EPRA recommendations and starting from the consolidated equity of €2,302m, 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 book value, amounting to €11m.

2. Revaluation of other investments: corresponding to latent capital gains (not accounted for on the balance sheet) of other investments carried out by the Group.

3. Adjustment of accounted for MTM ("mark-to-market"): in order to determine the EPRA NAV, the net value of the MTM of the hedging instruments registered on the balance sheet has been adjusted (+€2m).

4. Adjustment of deferred taxes: adjustment of the amount of deferred taxes associated with the revaluation of the property assets (+€221m), registered on the balance sheet.

EPRA NNNAV amounted to €2,284m at 31 December 2016, which corresponds to **€6.4/share**.

EPRA Triple Net Asset value (NNNAV) - €m	**12/2016**	**12/2015**
EPRA NAV	**2,587**	**1,966**
Include:		
(i) Fair value of financial instruments	(2)	(4)
(ii) Fair value of debt	(79)	(27)
(iii) Deferred tax	(222)	(100)
EPRA NNNAV - €m	**2,284**	**1,835**
EPRA NNNAV - Euros per share	***6.40***	***5.75***
Nº of shares (m)	*356.8*	*318.9*

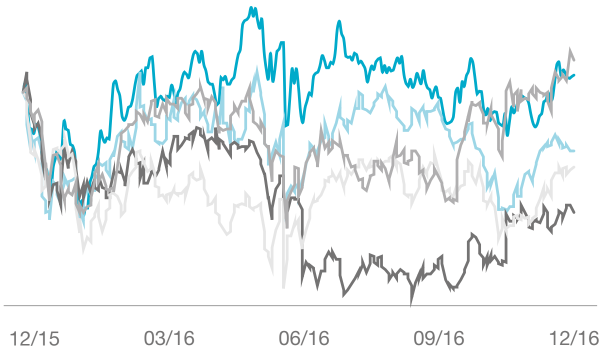
Note: 2015 figures adjusted by the number of shares post reverse split.

For its calculation, the following items have been adjusted in the EPRA NAV: the fair market value of the financial instruments (–€2m), the fair market value of the debt (–€79m), and the taxes that would be accrued in case of the disposal of the assets at their market value (–€222m).

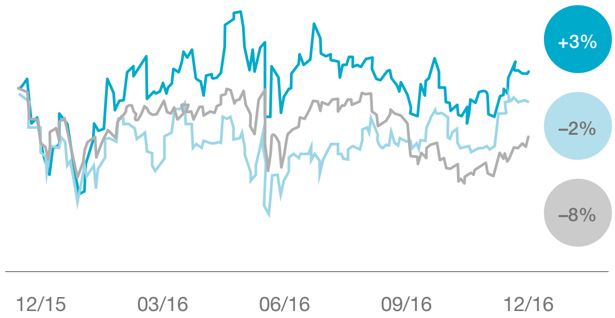
Share price performance

The year 2016 was characterized by increased volatility in capital markets, especially since the Brexit vote.

In this context, Colonial's share price has performed positively, outperforming its peers as well as the IBEX and the EPRA index with an increase of 3% year-to-date.



Colonial +3
Peer 2-8%
Peer 4-17%
Peer 3+5%
Peer 1-11%



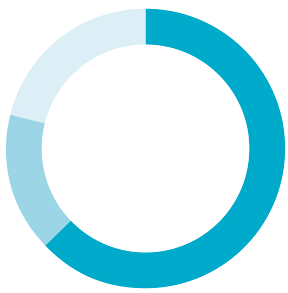
Colonial
IBEX - 35
EPRA

The average daily trading volume reached €6.3m, offering attractive levels of liquidity within the sector in Europe and especially in Spain.

The Colonial share price has a significant amount of coverage, with currently 19 analysts covering the company.

Out of the total recommendations, 63% of the analysts issued a buy recommendation. The target price based on analysts' consensus stands at €7.3/share.

The maximum target price stood at €8.8/share.



63% buy
16% sell
21% neutral

The target prices and recommendations are as follows:

	Institution	Analyst	Date	Recommendation	Target Price actual (€/share)
1	Morgan Stanley	Bart Gysens	22/02/16	Overweight	7.2
2	Merrill Lynch	Samuel Warwood	26/05/16	Neutral	6.9
3	Ahorro Corporación	Guillermo Barrio	03/06/16	Sell	6.0
4	Banco Sabadell	Ignacio Romero	23/06/16	Buy	8.2
5	Bankinter	Juan Moreno Martínez de Lecea	28/07/16	Maintain	6.4
6	Banco Santander	Jose Alfonso Garcia	17/10/16	Buy	7.5
7	Intermoney Valores	Esther Martín	15/11/16	Buy	7.4
8	Alpha Value	Alda Kule Dale	15/11/16	Buy	7.9
9	Kepler Cheuvreux	Carlos Ais	30/11/16	Sell	6.4
10	Kempen	Max Mimmo	05/12/16	Buy	7.4
11	Goldman Sachs	Jonathan Kownator	06/12/16	Buy	8.8
12	BPI	Gonzalo Sanchez Bordona	23/01/17	Buy	7.9
13	Mirabaud	Ignacio Méndez Terroso	23/01/17	Sell	6.2
14	Haitong	Juan Carlos Calvo	31/01/17	Buy	7.6
15	JB Capital	Daniel Gandoy	07/02/17	Neutral	8.0
16	Alantra Equities	Jaime Amoribieta	07/02/17	Buy	7.6
17	Green Street Advisors	Peter Papadakos	07/02/17	Maintain	7.0
18	Deutsche Bank	José Salama	13/02/17	Buy	7.5
19	Fidentiis	Pepa Chapa	23/02/17	Buy	7.6
Analysts consensus					**7.3**

Source: Bloomberg & reports of analysts.

Colonial is a member of two EPRA indices: the FTSE EPRA/NAREIT Developed Europe and the FTSE EPRA/NAREIT Developed Eurozone. In addition, it is a member of the Global Property Index 250 (GPR 250 Index), as well as the Ibex Medium Cap index. These indices are benchmarks for international listed property companies.

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

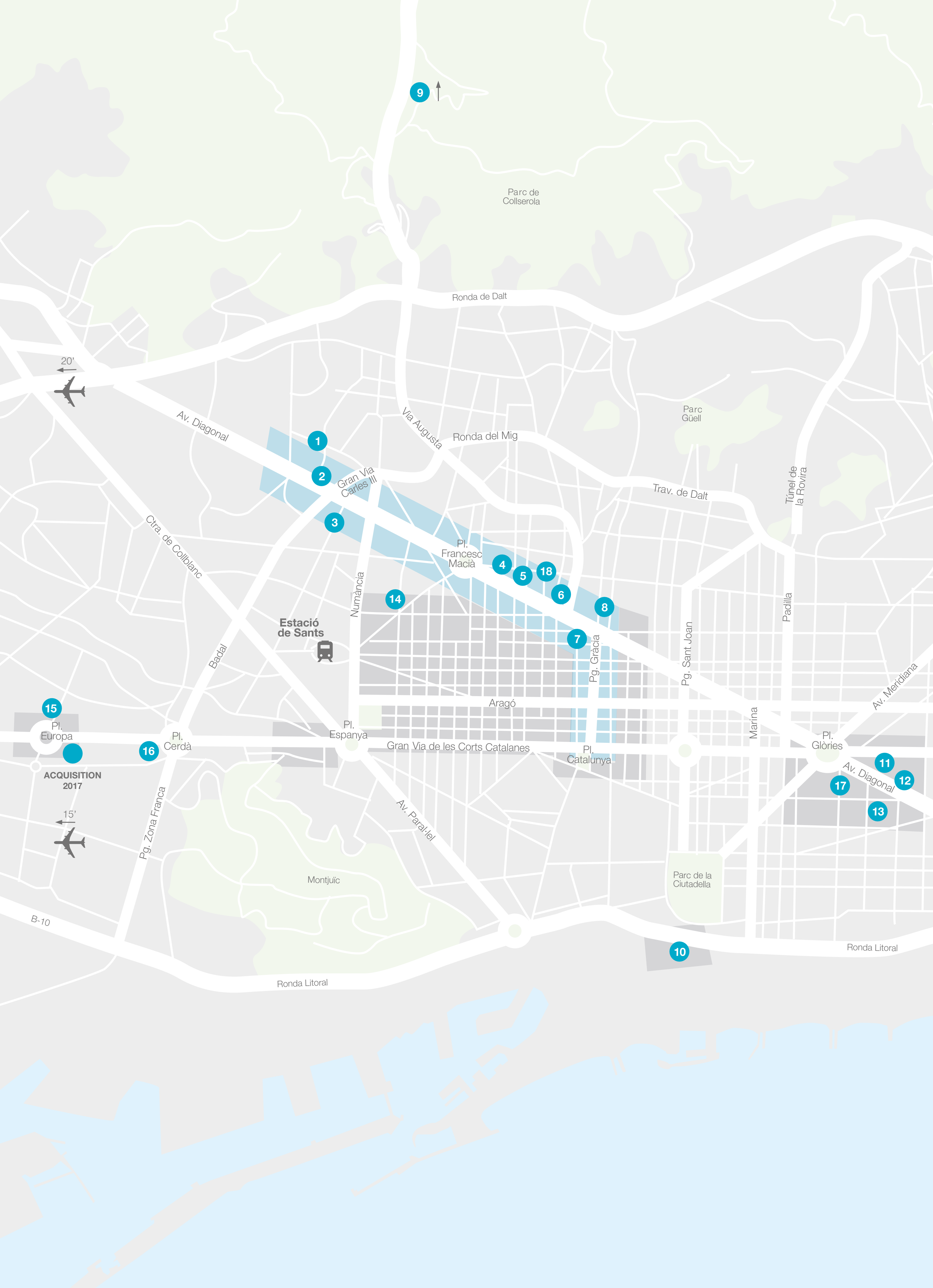
Our
properties

Barcelona
18 assets

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 Parc Central 22@ - land plot
13 Offices Complex Illacuna
14 Berlín, 38-48 / Numància, 46
15 Plaza Europa, 42-44
16 Torre BCN
17 Parc Glories
18 Travessera de Gràcia, 47-49

Plaza Europa (acquisition 2017)

Prime Central Business District
Business District

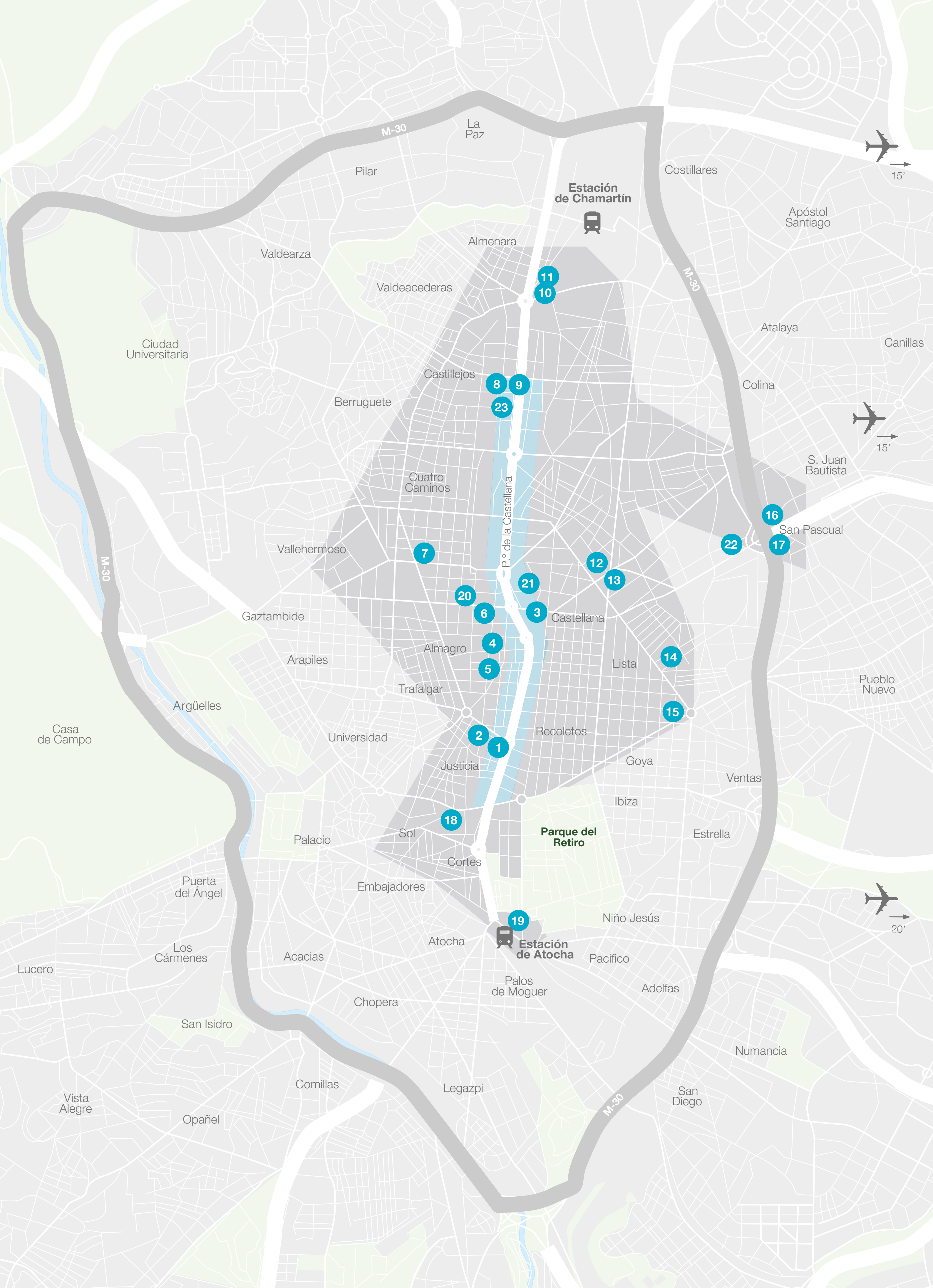

9
Parc de Collserola
Ronda de Dalt
20'
Av. Diagonal
1
2
Gran Via Carles III
3
Via Augusta
Ronda del Mig
Parc Güell
Trav. de Dalt
Túnel de la Rovira
Pl. Francesc Macià
4
5
18
6
8
7
14
Ctra. de Collblanc
Numància
Estació de Sants
Badal
Pg. Gràcia
Pg. Sant Joan
Padilla
Marina
Av. Meridiana
Aragó
15
Pl. Europa
ACQUISITION 2017
16
Pl. Cerdà
Pl. Espanya
Gran Via de les Corts Catalanes
Pl. Catalunya
Pl. Glòries
11
Av. Diagonal
12
17
13
15'
Pg. Zona Franca
Av. Paral·lel
Montjuïc
Parc de la Ciutadella
B-10
10
Ronda Litoral
Ronda Litoral

Madrid
23 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. Capitán Haya, 53
9. Estébanez Calderón, 3-5
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

Prime Central Business District

Business District



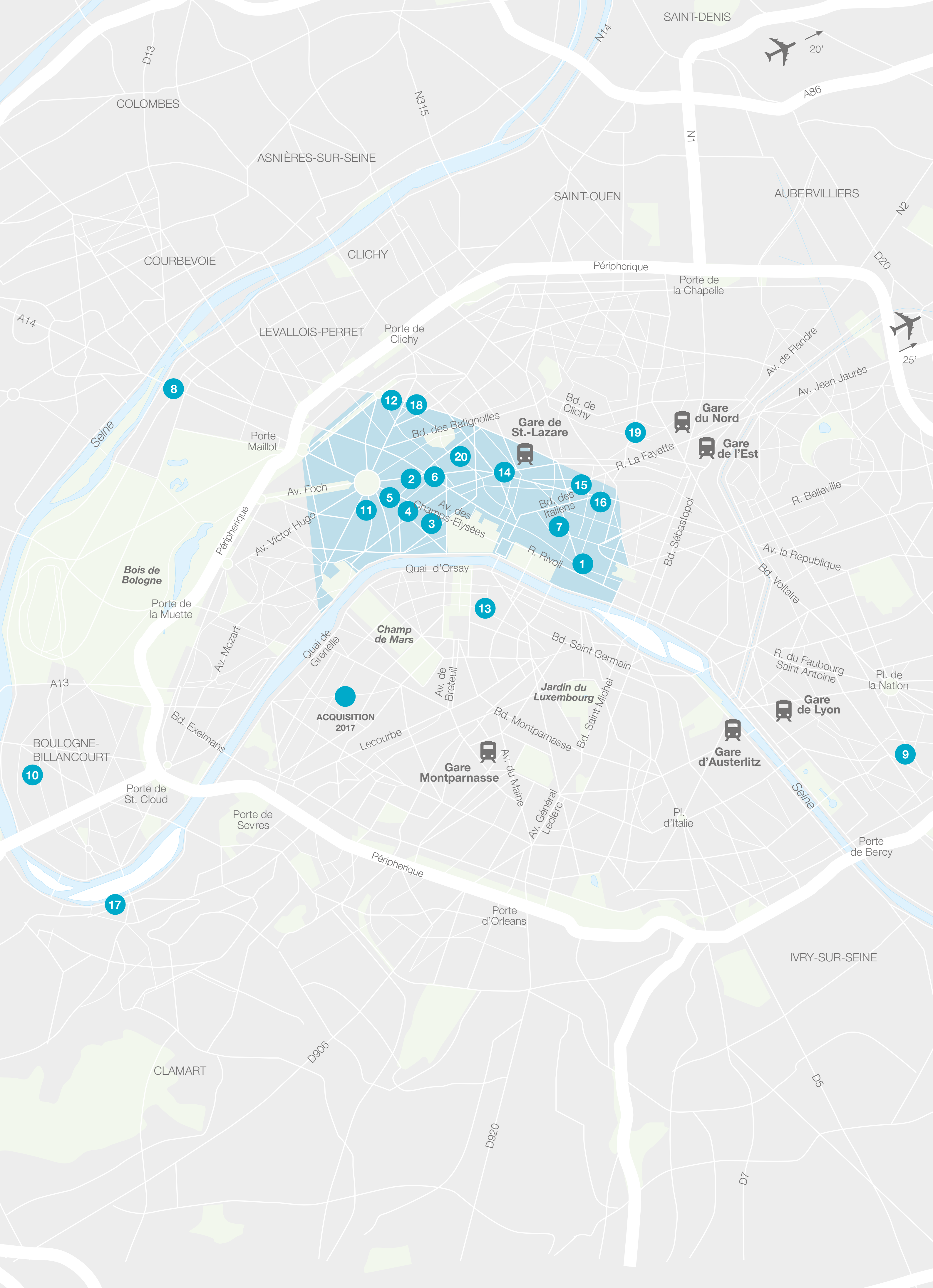
M-30
La
Paz
Pilar
Costillares
15'
Estación
de Chamartín
Apóstol
Santiago
Almenara
Valdearza
11
10
Valdeacederas
Atalaya
Canillas
Ciudad
Universitaria
Castillejos
8
9
Colina
23
Berruguete
15'
S. Juan
Bautista
Cuatro
Caminos
P.º de la Castellana
16
San Pascual
22
17
Vallehermoso
7
12
13
21
20
6
3
Castellana
Gaztambide
4
Almagro
Arapiles
5
14
Lista
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
19
Niño Jesús
20'
Los
Cármenes
Atocha
Estación
de Atocha
Pacífico
Lucero
Acacias
Palos
de Moguer
Adelfas
Chopera
San Isidro
Numancia
Comillas
Legazpi
San
Diego
Vista
Alegre
Opañel

Paris
20 assets

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 In/Out
11 96 Iéna
12 131 Wagram
13 103 Grenelle
14 104-110 Haussmann Saint-Augustin
15 6 Hanovre
16 #Cloud
17 Le Vaisseau
18 112 Wagram
19 4-8 Rue Condorcet
20 9 Avenue Percier

112-122 Av. Emile Zola (acquisition 2017)

Prime Central Business District


SAINT-DENIS
20'
A86
N14
D13
COLOMBES
N315
N1
ASNIÈRES-SUR-SEINE
SAINT-OUEN
AUBERVILLIERS
N2
COURBEVOIE
CLICHY
D20
Périphérique
Porte de
la Chapelle
A14
LEVALLOIS-PERRET
Porte de
Clichy
25'
Av. de Flandre
Av. Jean Jaurès
8
Seine
12
18
Gare
du Nord
Bd. de
Clichy
Gare de
St.-Lazare
19
Porte
Maillot
Bd. des Batignolles
Gare
de l'Est
20
R. La Fayette
14
2
6
15
Av. Foch
R. Belleville
5
Bd. des
Italiens
16
11
4
Av. des
Champs-Elysées
3
Av. Victor Hugo
7
Bd. Sébastopol
Périphérique
Av. la Republique
R. Rivoli
1
Bois de
Bologne
Quai d'Orsay
Bd. Voltaire
Porte de
la Muette
13
Champ
de Mars
Quai de
Grenelle
Av. Mozart
Bd. Saint Germain
R. du Faubourg
Saint Antoine
Pl. de
la Nation
A13
Av. de
Breteuil
Jardin du
Luxembourg
Gare
de Lyon
ACQUISITION
2017
Bd. Exelmans
Bd. Saint Michel
Bd. Montparnasse
BOULOGNE-
BILLANCOURT
Lecourbe
9
10
Gare
Montparnasse
Av. du Maine
Gare
d'Austerlitz
Porte de
St. Cloud
Seine
Porte de
Sevres
Av. Général
Leclerc
Pl.
d'Italie
Porte
de Bercy
Périphérique
17
Porte
d'Orleans
IVRY-SUR-SEINE
D906
CLAMART
D5
D920
D7

Valuation of the portfolio

At the close of 2016, the assets of the Colonial Group were appraised at €8,069m (€8,478m including transfer costs) by Jones Lang LaSalle, CB Richard Ellis and BNP Paribas Real Estate.

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. 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, €7,928m correspond to the asset portfolio directly held by the Colonial Group and €141m correspond to the value of the 15.1% stake in Axiare (valued at attributable NAV as of 30 June 2016).

GROSS ASSET VALUES - EXCLUDING TRANSFER COSTS

				Dec 16 *vs* jun 16		Dec 16 *vs* dec 15	
Asset valuation (€m)	**31-dec-16**	**30-jun-16**	**31-dec-15**	**Total**	**LfL [1]**	**Total**	**LfL [1]**
Barcelona	761	710	676	7.2%	3.3%	12.6%	8.6%
Madrid	1,273	1,189	906	7.1%	3.1%	40.6%	8.7%
Paris	5,736	5,520	5,242	3.9%	3.9%	9.4%	9.4%
Portfolio in operation[2]	**7,771**	**7,419**	**6,824**	**4.7%**	**3.7%**	**13.9%**	**9.2%**
Projects	**144**	**130**	**82**	**10.7%**	**10.7%**	**74.5%**	**18.2%**
Others	14	7	6	88.4%	2.3%	113.8%	16.1%
Property business	**7,928**	**7,556**	**6,913**	**4.9%**	**3.8%**	**14.7%**	**9.4%**
Axiare	141						
Colonial group	**8,069**	**7,556**	**6,913**	**6.8%**	**3.8%**	**16.7%**	**9.4%**
Spain	2,333	2,036	1,670	14.6%	3.6%	39.7%	9.1%
France	5,736	5,520	5,242	3.9%	3.9%	9.4%	9.4%

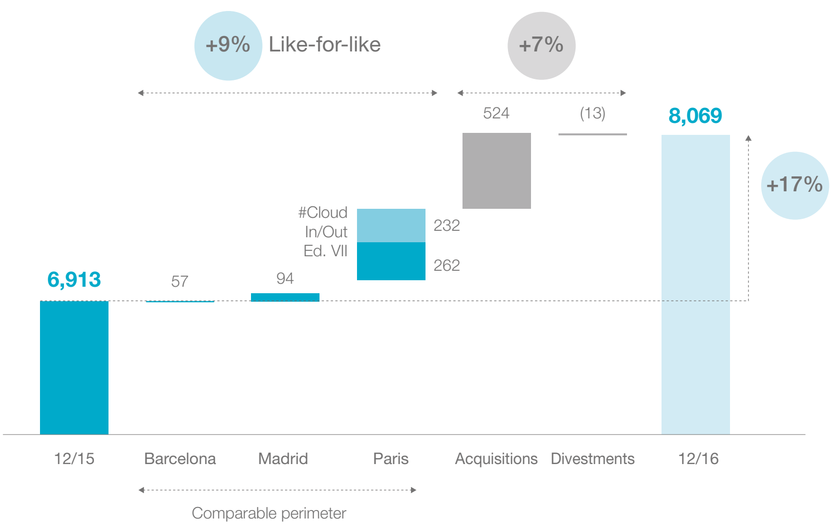
GROSS ASSET VALUES - INCLUDING TRANSFER COSTS

Colonial group	**8,478**	**7,949**	**7,239**	**6.7%**	**3.8%**	**17.1%**	**10.0%**
Spain	2,387	2,086	1,720	14.4%	3.6%	38.7%	8.6%
France	6,092	5,863	5,519	3.9%	3.9%	10.4%	10.4%

(1) Portfolio in comparable terms.
(2) Portfolio in operation: current rental portfolio as well as new entries into operation of completed projects.

The **Colonial Group's** Gross Asset Value at December 2016 increased 9.4% compared to December 2015 (+3.8% like-for-like in 6 months).

VARIANCE ANALYSIS - VALUE 12 MONTHS - €M



GAV VARIANCE

	6 months	12 months
Barcelona	+3%	+8%
Madrid	+4%	+10%
Paris	+4%	+9%
Total LFL	+4%	+9%
Acquisitions & Divestments	+3%	+7%
Total VAR	+7%	+17%

In **Spain**, the Gross Asset Value increased by 9.1% like-for-like in the last 12 months, (3.6% in 6 months) due to a combination of property repositioning and increases in occupancy that have led to improved yields and rental income. The portfolio in Madrid increased by 9.6% like-for-like in 12 months and the portfolio in Barcelona increased by 8.4% like-for-like in 12 months (Barcelona +3.3% in 6 months and Madrid +3.8% in 6 months).

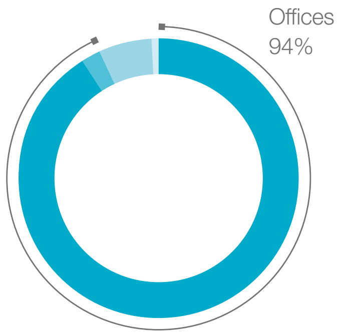
In **France**, the portfolio increased 9.4% like-for-like in 12 months (3.9% in 6 months). This increase in value is a consequence of the progressive repositioning of the property portfolio with positive impacts on rents and yields, in the context of an investment market with high interest in prime offices in Paris.

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

CONSOLIDATED GROUP

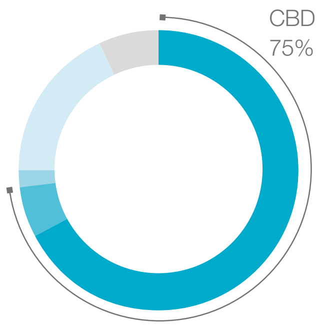
Valuation - by use

- Offices
- Axiare
- Retail
- Others



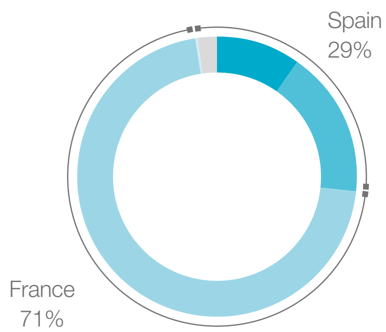
Valuation - by area

- Prime CBD
- CBD
- Axiare
- BD
- Others



Valuation - by market

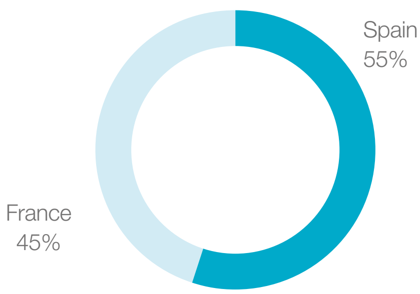
- Barcelona
- Madrid
- Paris
- Others
- Axiare



COLONIAL PARENT COMPANY(1)

Valuation - by market

- Spain
- France



(1) France = SFL shares valuated to NAV. Spain = GAV assets held directly + NAV stake SPV TMN + NAV stake Axiare.

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	761	189,447	4,016	5.10%	Gross Yields
Madrid	1,273	244,562	5,207	4.75%	
Paris	5,736	403,600	14,213	3.70%	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 228,838 sq m, excluding 14,737 sq m of the Parc Central project, 24,551 sq m of the Parc Glories project and 103 sq m of non-core retail assets.
In Madrid, the sq m correspond to the surface above ground of all assets of 266,083 sq m, excluding the Estébanez Calderón project of 10,152 sq m, Príncipe de Vergara of 11,368 sq m.
In France, the sq m correspond to the surface above ground of the entire portfolio which amount to 358,347 sq m including certain rentable surfaces below ground in the portfolio not corresponding to parking units (45,253 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, 27th January 2017

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, Denis François (CBRE) and BNP Paribas Real Estate Valuation France, 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 2016 for internal use of the company.

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

7,927,918,372 EUROS

(Seven Thousand Nine Hundred and Twenty Seven Million Nine Hundred and Eighteen Thousand Three Hundred and Seventy Two Euros)

The breakdown is as follows:

Unit	Market Value (excl. Transfer costs)	Gross Value (incl. Transfer costs)
Madrid	1,363,405,000 €	1,396,155,367 €
Barcelona	820,883,900 €	842,141,536 €
Rest of Spain	7,213,700 €	7,410,620 €
Total Colonial (Spain)	**2,191,502,600 €**	**2,245,707,523 €**
Total SFL (Paris)	**5,736,415,772 €**	**6,091,624,186 €**
Total Colonial + SFL	**7,927,918,372 €**	**8,337,331,709 €**

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
JLL Valoraciones, S.A.

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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 new 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.

BREEAM

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 Parc Central 22@ - land plot

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, new construction 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, each with a surface area of approximately 1,800 sq m. The building is located in the heart of the newest and most modern business district in Barcelona, next to Plaça de les Glòries and adjacent to Avinguda Diagonal. 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. This purchase implies an increase in Colonial's market share in the prime area of Barcelona with a building of unique characteristics. The investment amounts to €41m.

Madrid

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 recently 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 Capitán Haya, 53

This elegant ten-story structure is located along the upper portion of Capitán Haya, 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 located at Estébanez Calderón 3-5, just a few metres from Paseo de la Castellana. The transaction involves demolishing the current building to build a new unique property, which will incorporate the latest technologies and innovation in materials. The property will obtain the most prestigious environmental and sustainability certificates. The new office building will provide a total of 10,200 sq m of surface area above ground, with optimal space efficiency on all floors, enabling it to obtain the "LEED Gold" energy certificate.

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 new building, which will incorporate the latest technologies and innovation in materials. 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

New 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. The property is currently in a refurbishment phase.

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 10,000 sq m, divided among 11 floors of office space and a ground floor allocated for commercial premises. Additionally, there are 2 basement floors. The building also has an access from Capitán Haya 50. Currently, the building is 98% let by prestigious companies, generating income from day one. The investment amounts to €51m (including the budget for future works).

Paris

Paris

All of the Paris portfolio have energy certifications

1 Louvre Saint-Honoré

Enjoying an upmarket location just opposite the Louvre, this building offers vast functional areas spanning 5,400 sq m/floor. Constantly striving to improve the service offering and the comfort for its users, SFL has carried out a total refurbishment of the offices providing an expertise that complies with best international and high-end service standards: 24/7 security, inter-company restaurant facilities, among others.

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.

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.

All of the Paris portfolio have energy certifications

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.

10 In/Out

This building, opposite the Saint-Cloud park, is located between the Sèvres and Saint-Cloud bridges and offers excellent visibility. It benefits from a privileged location at the entrance to Paris on the main axis linking directly to several of the Île de France strategic hubs. SFL fully restructured 35,000 sq m of this industrial and cultural asset, with a remarkable history, to create office buildings which are HEQ®, BREEAM and LEED certified, entirely new, whilst still maintaining a link to the history of the location. The main building is uniquely for office space to which will be added a new and very contemporary construction, housing the services hub.

11 96 Iéna

Remarkable in its location right beside Place de l'Étoile, this 6 storey building boasts an interior courtyard with terraces, providing exceptional views over the Arc de Triomphe. This unique location is underscored by its presence on 3 streets, making it highly visible. With its vast light-filled spaces spanning 1,200 sq m, offering both flexibility and functionality, the "Iéna" building is not lacking in added-value.

12 131 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.

All of the Paris portfolio have energy certifications

Paris

13 103 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.

14 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.

15 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.

16 #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...

17 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.

18 112 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.

All of the Paris portfolio have energy certifications

Paris

19 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.

20 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.

Asset portfolio - Details

RENTAL PORTFOLIO BARCELONA (sq m)

	Acquisition year	Floor space above ground		Floor space above ground	Floor space below ground	Total surface	Parking units
		Offices	Retail				
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	21,536		21,536	18,839	40,375	438
Av. Diagonal, 682	1997	8,050	250	8,300	1,795	10,095	50
Pedralbes Centre	1997		5,558	5,558	1,312	6,870	
Berlin, 38-48/Numancia, 46	1997	9,644	3,173	12,817	3,779	16,596	99
Diagonal 220-240, Glories	2000	11,672		11,672	536	12,208	40
Illacuna	2006	19,639	812	20,451	13,620	34,071	796
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	620	3,580	1,766	5,346	88
Plaza Europa, 42-44	2014	4,869		4,869	2,808	7,677	68
Torre BCN	2000	9,600	235	9,835	3,398	13,233	88
Torre Marenostrum	2003	22,394		22,394	19,370	41,764	616
Sant Cugat Nord	1999	27,904		27,904	20,531	48,435	690
Others			103	103		103	
Portfolio in operation		**173,981**	**14,785**	**188,766**	**99,243**	**288,009**	**3,218**
Parc Central 22@	2016	14,737		14,737	14,737	29,474	184
Parc Glories	2010	24,551		24,551	5,343	29,894	141
Sant Cugat Nord					531	531	
Berlin, 38-48/Numancia, 46					25	25	
Av. Diagonal, 609-615 - Dau/Prisma		460		460	150	610	
Av. Diagonal, 530			2	2	565	567	
Pedralbes Centre					18	18	
Av. Diagonal, 682		322		322	237	559	
Projects and refurbishments		**40,070**	**2**	**40,072**	**21,606**	**61,678**	**325**
Total Barcelona		**214,051**	**14,787**	**228,838**	**120,848**	**349,687**	**3,543**

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.

RENTAL PORTFOLIO MADRID AND THE REST OF SPAIN (sq m)

	Acquisition year	Floor space above ground			Floor space above ground	Floor space below ground	Total surface	Parking units
		Offices	Retail	Others				
P. 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
Miguel Angel, 11	2005	5,370	930		6,300	2,231	8,531	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	4,644			4,644	1,929	6,574	54
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	13,664			13,664	5,562	19,226	181
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
Capitán Haya, 53	2001	13,685	2,330		16,015	9,668	25,683	295
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	
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			866		866	350	1,216	
Portfolio in operation		**206,170**	**14,514**	**19,592**	**240,276**	**112,109**	**352,385**	**3,319**
Estébanez Calderón, 3-5	2015	10,152			10,152	4,751	14,903	103
Príncipe de Vergara, 112-114	2015	11,368			11,368	4,530	15,898	107
Castellana, 43	2005	5,998			5,998	2,441	8,439	81
Serrano,73	2016	4,242			4,242	3,220	7,462	80
Orense, 46-48	1994		5,010		5,010	1,384	6,394	51
P. Castellana, 163		700			700		700	
Francisco Silvela, 42						332	332	
Jose Abascal, 56		12			12		12	
Miguel Angel, 11						818	818	
Jose Abascal, 45		710			710		710	
Projects and refurbishments		**33,182**	**5,010**		**38,192**	**17,476**	**55,668**	**422**
Total Madrid and rest of Spain		**239,352**	**19,524**	**19,592**	**278,468**	**129,585**	**408,053**	**3,741**

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)

	Acquisition year	Floor space above ground: Offices	Retail	Resid.	Others	Floor space above ground	Floor space below ground	Total surface	Parking units
Louvre Saint-Honoré	1995	24,897	217		2,134	27,248	5,730	32,978	236
Edouard VII	1999	28,412	15,351	4,509	4,202	52,474	10,145	62,619	523
6 Hanovre	1958	3,325				3,325	1,246	4,571	
#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-Élysées	2002		4,187			4,187	3,849	8,036	125
90 Champs-Élysées	2002/2009	7,912	932			8,844		8,844	
92 Champs-Élysées	2000	4,110	3,089			7,199		7,199	
Cézanne Saint-Honoré	2001/2007	18,972	1,849	0		20,822	3,337	24,159	128
131 Wagram	1999	7,100			449	7,549	3,119	10,668	124
96 Iéna	2001/2007	7,505				7,505	4,711	12,217	264
112 Wagram	2008	4,470	892			5,362	546	5,908	29
Washington Plaza	2000	35,888	416		2,214	38,519	13,280	51,799	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
In/Out	2000	30,954			1,660	32,614	11,680	44,294	581
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	14,711	258		1,052	16,021	1,891	17,912	100
Saint Denis				60		60	16	76	1
Portfolio in operation		**286,497**	**28,371**	**6,132**	**16,632**	**337,632**	**79,890**	**417,522**	**3,675**
Louvre Saint-Honoré		1,081	8,989			10,070	8,462	18,532	
Cézanne Saint-Honoré		5,465				5,465	1,504	6,969	
Washington Plaza		3,775				3,775	2,177	5,951	
103 Grenelle		874				874	1,704	2,578	
#Cloud.Paris							3,397	3,397	
9 Percier							553	553	
90 Champs-Élysées							17	17	
112 Wagram							562	562	
Galerie Champs-Élysées			531			531	2,124	2,655	
92 Champs-Élysées							493	493	
In/Out							1,790	1,790	
176 Charles De Gaulle							861	861	
131 Wagram							532	532	
96 Iéna							930	930	
6 Hanovre							36	36	
Projects and refurbishments		**11,195**	**9,520**			**20,715**	**25,140**	**45,855**	
Total France		**297,692**	**37,891**	**6,132**	**16,632**	**358,347**	**105,030**	**463,377**	**3,675**
Total property Colonial		**751,096**	**72,202**	**6,132**	**36,223**	**865,653**	**355,464**	**1,221,117**	**10,959**

Note: Colonial has 58.5% 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, Galeries Champs Élysées 8288 and Haussmann 104-110 of which it owns 50%.

Corporate Social Responsibility

Social Corporate Responsibility

The Colonial Group has continued to advance during 2016 in its commitment to sustainability and Corporate Social Responsibility, with the aim of creating value for its stakeholders. In this sense, the Board of Directors has approved the Corporate Social Responsibility Policy, which specifies the strategy to create value for its stakeholders and establishes the commitment of the organization to dedicate the resources necessary to improve the Group's performance in the social, economic and environmental spheres.

A greater detail of the progress made in each of the established areas can be found in the Colonial Group CSR Report.

Professional Team

Human Resources management places great focus on the training of Colonial Group employees, in order to promote the continuous development of its professional team. This year, the Training Plan has promoted training programmes related to languages with the objective of encouraging language learning among the Group's employee's This initiative also aims to bolster employees confidence in working environments where they have to speak in foreign languages. In this sense, all employees have had access to English and French courses, which depended on their English/French level and their job position.

By the end of 2016, the Colonial Group had a total of 150 employees, of whom 49% worked in Spain and 51% in France.

COLONIAL GROUP WORKFORCE AT 31/12/2016

	2016		**2015**	
	Men	**Women**	**Men**	**Women**
Employment category				
General and area managers	12	5	11	5
Technical graduates and middle managers	29	32	27	27
Administrative	18	49	14	53
Others	4	1	1	1
Age (years)				
Under 30	4	6	4	3
30-50	43	51	35	57
Over 50	16	30	14	26
Total	**150**		**139**	

	2016	2015
Employees included in the industry-specific Collective Labour Agreement	147	136
% of employees included in the Collective Labour Agreement in proportion to the total headcount	98%	98%

TOTAL TRAINING IN 2016

	2016			
	Spain		France	
	Participants	Hours	Participants	Hours
Category				
General and area managers	5	175	9	232
Technical graduates and middle managers	16	969	34	967
Administrative	61	2,274	17	477
Gender				
Men	36	1,590	26	744
Women	46	1,828	34	932
Total	**82**	**3,418**	**60**	**1,676**

	2016		2015	
	Total Colonial Group		Total Colonial Group	
	Participants	Hours	Participants	Hours
Total	**142**	**5,094**	**114**	**5,203**

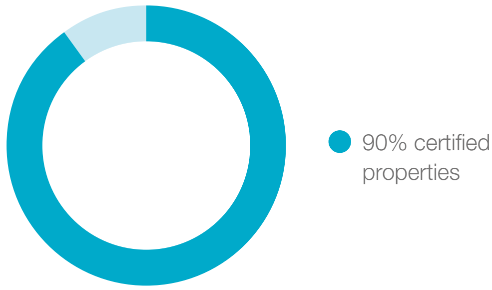
Sustainable Property Management

Continuing with one of the priorities established within the framework of the Company's Corporate Social Responsibility Policy, the company continues to make progress in real estate efficiency year after year. In this respect, 90% of the Group's properties are certified in environmental matters.

- In Spain, the objectives of obtaining certifications for 2016 have been achieved, closing the year with a total of 23 certified buildings (18 BREEAM and 5 LEED).
- In France, 100% of the portfolio is BREEAM In-Use certified and two of them are LEED certified.

Regarding Colonial Group's impact on environmental management, it should be noted that the Colonial Group has managed to reduce total energy consumption of both its own offices as well as its leased properties, by 8% and 1%, respectively. In addition, a series of projects have been carried out with the objective of reducing water consumption in the real estate portfolio, achieving a total saving of 4% in water consumption.

ENVIRONMENTAL CERTIFICATION OF PORTFOLIO VALUE



Sustainable Value Creation

The Colonial Group develops its activity through the operation of a prime property portfolio, which is located in Barcelona, Madrid and Paris, and has a total portfolio of 1,221,117 m^2 (865,653 m^2 above ground level), concentrated in office assets.

The Colonial Group's commitment to its stakeholders is structured through its CSR strategy and management system.

During 2016 the Colonial Group carried out a series of actions to increase awareness of Corporate Social Responsibility, not only internally, but also towards other external agents, in line with the commitment to develop and promote best practices in relation to generating social impact and creating value for stakeholders.

Internally, for example in France, different breakfast meetings have been held with employees in which they are invited to dialogue on matters of Corporate Social Responsibility.

On the other hand, at an external level:

- For the second consecutive year, the Group has obtained the "EPRA Best Practices Gold Award Financial Reporting" and the "EPRA Gold Award - Sustainability Reporting", being the only listed Spanish company with the highest rating in both categories.
- The company is part of two EPRA indices: El FTSE EPRA / NAREIT Developed Europe and FTSE EPRA / NAREIT Developed Eurozone.
- It is also part of the Global Property Index 250 (GPR 250 Index) and the Ibex Medium Cap Index, which are a referent for property companies listed internationally.
- The company is part of the Morgan Stanley Capital International index (MSCI).

AWARDS AND HONOURS

EPRA Best Practices Gold Award – Sustainability Reporting

EPRA Best Practices Gold Award – Financial Reporting

Most Improved Annual Report Award

Listed Company of the Year 2016, Property Investor Europe Award

PARTICIPATIONS


EPRA
ratios

EPRA ratios

1. EPRA Earnings

EPRA Earnings - €m	2016	2015
Earnings per IFRS Income statement	**274**	**415**
Earnings per IFRS Income statement - €/share	**0.77**	**1.30**
Adjustments to calculate EPRA Earnings, exclude:		
(i) Changes in value of investment properties, development properties held for investment and other interests	(556)	(718)
(ii) Profits or losses on disposal of investment, development properties held for investment and other interests	0	(1)
(iii) Profits or losses on sales of trading properties including impairment charges in respect of trading properties	0	0
(iv) Tax on profits or losses on disposals	0	0
(v) Negative goodwill / goodwill impairment	0	0
(vi) Changes in fair value of financial instruments and associated close-out costs	24	51
(vii) Acquisition costs on share deals and non controlling joint venture interests	0	0
(viii) Deferred tax in respect of EPRA adjustments	96	43
(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	225	242
EPRA Earnings	**63**	**33**
EPRA Earnings per Share (EPS) - €/share	**0.18**	**0.10**
Company specific adjustments:		
(a) Extraordinary expenses	4	6
(b) Non recurring financial result	0	(2)
Company specific Adjusted Earnings	**68**	**37**
Company adjusted Earnings per Share (EPS) - €/share	**0.19**	**0.12**
Nº of shares (m)	**356.8**	**318.9**

Note: 2015 figures adjusted by the number of shares post reverse-split.

2. EPRA NAV

EPRA Net Asset value - €m	12/2016	12/2015
NAV per the Consolidated financial statements	**2,302**	**1,837**
Include:		
(i.a) Revaluation of investment properties (if IAS 40 cost option is used)	11	8
(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	51	17
(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	2	4
(v.a) Deferred tax	221	100
(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	**2,587**	**1,966**
EPRA NAV - Euros per share	**7.25**	**6.16**
Basic Nº of shares (m)	**356.8**	**318.9**

3. EPRA NNNAV

EPRA Triple Net Asset value (NNNAV) - €m	12/2016	12/2015
EPRA NAV	**2,587**	**1,966**
Include:		
(i) Fair value of financial instruments	(2)	(4)
(ii) Fair value of debt	(79)	(27)
(iii) Deferred tax	(222)	(100)
EPRA NNNAV - €m	**2,284**	**1,835**
EPRA NNNAV - Euros per share	**6.40**	**5.75**
Nº of shares (m)	**356.8**	**318.9**

Note: 2015 figures adjusted by the number of shares post reverse-split.

4. EPRA Net Initial Yield & Topped-up Net Initial Yield

D. EPRA Net Initial yield & "Topped-Up" Net Initial Yield

Figures in €m		Barcelona	Madrid	Paris	Total 2016	Total 2015
Investment property – wholly owned		821	1,371	5,736	7,928	6,913
Investment property – share of JVs/Funds		na	na	na	na	na
Trading property (including share of JVs)		na	na	na	na	na
Less: developments		(60)	(203)	(313)	(576)	(321)
Completed property portfolio	**E**	**761**	**1,168**	**5,423**	**7,352**	**6,591**
Allowance for estimated purchasers' costs		20	28	332	380	309
Gross up completed property portfolio valuation (excl. projects)	**B**	**781**	**1,196**	**5,755**	**7,732**	**6,900**
Annualised cash passing rental income		31	51	170	252	218
Property outgoings		(2)	(4)	(3)	(9)	(12)
Annualised net rents	**A**	**29**	**47**	**167**	**243**	**206**
Add: notional rent expiration of rent free periods or other lease incentives		1	1	41	42	55
"Topped-up" net annualised rent	**C**	**30**	**48**	**208**	**286**	**262**
EPRA Net Initial Yield	**A/B**	**3.7%**	**4.0%**	**2.9%**	**3.1%**	**3.0%**
EPRA "Topped-Up" Net Initial Yield	**C/B**	**3.8%**	**4.0%**	**3.6%**	**3.7%**	**3.8%**
Gross Rents 100% Occupancy	F	34	55	218	307	294
Property outgoings 100% Occupancy		(1)	(4)	(3)	(8)	(5)
Annualised net rents 100% Occupancy	**D**	**33**	**51**	**215**	**299**	**289**
Net Initial Yield 100% Occupancy	**D/B**	**4.2%**	**4.3%**	**3.7%**	**3.9%**	**4.2%**
Gross Initial Yield 100% Occupancy	**F/E**	**4.5%**	**4.7%**	**4.0%**	**4.2%**	**4.5%**

5. EPRA Vacancy Rate

EPRA Vacancy Rate - Offices Portfolio

€m	2016	2015	Var. %
BARCELONA			
Vacant space ERV	1	3	
Portfolio ERV	33	31	
EPRA Vacancy Rate Barcelona	**3%**	**11%**	**(7 pp)**
MADRID			
Vacant space ERV	1	2	
Portfolio ERV	49	38	
EPRA Vacancy Rate Madrid	**3%**	**4%**	**(2 pp)**
Paris			
Vacant space ERV	7	12	
Portfolio ERV	188	185	
EPRA Vacancy Rate Paris	**4%**	**6%**	**(3 pp)**
TOTAL PORTFOLIO			
Vacant space ERV	9	17	
Portfolio ERV	270	255	
EPRA Vacancy Rate Total Office Portfolio	**3%**	**6%**	**(3 pp)**

EPRA Vacancy Rate - Total Portfolio

€m	2016	2015	Var. %
BARCELONA			
Vacant space ERV	1	3	
Portfolio ERV	35	33	
EPRA Vacancy Rate Barcelona	**3%**	**10%**	**(7 pp)**
MADRID			
Vacant space ERV	1	2	
Portfolio ERV	51	40	
EPRA Vacancy Rate Madrid	**3%**	**4%**	**(2 pp)**
Paris			
Vacant space ERV	7	12	
Portfolio ERV	224	222	
EPRA Vacancy Rate Paris	**3%**	**5%**	**(2 pp)**
TOTAL PORTFOLIO			
Vacant space ERV	9	17	
Portfolio ERV	310	295	
EPRA Vacancy Rate Total Portfolio	**3%**	**6%**	**(3 pp)**

6. EPRA Cost Ratios

EPRA Cost Ratios

Figures in €m		12/2016	12/2015
(i) Administrative/operating expense line per IFRS income statement		36	35
(ii) Net service charge costs/fees		18	23
(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		(5)	(5)
EPRA Costs (including direct vacancy costs)	**A**	**49**	**52**
(ix) Direct vacancy costs		(5)	(9)
EPRA Costs (excluding direct vacancy costs)	**B**	**44**	**43**
(x) Gross Rental Income less ground rent costs - per IFRS		271	231
(xi) Less: service fee and service charge costs components of Gross Rental Income (if relevant)		(9)	(6)
(xii) Add: share of Joint Ventures (Gross Rental Income less ground rents)		0	0
Gross Rental Income	**C**	**263**	**225**
EPRA Cost Ratio (including direct vacancy costs) (A/C)	**A/C**	**18.6%**	**23.3%**
EPRA Cost Ratio (excluding direct vacancy costs) (B/C)	**B/C**	**16.9%**	**19.1%**

(1) 2016: 35.8€m refer to administrative expense and 1.4€m refer to extraordinary operating expenses.
(2) 2015: 32.9€m refer to administrative expense and 1.9€m refer to extraordinary operating expenses.

Additional Disclosure		
Capitalized overhead costs[1]	0	0
Commercialisation fees[2]	2	7

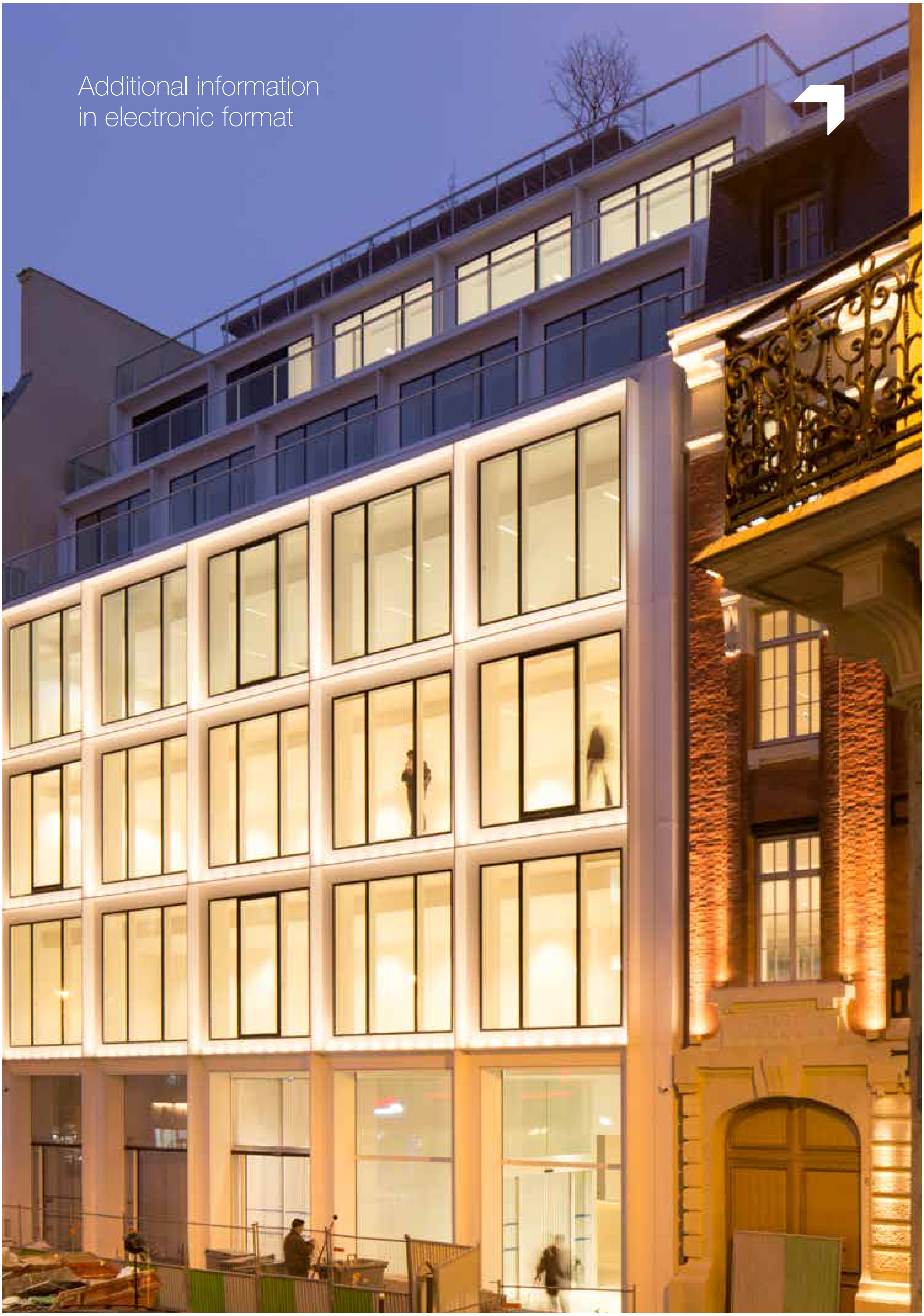
(1) Overheads which are directly and totally related to projects are capitalized.
(2) Commercialisation fees are registered as an asset.

7. EPRA Capex disclosure (€m)

Property-related CAPEX	12/2016	12/2015
Acquisitions [1]	168	239
Development (ground-up/green field/brown field)	71	107
Like-for-like portfolio	11	11
Other[2]	4	10
Capital Expenditure	**255**	**368**

(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.

Additional information in electronic format



Appendix 1.1 Consolidated balance sheet

€m **ASSETS**	**2016**	**2015**
Property investments	7,763	6,743
Other non-current assets	198	46
Non-current assets	**7,960**	**6,789**
Debtors and other receivables	125	85
Other current assets	142	242
Assets available for sale	0	13
Current assets	**267**	**340**
Total assets	**8,228**	**7,130**

€m **LIABILITIES**	**2016**	**2015**
Share capital	*892*	*797*
Reserves and others	*1,136*	*625*
Profit (loss) for the period	*274*	*415*
Equity	2,302	1,837
Minority interests	1,706	1,612
Net equity	**4,008**	**3,449**
Bond issues and other non-current issues	2,510	2,539
Non-current financial debt	712	442
Deferred tax	347	244
Other non-current liabilities	143	114
Non-current liabilities	**3,712**	**3,339**
Bond issues and other current issues	314	176
Current financial debt	89	54
Creditors and other payables	61	73
Other current liabilities	43	38
Current liabilities	**507**	**341**
Total equity & liabilities	**8,228**	**7,130**

MARKET VALUE RECONCILIATION	€m
Tangible fixed assets - own use [1]	39
Real estate investment (w/o advances on fixed assets) [2]	7,763
Value accounted on balance	**7,801**
Unrealised capital gains - own use	23
Not appraised	0
Fiscal adjustments	1
Rent free periods	103
Adjustments	**127**
Appraisal value according to external appraisers	**7,928**

(1) Included in the line of “Other non-current assets”.
(2) Included in the line of “Property Investments”.

Appendix 1.2 Financial results

The recurring financial results of the Group in 2016 were 3% lower than the same period of the previous year. This saving is mainly due to the reduction in the financial costs, which commenced in 2015 with a bond issue enabling Colonial's old syndicate loan to be cancelled (June 2015) and a liability management transaction carried out by SFL in November 2015. This continued in 2016 with the issuances carried out by Colonial together with the partial repurchase of Colonial's 4-year bond, all of which took place in the last quarter of 2016.

FINANCIAL RESULTS

December cumulative - €m	Spain	France	2016	2015	Var. % (1)
Recurring financial expenses - Spain	(35)	0	**(35)**	(37)	(4%)
Recurring financial expenses - France	0	(47)	**(47)**	(53)	(12%)
Recurring Financial Income	1	0	**1**	1	53%
Capitalized interest expenses	1	(0)	**1**	6	(88%)
Recurring Financial Result	**(34)**	**(47)**	**(80)**	**(83)**	**3%**
Non-recurring financial expenses	(22)	0	**(22)**	(40)	(46%)
Change in fair value of financial instruments	(1)	(2)	**(3)**	(8)	59%
Financial Result	**(57)**	**(48)**	**(105)**	**(131)**	**(20%)**

(1) Sign according to the profit impact.

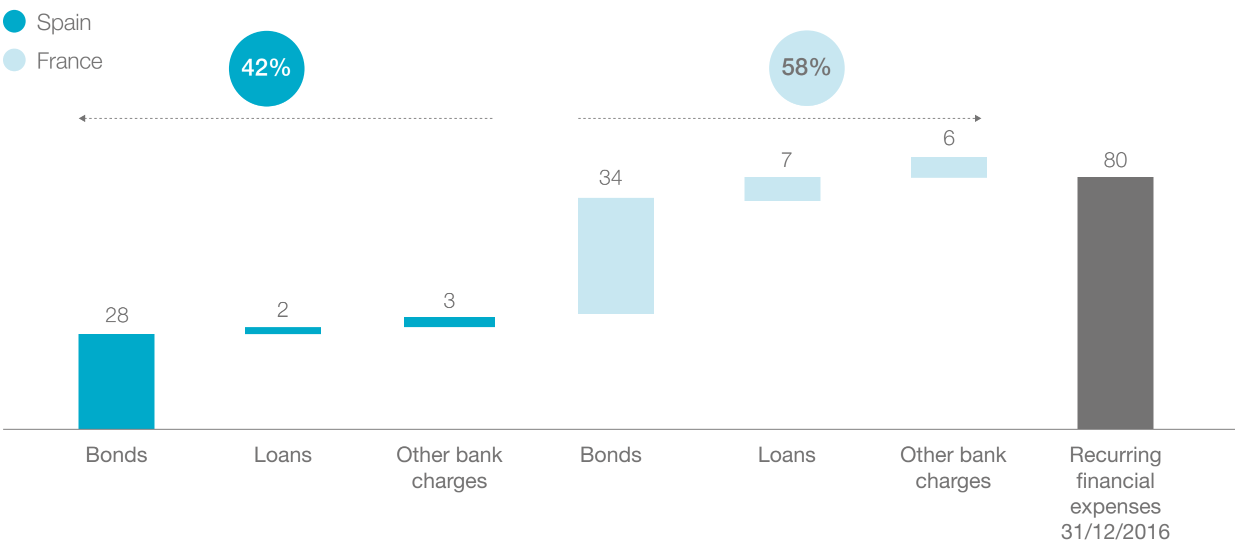
The breakdown of the recurring financial cost variance is as follows:

Regarding the non-recurring financial expense, the amount in 2016 mainly corresponds to the costs of the repurchase operation of the 2019 bond and the bond issuances. The non-recurring financial expense of 2015 refers to the close-out costs of the old syndicate loan, as well as the liability management transaction executed by SFL.

The average credit spread in 2016 amounted to 162 bps (versus 208 bps in the same period in 2015). The average spread of the current debt amounts to 156 bps.

The breakdown of the recurring financial cost during 2016 is as follows:

BREAKDOWN RECURRING FINANCIAL EXPENSES - DECEMBER 2016



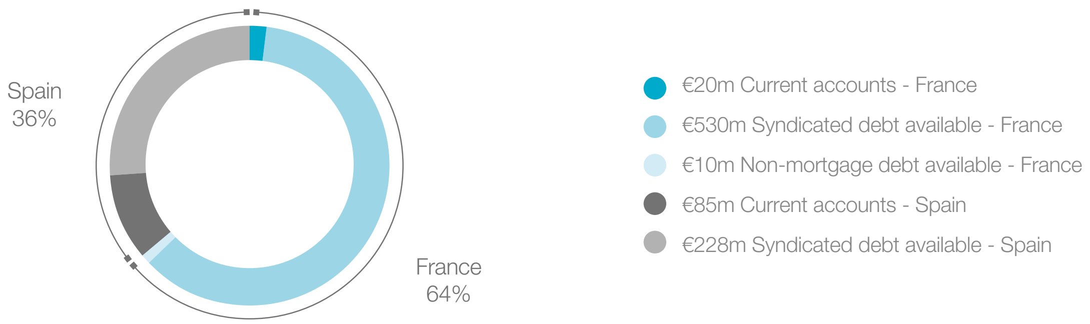
Appendix 1.3 Debt

Main leverage ratios and liquidity

As at 31 December 2016, the Colonial Group's net debt amounted to €3,528m. The LTV (Loan to Value) of the Group, calculated as the total net debt ratio between the total GAV of the Group, was 41.4%(1) (41.8% at 31 December 2015). The LTV of the parent company, calculated as the net debt of the parent company between the GAV of the parent company and the NAV of its subsidiaries, was 35.3%(2) (34.7% at 31 December 2015).

Cash & undrawn balances of the Colonial Group at 31 December 2016 amounted to €873m, and were distributed as shown in the graph below:

CASH & UNDRAWN BALANCES



MAIN LEVERAGE RATIOS

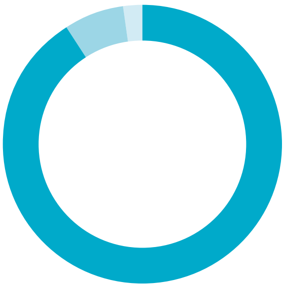
31/12/2016 - €m	**Holding**	**Group**
GAV incl. transfer costs(3)	4,439	8,520
Net debt - excluding committed cash	1,567	3,528
LTV incl. transfer costs	**35.3%**	**41.4%**

(1) Net debt / Growth GAV including transfer costs + NAV of 15.1% stake in Axiare + Treasury stock at NAV.
(2) Net debt Parent company / GAV including transfer costs + NAV of 58.5% in SFL + NAV of 15.1% stake in Axiare + Treasury stock at NAV.
(3) GAV Group 31/12/2016 including transfer cost + NAV 15.1% Axiare + Treasury shares.

The main characteristics of the Group's debt are shown below:

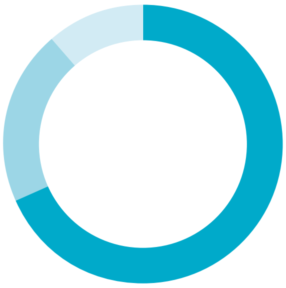
TYPE OF DRAWN DEBT - 31/12/2016

Spain



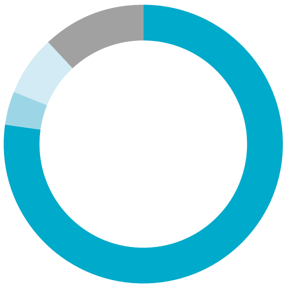
- 91% Bonds
- 7% Syndicate
- 2% Mortgage debt

France



- 67% Bonds
- 20% Mortgage debt
- 11% Non-mortgage debt

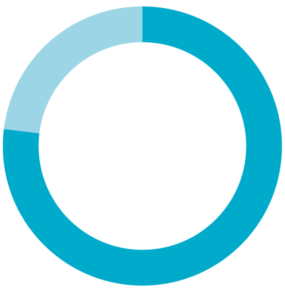
Group



- 78% Bonds
- 4% Syndicate
- 7% Mortgage debt
- 12% Non-mortgage debt

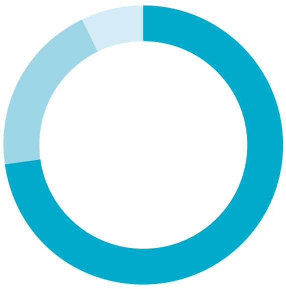
MATURITY OF CONTRACTED DEBT - 31/12/2016

Spain



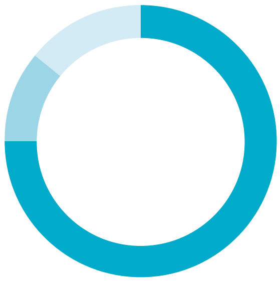
- 77% Less than 3 years
- 23% More than 3 years

France



- 73% More than 3 years
- 20% Less than 1 year
- 7% From 1 to 3 years

Group

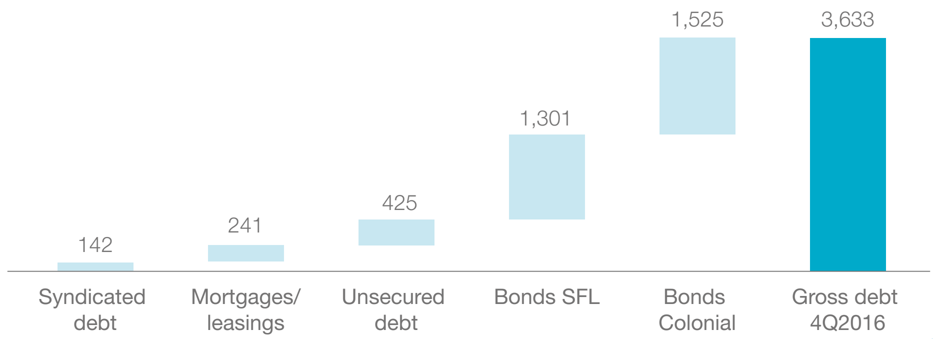


- 75% More than 3 years
- 11% Less than 1 year
- 14% From 1 to 3 years

	Spain	**France**	**Total**
Spread	161 p.b.	152 p.b.	156 p.b.
Cost of debt	196 p.b.	195 p.b.	196 p.b.
Average life of drawn down debt (years)	6.0	4.1	5.0
Average life of the contracted debt (years)	5.8	3.9	4.7
Contracted debt	€1,911m	€2,491m	€4,402m

The composition of the Group's debt at 31 December 2016 is as follows:

COMPOSITION OF THE DRAWN GROSS DEBT OF THE GROUP AT DECEMBER 31, 2016 - €M

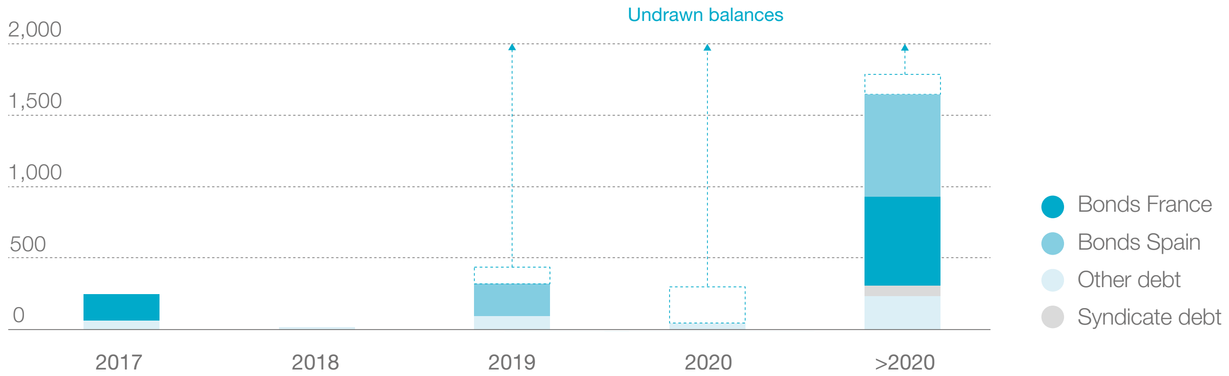


	Syndicated debt	Mortgages/ leasings	Unsecured debt	Bonds SFL	Bonds Colonial
Cost of debt	1.51%	1.43%	0.80%	2.39%	2.03%
Maturity (years)	4.3	5.2	2.7	4.4	6.1

Average cost of debt: 1.96% & Average of maturity 5.0 years

The breakdown of the debt in terms of maturity is as follows:

MATURITY PROFILE OF DRAWN DEBT

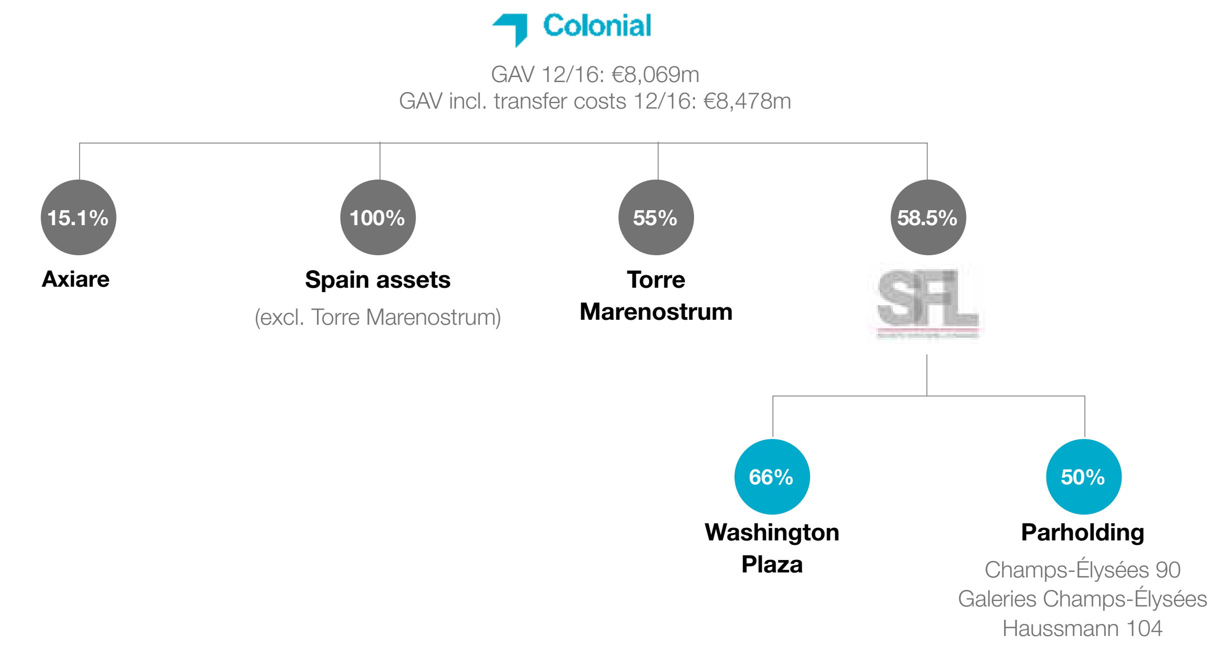


	2017	2018	2019	2020	>2020	
Spain	3	3	378	4	1,294	1,682
France	388	2	142	72	1,347	1,951
Total	**391**	**5**	**520**	**76**	**2,641**	**3,633**

As a result of the operations described above, Colonial has reduced the debt maturities for 2019 in Spain by 60% (€935m at 30 September vs €378m post-operations) with an average maturity of 5 years.

Appendix 1.4 Legal structure

COLONIAL GROUP



Appendix 1.5 Historical series

HISTORICAL SERIES BREAKDOWN

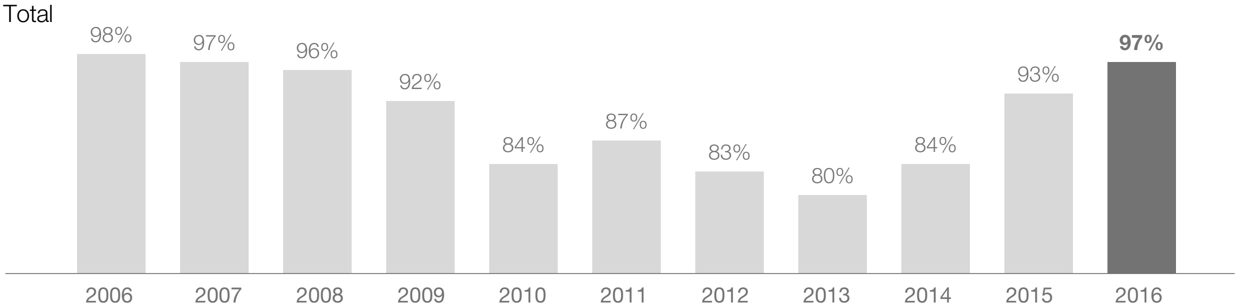
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Barcelona													
Physical Offices Occupancy (%)	97%	100%	99%	94%	95%	91%	78%	78%	79%	80%	77%	89%	**97%**
Rental revenues (€m)	55	53	56	60	51	49	39	32	31	28	28	27	**30**
Net Rental Income (€m)	53	51	55	58	49	47	37	28	27	25	23	23	**28**
NRI / Rental revenues (%)	95%	96%	97%	97%	96%	97%	93%	88%	89%	89%	85%	85%	**92%**
Madrid													
Physical Offices Occupancy (%)	93%	98%	99%	99%	94%	89%	88%	90%	75%	80%	89%	95%	**97%**
Rental revenues (€m)	37	44	68	70	56	50	47	45	44	35	32	35	**43**
Net Rental Income (€m)	34	42	66	66	52	46	42	41	40	30	28	31	**38**
NRI / Rental revenues (%)	93%	94%	96%	95%	92%	92%	90%	90%	90%	86%	85%	88%	**88%**
París													
Physical Offices Occupancy (%)	97%	96%	98%	99%	98%	94%	87%	92%	94%	80%	85%	95%	**97%**
Rental revenues (€m)	157	153	162	170	182	183	175	152	150	149	152	169	**198**
Net Rental Income (€m)	147	145	153	162	171	173	162	141	138	137	139	155	**188**
NRI / Rental revenues (%)	94%	95%	95%	95%	94%	94%	93%	93%	92%	92%	92%	92%	**95%**

Evolution of physical office occupancy

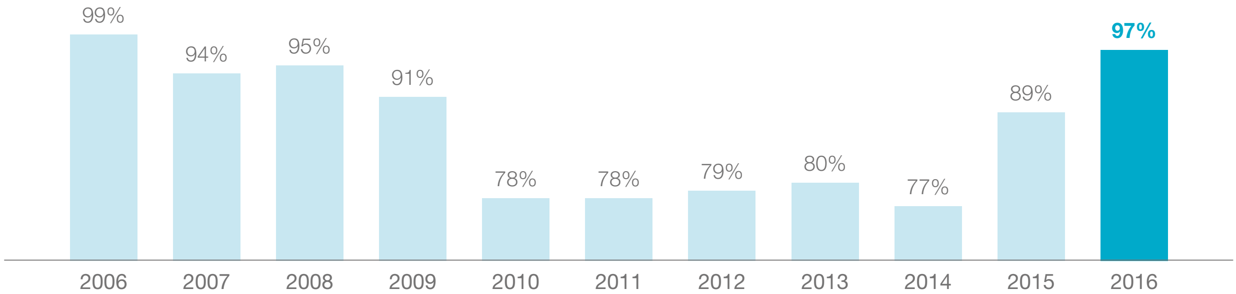
OFFICE OCCUPANCY[(1)] – EVOLUTION OF COLONIAL'S PORTFOLIO

Physical Occupancy (surface)

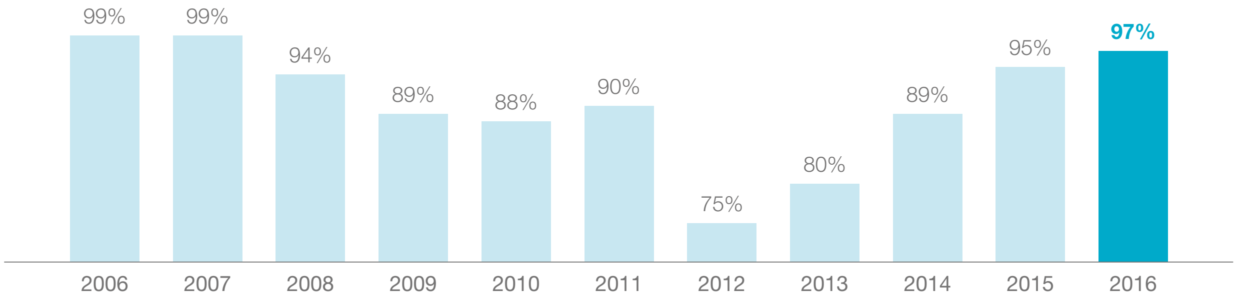
Total



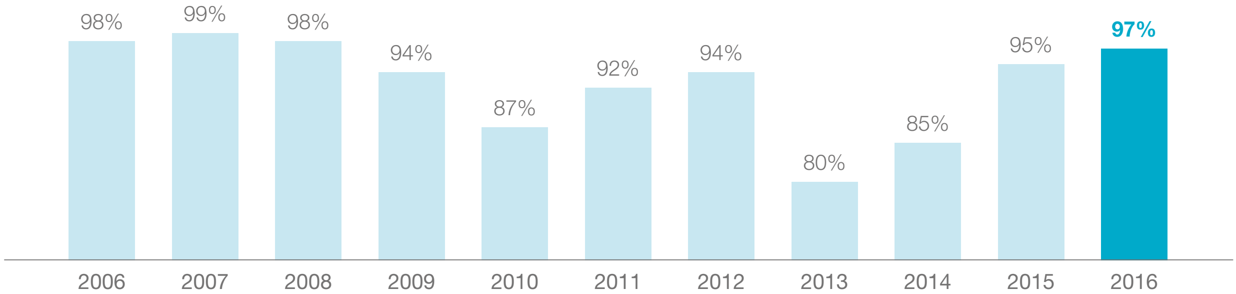
Barcelona



Madrid



Paris



(1) Occupied surfaces/Surfaces in operation.

2. Consolidated Financial Statements 2016

Inmobiliaria Colonial, S.A. and Subsidiaries
Consolidated Financial Statements for the year ended 31 December 2016, 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 25). In the event of a discrepancy, the Spanish-language version prevails.

Deloitte.

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08034 Barcelona
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Tel: +34 932 80 40 40
Fax: +34 932 80 28 10
www.deloitte.es

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 25). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Inmobiliaria Colonial, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

Directors' Responsibility for the Consolidated Financial Statements

The Parent's directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the consolidated equity, consolidated financial position and consolidated results of Inmobiliaria Colonial, S.A. and Subsidiaries in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain, identified in Note 2-a to the accompanying consolidated financial statements, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of Inmobiliaria Colonial, S.A. and Subsidiaries as at 31 December 2016, and their consolidated results and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

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

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2016 contains the explanations which the Parent's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2016. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Inmobiliaria Colonial, S.A. and Subsidiaries.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Francesc Ganyet

24 February 2017

Col·legi
de Censors Jurats
de Comptes
de Catalunya

DELOITTE, S.L.

Any 2017 Núm. 20/17/02248
CÒPIA

Informe d'auditoria de comptes subjecte a la normativa d'auditoria de comptes espanyola o internacional

Inmobiliaria Colonial, S.A. and Subsidiaries (Colonial Group)
Consolidated statement of financial position at 31 december 2016

Thousands of Euros

Assets	**Note**	**31 December 2016**	**31 December 2015**
Intangible assets		2,549	3,090
Property, plant and equipment	7	44,061	33,118
Investment properties	8	7,762,627	6,743,313
Non-current financial assets	9	150,676	8,954
Non-current deferred tax assets	16	454	865
Other non-current assets		–	156
Non-current assets		**7,960,367**	**6,789,496**
Non-current assets held for sale	22	–	12,727
Trade and other receivables	10	116,954	71,966
Current financial assets		441	9
Tax assets	16	44,689	37,552
Cash and cash equivalents	12	105,200	217,776
Current assets		**267,284**	**340,030**
Total assets		**8,227,651**	**7,129,526**

The accompanying Notes 1 to 25 and the Appendix are an integral part of the consolidated statement of financial position for the year ended 31 December 2016.

Inmobiliaria Colonial, S.A. and Subsidiaries (Colonial Group)

Consolidated statement of financial position at 31 december 2016

Thousands of Euros

Liabilities and equity	**Note**	**31 December 2016**	**31 December 2015**
Share capital		892,058	797,214
Share premium		731,326	560,606
Reserves of the Parent		250,634	1,163,954
Prior years' losses at the Parent		–	(1,147,975)
Reserves in consolidated companies		199,417	64,881
Valuation adjustments recognised in equity - financial instruments		(571)	(2,504)
Valuation adjustments on available-for-sale financial assets		1,317	–
Other equity instruments		3,697	2,895
Treasury shares		(49,811)	(17,065)
Profit for the year		273,647	415,413
Equity attributable to shareholders of the Parent		**2,301,714**	**1,837,419**
Non-controlling interests		**1,706,205**	**1,612,048**
Equity	11	**4,007,919**	**3,449,467**
Bank borrowings and other financial liabilities	12 and 13	777,531	512,615
Bonds and similar securities issued	12	2,509,956	2,539,285
Non-current deferred tax liabilities	16	356,658	246,980
Non-current provisions	15	13,674	12,519
Other non-current liabilities	14	54,630	28,018
Non-current liabilities		**3,712,449**	**3,339,417**
Bank borrowings and other financial liabilities	12 and 13	93,549	59,937
Bonds and similar securities issued	12	313,927	175,955
Trade payables	14	69,760	85,642
Tax liabilities	16	17,328	8,902
Current provisions	15	12,719	10,206
Current liabilities		**507,283**	**340,642**
Total equity and liabilities		**8,227,651**	**7,129,526**

The accompanying Notes 1 to 25 and the Appendix are an integral part of the consolidated statement of financial position for the year ended 31 December 2016.

Inmobiliaria Colonial, S.A. and Subsidiaries (Colonial Group)

Consolidated statement of comprehensive income for the year ended 31 december 2016

Thousands of Euros

Statement of comprehensive income	**Note**	**2016**	**2015**
Revenue	18-a	271,400	231,185
Other income	18-b	3,057	3,143
Staff costs	18-c	(22,293)	(23,296)
Other operating expenses	18-d	(33,481)	(36,481)
Depreciation and amortisation	7	(2,909)	(1,676)
Net change in provisions	18-e	(2,755)	(3,322)
Net gain/(loss) on sales of assets	18-f	(149)	–
Operating profit		**212,870**	**169,553**
Change in fair value of investment properties	18-f	560,777	719,982
Impairment charges and net gains/(losses) on assets	18-e	(4,373)	(2,474)
Finance income	18-g	3,559	10,466
Finance costs	18-g	(107,794)	(143,852)
Impairment of financial assets	18-g	(648)	2,267
Profit before tax		**664,391**	**755,942**
Income tax expense	16	(105,087)	(52,797)
Consolidated net profit		**559,304**	**703,145**
Net profit for the year attributable to the Parent		273,647	415,413
Net profit attributable to non-controlling interests	11	285,657	287,732
Basic earnings per share (€)	5	0.81	1.30
Diluted earnings per share (€)	5	0.81	1.30

The accompanying Notes 1 to 25 and the Appendix are an integral part of the consolidated statement of financial position for the year ended 31 December 2016.

Inmobiliaria Colonial, S.A. and Subsidiaries (Colonial Group)

Consolidated statement of comprehensive income for the year ended 31 december 2016

Thousands of Euros

Other comprehensive income	**Note**	**2016**	**2015**
Consolidated net profit		**559,304**	**703,145**
Other components of comprehensive income recognised directly in equity		**1,134**	**357**
Gains on hedging instruments	11 and 13	(244)	615
Gains on available-for-sale financial assets	9	1,317	–
Tax effect on prior years' profit or loss	11 and 13	61	(258)
Transfers to comprehensive income		**3,782**	**8,122**
Gains on hedging instruments	11 and 13	4,217	8,122
Tax effect on prior years' profit or loss	11 and 13	(435)	–
Consolidated comprehensive profit/(loss)		**564,220**	**711,624**
Comprehensive profit for the year attributable to the Parent		277,031	419,277
Comprehensive profit attributable to non-controlling interests		287,189	292,347
Comprehensive basic earnings per share (euros)		0.82	1.32
Comprehensive diluted earnings per share (euros)		0.82	1.32

The accompanying Notes 1 to 25 and the Appendix are an integral part of the consolidated statement of financial position for the year ended 31 December 2016.

Inmobiliaria Colonial, S.A. and Subsidiaries (Colonial Group)

Consolidated statement of changes in equity for the year ended 31 december 2016

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 2014	**11**	**797,214**	**560,606**	**1,165,187**	**(944,584)**	**(621,819)**
Total recognised income and expense for the period		–	–	–	–	–
Allocation of 2014 profit		–	–	–	(203,391)	695,385
Treasury share portfolio		–	–	(1,182)	–	(926)
Share-based payment transactions		–	–	–	–	–
Changes in scope of consolidation and other changes		–	–	(51)	–	(7,759)
Balance at 31 December 2015	**11**	**797,214**	**560,606**	**1,163,954**	**(1,147,975)**	**64,881**
Total recognised income and expense for the period		–	–	–	–	–
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)
Allocation of 2015 profit		–	–	28,535	208,982	130,063
Share-based payment transactions		–	–	–	–	–
Changes to consolidation scope		–	–	–	–	5,270
Other changes		–	–	–	–	64
Balance at 31 December 2016	**11**	**892,058**	**731,326**	**250,634**	**–**	**199,417**

The accompanying Notes 1 to 25 and the Appendix are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2016.

Valuation adjustments recognised in equity - financial instruments	Valuation adjustments on available-for-sale financial assets	Treasury shares	Other equity instruments	Profit/(loss)	Non-controlling interests	Total
(6,368)	**–**	**(21,291)**	**1,904**	**491,994**	**1,376,108**	**2,798,951**
3,864	–	–	–	415,413	292,347	711,624
–	–	–	–	(491,994)	(57,305)	(57,305)
–	–	(4,006)	–	–	70	(6,044)
–	–	–	991	–	873	1,864
–	–	8,232	–	–	(45)	377
(2,504)	**–**	**(17,065)**	**2,895**	**415,413**	**1,612,048**	**3,449,467**
2,067	1,317	–	–	273,647	287,189	564,220
–	–	–	–	–	–	263,659
–	–	–	–	–	–	–
–	–	(31,521)	–	–	(453)	(33,792)
–	–	–	–	(415,413)	(48,752)	(96,585)
–	–	–	629	–	462	1,091
(134)	–	(1,225)	–	–	(144,378)	(140,467)
–	–	–	173	–	89	326
(571)	**1,317**	**(49,811)**	**3,697**	**273,647**	**1,706,205**	**4,007,919**

Inmobiliaria Colonial, S.A. and Subsidiaries (Colonial Group)

Consolidated statement of cash flows for the year ended 31 december 2016

Thousands of Euros

Cash flows in continuing operations	**Note**	**2016**	**2015**
1. Cash flows from/(used in) operating activities			
Operating profit		212,870	169,553
Adjustments to profit			
Depreciation and amortisation (+)		2,909	1,676
Net change in provisions (+/–)	18	2,755	3,322
Others	18	(32,515)	3,351
Gains/(losses) on sale of investment property (+/-)	18	149	–
Adjusted profit/(loss)		**186,168**	**177,902**
Taxes paid (–)		(8,013)	(39,392)
Increase/(decrease) in current assets and liabilities			
Increase/(decrease) in receivables (+/–)		352	(13,230)
Increase/(decrease) in payables (+/–)		(16,127)	(15,754)
Increase/(decrease) in other assets and liabilities (+/–)		6,117	3,097
Total net cash flows in operating activities		**168,497**	**112,623**
2. Cash flows from/(used in) investing activities			
Investments in (–)			
Intangible assets		(1,154)	(708)
Property, plant and equipment	7	(2,776)	(165)
Investment properties	8	(171,368)	(324,604)
Equity investments, financial assets and other	2-f and 9	(275,732)	(28,869)
		(451,030)	**(354,346)**
Disposals of (+)			
Investment properties	8	17,054	–
		17,054	**–**
Total net cash flows in investing activities		**(433,976)**	**(354,346)**

The accompanying Notes 1 to 25 and the Annexe are an integral part of the consolidated statement of cash flows at 31 December 2016.

Thousands of Euros

Cash flows in continuing operations	Note	2016	2015
3. Cash flows from/(used in) financing activities			
Dividends paid (–)	11	(96,584)	(57,305)
Repayment of bank borrowings (–)	12	(292,657)	(1,104,350)
Repayment of debts with bondholders (–)	12	(530,799)	(243,500)
Interest paid (+/–)	18	(114,831)	(139,462)
Treasury share transactions (+/–)	11	(48,883)	(7,249)
		(1,083,754)	**(1,551,866)**
New bank borrowings obtained (+)	12	597,412	136,018
New bondholder borrowings obtained (+)	12	650,000	1,750,000
Expenses associated with capital increases	11	(1,905)	(51)
Other proceeds/(payments) for current financial assets and other (+/–)		(8,850)	(558)
		1,236,657	**1,885,409**
Total net cash flows in financing activities		**152,903**	**333,543**
4. Net increase / decrease in cash and cash equivalents			
Net cash flow for the period in continuing activities		**(112,576)**	**91,820**
Cash and cash equivalents at beginning of period	**14**	**217,776**	**125,956**
Cash and cash equivalents at end of year	**14**	**105,200**	**217,776**

Inmobiliaria Colonial, S.A.
and Subsidiaries
Notes to the consolidated financial statements for the year ended 31 December 2016

1. Colonial Group business activity

Group activity

Inmobiliaria Colonial, S.A. (formerly Grupo Inmocaral, S.A., incorporated as Grupo Fosforera, S.A., hereinafter, the "Parent") is a public limited company incorporated in Spain, for an indefinite period, on 8 November 1956. Its registered offices are at Avenida Diagonal 532, in Barcelona.

The activity of the Parent and its subsidiaries (hereinafter, the "Group" or the "Colonial Group") is the lease and disposal of movable property and property, which it carries on in Spain (mainly in Barcelona and Madrid) and in France (Paris), through the group of which the parent is Société Foncière Lyonnaise, S.A. (hereinafter, the "SFL subgroup" or "SFL" for the subsidiary).

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

On 30 August 2016 the Parent Company obtained a "BBB-" long-term credit rating and an "A-3" short-term credit rating from Standard & Poor's Rating Credit Market Services Europe Limited, unchanged from the rating obtained on 5 June 2015.

In view of the business activity carried out by the Group, it does not have any environmental expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position or performance. Therefore, no specific disclosures relating to environmental issues are included in these notes to the consolidated financial statements. However, the Group does apply an active 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 have been prepared under the International Financial Reporting Standards (IFRSs) as adopted by the European Union, taking into account all mandatory accounting policies, rules and measurement bases, the Spanish Code of Commerce, the Spanish Limited Liability Companies Law, the Spanish Securities Market 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 2016 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, S.A. and Subsidiaries for the year ended 31 December 2016 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 meeting held on 24 February 2017.

However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements at 31 December 2016 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 International Financial Reporting Standards.

In order to present the various items that make up the consolidated financial statements on a consistent basis, the accounting policies 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 2015 were approved by the shareholders of the Parent at the General Meeting held on 28 June 2016.

b) Adoption of International Financial Reporting Standards

The Colonial Group's consolidated financial statements are presented in accordance with International Financial Reporting Standards, pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002. In Spain, the requirement to present consolidated financial statements under European IFRSs is established in final provision eleven of Law 62/2003, of 30 December, on tax, administrative and social order measures.

The main accounting principles and measurement bases adopted by the Colonial Group are detailed in Note 4.

Standards and interpretations effective in 2016

New accounting standards became effective in 2016 and were accordingly taken into account when preparing these consolidated financial statements. The new standards are as follows:

Approved for use in the European Union	Mandatory application for annual periods beginning on or after
• Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (issued in November 2013) The amendment permits contributions to be recognised as a reduction in the service cost in the period in which payment for the related service is made, if certain requirements are met.	1 February 2015 (1)
• Improvements to IFRSs 2010-2012 Cycle (issued in December 2013) Minor amendments to a series of standards.	1 February 2015 (1)
• Amendments to IAS 16 and IAS 38 Acceptable Methods of Depreciation and Amortisation (issued in May 2014) Clarifies acceptable methods of depreciation for property, plant and equipment and amortisation for intangible assets, not including revenue-based methods.	1 January 2016
• Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014) Specifies how to account for the acquisition of an interest in a joint operation that constitutes a business.	1 January 2016
• Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (issued in June 2014) Bearer plants will now be recognised at cost, instead of at fair value.	1 January 2016
• Improvements to IFRSs 2012-2014 Cycle (issued in September 2014) Minor amendments to a series of standards.	1 January 2016
• Amendments to IAS 27 Equity Method in Separate Financial Statements (issued in August 2014) Application of the equity method will be allowed in separate financial statements of an investor.	1 January 2016

(1) The IASB effective date for the standard was for annual periods beginning on or after 1 July 2014.

Approved for use in the European Union	Mandatory application for annual periods beginning on or after
• Amendments to IAS 1: Disclosure Initiative (issued in December 2014) Miscellaneous clarifications regarding disclosures (materiality, aggregation, order of notes, etc.).	1 January 2016
• Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities (issued in December 2014) Clarifications on applying the consolidation exception to investment entities.	1 January 2016

Standards and interpretations issued but not yet effective

At the date of authorisation for issue of these consolidated financial statements, the following standards and interpretations had been issued by the IASB but had not yet become effective, either because they came into effect after the date of the consolidated financial statements or because they had yet to be endorsed by the European Union:

New standards, amendments and interpretations	Mandatory application for annual periods beginning on or after
Approved for use in the European Union	
• IFRS 15 Revenue from Contracts with Customers (issued in May 2014) New standard for the recognition of revenue (substitutes IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31).	1 January 2018
• IFRS 9 Financial Instruments (last phase issued in July 2014) Replaces the rules for the classification, measurement, recognition and derecognition of financial assets and liabilities, hedge accounting and impairment established in IAS 39.	1 January 2018
Not yet approved for use in the European Union	
• Clarifications to IFRS 15 (issued in April 2016) These relate to the identification of performance, of principal versus agent, concession of licences and their accrual at a point in time and over time, as well as some clarifications to the transition rules.	1 January 2018
• IFRS 16 Leases (issued in January 2016) Replaces IAS 17 and the related interpretations. The fundamental development is that the new standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases (with a few limited exceptions) with a similar impact to the current financial leases (the right-of-use asset is depreciated and there is a financial cost for the amortised cost of the liability).	1 January 2019
• Amendments to IAS 7 Disclosure Initiative (issued in January 2016) Introduces additional disclosure requirements in order to improve the information provided to users.	1 January 2017
• Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (issued in January 2016) Clarification of the principles established for recognition of deferred tax assets for unrealised losses.	1 January 2017

New standards, amendments and interpretations	Mandatory application for annual periods beginning on or after
Not yet approved for use in the European Union	
• Amendments to IFRS 2 Classification and Measurement of Share-based Payments (issued in June 2016) Narrow scope amendments to clarify specific questions such as the effect of accrual conditions for cash-settled share-based payments, the classification of share-based payments settled net of tax withholdings, and certain aspects of modifications in the type of share-based payments.	1 January 2018
• Amendments to IFRS 4 Insurance Contracts (issued in September 2016) Allows entities within the scope of IFRS 4 the option to apply IFRS 9 (Overlay Approach) or its temporary exemption.	1 January 2018
• Amendments to IAS 40 Reclassification of Investment Property (issued in December 2016) The modification clarifies that a reclassification of an investment to or from investment property takes place only when there is evidence of a change in use.	1 January 2018
• 2014-2016 IFRS Improvements Cycle (issued in December 2016) Minor amendments to a series of standards (varying effective dates).	1 January 2018
• IFRIC 22 Foreign Currency Transactions and Advance Consideration (issued in December 2016) This interpretation establishes the “transaction date”, for the purposes of determining the applicable exchange rate for prepayments in foreign currencies.	1 January 2018
• Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014) Clarification regarding the results of these transactions if they are businesses or assets.	No date specified

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 property, plant and equipment for own use and investment property (Notes 7 and 8).

  This market value was obtained from the appraisals periodically made by independent experts. Such appraisals were made on 30 June 2016 and 31 December 2016 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 necessary provisions for insolvent accounts receivable (Note 4-f).

– 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 (Note 4-s).

– The market value of certain financial assets, including derivative financial instruments (Notes 9 and 13).

– Evaluation of lawsuits, obligations and contingent assets and liabilities at year-end (Notes 15 and 17).

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 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, S.A. and its subsidiaries, 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 earnings from the effective date of acquisition or until the effective 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 Group's Parent.

5. The interest of non-controlling shareholders is established in proportion to the fair values of the identifiable assets and liabilities recognised. The share of non-controlling interests in:

   a) Investees' equity: recognised under the heading "Non-controlling interests" in the equity section of the consolidated statement of financial position.

   b) Profit or loss for the year: recognised under the heading "Profit/(loss) 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 purchase 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 2016 and 2015 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 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. Of this amount, payment of 15,680 thousand euros was deferred until 25 May 2018, and has been recognised under "Other non-current liabilities" in the consolidated statement of financial position. A guarantee was extended for the deferred portion (Note 14). In addition, the Parent has recognised all of the contingent consideration as an increase in the cost of the asset based on the definitive calculation in the purchase agreement totalling 4,600 thousand euros (Note 14) since the accrual of that consideration has been deemed to be probable.

– On 29 June 2016, the Parent and Reig Capital Group Luxembourg Sàrl (hereinafter, "Reig") reached an agreement whereby the Parent would acquire 2,038,956 shares in the subsidiary SFL (4.38% of its capital). 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) valued at 63,564 thousand euros; and (ii) the sale to the Parent of 1,019,478 shares at the price of 50.00 euros per share (for a total of 50,974 thousand euros). Following the transactions, the Parent holds 26,765,356 shares in the subsidiary SFL (57.52% of its total capital). Accordingly, equity attributable to the Parent increased by 2,011 thousand euros.

– On 30 June 2016, the Parent Company 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), valued at 202,000 thousand euros.

– On 4 August 2016, the Parent Company and APG Strategic Real Estate Pool (hereinafter, "APG") reached an agreement whereby the Parent Company would acquire 475,247 shares in the subsidiary SFL (1.02% of its capital). The acquisition was carried out through two transactions: (i) the contribution to the Parent of 237,463 shares in SFL in consideration for the subscription of 2,116,508 shares in Colonial (Note 11) valued at 13,922 thousand euros; and (ii) the sale to the Parent of 237,624 shares at the 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.

– On 29 December 2016, the Parent Company 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 fixed assets (Note 7), for 47,678 and 8,842 thousand euros, respectively.

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

– On 28 May 2015, the Parent acquired 100% of the share capital of the Spanish company Danieltown Spain, S.L., the owner of a building on calle Estébanez Calderón in Madrid. The acquisition price was 30,038 thousand euros. This acquisition did not have a significant effect on equity, assets or the Group's profit and loss.

At 31 December 2016 and 2015, Colonial Invest, S.L.U., Colonial Tramit, S.L.U., SB2 SAS, SB3 SAS and SCI SB3 were inactive subsidiaries.

g) Financial position

At 31 December 2016, the Group reports negative working capital totalling 239,999 thousand euros, mainly due to the reclassification to current liability of the outstanding nominal amount of the issue of SFL obligations maturing in November 2017. When preparing these consolidated financial statements, the Parent directors took into account the capacity for additional provisions obtained by the Group (Note 12).

h) Comparative information

The information relating to 2016 included in these notes to the consolidated financial statements is presented, for comparison purposes, with the information relating to 2015.

i) 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.

j) 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 of 2015.

3. Distribution of the Parent's profit

The distribution of profit from 2016 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	**54,839**
To the legal reserve	5,484
To dividends	49,355

The Parent Company's Board of Directors will submit for approval at the Annual General Meeting a proposed distribution of dividends totalling 0.165 euros per share, which would give rise to a total maximum dividend of 58,876 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).

In the past 5 years, the Parent Company distributed the following dividends:

Thousands of euros

	2011	2012	2013	2014	2015
Dividends distributed	–	–	–	–	47,833

4. Accounting policies

The main accounting policies used to prepare the consolidated financial statements, in accordance with IFRSs and the interpretations in force when these consolidated financial statements were prepared, are as follows:

a) Business combinations and intangible assets

Business combinations

Business combinations are accounting for by applying the acquisition method (Note 2-e).

The cost of the business combination is allocated at the acquisition date by recognising all the identifiable assets, liabilities and contingent liabilities of the acquiree which meet the criteria for recognition under IFRS 3 at fair value. 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.

If the cost of the business combination is less than the acquiree's assets, liabilities and contingent liabilities acquired, the difference is recognised in profit or loss for the year in which it is incurred.

Intangible assets

As a general rule, intangible assets are initially measured at their purchase price or their 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)

Property for own use

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

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

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

Other property, plant and equipment

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

The costs of expansion, modernisation or improvement leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of assets are capitalised as an increase in the cost of the related assets, while upkeep and maintenance costs are charged to the consolidated statement of comprehensive income for the year in which they are 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
Properties		
Buildings	50	50
Fixtures	10 to 15	10 to 50
Other installations, tools and furniture	4 to 10	10 to 50
Other property, plant and equipment	**4 to 10**	**5 to 40**

Gains or losses arising on the disposal or derecognition of an asset 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 carried at fair value at the reporting date and is not depreciated.

The gains or losses arising from fluctuations in the fair value of investment property are taken to income in the same period in which they occur, and are recognised under “Change 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 rehabilitation or renovation project will exceed 1 year in length.

When the Group recognises in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognises the carrying amount of the replaced part, recognising the impact under “Impairment charges and net gains/(losses) on assets” in the consolidated statement of comprehensive income. If the fair value of the assets replaced cannot be reliably determined, the cost of the replacement is included in the carrying amount of the property, whose fair value is later 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 (JLL Valoraciones in 2016 and 2015 and CBRE Valuation Advisory in 2016 in Spain and CBRE, Jones Lang LaSalle and BNP Paribas Real Estate in France, for both 2016 and 2015) at the date of preparation of 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 2016 and 2015.

The DCF method applied over a 10-year horizon is used, in accordance with current market practices, unless the specific characteristics of an 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 the increases in the CPI, the generally accepted forecasts are normally adopted.

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

The 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 valuers 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 2016 and 2015 are set out in the tables below:

Yields (%) – Offices	Gross 31 December 2016	Gross 31 December 2015
Barcelona – *Prime Yield*		
Leased out	5.10	5.54
Total portfolio	5.17	5.57
Madrid – *Prime Yield*		
Leased out	4.75	4.92
Total portfolio	4.77	4.91
Paris – *Prime Yield*		
Leased out	3.70	4.08
Total portfolio	3.70	4.08

Assumptions made at 31 December 2016

Rental 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

Assumptions made at 31 December 2015

Rental increases (%) – Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Leased out	0.5	0.75	1.25	2.0	2.0
Total portfolio	0.5	0.75	1.25	2.0	2.0
Madrid –					
Leased out	0.5	0.75	1.25	2.0	2.0
Total portfolio	0.5	0.75	1.25	2.0	2.0
Paris –					
Leased out	0.8	1.40	2.0	1.9	1.9
Total portfolio	0.8	1.40	2.0	1.9	1.9

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 2016 and 2015 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 2016	7,927,918	518,842	(454,174)
December 2015	6,912,522	431,620	(383,189)

Although the sensitivity of other key variables was considered, it 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 table below details the borrowing costs capitalised in 2016 and 2015 (Note 18-g):

	Thousands of euros Amount capitalised during the period	Average interest rate
2016:		
Inmobiliaria Colonial, 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**	**–**
2015:		
Danieltown Spain S.L.U.	1	3.40%
SFL subgroup	6,048	2.77%
Total 2015:	**6,049**	**–**

The income earned in 2016 and 2015 from the lease of investment properties amounted to 271,400 thousand and 231,185 thousand euros, respectively (Note 18-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 lessees (Note 4-q).

Assets held under finance leases

The rights of use and purchase options arising from property, plant and equipment and investment properties classified as finance leases are recorded at the asset's cash value at acquisition, according to the underlying asset whenever the lease terms transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group. At 31 December 2015, all these rights related to investment property and are therefore measured at market value and are not depreciated. The Group did not recognise any assets classified as finance leases at 31 December 2016 (Note 12).

"Bank borrowings and other financial liabilities" (Note 12), both current and non-current, in the consolidated statement of financial position include the total liability from lease payments at their present value less deferred expenses. Financial transaction expenses are charged to the consolidated statement of comprehensive income each time a lease payment is made throughout the life of the lease in accordance with financial criteria.

All other leases are deemed to be operating leases and are expensed on an annual accrual basis.

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). 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 made with official entities in connection with security deposits collected from lessees, in accordance with prevailing legislation.

– Non-derivative financial assets: this heading includes current and non-current fixed income securities generally held to maturity, which are measured at amortised cost. Short-term 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 on a time proportion basis.

– 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, recognising the result of the variations said fair value in equity. The Group considers that the best approximation of the fair value of holdings in companies engaging in property business, and whose assets fundamentally consist of investment properties, is the EPRA NNNAV or EPRA NAV Triple Net.

Financial liabilities (Note 12)

Financial liabilities consist primarily of bank borrowings 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)

Receivables are carried at recoverable value, i.e., net, where applicable, of the provisions recognised to cover past-due balances where circumstances warrant their consideration as bad debts. At 31 December 2016 and 2015, the Group had no significant receivables past due but not impaired.

In 2016, impairment losses in the amount of 2,896 thousand euros relating to accounts receivable were charged to “Net change in provisions” in the consolidated statement of comprehensive income for the year.

g) Cash and cash equivalents (Note 12)

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

Financial investments that are easily convertible into a certain amount of cash and that are not subject to any significant risk of changes in value are deemed 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 assets 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 (Notes 15 and 17)

In preparing the consolidated financial statements, the Parent’s directors distinguish between:

– Provisions: credit balances covering 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: possible obligations arising as a consequence of past events, depending on the occurrence of one or more future events over which the consolidated companies do not have control.

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 (Note 15). Contingent liabilities are not recognised, but are disclosed in Note 17.

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 which can be reasonably quantified are recorded as a cost in the financial year in which the decision to terminate the contract is taken and a reasonable expectation regarding termination is transmitted to third parties. At 31 December 2016, the Parent did not record any provisions in this connection.

Pension obligations (Note 15)

In 2016 the Parent Company 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.

The contributions made by the Parent Company in this respect in 2016 amount to 235 thousand euros and are recognised under the heading “Staff costs” in the income statement (Note 18-c). No amounts pending contributions to this pension plan exist at the end of 2016.

At 31 December 2016, the SFL subgroup had several defined-benefit pension plans. Defined benefit obligations are calculated periodically 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 17. 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.

Share-based payments (Note 19)

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 2016 and 2015).

The following valuation criteria have been applied:

– Cash flow hedges: fair value gains or losses arising on transactions which classify for hedge accounting are recorded, net of taxes, directly in equity, under "Valuation adjustments recognised in equity - financial instruments", until the underlying or expected transaction occurs, at which point gains and losses are released to the consolidated statement of comprehensive income. Any valuation gains and losses on the ineffective portion of the hedge are recognised directly in the consolidated statement of comprehensive income.

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

In accordance with IFRS 13, the Group estimated the credit risk 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 accumulated directly in equity remain in equity until the related transaction materialises. Once the related cash flow occurs, any cumulative gain or loss recognised in equity is transferred to the consolidated statement of comprehensive income for the year. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the period.

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 hedged liability.

A hedging instrument is considered effective if this statistical correlation is between 0.8 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 a calendar year and, therefore, assets and liabilities maturing in one year or less are classified as current assets and those maturing in more than that time are classified as non-current assets, except for receivables deriving from the recognition of income associated with incentives or grace periods (Notes 4-n and 10) which are applied on a straight-line basis over the term of the lease agreement and are considered to be a current asset.

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 analogous 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 the gains on which 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 enacted or substantively enacted by 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, deferred tax assets not recognised in the consolidated statement of financial position are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that they will be recovered through future taxable profits. 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 fair value model of IAS 40, there is a rebuttable 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 and in companies that form part of the tax group, were calculated by applying a tax rate of 25%, less any existing tax credits not recognised at 31 December 2016. The effective settlement rate was therefore 18.75% (compared to the 7.5% at 31 December 2015).

The Parent heads a group of companies filing consolidated tax returns under tax group no. 6/08.

SIIC regime – SFL subgroup

Since 1 January 2003, the SFL subgroup companies file under the French tax regime applicable to listed property investment companies ("the SIIC regime"). This regime enabled on this date the recognition at market value of assets allocated to the rental business, subject to a tax rate of 16.5% (hereinafter, "exit tax"), payable within a period of four years, on the capital gains recorded for accounting purposes at 1 January 2003.

This regime affects only property 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 joint ventures.

This regime affords the SFL subgroup an exemption from taxes on earnings generated by the rental business and on capital gains generated by the sale of properties, provided that 95% of profit from that activity and 60% of the capital gains obtained on property sales of companies availing themselves of such arrangement are distributed each year in the form of dividends.

On 30 December 2006, a new amendment to the SIIC regime was passed ("SIIC 4") which stipulated, inter alia, the following:

– To be able to continue under this regime, the maximum holding an individual shareholder may own in an SIIC company is 60%. A two-year transition period was established for meeting this requirement, which meant a deadline of 30 December 2008.

– Dividends paid annually to shareholders that hold, directly or indirectly, more than 10% of the capital of an SIIC and which are exempt from tax or are subject to a tax that is less than two-thirds of the standard French income tax rate would be subject to a 20% levy, payable by the SIIC company. This rule applies to dividends distributed from 1 July 2007.

On 18 December 2008, a new amendment to the SIIC regime ("SIIC 5") was approved, postponing the deadline for limiting the maximum holding of a single shareholder in an SIIC company to 60% until 1 January 2010. The Parent maintains an ownership interest in SFL of less than 60%.

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 application of the deduction for double taxation of these dividends. As a result, the 20% withholding described above is not being applied.

n) Recognition of revenue and expenses (Note 18)

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 IFRS conceptual framework, the Group recognises all accrued revenue and necessary associated expenses. Revenue from goods sold is recognised when the goods have been delivered and ownership transferred.

Interest income is accrued on a time proportion basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts over the expected life of the financial asset to that asset's carrying amount.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established, i.e., when the shareholders at the Annual General Meetings of the investees approve the distribution of the related dividend.

Property leases

In accordance with IAS 17, leases are classified as finance leases whenever their terms imply that substantially all the risks and rewards incidental to ownership of the leased asset have been transferred. All other leases are classified as operating leases. At 31 December 2016 and 2015, all of the Group's leases qualified as operating leases.

Rental income from operating leases is recognised on a straight-line basis over the lease term.

Specific lease terms and conditions

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 over the term of the lease on a straight-line basis. The effects of the rent-free periods are recognised during the minimum term of the lease agreement.

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 of payment.

o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of property developments (Note 4-c), which are assets that require preparation during a significant period of time for their intended use or sale, are capitalised until these assets in condition 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, which are highly liquid short-term investments subject to an insignificant risk of changes in value.

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

– Investing activities: the acquisition, 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 operating activities.

q) Costs passed on to lessees

In accordance with IFRSs, the Group does not consider costs passed on to lessees of its investment property as revenue. In 2016 and 2015, the Group invoiced 48,400 thousand and 45,357 thousand euros, respectively. Expenses incurred in connection with investment properties that did not generate rental income were not material.

Direct operating expenses associated with investment properties which generated rental income during the years ended 31 December 2016 and 2015, included under “Operating profit” in the accompanying consolidated statement of comprehensive income, amounted to 66,720 thousand and 63,010 thousand euros, respectively. 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 at market prices. 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 22)

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 officially approved the disposal and the sale is considered highly probable within a period of twelve months. The accompanying consolidated statement of financial position includes under this heading all the assets which at the date of authorising these consolidated financial statements for issue met all the requirements for classification as held for sale.

t) Fair value hierarchy

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 2016 and 2015 was not considered to be material.

The detail of the Group's assets and liabilities measured at fair value according to the aforementioned levels is as follows:

31 December 2016
Thousands of euros

	Level 1	Level 2	Level 3
Assets			
Investment property	–	–	7,762,627
Non-current financial assets available for sale	–	–	138,293
Total assets	**–**	**–**	**7,900,920**
Liabilities			
Bank borrowings and other liabilities	–	–	871,080
Bonds and similar securities issued (**)	2,917,451	–	–
Derivative financial instruments (*):			
Not classified as hedges	–	3,414	–
Total liabilities	**2,917,451**	**3,414**	**871,080**

(*) At 31 December 2016, the fair value of the derivative financial instruments did not differ significantly from the carrying amount recognised in the accompanying consolidated statement of financial position (Note 13).
(**) At 31 December 2016, the carrying amount of the bonds issued by SFL and the Parent was 1,300,700 and 1,525,000 thousand euros, respectively. (Note 12).

31 December 2015
Thousands of euros

	Level 1	Level 2	Level 3
Assets			
Investment property	–	–	6,743,313
Non-current assets held for sale	–	–	12,727
Total assets	**–**	**–**	**6,756,040**
Liabilities			
Bank borrowings and other liabilities	–	–	573,516
Bonds and similar securities issued (**)	2,732,273	–	–
Derivative financial instruments (*):			
Cash flow hedges	–	3,058	–
Not classified as hedges	–	2,778	–
Total liabilities	**2,732,273**	**5,836**	**573,516**

(*) At 31 December 2015, the fair value of the derivative financial instruments did not differ significantly from the carrying amount recognised in the accompanying consolidated statement of financial position (Note 13).
(**) At 31 December 2015, the carrying amount of the bonds issued by SFL and the Parent was 1,456,500 and 1,250,000 thousand euros, respectively. (Note 12).

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.

Diluted earnings per share are calculated in a manner similar to basic earnings per share, except that the weighted average number of shares outstanding is adjusted to take into account the potential dilutive effect of the convertible bonds outstanding at year-end. At 31 December 2016, there were no bonds pending conversion to shares in the Parent.

At the General Meeting held on 28 June 2016, shareholders approved a reverse stock split whereby every 10 existing shares would be swapped for one newly-issued share (Note 11). Consequently, the basic and diluted earnings per share is calculated in accordance with IFRS, taking into account that said operation was performed at the start of the first period presented, that being 1 January 2015.

Thousands of euros

	31 December 2016	31 December 2015
Consolidated profit for the year attributable to shareholders of the Parent:	**273,647**	**415,413**
– from continuing operations	273,647	415,413
	No. of shares	**No. of shares**
Weighted average number of ordinary shares (in thousands)	336,240	318,584
Weighted average number of ordinary shares - diluted (in thousands)	336,240	318,584
	Euros	**Euros**
Basic and diluted earnings per share:	**0.81**	**1.30**
– from continuing operations	0.81	1.30

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 segments described below have been defined in line with the Colonial Group's organisational structure at 31 December 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 as that used to prepare 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. The Group has included within segment revenue its share of revenue of proportionally consolidated joint ventures.

Segment expenses comprise operating expenses directly attributable to each segment and losses on the sale of investment properties. Allocated expenses do not include interest expense, income tax or general administrative expenses incurred in the provision of general services that are not directly allocated to any business segment and that cannot be so allocated following any rational criteria. Segment expenses include the share of expenses of proportionately consolidated joint ventures.

Segment assets and liabilities are those directly related to that business' activities and operations. They include the share of assets/liabilities of proportionately consolidated joint ventures. 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:

2016 segment reporting

Thousands of euros

	Rentals						
	Barcelona	**Madrid**	**Paris**	**Other**	**Total rentals**	**Corporate Unit**	**Total Group**
Income							
Revenue (Note 18-a)	30,343	42,558	198,137	362	271,400	–	**271,400**
Other income (Note 18-b)	8	11	2,640	–	2,659	398	**3,057**
Net gain/(loss) on sales of assets (Notes 18-f)	557	(706)	–	–	(149)	–	**(149)**
Operating profit/(loss)	28,357	35,209	190,522	207	254,295	(41,425)	**212,870**
Change in fair value of investment property (Note 18-f)	44,673	77,130	438,040	934	560,777	–	**560,777**
Impairment charges and net gains/(losses) on assets (Note 18-e)	(7,531)	–	–	–	(7,531)	3,158	**(4,373)**
Financial gain/loss (Note 18-g)	–	–	–	–	–	(104,883)	**(104,883)**
Profit before tax	–	–	–	–	–	664,391	**664,391**
Consolidated net loss from continuing operations	–	–	–	–	–	559,304	**559,304**
Profit from discontinued operations	–	–	–	–	–	–	**–**
Consolidated net profit	–	–	–	–	–	559,304	**559,304**
Net loss attributable to non-controlling interests (Notes 18-i)	–	–	–	–	–	(285,657)	**(285,657)**
Net profit 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 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)	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**
Trade 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 charge	(4)	–	(489)	–	(493)	(2,416)	**(2,909)**
Expenses that do not entail outflows of cash other than the depreciation and amortisation for the year:							
Changes in provisions	(1)	(1,545)	743	–	(803)	(1,952)	**(2,755)**
Change in fair value of investment property (Note 18-f)	44,673	77,130	438,040	934	560,777	–	**560,777**
Profit/loss due to changes in the value of assets due to impairment (Note 18-e)	(7,531)	–	–	–	(7,531)	3,158	**(4,373)**

2015 segment reporting

Thousands of euros

	Rentals						
	Barcelona	**Madrid**	**Paris**	**Other**	**Total rentals**	**Corporate Unit**	**Total Group**
Income	27,102	35,331	170,099	–	232,532	1,796	**234,328**
Revenue (Note 18-a)	27,087	35,304	168,794	–	231,185	–	**231,185**
Other income (Note 18-b)	15	27	1,305	–	1,347	1,796	**3,143**
Net gain/(loss) on sales of assets (Notes 18-f)	–	–	–	–	–	–	**–**
Operating profit/(loss)	22,972	30,399	155,130	(245)	208,256	(38,703)	**169,553**
Change in fair value of investment property (Note 18-f)	92,233	118,776	513,654	(4,681)	719,982	–	**719,982**
Impairment charges and net gains/(losses) on assets (Note 18-e)	(2,880)	(390)	(11)	–	(3,281)	807	**(2,474)**
Financial gain/loss (Note 18-g)	–	–	–	–	–	(131,119)	**(131,119)**
Profit before tax	–	–	–	–	–	755,942	**755,942**
Consolidated net loss from continuing operations	–	–	–	–	–	703,145	**703,145**
Profit from discontinued operations	–	–	–	–	–	–	**–**
Consolidated net profit	–	–	–	–	–	703,145	**703,145**
Net loss attributable to non-controlling interests (Notes 18-i)	–	–	–	–	–	(287,732)	**(287,732)**
Net profit attributable to shareholders of the Parent (Note 5)	–	–	–	–	–	415,413	**415,413**

There were no significant inter-segment transactions in 2015.

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)	682,333	962,490	5,100,299	(4)	6,745,118	34,403	**6,779,521**
Financial assets	91,213	1,208	13,182	–	105,603	121,136	**226,739**
Other non-current assets	–	–	–	–	–	1,021	**1,021**
Trade receivables and other current assets	–	–	–	–	–	109,518	**109,518**
Non-current assets held for sale (Note 22)	–	6,942	–	5,785	12,727	–	**12,727**
Total assets	**773,546**	**970,640**	**5,113,481**	**5,781**	**6,863,448**	**266,078**	**7,129,526**

Thousands of euros

	Rentals						
	Barcelona	**Madrid**	**Paris**	**Other**	**Total rentals**	**Corporate Unit**	**Total Group**
Liabilities							
Bank borrowings and other financial liabilities (Note 12)	–	–	–	–	–	572,552	**572,552**
Bonds and similar securities issued (Note 12)	–	–	–	–	–	2,715,240	**2,715,240**
Trade liabilities (suppliers and payables)	–	–	–	–	–	85,642	**85,642**
Other liabilities	–	–	–	–	–	306,625	**306,625**
Total liabilities	**–**	**–**	**–**	**–**	**–**	**3,680,059**	**3,680,059**

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	4,789	168,290	192,265	–	365,344	186	**365,530**
Depreciation and amortisation charge	(1)	–	(492)	–	(493)	(1,183)	**(1,676)**
Expenses that do not entail outflows of cash other than the depreciation and amortisation for the year:							
Changes in provisions	6	(994)	(252)	–	(1,240)	(2,082)	**(3,322)**
Change in fair value of property (Note 18-f)	92,233	118,776	513,654	(4,681)	719,982	–	**719,982**
Profit/loss due to changes in the value of assets due to impairment (Note 18-e)	(2,880)	(390)	(11)	–	(3,281)	807	**(2,474)**

7. Property, plant and equipment

The movement in property, plant and equipment in 2016 and 2015 was as follows:

Thousands of euros

	Property for own use			Other property, plant and equipment		Total			
	Cost	Accumulated depreciation	Impairment	Cost	Accumulated depreciation	Cost	Accumulated depreciation	Impairment	Total
Balance at 31 December 2014	**43,110**	**(7,259)**	**(8,608)**	**11,554**	**(5,812)**	**54,664**	**(13,071)**	**(8,608)**	**32,985**
Additions or charges	2	(273)	–	163	(883)	165	(1,156)	–	(991)
Decreases	–	–	808	(454)	53	(454)	53	808	407
Transfers	–	–	–	717	–	717	–	–	717
Balance at 31 December 2015	**43,112**	**(7,532)**	**(7,800)**	**11,980**	**(6,642)**	**55,092**	**(14,174)**	**(7,800)**	**33,118**
Additions or charges	1,671	(282)	–	1,061	(946)	2,732	(1,228)	–	1,504
Additions to the scope of consolidation (Note 2-f)	9,271	(448)	–	593	(574)	9,864	(1,022)	–	8,842
Decreases	(2,810)	192	3,159	(595)	581	(3,405)	773	3,159	527
Transfers	–	–	–	70	–	70	–	–	70
Balance at 31 December 2016	**51,244**	**(8,070)**	**(4,641)**	**13,109**	**(7,581)**	**64,353**	**(15,651)**	**(4,641)**	**44,061**

At 31 December 2016 and 2015, 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 value of buildings used for the Group's own use is recognised in "Property for own use".

The additions to the scope of consolidation deriving from the acquisition of Finresa (Note 2-f) for 8,842 thousand euros consist of land and two apartments located in Madrid.

Disposals relate 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 2016, the need to recognise a reversal of the asset impairment charge recognised in previous years in the amount of 3,159 thousand euros was evidenced by the appraisals performed by independent experts (Note 18-e). In 2015, the Company recognised the reversal of the asset impairment loss on the value of the assets recognised in previous years in the amount of 808 thousand euros.

At 31 December 2015, as a result of the disposal on the part of the Group of assets included under "Other property, plant and equipment", a gain of 14 thousand euros, stated as the difference between the sale price and carrying amount, was recognised in the consolidated statement of comprehensive income.

8. Investment property

The movements in this heading of the consolidated statement of financial position in 2016 and 2015 were as follows:

Thousands of euros

	Investment property	Investment property in progress	Prepayments	Total
Balance at 31 December 2014	**5,344,962**	**311,767**	**6,580**	**5,663,309**
Additions	187,285	148,627	–	**335,912**
Additions to the scope of consolidation (Note 2-f)	–	29,971	–	**29,971**
Decreases	(3,281)	–	(6,580)	**(9,861)**
Transfers	328,854	(329,987)	–	**(1,133)**
Changes in fair value (Note 18-f)	716,452	8,663	–	**725,115**
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**
Decreases	(7,532)	–	–	**(7,532)**
Transfers	(22,881)	22,572	–	**(309)**
Changes in fair value (Note 18-f)	557,296	3,024	–	**560,320**
Balance at 31 December 2016	**7,462,928**	**299,699**	**–**	**7,762,627**

Changes in 2016

The additions in 2016 relate 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 relate to development and renovation projects, mainly on properties of the SFL subgroup, in the amount of 67,990 thousand euros, and at properties of other Group companies, in the amount of 19,835 thousand euros. The above amounts include 1,177 thousand euros in capitalised financial costs (Note 4-c).

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 100% of 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 100% of 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 100% of the shares in Finresa, resulting in the addition in the scope of consolidation of a property located in Madrid for 47,678 thousand euros.

Derecognition of assets amounting to 7,532 thousand euros were recognised in 2016 (Note 18.e).

Changes in 2015

In May 2015, the Parent acquired 100% of the share capital of the Spanish company Danieltown Spain, S.L.U., the owner of a property located in Madrid on calle Estébanez Calderón (Note 2-f). This acquisition resulted in an addition to the scope of consolidation in the amount of 29,971 thousand euros.

In June 2015, SFL acquired a property located in Paris, on avenue Percier, for 67,547 thousand euros.

In 2015, the Parent also acquired three properties located in Madrid for a total of 134,871 thousand euros, including acquisition costs.

Lastly, the Group carried out development and renovation projects on SFL properties amounting to 125,256 thousand euros (Richelieu, Call-LdA, Champs Élysées 90 and Washington Plaza, etc.), and made investments in other properties owned by other Group companies for approximately 8,238 thousand euros.

Changes in fair value of investment property

“Changes in fair value of investment property” in the consolidated statement of comprehensive income includes a net gain on the value of investment property in 2016 and 2015 of 560,777 thousand and 725,115 thousand euros, respectively (Note 18-f). These changes reflect the changes in the fair value of the Group’s investment properties evidenced the independent property appraisals dated 31 December 2016 and 2015 (Note 4-c).

Other disclosures

The total surface area (above and under-ground) of investment property and projects under development at 31 December 2016 and 2015 is as follows:

Total surface area (m²) of investment property

	Investment property		Investment property in progress		Total	
Minimum	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**	**31 December 2016**	**31 December 2015**
Barcelona (*)	286,216	285,935	59,368	31,520	345,584	317,455
Madrid	355,779	256,105	38,263	30,014	394,042	286,119
Rest of Spain	12,735	458	–	–	12,735	458
Paris (*)	415,174	414,190	45,855	51,272	461,029	465,462
	1,069,904	**956,688**	**143,486**	**112,806**	**1,213,390**	**1,069,494**

(*) Including 100% of the floor space of Washington Plaza (a property owned by SCI Washington, a Group company 66%-owned by SFL), the Haussmann, Champs Élysées, 82-88 and Champs Élysées, 90 building (owned by the Parholding subgroup, in which SFL holds a 50% interest) and the Torre del Gas property (owned by Torre Marenostrum, S.L., a company 55%-owned by the Parent).

At 31 December 2016, SFL and Torre Marenostrum, S.L. pledged assets as collateral for mortgage loans, the carrying amount of which is 862,787 thousand euros, and as collateral for debts in the amount of 241,000 thousand euros. At 31 December 2015, the above amounts were 932,850 thousand euros and 273,479 thousand euros.

In June 2016, the subsidiary SFL exercised its 26,000 thousand euro purchase option on the last finance lease it held, thereby assuming ownership of the property located at Wagram, 131.

9. Non-current financial assets

The changes in this heading of the consolidated statement of financial position in 2016 and 2015 were as follows:

Thousands of euros

	31 December 2015	Acquisitions and charges	Disposals or decreases	31 December 2016
Deposits and guarantees given	8,954	3,343	–	12,297
Financial assets available for sale	–	138,293	–	138,293
Total	**8,954**	**137,950**	**–**	**150,676**

Thousands of euros

	31 December 2014	Acquisitions and charges	Disposals or decreases	31 December 2015
Deposits and guarantees given	10,070	888	(2,004)	8,954
Total	**10,070**	**888**	**(2,004)**	**8,954**

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.

Available-for-sale financial assets - Interest in Axiare SOCIMI

On 31 November 2016, the Parent acquired 10,846,541 shares in Axiare Patrimonio SOCIMI, S.A., (hereinafter, Axiare) representing 15.09% of its share capital, for 136,976 thousand euros, including acquisition costs.

The Parent Company classified the financial investment under financial assets available for sale given that the Directors consider that the Parent does not and cannot exercise significant influence over Axiare at 31 December 2016, given that, in accordance with the bylaws and the number of shares acquired, it is unable to appoint members to Axiare's Board of Directors.

At 31 December 2016, the Parent recorded 1,317 thousand euros under "Valuation adjustments recognised in equity - financial instruments" in the consolidated statement of financial position (Note 11), as a result of the changes in the fair value of that investment (Note 4-e), using as a reference the latest NNNAV published by Axiare at 30 June 2016, which totalled 12.75 euros per share. At 30 December 2016, Axiare had a listed price of 13.82 euros per share.

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

As a result of restructuring the financial debt of Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. (hereinafter, "DUE"), the Parent 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. In this regard, the amount yet to be drawn down at 31 December 2016 totalled 10,563 thousand euros, and for such purpose, in accordance with the obligations assumed, the Parent recognised the appropriate provision under "Other non-current provisions" in the accompanying consolidated statement of financial position. The Parent recognised a provision for the full amount of the loan granted to DUE.

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

During 2016 the Company classified that loan under current items based on its due date.

Lastly, aforementioned loan accrues contingent interest based on compliance with certain conditions. At 31 December 2016 and 2015, no finance income was accrued in this connection.

10. Trade and other receivables

The breakdown of this current asset heading in the accompanying consolidated statement of financial position at 31 December 2016 and 2015 is as follows:

Thousands of euros

	31 December 2016	**31 December 2015**
Trade receivables from sales and services	16,337	16,793
Accrual of lease incentives	103,125	59,160
Other receivables	85,810	85,630
Impairment of trade receivables (Note 18-e)	(89,094)	(90,093)
Other current assets	776	476
Total trade and other receivables	**116,954**	**71,966**

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 2016 and 2015, no material amounts were past due.

Accrual of lease incentives

This includes the amount of the incentives in the operating lease agreements (rent-free periods, etc.) that the Group offers its customers, which are recognised in the consolidated statement of comprehensive income during the minimum operating lease term (Note 4-n). Of that amount, 87,596 thousand euros have a maturity of more than 1 year.

Other receivables and impairment losses on trade receivables

At 31 December 2016 and 2015, 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 (Note 18-e).

At 31 December 2015, the Parent derecognised from the consolidated statement of financial position the amount receivable from NZ Patrimonio, S.L.U. together with the corresponding impairment, totalling 66,717 thousand euros, as soon as the insolvency manager disposed of all of its assets, without the amounts obtained being sufficient to satisfy the sums owed to the Parent.

Nozar, S.A. is currently involved in bankruptcy proceedings; consequently, at 31 December 2016 and 2015, the accompanying consolidated statement of financial position included an impairment loss for the entire amount of this company's trade receivables.

11. Equity

Share capital

The Parent's share capital at 31 December 2014 and 2015 comprised 3,188,856,640 fully subscribed and paid-up shares with a par value of 0.25 euro each.

The following changes in the Parent's share capital arose in 2016:

- At the 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. The total amount of the capital increase was 72,143 thousand euros. This capital increase was recorded in the Barcelona Mercantile Register 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. The total amount of the capital increase was 22,701 thousand euros. This capital increase was recorded in the Barcelona Mercantile Register on 30 June 2016.

On 14 July 2016, the Parent 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.

As a result, the Parent's share capital at 31 December 2016 was represented by 356,823,399 fully subscribed and paid-up shares with a par value of 2.5 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 2016 and 2015 were as follows:

	December 2016		December 2015	
	Number of shares	**% shareholding**	**Number of shares (*)**	**% shareholding**
Name or corporate name of the shareholder:				
Qatar Investment Authority	41,593,367	11.66%	415,963,672	13.04%
Finaccess Group (**)	41,139,685	11.53%	–	–
Aguila Ltd.	21,800,184	6.11%	218,001,838	6.84%
Joseph Charles Lewis	17,617,708	4.94%	162,167,654	5.09%
Villar-Mir Group (**)	11,906,969	3.34%	464,512,350	14.57%
BlackRock Inc	10,885,211	3.05%	–	–
Deutsche Bank A.G. (**)	8,135,390	2.28%	29,235,244	0.92%
Fidelity International Limited	6,248,471	1.75%	62,484,713	1.96%
Invesco Limited	3,540,788	0.99%	35,407,880	1.11%
Third Avenue Management LLC	–	–	97,030,111	3.04%
Mora Banc Grup, S.A.	–	–	223,064,422	7.00%

(*) Number of shares prior to the reverse stock split at the ratio of 1 new share for every 10 existing shares.
(**) Does not include certain financial instruments linked to shares in the Parent.

At 31 December 2016, the Finaccess Group, the Villar-Mir Group and Deutsche Bank AG formally obtained financial instruments associated with Parent company shares that, in the event the instruments are exercised, could give rise to an additional interest in the share capital of Colonial of 0.50%, 4.44% and 1.61%, respectively.

On 5 and 20 January 2017, BlackRock, Inc. sold Parent company shares, bringing its interest in the Parent to 9,780,025 shares, representing 2.74% of capital.

On 12 January 2017, the Villar-Mir Group sold Parent company shares, reducing its interest in the Parent to 5,419,255, representing 1.52% of capital.

On 18 January 2017, Fidelity International Limited sold Parent company shares, reducing its interest in the Parent to 3,543,721, representing 0.99% of capital.

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 exclude the pre-emptive subscription right of the shareholders and to increase the share capital by the amount necessary to meet the conversion. The total maximum amount of the issue or issues of the securities that may be performed under this authorisation may not exceed a combined amount of 350,000 thousand euros or its equivalent in any other currency.

Lastly, at the General Meeting held on 28 June 2016, the shareholders of the Parent 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 exclude preferential subscription rights in certain conditions. This authorisation is limited to a maximum nominal amount of 20% of total share capital, taken as a whole.

Share premium

As a result of the capital increases carried out in 2016, the share premium increased by 129,857 thousand euros and 40,863 thousand euros, respectively.

During 2015, there were no changes in the Parent's share premium

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.

In this regard, the proposed distribution of 2015 profits approved at the General Shareholders' Meeting of 28 June 2016 included the allocation of 28,535 thousand euros to the legal reserve, equivalent to 10% of Inmobiliaria Colonial, S.A.'s profits for 2015.

At 31 December 2016 the legal reserve totalled 33,615 thousand euros and it had not reached the required level at that date.

Voluntary reserves

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

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, as indicated in the preceding paragraph.

The proposed distribution of 2015 profits approved at the General Shareholders' Meeting of 28 June 2016 also included the allocation of 28,535 thousand euros to the legal reserve, the distribution of 47,832 thousand euros in dividends, and the allocation of 208,983 thousand euros to offset prior years' losses. At the 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 profits, in the amount of 938,992 thousand euros.

Following both offset exercises, voluntary reserves total 217,019 thousand euros, of which 169,439 thousand euros continue to be restricted.

Likewise, the aforementioned capital increases entailed costs of 1.905 thousand euros, which were recognised under "Reserves of the Parent" in consolidated equity.

Valuation adjustments recognised in equity - financial instruments

This heading of the consolidated statement of financial position includes the net change in the fair value of financial derivatives designated as hedging instruments in cash flow hedges (Note 13).

The changes in this heading are as follows:

Thousands of euros

	31 December 2016	31 December 2015
Opening balance	(2,504)	(6,368)
Changes in the fair value of hedges in the period	(101)	196
Transfer to the statement of comprehensive income	2,168	3,668
Changes in the scope of consolidation (Note 2-f)	(134)	–
Closing balance	**(571)**	**(2,504)**

Treasury shares of the Parent

In the first half of 2016, the Parent acquired 2,871,382 treasury shares for 1,650 thousand euros.

On 29 April 2016, the Parent settled its remaining obligations relating to compliance with the 2015 plan (Note 19) by presenting 3,651,162 shares to the beneficiaries of the Remuneration Plan.

As outlined previously, on 14 July 2016 the Group registered with the Companies Register the resolution concerning the reverse stock split into which the company's capital was divided, at the ratio of 1 new share for every 10 existing shares.

On 29 July 2016, the Parent Company acquired 3,801,417 shares from Mora Banc Grup S.A. and Mora Assegurances, S.A.U., for the amount of 25,469 thousand euros, by virtue of the contracts signed between the parties on 27 July 2016.

On 4 August 2016, the Parent gave 2,116,508 treasury shares to APG in exchange for 237,623 shares in the subsidiary SFL (Note 2-f).

The liquidity agreement signed by the Parent on 22 June 2015, in order to facilitate the liquidity of transactions and the regularity of the listed price of the shares, was suspended on 15 November 2016, after having restarted on 28 October 2016, as a result of the establishment of the share repurchase scheme described below. At 31 December 2016, the number of shares acquired within the framework of this contract amounted to 209,603 shares, taking into consideration the previously mentioned reverse stock split.

Finally, on 14 November 2016 the Parent's Board of Directors agreed to implement a scheme involving the repurchase of treasury shares in accordance with the authorisation granted by shareholders at the General Meeting held on 30 June 2014. 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 (Note 19) and additional initiatives that the Board of Directors may consider advisable for the corporate interest. The maximum monetary amount assigned to the scheme 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 current share capital. The maximum duration of the scheme will be six months, i.e. up to 15 May 2017. However, it may be ended early if the maximum number of shares or the maximum monetary amount is reached before said date. At 31 December 2016, 3,162,672 shares had been acquired under the framework of the repurchase scheme, for the amount of 20,249 thousand euros.

In 2015, the Parent acquired 12,257,013 treasury shares for 7,396 thousand euros. In order to meet the obligations set out in the long-term Remuneration Plan described in Note 19, on 30 April 2015, the Parent settled the obligations pending for compliance with the 2014 plan, delivering 3,766,173 shares to beneficiaries of the plan.

At 31 December 2016 and 2015, the number of shares and the acquisition cost were as follows:

	31 December 2016	31 December 2015 (**)
Liquidity contract (*)		
No. of shares	209,603	1,487,013
Carrying amount (in thousands of euros)	1,329	945
Treasury share contract		
No. of shares	5,469,985	7,003,827
Carrying amount (in thousands of euros)	35,426	4,068

(*) Liquidity contract pursuant to the provisions of Regulation Three of CNMV Circular 3/2007, of 19 December, on liquidity contracts for the purposes of acceptance as a market practice.
(**) Number of shares prior to the reverse stock split at the ratio of 1 new share for every 10 existing shares.

Treasury shares of SFL

The Colonial Group held the following shares in SFL (held as treasury shares):

	31 December 2016	31 December 2015
No. of shares	362,380	377,465
Carrying amount (in thousands of euros)	13,056	12,052
% shareholding	0.78%	0.81%

In 2016, SFL acquired 117,893 shares for a total of 5,643 thousand euros and sold 132,978 shares with a carrying amount of 6,019 thousand euros, recognising a loss of 860 thousand euros attributable to the Colonial Group.

In 2015, SFL acquired 99,093 shares for a total of 4,106 thousand euros and sold 148,323 shares with a carrying amount of 6,000 thousand euros, recognising a loss of 926 thousand euros attributable to the Colonial Group.

Some of abovementioned shares are held by SFL to cover two share option plans with different maturity dates and strike prices (Note 19).

At 31 December 2016, the net value of the shares (EPRA NNNAV) published by SFL was 66.23 euros per share.

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.	SFL subgroup	Total
Balance at 31 December 2014	**18,004**	**1,358,104**	**1,376,108**
Profit for the year	4,513	283,219	287,732
Dividends and other	37	(56,444)	(56,407)
Financial instruments	161	4,454	4,615
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**

The breakdown of the items included in “Dividends and other” at 31 December 2016 and 2015 is as follows:

Thousands of euros

	31 December 2016	31 December 2015
Dividend paid by the SFL subgroup to non-controlling interests	(42,435)	(52,992)
Dividend paid by Washington Plaza to non-controlling interests	(5,934)	(3,910)
Dividend paid by Torre Marenostrum to non-controlling interests	(382)	(403)
Others	97	898
Total	**(48,654)**	**(56,407)**

12. Bank borrowings, other financial liabilities and issuance of bonds and other similar securities

The breakdown by maturity of "Bank borrowings and other financial liabilities" at 31 December 2016 and 2015 is as follows:

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**	**Over 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	70	63,346	–	–	–	–	63,346	63,416
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	**4,501**	**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**	**2,509,957**	**2,823,884**
Total at 31 December 2016	**407,476**	**63,818**	**516,367**	**72,422**	**774,936**	**1,859,944**	**3,287,487**	**3,694,963**

31 December 2015
Thousands of euros

	Current	Non-current						
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total non-current	Total
Bank borrowings								
Lines of credit	22,027	–	–	–	–	–	–	22,027
Loans	5,333	5,261	5,268	145,563	6,036	218,924	381,052	386,385
Syndicated loans	–	–	–	67,250	–	–	67,250	67,250
Leases on investments	27,271	–	–	–	–	–	–	27,271
Interest	1,071	–	–	–	–	–	–	1,071
Debt arrangement expenses	(1,877)	(1,869)	(1,861)	(1,205)	(496)	(563)	(5,994)	(7,871)
Total bank borrowings	**53,825**	**3,392**	**3,407**	**211,608**	**5,540**	**218,361**	**442,308**	**496,133**
Other financial liabilities								
Current accounts	–	67,679	–	–	–	–	67,679	67,679
Derivative financial instruments (Note 13)	3,208	–	616	–	–	2,012	2,628	5,836
Other financial liabilities	2,904	–	–	–	–	–	–	2,904
Total other financial liabilities	**6,112**	**67,679**	**616**	**–**	**–**	**2,012**	**70,307**	**76,419**
Total bank borrowings and other financial liabilities	**59,937**	**71,071**	**4,023**	**211,608**	**5,540**	**220,373**	**512,615**	**572,552**
Bonds and similar securities issued								
Bond issues	155,800	300,700	–	750,000	–	1,500,000	2,550,700	2,706,500
Interest	23,508	–	–	–	–	–	–	23,508
Arrangement expenses	(3,353)	(3,171)	(2,597)	(1,887)	(1,364)	(2,396)	(11,415)	(14,768)
Total bonds and similar securities issued	**175,955**	**297,529**	**(2,597)**	**748,113**	**(1,364)**	**1,497,604**	**2,539,285**	**2,715,240**
Total at 31 December 2015	**235,892**	**368,600**	**1,426**	**959,721**	**4,176**	**1,717,977**	**3,051,900**	**3,287,792**

The bonds issued by SFL, which are traded on the Euronext Paris secondary market, had a market value of 1,371,985 and 1,479,228 thousand euros (par value of 1,300,700 and 1,456,500 thousand euros respectively) at 31 December 2016. At the same date, the fair value of bonds issued by the Parent and traded on the Irish Stock Exchange was 1,545,466 and 1,253,045 thousand euros, respectively (par value 1,525,000 and 1,250,000 thousand euros, respectively).

The fair value of the derivatives was also calculated based on the present value of the future cash flows, applying the appropriate market discount rates established by an independent expert.

Issues of the Parent's straight bonds

The breakdown of the issues of straight bonds made by the Parent Company at 31 December 2016 and 2015, is as follows (in thousands of euros):

(Thousands of Euros)

Issue	Duration	Maturity	Fixed-rate coupon payable annually	Amount of the issue	31 December 2016	31 December 2015
05/06/2015	5 years	05/06/2019	1.863%	750,000	375,000	750,000
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	–
10/11/2016	10 years	10/11/2026	1.875%	50,000	50,000	–
Total issues				**1,900,000**	**1,525,000**	**1,250,000**

The bonds were admitted for trading on the *Irish Stock Exchange's* main *securities market*.

On 5 October, the Parent registered on the *Irish Stock Exchange* an EMTN *(European Medium Term Note)* programme for 3,000,000 thousand euros.

2015

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

- A series of 7,500 bonds in the amount of 750,000 thousand euros, maturing on 5 June 2019 and with an issue price equivalent to 100% of the par value. The bonds will carry an annual coupon of 1.863%, payable annually in arrears.
- A series of 5,000 bonds in the amount of 500,000 thousand euros, maturing on 5 June 2023 and with an issue price equivalent to 100% of the par value. The bonds will accrue a coupon of 2.728%, payable annually in arrears.

Following the disbursement of the amount of this bond issue, the syndicated loan of 1,040,000 thousand euros arranged by the Parent in 2014 was cancelled. Early cancellation of the loan entailed payment of a fee of 28,039 thousand euros, recognised under "Finance costs" on the consolidated statement of comprehensive income (Note 18-g).

2016

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. Up until 31 December 2016, two issues of straight bonds have been made within the framework of the aforementioned programme:

- On the 28 October 2016 the issue of a series of 6,000 straight bonds for the amount of 600,000 thousand euros was subscribed and fully paid up, maturing on 28 October 2024 and with an issue price the equivalent of 99.223% of their par value. The bonds will accrue a coupon of 1.45%, payable annually in arrears.

– On the 10 November 2016 the issue of a series of 500 straight bonds for the amount of 50,000 thousand euros was subscribed and fully paid up, maturing on 10 November 2026 and with an issue price the equivalent of 97.866% of their par value. The bonds will accrue a coupon of 1.875%, payable annually in arrears.

With the amount paid for the above-mentioned bonds issues, the Parent Company has carried out the following operations:

– Repurchase of 3750 bonds of the issue maturing on 5 June 2019, amounting to 375,000 thousand euros. This transaction has incurred some financial costs amounting to 20,904 thousand euros, which have been recognised under “Finance Costs” on the consolidated statement of comprehensive income (Note 18-g).

– Early cancellation of the loan for the amount of 135,682 euros, arranged for the acquisition of shares representing 15.09% of the share capital of Axiare (Note 9), detailed in the section “Other loans” of the present note.

– Early amortisation of the 60,000 euro syndicated loan formalised by the Parent Company on 12 November 2015, detailed in the section “New Syndicated Loan” of the present note.

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 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 was met at 31 December 2016 and 2015.

Issue of SFL straight bonds

The breakdown of issues of non-convertible bonds by SFL is as follows:

Thousands of euros

Issue	Duration	Maturity	Fixed-rate coupon payable annually	Amount of the issue	31 December 2016	31 December 2015
17/05/2011	5 years	25/05/2016	4.625%	500,000	–	155,800
28/11/2012	5 years	28/11/2017	3.50%	500,000	300,700	300,700
20/11/2014	7 years	20/11/2021	1.875%	500,000	500,000	500,000
16/11/2015	7 years	16/11/2022	2.250%	500,000	500,000	500,000
Total issues				**2,000,000**	**1,300,700**	**1,456,500**

The bonds are unsubordinated obligations, all of which rank pari passu. They are traded on the Euronext Paris exchange.

In May 2016, the subsidiary SFL settled the bonds maturing from the 2011 issue, with a pending nominal amount of 155,800 thousand euros.

In November 2015, SFL issued new bonds for the amount of 500,000 thousand euros. These bonds accrue a fixed coupon of 2.25% payable annually and have a term of 7 years, maturing in November 2022. Of the amount obtained from the new issue, 243,500 thousand euros were used to partially repurchase the bonds maturing in 2016 and 2017 in the amount of 144,200 thousand euros and 99,300 thousand euros, respectively. The cost associated with this partial repurchase amounted to 9,515 thousand euros (Note 18-g).

The interest accrued on the issue of bonds recognised in the consolidated statement of financial position at 31 December 2016 and 2015 amounted to 3,323 thousand euros and 7,665 thousand euros, respectively.

Parent syndicated loan

On 12 November 2015, the Company entered into a syndicated loan with a group of seven financial institutions, including *Natixis S.A. Sucursal en España,* as the Agent Bank, involving a syndicated loan in the amount of 350,000 thousand euros, initially due in June 2019 but extendable to November 2020. During 2016, the Parent and the financial institutions agreed to extend the maturity of the loan until November 2021. A variable interest rate was set based on a spread referenced to the EURIBOR, payable on a quarterly basis.

The main purpose of this syndicated loan is to finance possible acquisitions, as well as renovations and other investment requirements (CAPEX) on the property assets of the Company.

At 31 December 2016 and 2015, drawdowns totalled 121,874 thousand and 67,250 thousand euros, respectively.

The loan is subject to compliance with the following financial ratios on a quarterly basis:

Ratios
Loan to Value Ratio <= 55%
Interest coverage ration >=2x (from 30/6/2016)
Secured mortgage debt / Value of property assets <=15%
Secured other debt / Value of non-property assets <=15%
Value of the consolidated assets >=4.5 €bn

At 31 December 2016 and 2015, the Parent complied with all covenants.

SFL syndicated loan

The breakdown of SFL's syndicated loan at 31 December 2016 and 2015 is as follows:

		Thousands of euros			
		31 December 2016		31 December 2015	
	Maturity	Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
SFL syndicated loan -					
BNP Paribas loan facility	July 2020	400,000	20,000	400,000	–
BPCE loan facility	October 2019	150,000	–	150,000	–
Total SFL syndicated loan		**550,000**	**20,000**	**550,000**	**–**

The variable interest rate is referenced to the EURIBOR plus a spread.

Compliance with covenants

SFL syndicated loans must meet the following covenants every six months:

	Ratios
BNP-Paribas (Agent Bank BNP-Paribas)	Loan to Value Ratio <= 50% Interest coverage ratio >=2 Secured debt/equity value <=20% Appraisal value of unmortgaged properties >=2 €bn Gross financial debt subsidiaries / Gross consolidated financial debt < 25%
BPCE (Agent Bank Natixis)	Loan to Value Ratio <= 50% Interest coverage ratio >=2 Secured debt/equity value <=20% Appraisal value of unmortgaged properties >=2 €bn Gross financial debt subsidiaries / Gross consolidated financial debt < 25%

At 31 December 2016 and 2015, SFL complied with the financial ratios stipulated in the respective financing agreements.

Mortgage-backed loans

At 31 December 2016 and 2015, the Group had the following mortgage loans, secured by certain investment properties and non-current assets held for sale:

Thousands of euros

	31 December 2016		31 December 2015	
	Mortgage debt	Market value of collateral	Mortgage debt	Market value of collateral
Investment property (Note 8)	241,000	868,866	273,479	953,840
Non-current assets held for sale (Note 22)	–	–	177	6,942
Total	**241,000**	**868,866**	**273,656**	**960,782**

The subgroup SFL accounts for 85% of the mortgage debt (205,400 thousand euros). These loans accrue a fixed interest rate.

Compliance with covenants

At 31 December 2016 and 2015, two of the Group's loans, with a total of 241,000 thousand and 246,209 thousand euros drawn down, respectively, were subject to compliance with certain financial ratios.

At 31 December 2016 and 2015, the Company complied with the financial ratios required in the financing agreement.

	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.

Other loans

At 31 December 2016 and 2015, SFL had two bilateral loans not secured by a mortgage guarantee that were subject to compliance with various ratios. The total limits and amounts drawn down are as follows:

		Thousands of euros			
		31 December 2016		**31 December 2015**	
	Maturity	**Limit**	**Nominal amount drawn down**	**Limit**	**Nominal amount drawn down**
Other loans					
BECM	April 2019	150,000	140,000	150,000	140,000
Banco Sabadell	June 2020	50,000	50,000	50,000	–
BNP Paribas	May 2021	150,000	150,000	–	–
Total other loans		**350,000**	**340,000**	**200,000**	**140,000**

The BNP Paribas loan was arranged in May 2016 for a period of five years and a floating interest rate with a spread tied to EURIBOR.

Compliance with covenants

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 €mm
BECM	Gross financial debt subsidiaries / Gross consolidated financial debt < 25%
	Loan to Value Ratio <= 50%
	Interest coverage ratio >=2
	Secured debt/equity value <=20%
	Appraisal value of unmortgaged properties >=2 €mm
Banco Sabadell	Gross financial debt subsidiaries / Gross consolidated financial debt < 25%

At 31 December 2016 and 2015, SFL complied with the financial ratios stipulated in the respective financing agreements.

Lines of credit

The Group has lines of credit of up to 84,815 thousand euros, which at 31 December 2016 were fully drawn down. These credit facilities mature in the short term. At 31 December 2015, the balance of fully drawn-down lines of credit held by the Group totalled 22,027 thousand euros.

At 31 December 2016, the Group also 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. These current accounts accrue interest at a rate of three-month Euribor plus 60 basis points, in the case of SCI Washington, and three-month Euribor plus 150 basis points, for the account extended to SAS Parholding. The total interest accrued for both current accounts is 70 thousand euros. The total nominal amount plus interest at 31 December 2016 was 63,416 thousand euros.

Guarantees given

At 31 December 2016, the Parent had granted to government bodies, customers and suppliers guarantees in the amount of 27,013 thousand euros, of which 15,680 thousand euros related to the bank guarantee provided in connection with the purchase of the company Moorage (Note 2-f). This amount 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:

– 5,097 thousand euros granted to secure obligations acquired by the company 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 assumed 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.

Finance leases

At 31 December 2016, there were no finance lease debts after the execution by SFL of the purchase option established in the latest agreement (Note 8).

Cash and cash equivalents

At 31 December 2016 and 2015, amounts of 105,200 thousand and 217,776 thousand euros, respectively, were recognised under "Cash and cash equivalents", of which 13,715 thousand and 13,982 thousand euros, respectively, were either restricted or pledged.

Debt arrangement expenses

At 31 December 2016 and 2015, the debt arrangement expenses assumed by the Group and not yet accrued amounted to 25,885 thousand euros and 22,639 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 2016 and 2015 the Group recognised in the consolidated statement of comprehensive income 7,352 and 9,256 thousand euros, respectively, corresponding to the costs paid during the year.

Interest rate on borrowings

The interest rate paid by the Group in 2016 on borrowings allocated to continuing operations was 2.46%, or 2.63% including accrued fees. The average spread over Euribor paid by the Group in 2016 was 162 basis points (193 basis points including fees). The interest rate on the Group's debt at 31 December 2016 is 1.96% and the spread over EURIBOR is 156 basis points.

The accrued interest outstanding recognised in the consolidated statement of financial position at 31 December 2016 and 2015 amounted to:

Thousands of euros

Issue	31 December 2016	31 December 2015
Parent Bonds	13,550	15,843
SFL Bonds	3,323	7,665
Bank borrowings	1,203	1,071
Total	**18,076**	**24,579**

Capital management: policies and objectives

The Group manages its capital to ensure that Group companies will be able to continue as going concerns, taking into account prevailing financial market conditions, with a view to maximising shareholder value.

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

The Group efficiently manages its financial risks with the aim of maintaining high levels of liquidity, minimising borrowing costs, reducing volatility due to changes in capital and ensuring compliance with its business plans.

Companies operating in the property 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 warrants diversification of its sources of financing by entity, product and maturity. The issues of bonds in 2016 together with the repurchase of the four-year bonds and the extension and diversification of their maturity dates, have allowed the Parent to reduce the financial cost of its debt.

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.

SFL also has various lines of credit yet to be drawn down.

The Group's risk management policy is designed 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 Group arranges financial instruments to cover interest rate fluctuations, where necessary.

The Colonial Group draws up an annual cash budget and monthly forecasts to manage its liquidity risk and meet its financing needs.

The liquidity risk is mitigated by the following factors: (i) recurring cash flow generation by the Group's core activities; and (ii) its ability to renegotiate and obtain new financing on the basis of long-term business plans and (iii) the quality of the Group's assets.

Given the sector in which the Group operates, the investments it makes, the financing obtained to make these investments, the EBITDA generated and the occupancy rates of its buildings, liquidity risk is significantly mitigated and cash surpluses may even arise. These cash surpluses enable the Group to have lines of credit available but not yet drawn down (in the case of SFL) or highly liquid deposits with no risk (in the case of the Parent). The Group does not use high-risk financial products as a method for investing cash surpluses.

13. Derivative financial instruments

Risk management policy objectives

The Colonial Group's risk management policies are structured as follows:

– Interest rate risk: At 31 December 2016, 81% of the Group's debt accrued interest at a fixed rate. The Group's risk management policy is designed to limit and control the effect of interest rate fluctuations on profit and cash flow and to keep overall borrowing costs at reasonable levels. In order to attain these objectives, the Group enters into interest rate hedges to 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 as effective hedge accounting, and therefore recognise changes in value on the market directly in the Group's equity.

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

– Liquidity risk: 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. Up until 31 December 2016, two issues of ordinary bonds had been made within the framework of the EMTN for a joint amount of 650,000 thousand euros. These transactions allowed the Parent to strengthen its long-term financial structure, reduce the financial cost of its debt and diversify maturity dates. The SFL subgroup also has loans not yet drawn down (Note 12) that are available to cover future commitments.

– 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.

Derivative financial instruments

The following table details the financial instruments and their fair values at 31 December 2016 and 2015.

					Thousands of euros	
Derivative financial instrument	**Company**	**Counterparty**	**Interest rate**	**Maturity**	**Notional value**	**Fair value – Asset / (Liability)**
Swap (step-up - amortised)	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)**
Swap (step-up - amortised)	Colonial	BBVA	4.40%	2018	60,118	(2,778)
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	25,174	(3,058)
Total at 31 December 2015					**865,292**	**(5,836)**

In 2014, within the refinancing framework of its former syndicated debt, the Parent arranged 3 CAPs totalling 780,000 thousand euros with a strike price of 1.25% and maturing at 31 December 2018, with the aim of covering 75% of the nominal amount of the syndicated loan which was finally cancelled on 5 June 2015 (Note 12). The amount of 8,580 thousand euros was paid for the premiums and was fully recognised as a hedging expense in the consolidated statement of comprehensive income for 2014. At both 31 December 2016 and 2015 the associated CAPs are measured at 0 thousand euros in the consolidated balance sheet and, therefore, no losses or negative cash flows whatsoever can derive from those instruments.

At 31 December 2016 and 2015, 97% and 93%, respectively, of the nominal amount of the Group's derivatives portfolio was compliant with the requirements of accounting rules to be recognised as hedges. Accordingly, mark-to-market (MtM) differences between periods are recognised directly in equity.

At 31 December 2016, the accumulated impact on equity of derivative hedge accounting was a debit of 571 thousand euros, net of the tax effect and consolidation adjustments. At 31 December 2015, a debt balance of 2,504 thousand euros was recognised in equity (Note 11).

The impact for 2016 and 2015 of accounting for derivatives qualifying for hedge accounting on the consolidated statement of comprehensive income was a net finance cost of 3,740 thousand and 7,914 thousand euros, respectively (Note 18-g), corresponding primarily to SFL.

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 2016, using the appropriate discount rates established by an independent expert.

At 31 December 2016, the market value of the derivatives gave rise to a financial liability of 3,414 thousand euros, including 174 thousand euros of coupon interest payable and 150 thousand euros in credit risk receivables. The fair value of the derivatives at 31 December 2015 was 5,836 thousand euros.

At 31 December 2016, 92% of total debt in Spain and 77% in France is hedged or at fixed rates.

At 31 December 2016, SFL did not have any hedging instruments.

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 2016		31 December 2015	
	Current	**Non-current**	**Current**	**Non-current**
Trade and other payables	27,326	–	20,291	–
Advances	17,995	–	19,424	–
Payables for the purchase of properties and land	15,373	20,280	33,316	–
Guarantees and deposits received	1,733	34,201	2,651	27,853
Payable to Social Security	1,752	–	1,724	–
Deferred income	2,243	–	5,496	–
Other payables and current liabilities	3,338	149	2,740	165
Total	**69,760**	**54,630**	**85,642**	**28,018**

At 31 December 2016 and 2015, “Trade and other payables” included primarily the amounts payable by the Group for business-related purchases and associated costs.

“Advances” primarily reflects amounts paid upfront by lessees for bi-monthly or quarterly rent.

At 31 December 2016, “Payables for the purchase of properties and land” included borrowings for the refurbishment or renovation work on properties carried out by SFL (Louvre Saint-Honoré and Washington Plaza), in the amount of 15,373 thousand euros, and the amount outstanding on the Parent’s acquisition of the shares in the subsidiary Moorage totalling 20,280 thousand euros, including the prior contingent amount (Note 2-f). The effect of the updated payments is not material.

“Guarantees and deposits received” mainly includes deposits paid by lessees.

“Deferred income” includes the amounts received by SFL for rights of entry, which relate to the amounts invoiced to lessees to reserve a unique space.

Average payment period 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 payment period to suppliers in commercial transactions involving the various Spanish companies pertaining to the Group.

	2016	2015
	Days	**Days**
Average supplier payment period	31	45
Ratio of payments made	32	46
Ratio of payments pending	23	42
	Amount (in thousands of euros)	**Amount (in thousands of euros)**
Total payments made	**72,009**	**44,389**
Total payments pending	**6,715**	**1,691**

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 “Payable to suppliers” and “Sundry accounts payable” in the accompanying consolidated statement of financial position. Furthermore, in accordance with that established in the aforementioned ICAC resolution of 29 January 2016, no comparative information is required, as these financial statements are classified as first-time statements for the sole purposes of applying the principle of consistency and meeting the requirement of comparability.

The “Average payment period to suppliers” shall be understood as the time between the delivery of the goods or the provision of the services of the supplier and the material payment for the operation.

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

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

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

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

As regards payments made 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

Changes in "Current provisions" and "Non-current provisions" in the consolidated statement of financial position for 2016 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 2015	**1,119**	**11,400**	**10,206**
Additions	–	2,080	2,822
Decreases	(90)	–	(309)
Transfers	–	(835)	–
Balance at 31 December 2016	**1,029**	**12,645**	**12,719**

Non-current provisions

At 31 December 2016 and 2015, this heading included the development costs of the UE-1 which shall be financed by the Parent through loans granted to DUE, up to a maximum amount of 20,000 thousand euros (Note 9). The Parent has a restricted cash line of credit with BBVA to cover these items. Drawdowns may be made when DUE demonstrates the execution of the development works. At 31 December 2016, 9,437 thousand euros had been drawn down (8,768 thousand euros at 31 December 2015).

Lastly, the Parent reclassified 648 thousand euros in 2016 (768 thousand euros in 2015) that, at 31 December 2015, were recognised as a provision for contingencies under "Impairment of non-current financial investments" to adjust the value of the credit facility granted to its recoverable value, in view of the equity position of the investee.

In 2016, SFL allocated 2,070 thousand euros to provisions for contingencies.

"Provisions for employee benefits" covers the retirement benefits and seniority bonuses of employees of SFL (Note 4-j).

Current provisions

Additions to current provisions include 9,104 thousand euros, reflecting an estimate of the Parent's various future risks, which increased in 2016 by 2,822 thousand euros.

The Group has recorded the appropriate provisions for contingencies arising from third-party claims.

16. Tax matters

The Parent heads a group of companies filing consolidated tax returns since 1 January 2008. This consolidated tax group includes only subsidiaries incorporated in Spain in which the Parent owns at least 75%, either directly or indirectly (this threshold falls to 70% in the case of listed subsidiaries and those in which a majority of voting rights is held).

In addition to the Parent, the consolidated tax group for 2016 and 2015 included Danieltown Spain, S.L.U., Colonial Invest, S.L.U. and Colonial Tramit, S.L.U.

The breakdown of tax receivables and payables in the accompanying consolidated statement of financial position is as follows:

Thousands of euros

	Tax assets			
	Current		Non-current	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Tax refunds receivable	45	48	–	–
Income tax refunds receivable	35,815	23,768	–	–
VAT	8,829	13,736	–	–
Deferred tax assets	–	–	454	865
Total tax receivables	**44,689**	**37,552**	**454**	**865**

"Income tax refunds receivable" includes a balance in favour of the Parent at 31 December 2016 of 35,625 thousand euros deriving from income tax prepayments made during 2016 and 2015. The amount of those prepayments relates to the minimum payment of 23% and 12% of the accounting profit/(loss) at the date of the prepayment, in accordance with the temporary measures in force 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.

Thousands of euros

	Tax liabilities			
	Current		Non-current	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
Income tax payable	4,962	3,098	–	–
Other taxes payable	2,515	774	–	–
Exit tax payable (SFL Group)	6,159	2,925	9,314	2,856
VAT payable	3,692	2,105	–	–
Deferred tax liabilities	–	–	347,344	244,124
Total taxes payable	**17,328**	**8,902**	**356,658**	**246,980**

Income tax

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

However, due to the temporary measures applicable in the 2015 tax period (Transitional Provision Thirty-One of Law 27/2014), the tax rate was 28%.

On 1 January 2016, Royal Decree Law 3/2016, of 2 December, on Income Tax, entered into effect, which establishes the obligation to reverse those losses that were tax deductible in taxable income during tax periods beginning prior to 1 January 2013 corresponding to the impairment of the representative values of the interest in the share capital or equity of the entities. This reversal shall be settled in equal parts in the taxable income corresponding to each one of the first five tax periods beginning as of 1 January 2016. This measure has not had any material effect for the group.

The above mentioned Royal Decree Law also established the limit to the carrying-forward of tax losses at 25% of the tax base, prior to said carryforward, for Companies whose revenue is equal to or greater than €60 million.

The breakdown of "Income tax expense" in the consolidated statement of comprehensive income for 2016 and 2015 is as follows:

Thousands of euros

	2016	2015
Corporate income tax expense	(22,322)	(9,346)
Deferred tax on the restatement of assets to their fair value (IAS 40)	(11,320)	(47,544)
Reduction in deferred liabilities due to the drop in the tax rate (Law 27/2014 of 27 November, on corporate income tax)	–	3,860
New limit on tax loss carryforwards (Royal Decree Law 3/2016, of two December, on Corporate Income Tax)	(71,438)	–
Other non-primary components	(7)	233
Income tax expense	**(105,087)**	**(52,797)**

2016

Thousands of euros

	Amount	**Tax effect – at the 25% national rate (*)**
Profit/(loss) before tax	664,391	(166,098)
Effect of the adjustments to taxable profit for France (SIIC 4 effect and adjustments to the tax base)	(367,768)	91,942
Effect of the adjustments to taxable profit for Spanish companies and unrecognised tax credits generated in the year	123,724	(30,931)
Prior income tax expense (base)	**420,347**	**(105,087)**
Income tax expense	**–**	**(105,087)**

(*) (Expense)/revenue

2015

Thousands of euros

	Amount	**Tax effect – at the 28% national rate (*)**
Profit/(loss) before tax	755,942	(211,664)
Effect of the adjustments to taxable profit for France (SIIC 4 effect and adjustments to the tax base)	(607,276)	170,037
Effect of the adjustments to taxable profit for Spanish companies and unrecognised tax credits generated in the year	43,214	(12,100)
Prior income tax expense (base)	**191,880**	**(53,727)**
Others	–	930
Income tax expense	**–**	**(52,797)**

(*) (Expense)/revenue

The following table reconciles pre-tax accounting profit/(loss) and taxable profit/(loss) after temporary differences:

Thousands of euros

	2016	2015
Accounting profit before tax (aggregate of individual expenses)	623,112	862,262
Permanent differences	(548,548)	(1,562,765)
Temporary differences	(8,667)	(829,676)
Aggregate taxable income/(tax loss) before use of unused tax losses	**65,897**	**(1,530,179)**
Offset of tax losses	(1,344)	–
Aggregate tax loss	**64,554**	**(1,530,179)**
Recognised taxable profit	65,871	27,439
Unrecognised tax loss	(1,317)	(1,557,618)

At 31 December 2016, the permanent differences recognised by the Group correspond primarily to the SFL subgroup –subject to the French SIIC regime (Note 4-m)– for a permanent negative difference in the amount of 496,315 thousand euros, and a dividend received from this company by the Parent, giving rise to a permanent negative difference of 54,565 thousand euros.

At 31 December 2015, the permanent differences recognised by the Group primarily related to the SFL subgroup – subject to the French SIIC regime (Note 4-m)– for a permanent negative difference in the amount of 553,392 thousand euros, and a dividend received from this company by the Parent, giving rise to a permanent negative difference of 53,884 thousand euros.

In 2015, following the sale of the ownership interest in Asentia's share capital, the adjustments associated with this shareholding were recovered, which gave rise to a negative adjustment of 1,585,652 thousand euros. Among these adjustments is the deferred revenue due to the application of the tax regime provided for in Chapter VIII, Title VII, of the Spanish Corporate Income Tax Law deriving from the contribution of the financial interest in Riofisa to the company Asentia.

Deferred tax assets

The breakdown of the deferred tax assets recognised by the Group is as follows:

Thousands of euros

	Recognised as assets			
Deferred tax assets	**31 December 2015**	**Additions**	**Retirements**	**31 December 2016**
Fair value of financial instruments	720	–	(374)	346
Impairment of assets	145	–	(145)	–
Others	–	108	–	108
	865	**108**	**(519)**	**454**

Prior years' tax loss carryforwards

The income tax law in force as of 1 January 2016 stipulates that prior 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 profit, with a minimum of 1 million euros. 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 profit, while if revenues are equal to or exceed 60 million euros the offset limit is reduced to 25% of taxable income.

The following table shows the aggregate tax loss carryforwards to be offset by Spanish Group companies:

Thousands of euros

Year	At companies that make up the consolidated tax group	At other Group companies
2000	12,979	–
2001	5,468	–
2003	140	–
2004	38,516	–
2005	36	–
2006	25,053	–
2007	321,571	–
2008	1,211,855	–
2009	871,505	–
2010	590,387	–
2011	270,631	–
2012	394,064	3,219
2013	98,719	–
2014	14,412	–
2015	1,543,019	422
2016	422	1,397
Total	**5,398,777**	**5,038**

As indicated above, some of the Group companies form part of consolidated tax group 6/08, which means that certain transactions among companies included in the tax group are 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 allows companies with taxable profit to make use of the tax losses generated by other companies within the same consolidated tax group.

The following table 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 tax group	**5,379,521**	**5,038**

Deferred tax asset for tax credit carryforwards

The nature and amount of unused tax credits at 31 December 2016 by the Group due to insufficient taxable profit in prior years, and the last years for offset are set out below:

Nature of the tax credit	Year of origin	Thousands of euros Amount	Last year for use
Double taxation tax credit			
	2010	274	2017
	2011	355	2018
	2012	202	2019
	2013	83	2020
	2014	162	2021
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
		17,220	

Reinvestment of extraordinary profit

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

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

Thousands of euros

	2017	2018	2019
Reinvested by the Company	27,614	8,786	18,701
Associated profit	1,009	946	188

The directors of the Parent believe that the Parent or its tax group, as appropriate, will comply with the stipulated timeframes.

Deferred tax liabilities

The breakdown of deferred tax liabilities and the changes therein are provided below:

Thousands of euros

Deferred tax liabilities	31 December 2015	Additions	Additions to the scope of consolidation (Note 2-f)	Retirements	Transfers	31 December 2016
Asset revaluations	237,816	101,259	20,455	(18,494)	–	340,650
Asset revaluations –Spain–	29,928	58,609	20,455	(1,976)	(386)	106,630
Asset revaluations –France–	207,888	42,650	–	(16,518)	–	234,020
Deferral for reinvestment	6,308	–	–	–	–	6,308
Others	–	–	–	–	386	386
	244,124	**101,259**	**20,455**	**(18,494)**	**–**	**347,344**

Deferred tax liability for asset revaluations

This deferred tax liability corresponds fundamentally to the difference between the accounting cost of investment properties measured at fair value (under IFRS) and their tax basis (acquisition cost less depreciation).

“Asset revaluations (Spain)” 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. Accordingly, the deferred taxes associated with the investment property of Colonial Group companies that in turn form part of the tax group 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 is considering applying the tax credit of 31,771 thousand euros (the difference between the 25% tax rate and the effective settlement rate applied of 18.75%). At the 2015 year end, the deferred tax liabilities were calculated at an effective rate of 7.5% given that, in the previous financial year, in accordance with the tax legislation in effect, the Group was able to apply tax credits of up to 70% of the tax base.

“Asset revaluations-France-” records the amount of the deferred taxes associated with the Group’s investment properties 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 (Appendix I) would fall outside of that tax regime at 31 December 2016 (Annex II). The Colonial Group also recognises a 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 of 11.15%

Other non-current tax liabilities

The non-current tax liabilities are detailed in the table below:

Thousands of euros

Description	31 December 2016	31 December 2015
Exit tax SFL	9,314	2,856
	9,314	**2,856**

Exit tax SFL

In 2016, the subsidiary SFL executed the purchase option in the finance lease agreement that it held with respect to the property Wagram 131. This asset was subject to the SIIC regime, giving rise to the corresponding obligation to pay the exit tax (Note 4-m) totalling 13,012 thousand euros, which must be paid to the French tax authorities in four equal annual payments.

Other tax issues

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. 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.

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. Contingent assets and liabilities

Guarantee commitments to third parties

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 at market value.

– *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 at market value.

Contingent assets

In 2010, the Parent filed certain lawsuits on behalf of the company against former directors for transactions carried out between June 2006 and December 2007 regarding the following corporate action for liability:

– 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 equity issue 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.

– A corporate action for liability against certain former directors in connection with the purchase of treasury shares between March and December 2007, both months inclusive. In February 2015, a ruling was handed down by the Supreme Court dismissing the claims filed by the Parent, which was ordered to pay costs. However, the court upheld the grounds relating to the validity of the resolution for filing a corporate action for liability.

Given that the three 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 all cases are lost. The Parent's Directors do not expect those rulings to have a significant impact on the consolidated financial statements, given that at 31 December 2016 the appropriate provision had been recognised to meet any possible costs (Note 15).

18. 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. Revenue amounted to 271,400 thousand and 231,185 thousand euros respectively, as at 31 December 2016 and 2015. The breakdown by geographical segments is as follows:

Thousands of euros

Rental business	2016	2015
Spain	73,263	62,391
France	198,137	168,794
	271,400	**231,185**

Revenue in 2016 and 2015 includes the effect of deferring grace periods and rent reset clauses throughout the term elapsing between the start of the lease and the first option for renewing the lease agreements (Note 10). Revenue also includes the accrued amounts received in connection to rights of entry (Note 14). At 31 December 2016 and 2015, these accruals increased revenue by 33,908 and 17,662 thousand euros respectively.

At 31 December 2016 and 2015, 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, were as follows:

Thousands of euros

	Nominal amount	
Minimum operating lease payments	**31 December 2016**	**31 December 2015**
Within one year	**274,007**	**258,491**
Spain	75,618	64,570
France	198,389	193,921
Between one and five years	**664,884**	**651,641**
Spain	122,155	95,078
France	542,729	556,563
After five years	**247,678**	**309,393**
Spain	6,405	12,515
France	241,273	296,878
Total	**1,186,569**	**1,219,525**
Spain	**204,178**	**172,163**
International	**982,391**	**1,047,362**

b) Other operating income

This heading relates mainly to property services rendered, and amounted to 3,057 thousand and 3,143 thousand euros at 31 December 2016 and 2015, respectively.

c) Staff costs

The breakdown of "Staff costs" in the accompanying consolidated statement of comprehensive income is as follows:

Thousands of euros

	2016	2015
Wages and salaries	14,849	14,018
Social security costs	5,561	6,462
Other employee benefit expenses	2,278	2,315
Contributions to defined-benefit plans	235	–
Termination benefits	–	1,060
Internal reallocation	(630)	(559)
Total staff costs	**22,293**	**23,296**
Spain	**9,287**	**9,068**
International	**13,006**	**14,228**

"Other employee benefit expenses" includes amounts corresponding to cost accrued in 2016 under the Parent's long-term bonus plan and SFL's share option plan detailed in Note 19, totalling 2,260 thousand euros (2,057 thousand euros in 2015).

Group headcount at 31 December 2016 and 2015, as well as the average headcount in 2016 and 2015, of staff employed in continuing operations, broken down by job category and gender, was as follows:

Number of employees

	2016		2015		Average headcount, 2016		Average headcount, 2015	
	Men	Women	Men	Women	Men	Women	Men	Women
General and area managers	12	5	11	5	12	5	12	5
Technical graduates and middle managers	29	32	27	27	27	30	29	26
Clerical staff	18	49	14	53	16	50	13	55
Others	4	1	1	1	1	1	1	1
	63	**87**	**53**	**86**	**56**	**86**	**55**	**87**

d) Other operating expenses

The breakdown of “Other operating expenses” in the consolidated statement of comprehensive income is as follows:

Thousands of euros

	2016	2015
External and other expenses	9,621	15,522
Taxes other than income tax	23,860	20,959
Total	**33,481**	**36,481**

e) Net change in impairment of trade receivables

The movement in “Impairment losses on trade receivables” included in the consolidated statement of financial position for the year was as follows:

Thousands of euros

	2016	2015
Opening balance	90,093	157,495
Net change	(999)	(67,402)
Closing balance	**89,094**	**90,093**

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

At 31 December 2016 and 2015, of this total amount, 85,473 thousand euros related to the impairment of receivables from Nozar, S.A.

The breakdown, by nature, of the impairment charges recognised under “Impairment charges and net gains/(losses) on assets” in the consolidated statement of comprehensive income is as follows:

Thousands of euros

	2016	2015
Reversal of impairment of properties for own use (Note 7)	3,159	808
Derecognitions of replaced assets (Note 8)	(7,532)	(3,282)
Impairment charges and net gains/(losses) on assets	**(4,373)**	**(2,474)**

f) Net gain/(loss) on sales of assets and change in fair value of investment property

The following table breaks down the Group's gains/(losses) from asset sales (Notes 8 and 22):

Thousands of euros

	Sale price		Costs to sell		Net gain/(loss) on sales of assets	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Spain	17,054	–	(17,203)	–	(149)	–
Total	**17,054**	**–**	**(17,203)**	**–**	**(149)**	**–**

The breakdown of changes in the fair value of investment properties in 2016 and 2015 is as follows:

Thousands of euros

	2016	2015
Changes in value on statement of financial position		
Investment property (Note 8)	560,320	725,115
Non-current assets held for sale – Investment property (Note 22)	457	(5,133)
Changes in the fair value of investment properties recognised in the statement of comprehensive income	**560,777**	**719,982**
Spain	**122,737**	**206,328**
International	**438,040**	**513,654**

g) Finance income and costs

The breakdown of finance income and costs in 2016 and 2015 is as follows:

Thousands of euros

	2016	2015
Finance income:		
Revenue from equity instruments (Note 9)	–	18
Other interest and similar income	1,220	1,288
Income from financial derivatives (Note 13)	1,162	3,111
Capitalised borrowing costs (Note 4-c)	1,177	6,049
Total finance income	**3,559**	**10,466**
Finance costs:		
Interest and similar expense	(81,988)	(123,312)
Finance costs associated with the repurchase of bonds (Note 12)	(20,904)	(9,515)
Expense on derivative financial instruments (Note 13)	(4,902)	(11,025)
Total finance costs	**(107,794)**	**(143,852)**
Impairment of financial assets	**(648)**	**2,267**
Total financial loss	**(104,883)**	**(131,119)**

Lastly, "Finance costs associated with the repurchase of bonds" includes, for both 2016 and 2015, costs borne by the Parent and SFL to repurchase issued bonds (Note 12).

At 31 December 2015, "Interest and similar expense" included 28,039 thousand euros as the charge for early cancellation of the Parent's syndicated loan on 5 June 2015 (Note 12).

h) Related party transactions

The main related party transactions undertaken in 2016 and 2015 were as follows:

Thousands of euros

	2016	2015
	Building leases and other income	**Building leases and other income**
Gas Natural, SDG, S.A.	5,234	5,916
Total	**5,234**	**5,916**

On 29 July 2016, the Parent Company acquired 3,801,417 shares from Mora Banc Grup S.A. and Mora Assegurances, S.A.U., for the amount of 25,469 thousand euros (Note 11), by virtue of the contracts signed between the parties on 27 July 2016.

i) Results by consolidated company

The contribution of the consolidated companies to profit/(loss) for the year was as follows:

Thousands of euros

	Consolidated profit/(loss)		Profit/(loss) attributable to non-controlling interests		Profit/(loss) attributable to shareholders of the Parent	
Company	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Inmobiliaria Colonial, S.A.	54,131	142,645	–	–	54,131	142,645
SFL subgroup	511,645	545,124	(284,533)	(283,219)	227,112	261,905
Torre Marenostrum, S.L.	2,658	10,188	(1,124)	(4,513)	1,534	5,675
Danieltown Spain, S.L.U.	3,548	5,190	–	–	3,548	5,190
Moorage Inversiones 2014, S.L.U.	(9,610)	–	–	–	(9,610)	–
Hofinac Real Estate, S.L.U.	(802)	–	–	–	(802)	–
Fincas y representaciones, S.A.U.	(2,265)	–	–	–	(2,265)	–
Colonial Invest, S.L.U.	(1)	(1)	–	–	(1)	(1)
Colonial Tramit, S.L.U.	–	(1)	–	–	–	(1)
Total	**559,304**	**703,145**	**(285,657)**	**(287,732)**	**273,647**	**415,413**

19. Share option plans

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

On 21 January 2014, shareholders at the Parent's General Shareholders' Meeting set up a long-term bonus scheme for the Chairman and Chief Executive Officer of the Parent and for members of the Group's Management Committee, applicable from 2014 to 2018.

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

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

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

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

In 2016 and 2015, the Parent recognised 1,146 and 1,205 thousand euros respectively under "Staff costs - Other employee benefit expenses" in the consolidated statement of comprehensive income to cover the incentive plan (Note 18-c).

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 would be 3,651,162 shares (Note 11). The shares were delivered to the beneficiaries on 29 April 2016. Of these shares, 1,758,139 shares were delivered to members of the Board of Directors and 1,893,023 shares to members of senior management, with a market value upon delivery of 1,196 thousand and 939 thousand euros, respectively.

On 24 April 2015, 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 2014 would be 3,766,173 shares (Note 11). The shares were delivered to the beneficiaries on 30 April 2015. Of these shares, 1,813,521 shares were delivered to members of the Board of Directors and 1,424,908 shares to members of senior management, with a market value upon delivery of 1,088 thousand and 855 thousand euros, respectively.

Share option plans on SFL shares

SFL had two bonus share plans at 31 December 2016, the breakdown of which is as follows:

	Plan 1	Plan 3	Plan 4
Meeting date	09.05.2011	22.04.2015	13.11.2015
Board of Directors date	04.03.2014	17.06.2015	26.04.2016
Initial target number	33,981	27,328	32,036
Initial expected %	70.83%	70.83%	70.83%
Initial expected number	24,069	19,356	22,691
Amount per share (euros)	31.48	36.08	41.49
Options cancelled	(16,165)	(1,728)	(128)
Expected % at year-end	150.00%	100.00%	100.00%
Estimated number at year-end	26,723	25,600	31,908

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 2016, 1,114 thousand euros were recognised in the consolidated statement of comprehensive income relating to these bonus share plans (Note 18-c).

During 2016, 36,424 free shares were allocated to their beneficiaries in accordance with the former Plan No. 1 approved by SFL's Board of Directors on 16 February 2013.

20. Year-end balances with related parties and associates

At 31 December 2016 and 2015 the Group did not have any balances outstanding with related parties and associates.

21. Director and senior management compensation and other benefits

The Parent's Board of Directors was made up of 10 men and 1 woman at 31 December 2016 and 2015. At 31 December 2016 its composition 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 Villar-Mir de Fuentes	Director	Proprietary
Juan Carlos García Cañizares	Director	Proprietary
Carlos Fernández-Lerga Garralda	Lead Director	Independent
Ms Ana Sainz de Vicuña	Director	Independent
Javier Iglesias de Ussel Ordís	Director	Independent
Luis Maluquer Trepat	Director	Independent

Mr. Carlos Fernández González and Mr. Adnane Mousannif were appointed as directors in 2016. The directors Mr Francesc Mora Sagués and Grupo Villar Mir, S.A.U. left the Board in 2016 and the classification of Mr Luis Maluquer Trepat was changed from Other Director to Independent Director.

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

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

Compensation of Board members

Remuneration received in 2016 and 2015 by the current members of the Board of Directors and senior management of the Parent, by item, was as follows:

31 December 2016

Thousands of euros

	Inmobiliaria Colonial, S.A.	Other Group companies	Total
Compensation accrued by executive directors (*)	**2,610**	**150**	**2,760**
Attendance fees	**535**	**150**	**685**
Director attendance fees	521	150	671
Additional per diems for the Vice Chairman	14	–	14
Fixed remuneration	**897**	**–**	**897**
Directors' remuneration	546	–	546
Additional remuneration for the Executive Committee	66	–	66
Additional remuneration for the Audit and Control Committee	150	–	150
Additional remuneration for the Nomination and Remuneration Committee	135	–	135
Total	**4,042**	**300**	**4,342**
Remuneration for 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 19.

31 December 2015

Thousands of euros

	Inmobiliaria Colonial, S.A.	Other Group companies	Total
Compensation accrued by executive directors (*)	**1,215**	**150**	**1,365**
Attendance fees	**457**	**117**	**574**
Director attendance fees	428	117	545
Additional attendance fees for the Chairman	29	–	29
Fixed remuneration	**1,100**	**–**	**1,100**
Directors' remuneration	600	–	600
Additional remuneration for the Executive Committee	200	–	200
Additional remuneration for the Audit and Control Committee	150	–	150
Additional remuneration for the Nomination and Remuneration Committee	150	–	150
Total	**2,772**	**267**	**3,039**
Remuneration for Executive Directors (*)	1,460	211	1,671

(*) Does not include the amount corresponding to expenses accrued in relation to the long-term incentive plan described in Note 19.

In 2016, members of the Board of Directors of the Parent accrued remuneration of 1,432 thousand euros (1,557 thousand euros during 2015) as a fixed amount for fulfilment of their duties as board members and for attending board meetings. Additionally, certain non-executive directors of the Parent received 90 thousand euros from SFL for their role as directors of that company (56 thousand euros in 2015).

In 2016, executive directors received cash remuneration of 2,610 thousand euros for all items received from the Parent. Furthermore, remuneration in kind included 1,196 thousand euros corresponding to the long-term share delivery plan (1,460 and 1,088 thousand euros in 2015 respectively). Additionally, the non-executive directors of the Parent received 210 thousand euros from SFL for their role as directors of that company (61 thousand euros in 2015).

At 31 December 2016 and 2015, the Parent had a civil liability insurance policy covering all of its directors, executives and staff, for a total of 302 thousand and 322 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.

Shareholders at a general 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, with overall annual contributions of 175 thousand euros.

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 2016 and 2015, 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 2016 and 2015, 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.

Compensation 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 2016 and 2015.

Monetary compensation earned by senior management in 2016 amounted to 1,081 thousand euros. In addition, the 939 thousand euros corresponding to the long-term incentives (860 thousand and 855 thousand euros in 2015, respectively).

The Board of Directors at its meeting held on 27 July 2016 approved the granting of a defined-contribution scheme to a member of the senior management covering retirement and, when applicable, disability and death, with an annual contribution of 60 thousand euros.

At 31 December 2016 and 2015, one member of senior management had signed a golden parachute clause, in the event of termination under certain circumstances or a change of control.

22. Non-current assets held for sale

The movements under this heading in 2016 and 2015 were as follows:

Thousands of euros

	Investment property
Balance at 31 December 2014	**16,539**
Additions	1,321
Impairment (Note 18-f)	(5,133)
Balance at 31 December 2015	**12,727**
Additions	60
Decreases	(13,550)
Transfers	306
Impairment (Note 18-f)	(457)
Balance at 31 December 2016	**–**

Investment property (Note 8)

Changes 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; therefore, their carrying amount has been transferred to "Investment property" in the consolidated statement of financial position.

At 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 18-f).

Changes in 2015

There were no significant changes in 2015.

23. Auditors' fees

Fees incurred for auditing services in 2016 and 2015 provided to the various companies composing the Colonial Group by the principal auditor and other auditors are set forth below:

Thousands of euros

	2016		2015	
Description	**Principle auditor**	**Other auditors**	**Principle auditor**	**Other auditors**
Audit services	535	323	532	282
Other attest services	137	–	224	15
Total audit and related services	**672**	**323**	**756**	**297**
Tax advisory services	–	–	–	–
Other services	161	20	160	26
Total professional services	**161**	**20**	**160**	**26**

The principal auditor of the Colonial Group is Deloitte, S.L.

The principal auditor's fees represent less than 1% of the Group revenue in Spain.

24. Events after the reporting date

On 12 January 2017, the Parent officially sold part of an asset in Madrid for 5,600 thousand euros, generating a net profit of 290 thousand euros.

On 13 January 2017, the SFL officially acquired a building on avenue Emile Zola in Paris for the amount of 165,000 thousand euros.

On 3 February 2017, the Parent formally entered into a joint venture agreement with Inmo, S.L. to construct an office building in Barcelona, with the two companies jointly incorporating a public limited company.

From 31 December 2016 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.

25. 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 Group 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 2016 and 2015, fully consolidated subsidiaries and related information were as follows:

	% shareholding					
	Direct		Indirect			
	31-12-16	31-12-15	31-12-16	31-12-15	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%	–	–	–		Real estate
Hofinac Real Estate, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	–	–	–		Real estate
Fincas y representaciones, S.A.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	–	–	–		Real estate
Société Foncière Lyonnaise, S.A. (SFL) 42, rue Washington 75008 Paris (France)	58.55%	53.14%	–	–		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

	% shareholding					
	Direct		Indirect			
	31-12-16	31-12-15	31-12-16	31-12-15	Shareholder	Line of business
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	Sales of property and rendering of services
Locaparis, SAS 42, rue Washington 75008 Paris (France)	–	–	100%	100%	Segpim	Sales of property and rendering of services
Maud, SAS 42, rue Washington 75008 Paris (France)	–	–	100%	100%	SFL	Real estate
SB2, SAS 42, rue Washington 75008 Paris (France)	–	–	100%	100%	SFL	Real estate
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

At 31 December 2016 and 2015, 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, S.A. and Subsidiaries
Consolidated Management Report for the year ended 31 December 2016

1. Company situation

Macroeconomic environment

Global economic growth grew by 3.1% in 2016, similar to the rate of 2015. The year 2016 picked up speed thanks to the acceleration of emerging economies in the second half of the year. Economic progress was driven by the main central banks maintaining an accommodative monetary policy and as a result of a slight recovery in oil prices.

Growth in the Eurozone expanded at a moderate but steady rate in 2016, at 1.7%. The drivers in the Eurozone recovery this year have been domestic demand and household consumption which have seen an improvement due to growth in the labour market, together with an environment of very low rates that have reached historic lows, driving credit demands.

The growth rate of the Spanish economy remained high in the fourth quarter of 2016, with a rate of expansion compared to the third quarter (growth of 0.68% quarter-on-quarter), according to data from CaixaBank Research.

In France, the drop in energy prices and low inflation rates have enabled an increase in salaries, driving further growth in private consumption. GDP growth is expected to be 1.2% in 2016.

Sources: "la Caixa" monthly report & OECD study

Rental market situation

Barcelona

During the last quarter of 2016, a total of 82,341 sq m of offices were signed in Barcelona, which was higher than the volume obtained in the third quarter, of 77,000 sq m, whilst being the most active quarter of the year. The cumulative take-up volume of offices for the whole of 2016 reached 305,000 sq m, a figure higher than the average take up of 235,000 sq m over the last five years.

By area, almost 50% of the transactions carried out in 2016 were in city centres, 30% in new business districts and 20% in peripheral locations. Regarding sectors, for another year, the services sector leads the demand, with an outstanding performance by internet and e-commerce companies, which show more rapid expansion than that observed in traditional economic sectors.

The average vacancy rate in Barcelona continues its downward trend in the last year, falling from 10.5% to the current 9.0%. The lack of supply of office space, coupled with take-up levels which have remained steady, are fuelling a gradual decrease in vacancy rates with a downward trend expected in the future. Vacancy currently stands at around 6% in Paseo de Gracia/Diagonal. In this respect, it is extremely difficult to find available space above 800 sq m in this area in particular.

During the fourth quarter of 2016, the maximum rents in the Paseo de Gracia/Diagonal area experienced growth, reaching maximum rental levels of €21.5/sq m/month.

Madrid

During the last quarter of 2016 the take-up for offices in Madrid increased up to 143,559 sq m, implying a relatively high increase with respect to the previous quarter, in which the take-up was 88,200 sq m. For the whole 2016 the total transactions exceeded 430,000 sq m, thanks to the increase in operations between 1,000 and 5,000 sq m. By sector, the main drivers of the office rental market were the technology, financial, automobile and engineering sectors and companies related with the tourism/hotel sector.

The total stock of offices in Madrid practically remained stable during the last 12 months, with new stock of just 16,251 sq m of offices. Activity has been primarily focused on the refurbishment of offices, with 100,000 sq m of newly refurbished spaces. However, it is worth mentioning the lack of existing quality supply in the centre of the capital: Grade A buildings make up 11.5% of the total, and 70% of these were found outside of the M-30.

As a consequence, the vacancy rate in 2016 was reduced gradually from 10.6% at the end of 2015 to 10.1% at the end of the 2016, due to a slight increase in the net absorption.

Continuing with the office market recovery which commenced three years ago, throughout 2016 the rental prices for the best offices in the capital reached €29/sq m/month, representing an increase of 6.4% compared to the beginning of the year.

Paris

Office take-up in the Paris region (Ile-de-France) in the fourth quarter of 2016 reached 669,400 sq m (cumulative of 2,400,000 sq m), an increase of 7% compared to the previous year and 4% higher than the average over the last ten years.

The centre of Paris captured the majority of the transactions in Ile-de-France since the beginning of the year and in particular high activity can be seen in the large transactions sectors, with 65 contracts for more than 5,000 sq m registered in 2016, an increase of 23% with respect to the previous year. In addition, there was an increase of 37% compared to the previous year in transactions of more than 20,000 sq m.

It is important to highlight that in the South Paris and La Défense areas, record levels were reached thanks to the dynamism of the market in transactions above 5,000 sq m. In addition, Paris Centre West registered an excellent year despite the situation of a lack of a supply, particularly in the Centre.

The supply of available office space in Île-de-France reduced by 10% compared to the last 12 months and stood at 4.37 million sq m. Therefore, the average vacancy rate reached 6.7%, 3.5% in Paris “intra muros” the lowest figure in the last 7 years.

Prime rental prices in the Paris CBD at the end of the fourth quarter reached €760/sq m/year.

Sources: Reports by Jones Lang Lasalle, Aguirre Newman, CBRE and BNP Paribas Real Estate

Organisational structure and functioning

Inmobiliaria Colonial, S.A. is a leading property company in the market of quality offices in the Spanish market. It is one of the leading office operators on the Spanish property market. The Company has a property portfolio valued at more than 8.0 billion euros, with a clear rental commitment centred on the operation and development of buildings for rent and a prominent presence in the rental business of quality offices in the prime zones of the Madrid and Barcelona markets. It is also a leader in the Paris market through its subsidiary Société Foncière Lyonnaise.

The strategy of the Company is to consolidate itself as a leader in prime office rentals in Europe, with a special emphasis on the Barcelona, Madrid and Paris markets.

In particular, its strategy is based on the following:

– A business model focused on the transformation and creation of high-quality offices in prime locations, mainly central business districts (CBD).

– Maximum commitment to the creation of high-quality offices which respond to the highest demands of the market, with a particular emphasis on efficiency and sustainability.

– A pan-European strategy that is diversified among the office markets of Barcelona, Madrid and Paris.

– An investment strategy combining core acquisitions and prime factory acquisitions, projects with value added components.

– A clear industrial property approach to capture value creation higher than the market average.

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

– Attractive returns for shareholders based on recurring return combined with the creation of property value based on value added initiatives.

2. Business performance and results

Introduction

Revenue totalled 271 million euros at 31 December 2016, and was generated by the Group's recurring business (property rentals).

Profit from operations amounted to 213 million euros.

According to the independent year-end appraisals by CB Richard Ellis, Jones Lang Lasalle and BNP Paribas Real Estate, the Group's investment property was revalued by 561 million euros in the year. This revaluations, which was registered in France as well as in Spain, is the result of a +9.4% increase like-for-like in the appraisal values of the assets in operation with respect to December 2015 (9.1% in Spain and 9.4% in France).

The Group capitalised one million euros of borrowing costs related to developments in progress.

The net finance cost amounted to 105 million euros, including one million euros relating to the finance costs of developments in progress that were capitalised.

Once the results attributable to the minorities of (286) million euros were deducted, the results after taxes attributable to the Group amounted to 274 million euros.

Profit (loss) for the year

The highlights of rental business are as follows:

2016 was an excellent year for the Colonial Group and its shareholders.

The Net Asset Value at 31 December 2016 amounted to €7.25 per share, resulting in an annual increase of 18%, which together with the dividend paid in July 2016, means a Total Shareholder Return of more than 20%[1].

(1) Total return calculated as the increase of NAV plus dividends per share over NAV per share at 31/12/2015.

This Total Return is among the highest in the sector in Spain and Europe and is relies on an approach of industrial value creation combined with a positioning of asset class specialization in prime offices.

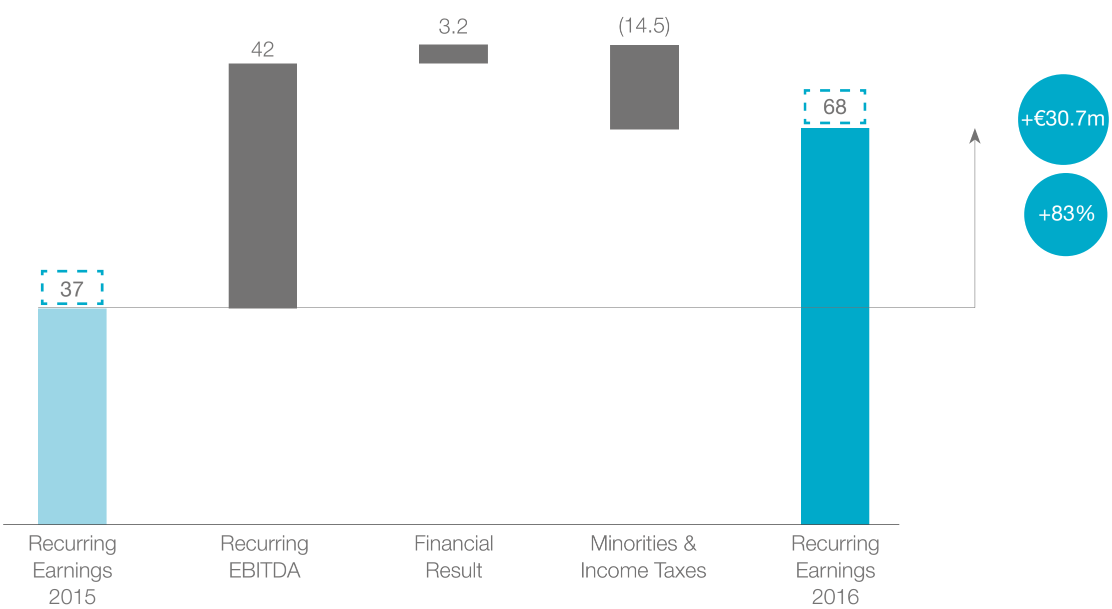
The recurring net profit of the Colonial Group amounted to 68 million euros at the close of 2016, 31 million euros higher than the previous year, resulting in an increase of 83%.

PROFIT & LOSS ACCOUNTS

Results analysis - €m	**2016**	**2015**
Gross Rents	271	231
Net operating expenses(1)	(15)	(20)
Overheads	(36)	(33)
Recurring EBITDA	220	178
Recurring financial result	(80)	(83)
Income tax expense & others - recurring	(12)	(12)
Minority interests - recurring	(61)	(46)
Recurring Earnings	**68**	**37**
Variance asset values & provisions	554	715
Non-recurring financial result & MTM	(25)	(48)
Income tax & others - non-recurring	(98)	(47)
Minority interests - non-recurring	(225)	(242)
Profit attributable to the Group	**274**	**415**

(1) Includes other income.

RECURRING INCOME - €M - VARIANCE ANALYSIS

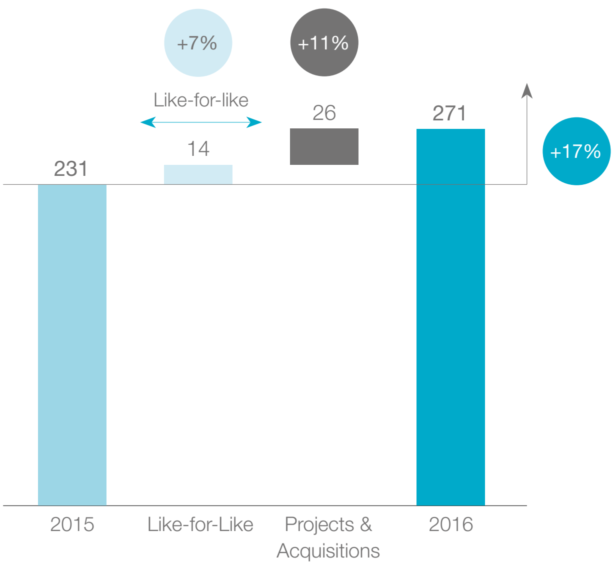


The Colonial Group has obtained an increase in rental income of 17% due to:

1. An increase of 7% in like-for-like income, based on the position of the prime portfolio.

2. An 11% increase in income through the successful delivery of prime factory projects and new acquisitions.

RENTAL INCOME - €M

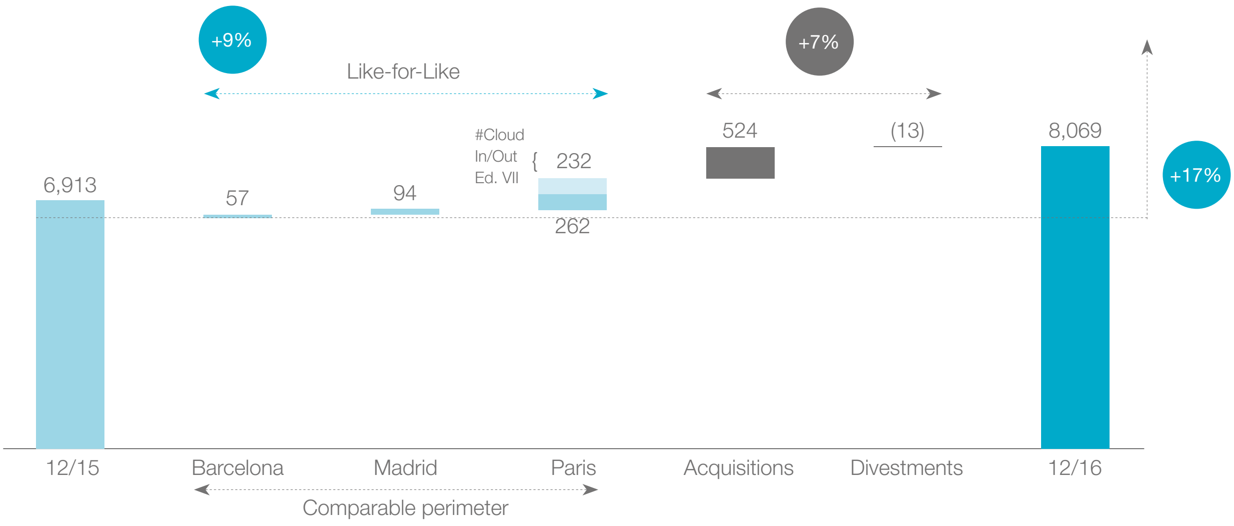


	Like-for-like	Projects & Acquisitions	TOTAL
BARCELONA	+10%	+2%	+12%
MADRID	+3%	+18%	+22%
PARIS	+7%	+10%	+17%
TOTAL	+7%	+11%	+17%

The like-for-like increase in rental income achieved by Colonial ranks among the highest in the sector. In particular, this increase was 6% like-for-like in Spain and 7% like-for-like in France. The progress in rental income resulted in an increase of 24% in recurring EBITDA which, together with the improvement in financial costs, led to a net recurring profit of 83%.

Colonial's Group Gross Asset Value amounted to 8,069 million euros at the close of 2016, resulting in an increase of +9.4% like-for-like in 12 months. The Gross Asset Value of the Group including transfer costs amounted to 8,478 million euros.

VARIANCE ANALYSIS - VALUE 12 MONTHS - €M



GAV VARIANCE

	6 months	12 months
BARCELONA	+3%	+8%
MADRID	+4%	+10%
PARIS	+4%	+9%
TOTAL LFL	+4%	+9%
ACQUISITIONS & DISVESTMENTS	+3%	+7%
TOTAL VAR	+7%	+17%

The assets in Spain increased by 9.1% like-for-like in the last 12 months, mainly due to a combination of property repositionings and increases in occupancy that have led to improved yields and rental income. The portfolio in Madrid increased by 9.6% like-for-like in 12 months, and the Barcelona portfolio increased 8.4% like-for-like in 12 months.

The appraisal value of the portfolio in France increased 9.4% like-for-like in 12 months. This increase in value is a consequence of the progressive repositioning of the property portfolio with positive impacts on rents and yields, in the context of an investment market with a strong interest for prime offices in Paris.

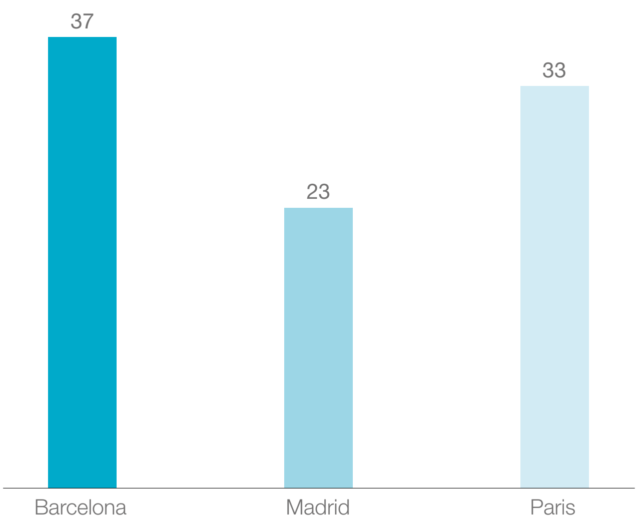
Corporate tax amounted to (105) million euros and was mainly due to the registering of deferred taxes associated with the asset revaluation in 2016, as well as the impact of (70) million euros derived from the regulation changes introduced by the Spanish tax authorities, limiting the percentage of use of losses carried forward as tax shields from 70% to 25%. This has led to the regularization of tax liabilities registered previous to aforementioned regulation change. It is important to point out that this impact does not imply a cash outflow.

The attributable net profit including the impact of the variance of change in fair of assets and financial liabilities as well as the tax impacts amounted to 274 million euros.

Rental portfolio management

In a rental market with clients demanding increasingly higher standards, the Colonial Group signed 93 transactions corresponding a rental contract volume of 116,045 sq m with an annualized income of 39 million euros.

#TRANSACTIONS



Surface sqm	GRI €m
62,090	€11m
19,953	€6m
34,002	€22m
116,045	€39m

The Colonial Group has been able to attract top tier clients that demand unique locations. This fact has resulted in signings with prices at the high end of the market, capturing an important increase in rents.

The most important transactions of the year include:

Barcelona

• Pre-letting on more than 9,000 sq m with Schibsted Iberica for the Parc Glories project.

• Contract renewal with Gas Natural (22,394 sq m).

• More than 4,800 sq m signed with various tenants in the Diagonal, 609-615 building.

• Letting of more than 11,000 sq m in Sant Cugat.

Madrid

• A pre-letting of more than 4,200 sq m on the Serrano, 73 building (currently under refurbishment).

• Commercialization of more than 4,600 sq m on the Recoletos, 37 building.

Paris

• Completion of the commercialization of the entire #cloud.paris building, with almost 3,000 sq m signed with Coty.

• The rental contract of more than 2,600 sq m with Quartus for the Cézanne Saint-Honoré building.

• The signing on more than 9,400 sq m on the Washington Plaza building with various tenants.

• The signing on more than 4,300 sq m on the Grenelle 103 building with various tenants.

• The signing of almost 2,100 sq m on the Percier building, on which several floors have been refurbished.

Portfolio occupancy

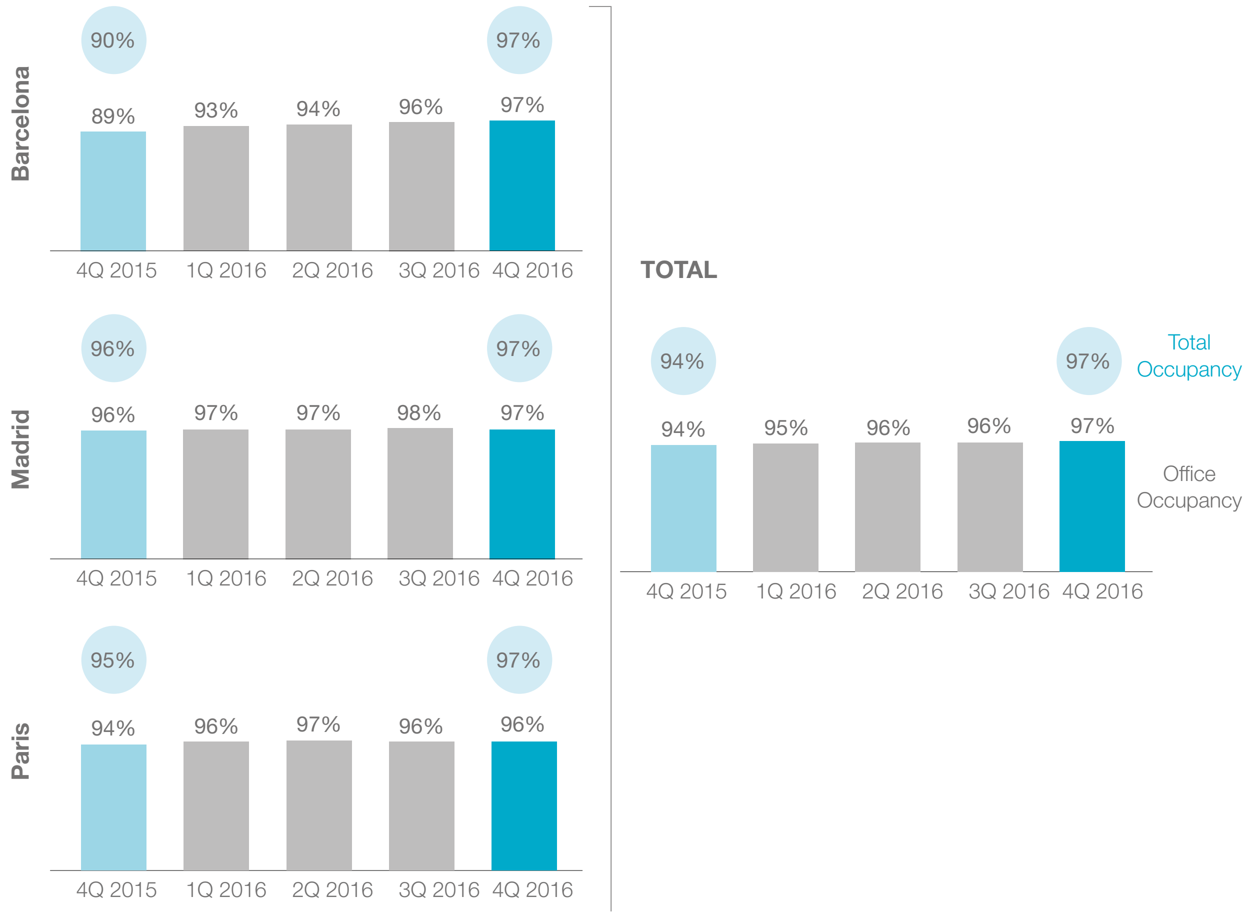
The excellent letting performance has enabled Colonial to achieve and maintain very solid occupancy levels.

At the close of 2016, Colonial's office portfolio reached an financial occupancy of 97% (319 basis points above that of the previous year) and much higher than the market average.

The following chart shows the evolution of the financial occupancy of the portfolio.

FINANCIAL OCCUPANCY[1]

Office & Total Occupancy – Evolution of Colonial's Portfolio



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

The office portfolios in the three markets are at very solid financial occupancy levels: Barcelona at 97% (+745 basis points vs. the previous year), Madrid at 97% (+192 basis points) and Paris at 96% (+269 basis points). These high occupancy levels clearly exceed those of the competitors in Spain, as well as in France, and significantly improve the negotiation position to obtain further rental price increases in the coming quarters.

Asset repositioning and projects

In 2016, the Group invested more than €86 in development projects and asset repositioning.

In France, it is worth highlighting the reorganization of common areas in the office complex Cézanne Saint Honoré and the refurbishment of various floors in Percier. In Spain, various reorganizations of common areas and floors have been carried out in the Berlín 38-48/Numància 46 and Via Augusta 21-23 buildings in Barcelona. In the Madrid portfolio, common areas and office floors have been refurbished in the Castellana 52, José Abascal 45 and Miguel Ángel 11 assets, and the José Abascal 56 carpark has been repositioned. In addition, it's important to mention the transformation project underway on the Santa Engracia building, which has enabled the obtention of 234 sq m of additional gross lettable area to date. The significant commercial success of these assets with rental prices signed at the high end of the market is a direct consequence of the industrial Prime Factory strategy of the Colonial Group.

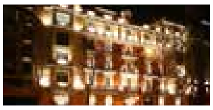
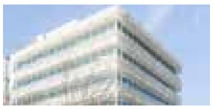
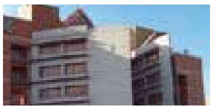
Acquisitions and portfolio rotation

Acquisitions 2016 – Alpha I

In 2016, the Colonial Group successfully executed its acquisition program. In the framework of the Alpha-I Project, three prime assets were acquired in Madrid, one project in Barcelona, and a 5.5%[(1)] stake in SFL.

In addition, in November 2016, a 15.1% stake was acquired in Axiare for €12.5/share resulting in a significant discount to NAV.

ALPHA-I PROJECT

BARCELONA	**Prime Factory**		1	Parc Glories Project Barcelona 22@ Area	GLA: 24,551 sq m	Price: €77m[(2)] Cash
MADRID	**Core + Value added**		2	José Abascal Madrid Prime CBD	GLA: 5,326 sq m	Price: €35m Cash
	Core + Value added		3	Serrano 73 Madrid Prime CBD	GLA: 4,242 sq m	Price: €48m New Col. shares
	Core + Value added		4	Corporate HQ - Sta. Hortensia 26-28 Madrid BD	GLA: 46,928 sq m	Price: €154m New Col. shares
PARIS	**Core + Value added**		5	5.5%[(1)] stake in SFL Paris		Price: €130m New Col. shares + Cash
MADRID	**Value added**	axiare	6	15.1% stake in Axiare Madrid		Price: €136m

The volume of this investment program amounts to 580 million euros (including future capex of development projects) and fits perfectly with the objectives set, regarding asset type, location as well as value creation potential and therefore return expectations.

(1) 4.4% acquired in June 2016 and 1.1% in August 2016, under the same conditions as the June purchase.
(2) Including capex of the full development project.

Beginning of 2017 – Alpha II

Accelerating the fulfilment of the growth objectives of the strategic plan, Colonial has begun 2017 with the execution of the Alpha II Project, which includes the acquisition of four assets for an investment volume of almost 400 million euros (total investment volume includes CAPEX for the future development of projects).

Specifically, three development projects were acquired, one in each of the markets in which the Colonial Group is present: Barcelona, Madrid and Paris. Additionally, Colonial purchased the Spanish headquarters of the Bertelsmann Group, located in the CBD in Barcelona.

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

ALPHA-II PROJECT

MADRID	**Core + Value added**		1	Paseo de la Castellana, 163 Madrid Prime CBD	GLA: 10,910 sq m	Total Investmen[1]: €51m
BARCELONA	**Core**		2	Travessera de Gràcia, 47-49 Barcelona Prime CBD	GLA: 8,939 sq m	Total Investmen[1]: €41m
	Value added		3	Plaza Europa, 46-48 Barcelona Barcelona BD	GLA: 14,000 sq m	Total Investmen[1]: €32m
PARIS	**Value added**		4	112-122 Av. Emile Zola Paris South Center	GLA: 20,340 sq m	Total Investmenl[1]: €245m - €265m

(1) Acquisition price and total project capex.

The purchases of the Paseo de la Castellana, 163 and Travessera de Gràcia, 47-49 buildings were formalized at the end of December 2016.

All of the acquisitions in 2016, as well as the Alpha II project in 2017, offer a substantial upside potential of industrial value creation based on: (1) the real estate transformation of the buildings into top quality products and (2) the location in market segments with solid fundamentals.

All the acquisitions were made under very attractive terms, which shows the capacity of the Colonial Group to identify and capture opportunities of real estate value creation.

Asset rotation

The Colonial Group reviews as a recurrent basis the potential of future value creation for each one of its assets in the portfolio.

As a consequence of this analysis, the Ausias March, 148 asset was disposed for a price of 15 million euros in September 2016. This transaction has permitted to capture an 11% on the latest appraisal value in a building without further value creation potential.

Active balance sheet management

Optimization of the financial structure

On 28 October 2016, the Group carried out an issuance of senior unsecured notes for the nominal amount of 600 million euros with a maturity of 8 years and an annual coupon of 1.45%. This issuance was very well received by the market with an over subscription ratio of almost three times, underwritten by high quality investors.

In addition, on 10 November 2016, Colonial issued a private placement of 50 million euros with a ten year maturity and an annual coupon of 1.875%.

In parallel, Colonial launched a repurchase offer on its bonds maturing in 2019, which closed on 28 October with a final take up rate of 50%, successfully completing this process.

All of the transactions as a whole have implied:

1. Bond issuances with interest rates at historic lows
2. An optimization of the financial costs (from 2.27% to 1.96% in the Group)
3. An extension of the average debt maturities (from 5.0 to 6.0 years in Spain)
4. An increase in the liquidity of the Group reaching 873 million euros in cash and undrawn credit lines

The bonds have been well accepted on the market and are trading at values which clearly reflect the high creditworthiness of the Colonial Group.

Share buyback program

In November, the Colonial Group started a share buyback program to acquire up to 10 million treasury shares for a maximum monetary amount of 68 million euros. At 31 December 2016, 3.2 million shares were acquired (representative of 0.89% of the share capital) at an average price of €6.40/share, a 12% discount on NAV at 31/12/2016.

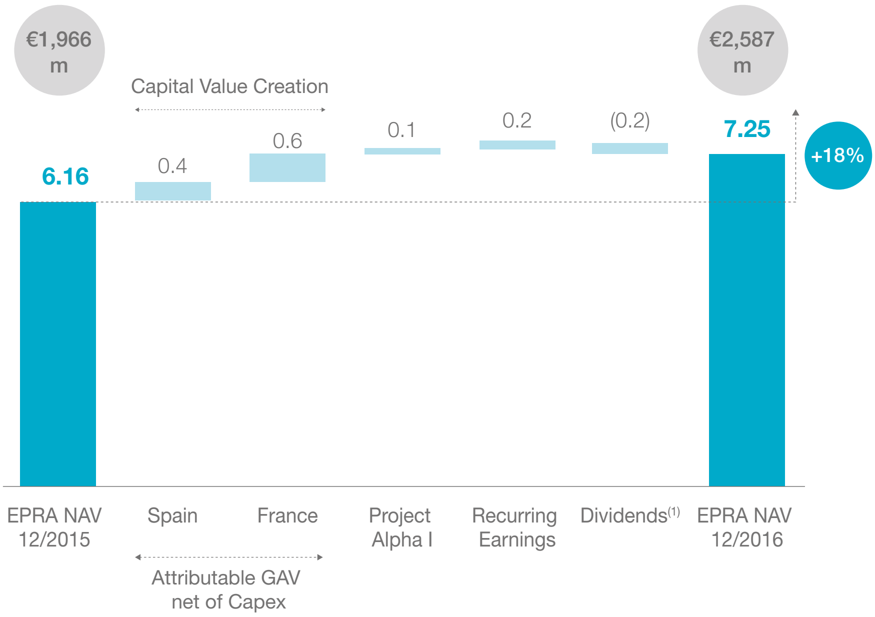
Shareholder Return

Total Return & Net Asset Value

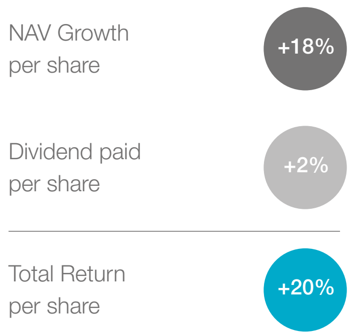
At the close of 2016, the EPRA NAV of the Colonial Group amounted to €7.25 per share, a year-on-year increase of 18% (+7% in 6 months).

The Total Shareholder Return in 2016, which is understood as NAV growth per share plus the dividend received in July 2016, amounted to 20%1, positioning it among one of the highest returns in the listed sectors in Spain as well as in Europe.

EPRA NAV €/SHARE



TOTAL SHAREHOLDER RETURN[2]



(1) Dividends paid and other effects.
(2) Total returns understood as NAV growth per share + dividends.

This high Total Shareholder Return relies on 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 obtain a value creation above market average.

It is important to highlight that these returns were obtained in a framework of maintaining a solid capital structure with an LTV close to 40% and an Investment Grade credit rating. Accordingly, Colonial offers a very attractive risk-adjusted return for its shareholders.

Share price performance

In a year 2016 characterized by volatile capital markets, Colonial's shares were revaluated by 3%, outperforming the benchmark indices and its main peers in Spain.

In September 2016, Colonial was rated for its excellence and transparency in the communication of capital market information with the "EPRA Gold Award – Financial Reporting" and the "EPRA Gold Award – Sustainability Reporting", being the only listed Spanish company with the highest rating in both categories.

In addition, analyst coverage has increased substantially, from 11 analysts in December 2015 up to 18 analysts that currently cover Colonial.

3. Liquidity and capital resources

See "Capital management: Policies and Objectives" under Note 12 to the consolidated financial statements for the year ended 31 December 2016.

The average payment period (APP) of the Group's Spanish companies to its suppliers was around 31 days in 2016. With regard 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 received are entered on the 5th and the 20th of each month and the related payments are made on the 5th and the 20th of the following month.

4. Risk management policies and objectives

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 Internal Control and Risk Management System (hereinafter, ICRMS) that Colonial has developed and which is the foundation for the efficient and effective management of risks throughout the organisation.

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

Strategic risks

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 sector situation:** 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 property 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. This situation, as well as the forecast growth of the Spanish economy for the coming years above Eurozone levels and the moderate growth of the French economy will enable the Group to have a more optimistic outlook over the coming years in terms of increased return from its investments and sustainable growth.

– **Risks associated with a competitive sector:** The property sector is characterised for being highly competitive, reaching high levels of investment in the last two years. The high quality of the Colonial Group's assets, the value of these assets and its strategy of focusing mainly on its office rental activities in *prime* or central business district *(CBD)* areas have positioned the Group as a key benchmark in the property sector in Europe. The successful execution of the growth strategy carried out by the Colonial Group in 2015 has continued throughout 2016, through the acquisition of new assets located in said *CBD* areas, an increase in the shareholding of SFL, and the complementary investment in the company Axiare Patrimonio Socimi S.A., thus reinforcing the good positioning of the Group 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 by the governing bodies.

– **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.

– **Medium-term and long-term business plans:** The absence of business plans increases uncertainty in terms of a company's viability and future. Colonial has a medium- and long-term business plan that is constantly being revised by its governing bodies and is continuously adjusted to take into account the economic, financial and social situation of the property market, which ensures the Group's viability and aims to anticipate its financial needs and avoid any restrictions in its operating and investment capacity, while pursuing its sustainability and growth targets.

– **Financial risks:** The Group efficiently manages its financial risks with the aim of maintaining adequate liquidity and debt levels, minimising borrowing costs and ensuring compliance with its business plans:

  – **Risk of exposure to interest rate fluctuations:** The 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 arranges financial instruments to cover interest rate fluctuations. The Group maintains a high percentage of its gross financial debt tied to fixed rates.

  – **Risks relating to financing and debt:** The Group's financial structure warrants diversification of its sources of financing by entity, product and maturity. After the new issue of bonds carried out in 2016, it has continued with the expansion and diversification average maturity of the debt and with the optimisation of the borrowing cost. The Colonial Group's net financial debt, measured using the loan-to-value ratio, has remained stable, which provides the Group with sufficient funds to carry out its current projects, take on new projects and undertake significant growth costs over the coming years.

  – **Liquidity risk:** As mentioned in the preceding paragraph, the Group has the necessary sources of financing to undertake its current projects in addition to those laid down in its business plan.

Operational risks

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

– **Rental property management risks:** Sustainable management of daily operations increasingly forms a key part of an owner's obligations, and has a direct effect on occupancy levels. The Colonial Group allocates a significant portion of its investments to acquiring, constructing, renovating and maintaining the high quality of its property assets, well known for their energy efficiency. This property management strategy is a key part of the 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 by third parties.

Compliance risks

Regulatory risks associated 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.

– **Risks arising from failure to comply with contractual obligations:** In the course of its business, Colonial is exposed to risk arising from failure to comply with contractual obligations vis-à-vis customers, banks, suppliers, employees etc. The process of identifying and assessing risks of 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. 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 property sector. Accordingly, Colonial has a tax policy, a tax strategy and a tax risk management system, approved by its governing bodies and within the framework of the ICRMS, establishing adequate measures to control and monitor the management of risks in this connection.

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, approved by the governing bodies. 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 to mitigate the risks related with these processes.

5. Events after the reporting date

On 12 January 2017, the Parent officially sold part of an asset in Madrid for 5,600 thousand euros, generating a net profit of 303 thousand euros.

On 13 January 2017, the SFL officially acquired a building on avenue Emile Zola in Paris for the amount of 165,000 thousand euros.

On 3 February 2017, the Parent formally entered into a joint venture agreement with Inmo, S.L. to construct an office building in Barcelona, with the two companies jointly incorporating a public limited company.

From 31 December 2016 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.

6. Future outlook

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

Barcelona and Madrid

The forecasts for the Spanish economy in 2017 are very favourable, however a slight deceleration of 2.6% in the GDP is expected compared to the biennium 2015-2016 with a GDP which exceeded 3% in both years. Even so, growth will remain at high levels due to the effect of the structural reforms carried out in recent years, a positive labour dynamic, monetary relaxation and the new upward real estate cycle.

Regarding to the rent levels, the main property consultants in the Barcelona rental market forecast an increase of 4.1% in average rents for the period 2017-2020, enabling Barcelona to position itself as the third European city in rental increases. In Madrid, in spite of the continued recovery of the last three years, rents still remain below those registered in London, Paris and Frankfurt. Madrid contrasts with these large European cities with respect to labour costs, which are much more moderate in comparison.

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 scarcity 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.

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 S.A. does not habitually carry out any R&D.

8. Treasury shares

At 31 December 2016, the Company had 5,679,588 treasury shares with a nominal value of 14,199 thousand euros, which represents 1.59% 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 revised by the company's auditor (Deloitte, S.L.).

Alternative Performance Measure	Calculation method	Definition/Relevance
EBIT (Earnings before interest and taxes)	Calculated as the "Operating profit" plus "Variations in value of investment properties" and "Profit (loss) due to variation in value of assets and impairment".	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 is 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 property sector and 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 balance sheet taking into account the going concern criteria.	Standard analysis ratio for the property 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 property sector.
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 or transfer costs.	Standard analysis ratio for the property 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
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, those proceeding 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) are included.	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 is 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 portfolio of assets.
LtV Holding or LtV Colonial	Calculated as the result of dividing the Gross financial debt less the amount of the item “Cash and cash equivalents” between the total of the Market Value, including transaction costs, of the portfolio of assets of the parent company of the Group and the EPRA NAV of all its financial holdings 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

	31-12-2016	31-12-2015
"EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT"	**2,302**	**1,837**
Includes:		
(i.a) Revaluation of investment assets	11	8
(i.b) Revaluation of assets under development	n.a.	n.a.
(i.c) Revaluation of other investments	51	17
(ii) Revaluation of financial leases	n.a.	n.a.
(iii) Revaluation of assets held for sale	n.a.	n.a.
Excludes:		
(iv) Market value of financial instruments	2	4
(v.a) Deferred taxes	221	100
(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	**2,587**	**1,966**

• EPRA NNNAV (EPRA "triple net")

Millions of euros

	31-12-2016	31-12-2015
EPRA NAV	**2,587**	**1,966**
Includes:		
(i) Market value of financial instruments	(2)	(4)
(ii) Market value of the debt	(79)	(27)
(iii) Deferred taxes	(222)	(100)
EPRA NNNAV	**2,284**	**1,835**

• Market Value excluding transfer costs or GAV excluding Transfer costs

Millions of euros

	31-12-2016	31-12-2015
Barcelona	761	676
Madrid	1,273	906
Paris	5,736	5,242
Portfolio leased out	**7,771**	**6,824**
Projects	**144**	**82**
Others	**14**	**6**
Shareholding value in Axiare	**141**	**–**
Total Market Value excluding transfer costs	**8,069**	**6,913**
Spain	2,333	1,670
France	5,736	5,242

• **Market Value including transfer costs or GAV including Transfer costs**

Millions of euros

	31-12-2016	31-12-2015
Total Market Value excluding transfer costs	**8,069**	**6,913**
Plus: transfer costs	409	326
Total Market Value including transfer costs	**8,478**	**7,239**
Spain	2,387	1,720
France	6,092	5,519

• **Like-for-like Rentals**

Millions of euros

	Barcelona	Madrid	Paris	TOTAL
Rental income 2014	**28**	**32**	**152**	**212**
Like-for-like	1	2	8	11
Projects and registrations	1	0	2	3
Investments and divestments	0	1	9	10
Others and compensation	(3)	0	(2)	(4)
Rental income 2015	**27**	**35**	**169**	**231**
Like-for-like	3	1	11	15
Projects and registrations	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 Appraisal**

Millions of euros

	31-12-2016	31-12-2015
Valuation at 1 January	**6,913**	**5,757**
Like-for-like Spain	151	206
Like-for-like France	494	701
Acquisitions	524	249
Divestments	(13)	0
Valuation at 31 December	**8,069**	**6,913**

• **Loan to Value Group or LtV Group**

Millions of euros

	31-12-2016	31-12-2015
Gross financial debt	3,633	3,209
Less: “Cash and cash equivalents”	(105)	(218)
(A) Net financial debt	**3,528**	**2,991**
Market Value including transfer costs	8,478	7,239
Plus: Treasury shares of the Parent Valued at EPRA NAV	41	5
(B) Market Value including transfer costs and Parent treasury shares	**8,519**	**7,244**
Loan to Value Group (A)/(B)	**41.4%**	**41.3%**

• **LtV Holding or LtV Colonial**

Millions of euros

Holding Company	**31-12-2016**	**31-12-2015**
Gross financial debt	1,647	1,317
Less: "Cash and cash equivalents"	(80)	(202)
(A) Net financial debt	**1,567**	**1,115**
(B) Market Value including transfer costs	**4,439**	**3,309**
Loan to Value Holding (A)/(B)	**35.3%**	**33.7%**

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 2016 is included in this Management Report in a separate section.

3. Annual corporate governance report 2016

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 (euros)	Number of shares	Number of voting rights
14/07/2016	892,058,497.50	356,823,399	356,823,399

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

No

Class	Number of shares	Par value each	Voting rights per share	Different rights

A.2 Detail the direct and indirect holders of significant ownership interests in the Company at year-end, excluding directors:

Name of the shareholder	Number of direct voting rights	Number of Indirect voting rights	% of total voting rights
Aguila, LTD	0	21,800,183	6.11%
Grupo Villar Mir, S.A.U.	6,737,715	5,169,254	3.34%
Mr. Joseph Charles Lewis	0	17,617,708	4.94%
Qatar Investment Authority	0	41,593,367	11.66%
Fidelity International Limited	0	6,248,471	1.75%
BlackRock, Inc	0	10,885,211	3.05%

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

Name or corporate name of indirect shareholder	Through: Name or corporate name of direct shareholder	Number of total voting rights
Aguila, LTD	SNI Luxembourg, S.A.R.L.	21,800,183
Grupo Villar Mir, S.A.U.	Espacio Activos Financieros, S.L.U.	5,169,254
Mr. Joseph Charles Lewis	Labmex International S.A.R.L.	17,617,708
Qatar Investment Authority	Qatar Holding Luxembourg II, S.À.R.L.	41,593,367
Fidelity International Limited	Fidelity Funds Sicav	6,248,471
BlackRock, Inc	BlackRock, Inc	10,885,211

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

Name of the shareholder	Transaction date	Description of the transaction
Grupo Villar Mir, S.A.U.	21/06/2016	Ownership interest has fallen below 10% of share capital
Grupo Villar Mir, S.A.U.	12/12/2016	Ownership interest has fallen below 5% of share capital
Mr. Joseph Charles Lewis	05/01/2016	Ownership interest has exceeded 5%
Mr. Joseph Charles Lewis	05/07/2016	Ownership interest has fallen below 5% of share capital
Mora Banc Grup, S.A.	28/06/2016	Ownership interest has fallen below 5% of share capital
Mora Banc Grup, S.A.	28/07/2016	Ownership interest has fallen below 3% of share capital
Third Avenue Management, LLC	26/07/2016	Ownership interest has fallen below 3% of share capital
Third Avenue Real Estate Value Fund	30/06/2016	Ownership interest has fallen below 3% of share capital
BlackRock, Inc	30/11/2016	Ownership interest has exceeded 3%
Orbis Allan Gray Limited	01/01/2016	Ownership interest has exceeded 1%
Orbis Allan Gray Limited	02/09/2016	Ownership interest has fallen below 1%
Mr. Joseph Charles Lewis	25/03/2016	Ownership interest has exceeded 5%

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 director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
Mr. Carlos Fernández-Lerga Garralda	5,361	5,170	0.00%
Mr. Javier Iglesias de Ussel Ordís	1,820	0	0.00%
Mr. Pedro Viñolas Serra	168,071	0	0.05%
Mr. Juan José Brugera Clavero	99,212	0	0.03%
Mr. Luis Maluquer Trepat	20,000	2,500	0.01%
Mrs. Ana Sainz de Vicuña Bemberg	1,550	0	0.00%
Mr. Sheikh Ali Jassim M.J. Al-Thani	0	0	0.00%
Mr. Juan Villar-Mir de Fuentes	0	0	0.00%
Mr. Adnane Mousannif	0	0	0.00%
Mr. Carlos Fernández González	0	41,139,685	11.53%
Mr. Juan Carlos García Cañizares	0	0	0.00%

Name or corporate name of indirect shareholder	Through: Name or corporate name of direct shareholder	% of total voting rights
Mr. Carlos Fernández-Lerga Garralda	Eur Consultores, S.L.	5,170
Mr. Luis Maluquer Trepat	Mrs. Marta Maluquer Domingo	2,500
Mr. Carlos Fernández González	Grupo Finaccess, S.A.P.I. de C.V.	41,139,685

% of total voting rights held by the Board of Directors	11.61%

Fill in the following tables on the members of the company's Board of Directors who hold rights over shares in the company:

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 ("LSC"). If so, provide a brief description and list the shareholders that are party to the agreement:

No

Parties to the shareholders agreement	% of share capital involved	Summary of the agreement

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

No

Participants in concerted action	% of share capital involved	Brief description of the concerted action

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

A.7 Indicate whether any individuals or legal entities currently exercise control or could exercise control over the Company pursuant to Article 5 of the Securities Market Law. If so, identify:

No

Name

Remarks

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

At year end:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
5,679,588		1.59

(*) Through:

Name or company name of holder of direct ownership interest	Number of direct shares
Total:	

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

Notification date	Total direct shares acquired	Total indirect shares acquired	Total % of share capital
02/08/2016	3,801,417	–	1.065
05/08/2016	(2,116,508)	–	0.593

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

On 30 June 2014 the shareholders of Inmobiliaria Colonial, S.A. (**"Colonial"** or **"the Company"**) authorised the Board of Directors for the derivative acquisition of treasury shares. The minimum acquisition price or consideration will be equal to the par value of the treasury shares acquired, and the maximum acquisition price or consideration will be equal to the quoted price of the treasury shares purchased in an official secondary market at the date of acquisition. At no time may the par value of the shares directly or indirectly acquired, added to those already held by the Company and its subsidiaries, exceed 10% of the subscribed share capital or the maximum amount that may be established in law. The types of acquisition may include sale and purchase, swap or any other type of transaction for consideration according to the circumstances. The authorisation was granted for a five-year period. 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 exercising options, within the scope of the Company's share price-based remuneration systems,

A.9 bis Estimated floating capital:

	%
Estimated floating capital	55.97

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

No

Description of restrictions

A.11 Indicate whether the shareholders at the Annual General Meeting has resolved to take neutralisation measures to prevent a triggered takeover bid by virtue of the provisions of Law 6/2007.

No

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

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

No

B. Annual general meeting

B.1 Indicate the quorum required for constitution of the Annual General Meeting established in the company's bylaws. Describe how it differs from the system of minimum quorums established in the Spanish Limited Liability Companies Law (LSC).

No

	% quorum differing from that established in Art. 193 LSC for general cases	% quorum differing from that established in Art. 194 LSC for special cases pursuant to Art. 194
Quorum required on 1st call		
Quorum required on 2nd call		

Description of the differences

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.

	Qualified majority other than that provided for in Art. 201.2 LSC for the cases in 194.1 LSC	Other cases requiring qualified majority
% established by the company for the adoption of resolutions		

Describe the differences

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

Under the bylaws, for the shareholders to validly resolve to increase or reduce share capital or make any other amendment to the bylaws, shareholders holding at least 50% of the subscribed share capital with voting rights with must be present or represented on first call. At second call, shareholders representing 2% of share capital shall be sufficient.

As regards the adoption of resolutions, the bylaws establish that issues that are substantially independent will be voted on separately, in particular the amendment of any article or group of articles in the bylaws that stand alone. Also, the affirmative vote of more than 50% of the share capital present in person or by proxy is sufficient to adopt resolutions, whereas the affirmative vote of two thirds of the share capital present in person or by proxy at the general meeting will be necessary where, on second call, the shareholders present represent 25% of the subscribed share capital with voting rights without reaching 50%.

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

	Attendance information				
			% distance voting		
Date of General Meeting	**% attendance**	**% attendance by proxy**	**Electronic voting**	**Other**	**Total**
24/04/2015	29.72%	40.27%	0.00%	0.00%	69.99%
28/06/2016	24.36%	45.70%	0.00%	1.63%	71.69%

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 Removed

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

Company's webpage: **www.inmocolonial.com**

To access corporate governance content on corporate governance and other information on General Meetings:
https://www.inmocolonial.com/accionistas-inversores/gobierno-corporativo/juntas-generales

C. Management structure of the company

C.1 Board of Directors

C.1.1 The maximum and minimum number of directors included in the 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 director	Representative	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 of the Annual General Meeting
Mr. Pedro Viñolas Serra		Executive	CEO	18/07/2008	30/06/2014	Resolution of the Annual General Meeting
Mr. Carlos Fernán-dez González		Proprietary	Director	28/06/2016	28/06/2016	Resolution of the Annual General Meeting
Mr. Juan Carlos García Cañizares		Proprietary	Director	30/06/2014	30/06/2014	Resolution of the Annual General Meeting
Sheikh Ali Jassim M.J. Al-Thani		Proprietary	Director	12/11/2015	28/06/2016	Resolution of the Annual General Meeting
Mr. Adnane Mousannif		Proprietary	Director	28/06/2016	28/06/2016	Resolution of the Annual General Meeting
Mr. Juan Villar-Mir de Fuentes		Proprietary	Director	30/06/2014	30/06/2014	Resolution of the Annual General Meeting
Mrs. Ana Sainz de Vicuña Bemberg		Independent	Director	30/06/2014	30/06/2014	Resolution of the Annual General Meeting
Mr. Carlos Fernández-Lerga Garralda		Independent	Lead independent director	19/06/2008	30/06/2014	Resolution of the Annual General Meeting
Mr. Javier Iglesias de Ussel Ordís		Independent	Director	19/06/2008	30/06/2014	Resolution of the Annual General Meeting
Mr. Luis Maluquer Trepat		Independent	Director	31/07/2013	30/06/2014	Resolution of the Annual General Meeting

Total number of directors	11

Indicate any board members who left during the period:

Name or company name of director	Category of director at date of stepping down	Date of departure
Grupo Villar Mir, S.A.U.	Proprietary	16/12/2016
Mr. Francesc Mora Sagués	Proprietary	05/05/2016

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

EXECUTIVE DIRECTORS

Name or company name of director	Position per company organisation chart
Mr. Juan José Brugera Clavero	Chairman
Mr. Pedro Viñolas Serra	CEO

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

EXTERNAL PROPRIETARY DIRECTORS

Name or company name of director	Name or company name of significant shareholder represented or proposing appointment
Mr. Juan Villar-Mir de Fuentes	Grupo Villar Mir, S.A.U.
Mr. Juan Carlos García Cañizares	Aguila, LTD
Mr. Carlos Fernández Gonzalez	Grupo Finaccess S.A. de C.V.
Mr. Adnane Mousannif	Qatar Investment Authority
Sheikh Ali Jassim M.J. Al-Thani	Qatar Investment Authority

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

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of director

Mr. Carlos Fernández-Lerga Garralda

Profile

Law degree from Universidad de 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´etudes féderalistes Niza, Val d'Aosta*.

From 1978 to 1983 he was an advising member at the Spanish Ministry and State Secretary for Relations with the European Communities, where he participated in the negotiation of Spain's accession. From 1984 to 1986 he was managing director of EU Advisory at the Banco Hispano Americano Group. He has also been a director of Abantia Corporación and lead independent director and Chairman of the Appointments and Remuneration Committee of Gamesa Corporación Tecnológica, S.A. and General Director at La Caixa. He is a member of the International Secretariat of World Federalist Youth (Amsterdam, the Netherlands), Secretary of the LECE, Madrid (Liga Europea de Cooperación Económica); Secretary of Fundación para el Progreso y la Democracia, member (treasurer) of the Governance Board of the Madrid Bar Association, member of the Executive Committee of Real Instituto Elcano and trustee of Fundación Consejo España-EEUU and Fundación Consejo España/China. He has also taught at the Faculty of Political Sciences at Universidad Complutense and the Institute of European Studies at Universidad de Alcalá de Henares, among others, and has published extensively in legal matters.

He is currently Chairman of Iberdrola Ingeniería y Construcción, S.A. and continues to practise law from his firm Carlos Fernández-Lerga Abogados, mainly providing legal advisory services in commercial and civil law. He is also a currently member of the board of directors of SFL.

Name or company name of director

Mr. Javier Iglesias de Ussel Ordís

Profile

Javier Iglesias de Ussel y Ordis has had a long career in finance. In 1974 we joined Lloyds Bank International in London, where over 21 years he held various positions of responsibility in corporate banking in Dubai, Sao Paulo, Asunción and Madrid. In 1995 he joined The Bank of New York and was named Country Manager for the Iberian Peninsula. In 2002 he moved to New York and was named General Director for Latin America. From 2008 to December 2013 he led the Representative Office of the Chilean bank Banco de Crédito e Inversiones. Since 2008 Mr Iglesias de Ussel has been an independent director at Inmobiliaria Colonial and has also been an independent director at Aresbank since March 2015.

Mr. Iglesias de Ussel holds a degree in modern history from Universidad de Barcelona and throughout his career has participated in numerous business administration, marketing, risk analysis and money-laundering prevention courses. He has lived outside of Spain for 22 years and speaks English, French and Portuguese.

Name or company name of director

Mr. Luis Maluquer Trepat

Profile

He holds a degree in law from Universidad de Barcelona and a diploma in international institutions from Université de Genève.

Throughout his professional career, he has advised various Spanish and international entities, through the firm Maluquer Advocats, S.C.P., and provided services in consultancy, legal advisory and court, arbitration and mediation proceedings. He has also taught at various institutions such as Cambra de Comerç in Barcelona and was a director of Association Europeenne pour le Droit Bancaire et Financier (AEDBF Paris).

He is currently a partner at the firm Maluquer Advocats, S.C.P. and director and secretary of various entities, including SFL, of which he is a director. He is also a special representative and secretary of the board of various subsidiaries of European companies, particularly in the infrastructures and agro-food sectors. He is currently Chairman of the Argentine Chamber of Commerce in Spain.

Name or company name of director

Mrs. Ana Sainz de Vicuña Bemberg

Profile

She graduated with a degree in agricultural economics from Reading University in the UK and has completed a Program for Management Development at Harvard University.

She worked for 18 years (1984-2003) at Merrill Lynch in Spain. She began her career in private banking, where she spent 12 years. She subsequently joined the securities brokerage company formed after the acquisition of FG, and was in charge, under Mr Claudio Aguirre, of integrating the company, and later was responsible for operations, systems, HR and finance. She was eventually named General Manager of Merrill Lynch International Bank, branch in Spain. She has also been a member of the board of Mobile Dreams Factory, a mobile marketing and publicity agency, and Asturbega, the Coca-Cola bottling company in northern Spain. She current sits on the Foundation Board of Fondation ARPE (Foundation for Art Research Partnership and Education).

Since 2004, she has been a member of the board and steering committee of Corporación Financiera Guadalmar (CFG), a family office with assets in Spain and Latin America, mainly in Argentina and Chile. She oversees the Financial Asset Committee, which manages the securities portfolios, as well as the family's investments in the Security Group, of which she is also a director, and in the Awasi and W Santiago hotel groups.

In 2011 she was named director of Terold Invest, S.L. and in July 2015 was named director of Acciona, S.A.

Total number of independent directors	4
Total % of Board	36.36%

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

No

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

Name or company name of director	Description of the relationship	Reasoned statement

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 management or its shareholders:

Name or company name of director	Reason	Company, director or shareholder with which that person maintains a link

Total number of other external directors	
Total % of Board	

Indicate any changes in the status of each director that may have occurred during the year:

Name or company name of director	Date of change	Prior category	Current category
Mr. Luis Maluquer Trepat	16/12/2016	Ordinary member	Independent

C.1.4 Complete the following table with the information on the number of female directors over the past four years and their category:

	Number of female board members				% of total directors of each category			
	2016	2015	2014	2013	2016	2015	2014	2013
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	0	0	1	0	0.00%	0.00%	20.00%	0.00%
Independent	1	1	1	0	25.00%	33.33%	33.33%	0.00%
Other external members	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	1	1	2	0	9.09%	9.09%	18.18%	0.00%

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

Explanation of the measures

The regulations of the board of directors 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 suffer from any implicit bias that may entail discrimination and, in particular, facilitate the selection of women directors.

In this regard, in 2016 the board of directors approved a Selection Policy for Directors of Inmobiliaria Colonial, S.A. (the "**Selection Policy**") which expressly sets a goal of having at least 30% of total board places occupied by women directors before 2020.

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

Explanation of the measures

Both the board of directors and the Appointments and Remuneration Committee (the "ARC") have ensured, pursuant to the bylaws and board regulations, that the candidates proposed as Board members meet the requirements relating to experience, technical competence and suitability and that the fact that that no woman directors has been appointed is due to the existence of implicit bias in the procedure that hinders selecting them. In this regard, it should be noted that the ARC has, inter alia, the following functions: i) evaluate the skills, knowledge and experience required of the board of directors, define the roles and capabilities required of the candidates to fill each vacancy and decide on the time and dedication necessary for them to effectively perform their duties; ii) establish a target representation rate for the less-represented gender on the board of directors; iii) make proposals to the board of independent directors to be appointed by co-option or, if applicable, for submission to decision by the shareholders at the general meeting, and proposals for re-election and removal of those directors by the shareholders at the general meeting; iv) report on proposals of the board of directors for appointment of other directors to be appointed by co-option or, if applicable, for submission to decision by the general shareholders' meeting, and proposals for re-election and removal of those directors by the shareholders at the general meeting.

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

Explanation of the reasons

In 2016 the only appointments to the board of directors were made as a result of changes in the Company's shareholding structure. In this regard, all the directors appointed in the year are proprietary directors and, accordingly, were appointed at the proposal of significant shareholders based on their ownership interest.

C.1.6.bis Explain the findings of the appointments committee on the verification of compliance with the director selection policy. In particular, how this policy is promoting the goal of having at least 30% of total board places occupied by women directors before 2020.

On 11 April 2016 the ARC submitted the selection policy to the board of directors for approval. This policy, which was approved by the board of directors on the same date, included the criteria of the ARC in this connect and, in particular, set a goal of having at least 30% of total board places occupied by women directors before 2020.

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

In accordance with Colonial's board of directors regulations, in exercising its powers of proposal to the shareholders at the general meeting and of co-optation 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 low as possible, based on the Company's shareholding structure. In this regard, proprietary directors will be considered to be:

a. Directors who hold a block of shares equal to or over the legal threshold for significant interests or who were otherwise appointed due to their status as shareholders even though their ownership interest does not reach the aforementioned amount.

b. Those representing shareholders as stated in the preceding letter.

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

- He/she has been appointed under a power of attorney in the board of directors;
- He/she is a director, senior executive, employee or regular supplier of significant services to the shareholder or to companies in the shareholder's group;
- Company records show that the shareholder considers that the director is his/her appointee or representative;
- He/she is the spouse or maintains an analogous affective relationship or is related up to the second degree of kinship to a significant shareholder.

C.1.8 If applicable, please explain the reasons for the appointment of any proprietary board members at the request of shareholders with less than 3% of share capital:

Name of the shareholder	Reasons

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

No

Name of the shareholder	Explanation

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

Name of director	Reason for termination
Mr. Francesc Mora Sagués	By means of a letter addressed to the Chairman of the board of directors for him to apprise the other directors, Mr Mora announced his decision to resign as a member of the Colonial's board of directors, for professional reasons, as per the related relevant event that the Company published on the website of the Spanish National Securities Market Commission.
Grupo Villar Mir, S.A.U.	By means of a letter addressed to the Chairman of the board of directors for him to apprise the other directors, Mr Villar Mir announced the resignation of Grupo Villar Mir, S.A.U. as a director of Colonial, due to changes in Colonial's shareholding structure.

C.1.10 Please specify any powers vested in the chief executive officer(s):

Name or company name of 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 Please identify any board members who hold positions as directors or officers in other companies in the group of which the listed company is parent:

Name or company name of director	Group company name	Position	Has executive duties?
Mr. Pedro Viñolas Serra	Société Foncière Lyonnaise	Deputy Chairman and Director	No
Mr. Juan José Brugera Clavero	Société Foncière Lyonnaise	Chairman	No
Mr. Luis Maluquer Trepat	Société Foncière Lyonnaise	Director	No
Mr. Carlos Fernández-Lerga Garralda	Société Foncière Lyonnaise	Director	No
Mr. Adnane Mousannif	Société Foncière Lyonnaise	Director	No
Sheikh Ali Jassim M.J. Al-Thani	Société Foncière Lyonnaise	Director	No
Mr. Pedro Viñolas Serra	Danieltown Spain, S.L.U.	Individual representing the sole director (Inmobiliaria Colonial, S.A.)	Yes
Mr. Pedro Viñolas Serra	Moorage Inversiones 2014, S.L.U.	Individual representing the sole director (Inmobiliaria Colonial, S.A.)	Yes
Mr. Pedro Viñolas Serra	Colonial Invest, S.L.U.	Individual representing the sole director (Inmobiliaria Colonial, S.A.)	Yes
Mr. Pedro Viñolas Serra	Colonial Tramit, S.L.U.	Individual representing the sole director (Inmobiliaria Colonial, S.A.)	Yes

C.1.12 Please detail any directors who have notified the Company of their membership on the boards of directors of other companies (other than Group companies) listed on official securities markets:

Name or company name of director	Company name of listed company	Position
Mr. Carlos Fernández González	Banco Santander, S.A.	Director
Mr. Carlos Fernández González	AmRest Holdings, SE	Director
Mrs. Ana Sainz de Vicuña Bemberg	Acciona, S.A.	Director
Mr. Juan Villar-Mir De fuentes	Obrascón Huarte Lain (Ohl), S.A.	Chairman
Mr. Juan Villar-Mir De fuentes	Ferroglobe, PLC	Director
Mr. Juan Carlos García Cañizares	Bavaria, S.A. (Colombia)	Director
Mr. Juan Carlos García Cañizares	Valorem, S.A. (Colombia)	Director

C.1.13 Give details of any rules established by the Company with respect to the number of boards to which its directors may belong:

No

Explanation of the rules

C.1.14 Removed

C.1.15 Indicate the total remuneration paid to the Board of Directors:

Remuneration of directors (thousands of euros)	5,719
Amount of pension rights accumulated by the current directors (thousands of euros).	175
Amount of pension rights accumulated by the former directors (thousands of euros).	–

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

Name	Position(s)
Mrs. Carmina Ganyet Cirera	Corporate General Manager
Mr. Alberto Alcober Teixidó	Business Director
Mrs. Nuria Oferil Coll	Legal Director
Mr. Carlos Escosa Farga	Internal auditor

Total remuneration of senior executives (thousands of euros)	1,978

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

Name or company name of 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, SE	Director
Mr. Juan Villar-Mir de Fuentes	Grupo Villar Mir, S.A.U	Deputy chairman and CEO
Mr. Juan Villar-Mir de Fuentes	Inmobiliaria Espacio, S.A.	Deputy chairman and CEO
Mr. Juan Villar-Mir de Fuentes	Fertiberia, S.A.	Deputy chairman and CEO
Mr. Juan Villar-Mir de Fuentes	Promociones y Propiedades Inmobiliarias Espacio, S.L.U.	Chairman and CEO
Mr. Juan Villar-Mir de Fuentes	Centro Canalejas Madrid, S.L.	Chairman
Mr. Juan Villar-Mir de Fuentes	Puerto Sotogrande, S.A.	Chairman and CEO
Mr. Juan Villar-Mir de Fuentes	Obrascón Huarte Lain (Ohl), S.A.	Chairman
Mr. Juan Villar-Mir de Fuentes	Ferroglobe, PLC	Director
Mr. Juan Carlos García Cañizares	SIN Luxembourg, S.a.r.l.	Director

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

Name or 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 of Directors Regulations during the year:

Yes

Description of amendments

On 28 June 2016 the Board of Directors Regulations were amended in order to adapt them to the new content of the bylaws, once amendment thereof had been approved by the shareholders, which took place on the same day. This amendment sought to adapt the contents of the bylaws to the most recent legislation at that time.

In addition, on 27 July 2016 the board of directors agreed on a new amendment with the main purpose of attributing the powers of monitoring compliance with the rules of corporate governance to the ARC.

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 of directors regulations and developed in the selection policy approved by the board on the proposal of the ARC.

Discrimination is to 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 shareholders at the general meeting or, in the event of early vacancy, by the board of directors in the exercise of its power of co-optation.

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 shareholders' 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 holding of the general meeting, the Company should continuously post on its corporate website the following information, at least, on the persons proposed for appointment, ratification or re-election as board members: the 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 ongoing discharge of fiduciary duties.

The procedure to evaluate directors is also governed in the Board of Directors Regulations. In this regard, the board in plenary session will conduct an annual evaluation, adopting, where necessary, an action plan to correct weaknesses detected in: (i) the quality and efficiency of the board's operation; (ii) the performance and membership of its committees; (iii) the diversity of board membership and competences; (iv) the performance of the chairman of the board of directors and the company's chief executive; and (v) the performance and contribution of individual directors, with particular attention to the chairmen of board committees. The evaluation of the Chairman of the Board will be directed by the Coordinating Director.

Regarding the removal of directors, the board of directors regulations provides that directors may be removed from office at any time by the shareholders at the general meeting even if such removal does not appear in the agenda.

In addition, 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 cases specified in the board of directors 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 bylaws, except where just cause is found by the Board, based on a report by the ARC. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation. The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the Company's capital structure, in order to meet the proportionality criterion.

Without prejudice to the foregoing, the Board of Directors Regulations stipulates that independent directors shall not retain their status as such for a continuous period of more than twelve 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 on the occurrence of exceptional and justified causes 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 vacate their position before their term of office has concluded, they shall explain the reasons in a letter submitted to all the members of the Board. Directors' vacation of office shall also be disclosed in the Annual Corporate Governance Report as a relevant event, together with the reasons therefore.

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 since the self-assessment has been satisfactory.

C.1.20.bis Describe the evaluation process and areas evaluated that is performed 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 has evaluated its composition and competences, the operation and composition of committees and the performance of the chairman, CEO, lead independent director, other Company directors and the secretary of 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 and the secretary of the board, as well as its own composition, competences and operation, for submission to the board of directors. Also, the ACC 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.

Subsequent to the evaluation, the board of directors approved the evaluation reports for the board and its committees, the chairman, CEO, lead independent director and secretary, finding that: (i) the board of directors has an appropriate composition and effectively assumes and exercises the powers and competences attributed to it by the bylaws and the board of directors regulations, putting foremost in its actions at all times the interests of the Company and maximisation of the Company's economic value foremost; (ii) the executive committee, the ARC and the Audit and Control Committee ("ACC") each have an appropriate composition and effectively assume and exercise the powers attributed to them by applicable regulations and the Company's various corporate texts; and (iii) the chairman, CEO, lead independent director and the secretary of the board have effectively and diligently discharged their duties.

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 lead independent director and secretary of 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 of Directors Regulations, the 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. In particular, proprietary directors shall resign when the shareholder they represent transfers its entire ownership interest in Colonial or reduces its ownership interest to a level that requires a reduction of the number of its proprietary directors.

3. In events in which, notwithstanding the foregoing paragraph, the board of directors considers that there are reasons that justify that the director remain in office, taken into particular account is the impact that the new circumstances may have on the qualification of the director.

4. When they have been seriously reprimanded by the ARC for having infringed any of their obligations as directors;

5. 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 Removed

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

No

If applicable, describe the differences.

Description of the differences

C.1.24 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed Chairman of the Board of Directors.

No

Description of the requirements

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

Age limit for the Chairman	Age limit for the CEO	Age limit for directors

C.1.27 Indicate whether the bylaws or the Board Regulations set a limited term of office for independent directors other than that established in law:

No

Maximum term of office (years)

C.1.28 Indicate whether the bylaws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether there 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 the board of directors regulations, proxy is granted in writing and specifically for each meeting, and solely another member of the board. However, non-executive directors may only assign proxy to another non-executive. Furthermore, the board of directors regulations stipulates that in cases of delegation, the directors must give specific instructions to the proxy on the direction of the vote on the matters under discussion.

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

Number of board meetings	11
Number of Board meetings without Chairman's attendance	0

If the chairman is executive director, indicate the number of meetings held without the attendance or representation of any executive director and chaired by the lead independent director

Number of meetings	0

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

Number of Executive or Delegated Committee meetings	1
Number of Audit Committee meetings	10
Number of Appointments and Remuneration Committee meetings	7

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

Attendance of directors	6
Number of attendances as % of the total votes during the year	95.97%

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

Yes

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

Name	Position
Mrs. Àngels Arderiu Ibars	Finance Director

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent qualified auditors' reports on the separate and consolidated financial statements prepared by it from being submitted at the General Meeting.

The board of directors regulations stipulate that the ACC will strive to ensure that the board of directors submits the financial statements at the general shareholders' meeting without limitations or qualifications. In any exceptional cases where these exist, the chairman of the ACC and the auditors will give a clear account to shareholders of the contents and scope of such limitations or qualifications. In any case, based on the functions granted to it in this connection by the board of directors regulations, the ACC performs ongoing monitoring in the process of preparing the individual and consolidated financial statements to avoid them from being prepared with qualifications in the auditor's report.

C.1.33 Is the Board secretary a director?

No

If the secretary is not a director complete the following table:

Name or company name of director	Representative
Mr. Francisco Palá Laguna	–

C.1.34 Removed

C.1.35 Indicate the specific mechanisms, if any, established by the company to preserve the independence of the external auditors, of financial analysts, investment banks and of rating agencies.

The obligation 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) investigate the issues giving rise to the resignation of the external auditor, should this come about; (ii) ensure that the remuneration of the external auditor does not compromise its quality or independence; (iii) oversee that the Company notifies any change of auditors to the Spanish National Securities Market Commission (CNMV) as a relevant event, accompanied by a statement of any disagreements arising with the outgoing auditors and the reasons therefor; and (iv) ensure that the Company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

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 will 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 audit regulations.

The ACC will also issue, prior to the auditors' report, an annual report expressing an opinion on whether the independence of the auditors or audit companies is jeopardised. Such report shall, in all cases, contain the evaluation of the provision of the additional services mentioned in the section above, considered individually and as a whole, other than legal audit services in relation to the rules on independence or in accordance with the audit regulations.

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

No

Outgoing auditors	Incoming auditors

Explain any disagreements with the outgoing auditor and the reasons for the same:

Yes No

Explanation of the disagreements

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)	276	22	298
Amount of other non-audit work/total amount billed by audit firm (as a %)	47.09%	8.09%	34.66%

C.1.38 Indicate whether the auditors' report for the previous year included any reservations or qualifications. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

No

Explanation of the reasons

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

	Company	Group
Number of consecutive years	10	10

	Company	Group
Number of years audited by the current audit firm/number of years the Company has been audited (as a %)	33.33	33.33

C.1.40 Indicate whether there is a procedure for directors to be able to receive outside advisory services, and if so, give details:

Yes

Detail of the procedure

In accordance with the board regulations, the Company provides 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 chairman of the board, the directors send the chairman requests for external assistance when they deem necessary. The chairman is responsible for duly transmitting this request to external advisers.

Also, the board of directors regulations establish that the committees may engage external advice, when they feel it necessary for the discharge of their functions.

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 managing bodies sufficiently in advance, and if so, give details:

Yes

Detail of the procedure

In accordance with the board of directors regulations, in the discharge of their duties, directors have to request and obtain from the Company any information they need to discharge their board responsibilities. In this regard, a director shall have the broadest powers to obtain information regarding any aspect of the Company, to examine its books, records, documents and other records of corporate transactions, and to inspect all of its facilities.

Accordingly, unless the board of directors has been convened or called for reasons of urgency, the chairman of the board of directors, in collaboration with the secretary, will ensure that, prior to the meeting and sufficiently in advance, directors have the information necessary to deliberate on and adopt resolutions on the matters at hand.

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 prior sessions.

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

Yes

Explain

The board of directors regulations stipulates 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 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.1.43 Indicate whether any of the 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 Public Limited Liability Companies Law:

No

Name of director	Criminal case	Remarks

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, detail the actions taken or to be taken by the board.

Yes No

Decision taken/action performed	Reasoned explanation

C.1.44 Detail the significant agreements entered into by the Company which take effect, 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 EUR 350 million, which contains an acceleration clause in the event that a change of control takes place.

Also, on 2 February 2015 a debenture issue was launched amounting to EUR 1,250 million, which, in the event of a change of control as defined in Article 24 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 2013, provided that such change of control leads to the loss of the “Investment Grade” rating.

Lastly, in 2016 the following fixed-income issues were launched under the “non-equity securities” issue programme of “Euro Medium Term Notes” (“the EMTN Programme”), which provides for the early maturity of the debentures, at the option of the bond holder, in the event a change of control occurs: (i) on 21 October 2016, the Company launched a debenture issue for a total nominal amount of EUR 600 million, which matures on 28 October 2024; and (ii) on 9 November 16, the Company launched a debenture issue for a total nominal amount of EUR 50 million, which matures on 10 November 2026.

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

Number of beneficiaries	3
Type of beneficiary	Chairman of the Board CEO Corporate General Manager

Description of the agreements

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 resignation or stepping down due to a change of control at the Company or significant change in the composition of the board of directors 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 of directors. The benefits consists of, (a) in relation to the chairman, a gross amount equivalent to two years' fixed and variable remuneration, with a minimum of EUR 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 EUR 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, a golden parachute clause triggered in the event of termination under certain circumstances or change of control gives rise to compensation on termination of the functions thereof for an amount equal to three years' salary.

There is also a long-term incentive plan approved by the shareholders at the general shareholders' meeting, which entails the delivery of ordinary shares of the Company contingent on the Company meeting certain targets each year. The beneficiaries of the plan are the chairman of the board, the CEO and all members of Colonial's executive committee, which includes the corporate general manager. The plan provides that the board of directors will agree on the early settlement of the plan and the award of a maximum number of outstanding shares to each beneficiary in the event that a "substantial liquidity event" takes place. A "substantial liquidity event" take places when (i) a takeover bid is authorised with a view to acquiring all the share capital of Colonial or (ii) a refinancing of all Colonial's debt is authorised. In the latter case, early settlement of the plan is subject to ratification by the ARC.

If, during the term of the Plan, the Chairman or CEO were unfairly dismissed, the shareholders did not extend their mandate or they were dismissed from their positions without just cause, they shall be entitled to the early settlement of the Plan and be delivered the maximum number of shares not yet settled in the years remaining until the end of the Plan's term. Beneficiaries will lose their right to delivery of shares in the event of justified dismissal, termination for cause or if he resigns of his own initiative, and in case of breach of contract in respect of confidentiality, non-solicitation of services or competition. In these cases the beneficiaries will lose any right to granted shares.

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

	Board of Directors	Annual General Meeting
Body which authorises the clauses	Yes	No

Are the shareholders informed of the clauses at their general meeting?	No

C.2 Committees of the Board of Directors

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

EXECUTIVE OR DELEGATE COMMITTEE

Name	Position	Category
Mr. Juan José Brugera Clavero	Chairman	Executive director
Mr. Pedro Viñolas Serra	Member	Executive director
Mr. Carlos Fernández González	Member	Proprietary Director
Mr. Adnane Mousannif	Member	Proprietary Director
Mr. Juan Carlos García Cañizares	Member	Proprietary Director
Mr. Carlos Fernández-Lerga Garralda	Member	Independent Director

% of executive directors	33.33%
% of proprietary directors	50.00%
% of independent directors	16.67%
% of other external directors	0.00%

Explain the functions entrusted to this committee, describe the procedures and rules for the organisation and operation thereof and summarise its most important activities during the year.

The Executive Committee shall be made up of at least three and not more than eight members. The Board Chairman and Secretary shall be those of 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 will appoint the executive committee, ensuring that its membership structure reflects the various types of directors in a similar manner to that of the board. The appointment of directors who constitute the executive committee will require, to be valid, the affirmative vote of two thirds of the members of the board and will not take effect until registered at the mercantile registry. The members of the Executive Committee shall cease to be so when they cease to be directors or when the Board so resolves.

The executive committee will be called by its chairman on his own initiative or when requested by two of its members. The call must be made 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.

The Executive Committee shall be validly convened where the majority of its members, present or represented, attend the meeting. The resolutions shall be adopted by the absolute majority of the members of the Committee. 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 affected by the conflict that are to abstain from voting shall be subtracted for purposes of calculating the necessary voting majority. In the event of a tie, the matter shall be submitted to the Board of Directors.

Through its chairman, the executive committee will inform the board of the business transacted and the resolutions adopted by the committee. All board directors must receive a copy of the minutes of the executive committee meetings.

Notable among its most significant actions in the year was the resolution to launch a debenture issue (amounting to EUR 650 million) pursuant to the related resolution of the board of directors.

Indicate whether the composition of the executive committee reflects the breakdown of the various Board directors according to their category:

Yes

If "no" explain the composition of the executive committee

AUDIT COMMITTEE

Name	Position	Category
Mrs. Ana Sainz de Vicuña Bemberg	Chairwoman	Independent
Mr. Javier Iglesias de Ussel Ordís	Member	Independent
Mr. Carlos Fernández-Lerga Garralda	Member	Independent
Mr. Luis Maluquer Trepat	Member	Independent
Mr. Juan Villar-Mir de Fuentes	Member	Proprietary

% of proprietary directors	20.00%
% of independent directors	80.00%
% of other external directors	–

Explain the functions entrusted to this committee, describe the procedures and rules for the organisation and operation thereof and summarise its most important activities during the year.

The ACC comprises a minimum of three and a maximum of eight directors, all of which must be non-executive directors, appointed by the Board. The ACC will also include the number of independent directors stipulated by law and at least one of them will be appointed taking into account the director's knowledge and experience regarding accounting and/or auditing. The ACC members shall have relevant technical knowledge in relation to the Company's sector of activity. The ACC will appoint a chairman, who must be an independent director. The chairman shall be replaced every four years, and may be re-elected after one year has elapsed from the date on which his/her term of office expired. It will also appoint a secretary from among its members, or may designate the secretary of the board to fill this position. The members are relieved of their duties once their tenure as a director ceases, or when agreed by the board. The ACC shall have, inter alia, the following functions:

1. Report to the general shareholders' 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 the 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 therefrom 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 all cases, it should, 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 entities related to the auditor.

6. Issue, on an annual basis and prior to the issuance of the auditor's report, a report expressing an opinion on whether the independence of the auditor or audit companies is jeopardised, which should 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 the board of directors 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 two of its members, or at the behest of the Chairman, who is responsible for convening it. The call notice shall be valid provided it is sent by any means that 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 such member or a person related thereto has a conflict of interest. In the event of a tied vote, the chairman has the casting vote. Minutes are taken of all ACC meetings and are made available to the board. In 2016, the ACC carried out, among others, the following functions:

– Acted as a communication channel between the board of directors and the Company's external auditors, assessing the results of each audit.

– Reported the re-election of Deloitte, S.L. as auditor of the separate and consolidated financial statements for the year ended 31 December 2016.

– Selected the auditor for 2017 to 2019 and proposed the appointment of PWC Auditors, S.L. to the board.

– Issued, prior to the auditors' report, an report on whether the independence of the auditors or audit companies was jeopardised.

– Approved the internal audit action plan for 2016.

– Supervised the effectiveness of the Company's internal control, internal audit and risk management systems, and discussed with the auditor any significant weaknesses detected in the internal control system.

– Approved the risk management and control policy, corporate governance and treasury share reports to be submitted to the board.

– Supervised preparation of the corporate social responsibility policy.

– Supervised compliance with corporate governance rules and the internal codes of conduct.

– Oversaw the preparation and submission of regulatory financial information, in particular the separate and consolidated financial statements.

– Reported on the annual corporate governance report.

– Analysed the amendments to the bylaws and the regulations of the general shareholders' meeting for submission to the shareholders.

– Reported on the amendments to the regulations of the board.

– Proposed to the board amendments to the ICC to adapt the current structure of the Company to the changes introduced by the regulations on market abuse.

– Evaluated its own performance within the framework of the self-evaluation of the performance of the board of directors and related internal committees.

– Reported to the board on the corporate governance policy.

– Analysed and reported on treasury share transactions to be submitted to the board and issue a favourable report on the share buyback plan and monitoring thereof.

– Prepared and reported on the document on the management of tax risks for 2015.

– Reviewed and first reported to the board on the issue of bonds under the "EMTN Programme".

Identify the 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	Mrs. Ana Sainz de Vicuña Bemberg
Number of years in office as Chairman	1

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position	Category
Mr. Carlos Fernández-Lerga Garralda	Chairman	Independent
Sheikh Ali Jassim M.J. Al-Thani	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	–

Explain the functions entrusted to this committee, describe the procedures and rules for the organisation and operation thereof and summarise its most important activities during the year.

The ARC comprises a minimum of three and a maximum of eight 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 will appoint a chairman from among its members, who in any case shall be an independent director. The ARC will also appoint a secretary from among its members, or may designate the secretary of the board to fill this position. 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, inter alia, the following functions:

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, proposing ideas on how to achieve it.
3. Make proposals to the board of independent directors to be appointed by co-option or, if applicable, for submission to decision by the shareholders at the general meeting, and proposals for re-election and removal of those directors by the shareholders at the general meeting.
4. Report on proposals of the board of directors for appointment of other directors to be appointed by co-option or, if applicable, for submission to decision by the general shareholders' meeting, and proposals for re-election and removal of those directors by the shareholders at the general meeting.
5. Reporting on proposals for senior officer appointments and removals and the standard terms of their contracts.
6. Examine and organise the succession of the chairman of the board and of the Company's chief executive 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 of directors, 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 two 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 is validly constituted when most of a majority of its members are present in person or by proxy; resolutions are adopted by a majority of those present in person or by proxy and the chairman has the casting vote in the event of a tied vote. 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 discussions 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.

In 2016, the ARC carried out, among others, the following functions:

– Ensured that the remuneration policy established by the Company was observed.

– Proposed, based on the achievement of the indicators, the number of shares to be received by beneficiaries of the share delivery plan approved at the general meeting on 21 January 2014.

– Proposed to the board a new remuneration policy for the Company for 2016 to 2019, and favourably reported on the amendment of the Chairman's and CEO's contracts.

– Directed the process of evaluating its own performance, the performance of the board and the discharge of duties by the chairman, secretary, lead independent director and CEO, and reported to the board on the findings reached.

– Submitted to the board the contents of the annual report on director remuneration.

– Submitted to the board the selection policy.

– Analysed and reported to the board on the work performed by the Corporate Governance Unit (formed in July 2016) on the degree of compliance with the good governance recommendations approved by the CNMV.

– Reported favourably to the board on (i) the assessment of the appointment of Carlos Fernández-González by the shareholders at the general meeting as proprietary director, at the proposal of the shareholder Hofinac B.V.; (ii) the assessment of the appointment of Adnane Mousannif by the shareholders at the general meeting as proprietary director, at the proposal of the shareholder Qatar Investment Authority; and (iii) the ratification and appointment as proprietary director of Sheikh Ali Jassim J.M. Al-Thani in representation of Qatar Investment Authority, appoint by co-optation at the board meeting of 12 December 2015.

– Reported favourably to the board on (i) the change of Luis Maluquer from "other director" to "independent director" and (ii) the designation of Ana Sainz de Vicuña Bemberg as chairwoman of the ACC; and (iii) the composition and appointments to the ARC and executive committee.

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

	Number of female board members							
	2016		2015		2014		2013	
	Number	%	Number	%	Number	%	Number	%
Executive committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Audit Committee	1	20.00%	1	20.00%	1	20.00%	0	0.00%
Appointments and remuneration committee	0	0.00%	0	0.00%		0.00%	0	0.00%

C.2.3 Removed

C.2.4 Removed

C.2.5 Please indicate, where applicable, the existence of any regulations governing board committees, where these regulations may be consulted and any amendments made to them during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

The board committees are governed by the board of directors regulations, which are available on the Company's website (www.inmocolonial.com) under the "Corporate governance" section, and on the website of the Spanish National Securities Market Commission (www.cnmv.es). In 2016 the related amendments were made to (i) bring the regulations into line with the new wording of the bylaws, the amendment of which was resolved at the annual general meeting of 28 June 2016 in order to adapt them to the latest legislative developments and (ii) bring the supervision of corporate governance under the aegis of the ARC.

The annual report on the activities of each committee in 2016 was prepared by the audit and control committee and appointments and remuneration committee. Both reports were made available to shareholders on the company's website along with the call notice for the general shareholders' meeting.

C.2.6 Removed

D. Related-party and intragroup transactions

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

Procedure for the approval of related-party transactions

In accordance with the board of directors regulations, 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.

– Sale, or transfer in any other way, through economic consideration of any type, of supplies, materials, assets or rights, in general, by a director, a significant shareholder or shareholder represented on the board or by persons related to them, to Colonial or other Group companies.

– Transfer by the Group companies in favour of a director, a significant shareholder or entity represented on the Board or persons related thereto, of supplies, materials, goods or rights, in general, which do not form part of the transferor company's ordinary 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 parties related thereto, and which, being part of their ordinary business, is carried out under economic conditions below market rates.

– Any other legal business with Group companies in which the director or persons related thereto has a direct or indirect interest.

The aforementioned approval by the board of directors will not be necessary when such transactions simultaneously meet the following three characteristics:

1. They are governed by standard form contracts applied on an across-the-board basis to a large number of clients;

2. They go through at market prices, generally set by the person supplying the goods or services; and

3. The amount thereof does not exceed 1% of the Company's annual income.

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

Name or Corporate Name of the Significant Shareholder	Name of Group company or entity	Nature of relationship	Type of transaction	Amount (thousands of euros)

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

Name or company name of director or executive	Name or company name of the related party	Relationship	Nature of transaction	Amount (thousands of euros)

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

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

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

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

0 (thousands of euros).

D.6 Give details of the mechanisms in place for detecting, identifying and resolving any potential conflicts of interest between the Company and/or its group and its directors, executives or significant shareholders.

Under the bylaws, the director shall refrain from taking part in discussions or voting on any resolutions or decisions in which the director or any persons related thereto may have a direct or indirect conflict of interest. The votes of the directors affected by the conflict that are to abstain from voting shall be subtracted for purposes of calculating the necessary voting majority. Resolutions or decisions that affect the director in his position as director, such as the appointment or revocation of positions in the governing body or others of a similar nature, are excluded from this obligation to abstain. Also, the board of directors regulations stipulate that the duly of loyalty requires that directors refrain from taking part in discussions or voting on any resolutions or decisions in which the director or any persons related thereto may have a direct or indirect conflict of interest. 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 will also be applicable if the beneficiary of the actions or prohibited activities is a person related to the director. Those persons mentioned in the Spanish Limited Liability Companies Law shall be considered related parties. In all cases, directors must notify the board of any conflict that they or persons related thereto may have that could lead to a direct or indirect conflict of interest with the Company. Any conflicts of interest in which the directors are involved shall be reported in the notes to the financial statements and in the annual corporate governance report.

The authorisation must be approved by the shareholders at the general meeting when its purpose is to waive the prohibition of obtaining an advantage or remuneration from third parties, or when it affects a transaction whose value is greater than 10% of the Company's assets. Authorisation may be granted in other cases by the board of directors, provided the independence of the members granting such authorisation with regard to the exempt director can be guaranteed. The Company must also ensure that the authorised transaction does not harm its assets and liabilities and, where applicable, ensure its performance under market conditions and the transparency of the process. The obligation of not competing with the Company may only be waived if no damage is expected to be caused to the Company or if the Company is expected to be compensated for the profit that such director may obtain. The waiver will be granted through an express and separate resolution by the shareholders at the general meeting.

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

No

Identify the listed subsidiaries in Spain:

Listed subsidiaries

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies:

Yes No

Define the possible business dealings between the parent and the listed subsidiary and between the listed subsidiary and the other group companies.

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies:

Mechanisms to resolve any possible conflicts of interest

E. Risk control and management 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 Control and Risk Management System ("CRMS"), which establishes certain bases to efficiently and effectively manage the risks at the entire 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 CRMS, 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 CRMS 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 those 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 ideal development. The Board of Directors is assisted in managing this policy by the Audit and Control Committee (ACC). The ACC performs, inter alia, the following functions relating to the control and risk management:

– Submit to the Board for approval a report on the control and risk management policy.

– Review control and risk management systems on a regular basis so main risks are properly identified, managed and disclosed.

– Overseeing the preparation, completeness and filing of regulated public information (financial and non-financial).

In addition, the Company has set up a Regulatory Compliance Unit (RCU) and internal audit function to reinforce this objective. The RCU is responsible for ensuring compliance with any laws and regulations which may affect the Company. Meanwhile, the internal audit function is responsible for carrying out the oversight duties required and established in its annual plans to evaluate the effectiveness of the risk management and control processes implemented so as to mitigate risk.

The main responsibilities assigned in relation to the CRMS correspond to the Board of Directors, the Audit and Control Committee and the Internal Audit Unit. The CRMS 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 targets.

The main risks faced by Colonial in achieving its targets include:

– Industry risks, since the real estate sector is a highly cyclical and competitive sector, as well as risks related to economic and/or political changes in the countries in which it operates and regulatory changes, especially those relating to real estate activities.

– Risks arising from the specific nature of the business in relation to the high concentration of office rental activities in the central business district areas of Barcelona, Madrid and Paris, the appraisal of its property assets and the concentration of customers.

– Risks of a financial nature relating to restrictions in capital markets and in financial debt markets, the debt level, the drop in credit rating and interest rate fluctuations.

– Tax risks relating to the limit on tax loss carryforwards, the loss by its French subsidiary, Société Foncière Lyonnaise, of its status as a listed real estate investment company (SIIC) and changes in its favourable tax regime.

– Corporate risks arising from the management of its corporate reputation and image and from carrying out its activities through subsidiaries.

– Operating risks arising from the management of and damage to its property assets, the maintenance and repair thereof, its liability for the actions of its contractors and subcontractors, and from court and out-of-court claims.

E.4 Identify if the entity has a risk tolerance level, including 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 likelihood and probability of the risk occurring over a time period.

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

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

The risks that arose in 2016, the circumstances that caused them and the functioning of the control systems are as follows:

i. Financing of property assets. Financial structure and debt level.

Circumstances: Following the bond issue launched by Colonial in 2015 amounting to EUR 1,250 million, the arrangement of a new syndicated loan amounting to EUR 350 million and the obtainment from Standard & Poor's of a BBB- long-term and A-3 short-term credit rating, the Group's net financial debt at 31 December 2015 was EUR 2,545 million and the Loan to Value (LtV) ratio was 41.8%. With these actions, Colonial was able to return its leverage ratio to a level more appropriate for the value of its assets, providing the Group the ability to finance potential acquisitions, refurbishings and other investments needs in property assets, and capacity to generate cash flow. However, Colonial had certain restrictions linked to the syndicated loan.

Control systems: In 2016 Colonia launched new bond issues totalling EUR 650 million, maintaining the credit rating given by Standard & Poor's, which made it possible to increase the average maturity of the debt, continue to diversity this average maturity and also continue optimising finance costs. At 31 December 2016, the Group's net financial debt amounted to EUR 3,528 million, with an LtV ratio of 41.4%.

ii. Increased competition in the real estate sector

Circumstances: In 2016, the real estate sector continued raising the confidence of international investors, returning to high levels of investment. This situation gave rise to an increase in 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. In 2016 the Colonial Group continued with this selective investment strategy in various areas, making new property acquisitions in the amount of EUR 234 million. In addition, in 2016 Colonial increased its ownership interest in SFL up to 58.55% and acquired 15.09% of Axiare Patrimonio Socimi, S.A., considering such acquisition as complementary to Colonial's investment strategy and its ability to create value and provide a return to shareholders.

iii. Impairment of property assets

Circumstances: The holding and acquisition of properties implies certain risks, including the possibility that returns on investment will be lower than estimated or that estimates and valuations performed could prove inaccurate or wrong. In addition, the market value of the assets may decline or be negatively affected in certain cases.

Control systems: To mitigate this risk factor, Colonial engages independent experts to appraise all of its assets on a six-monthly basis. The Group allocates a significant portion of its resources to investing in and maintaining its property assets in order to enhance their value and position on the market and the income obtained from these assets. In this regard, Colonial invested EUR 128 million in 2015 in projects to improve and renovate its property assets.

iv. Concentration of group activities in spain and france

Circumstances: Colonial focuses its business activities solely 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 such cities. The new investments made in 2016 reinforced this business strategy with the acquisition of six properties located in these CBD areas, amounting to EUR 234 million. This strategy of focusing its business mainly in CBD areas and its high-quality standards have positioned the Group as a reference in the sector.

v. Offset of tax loss carryforwards

Circumstances: In December 2016, tax legislation was amended and set at 25% the maximum limit of the taxable income (for companies with revenue of at least EUR 60 million) that can be used to offset unused tax losses from prior years. Prior to this amendment of legislation, the maximum limit was 60% for 2016 and 70% from 2017 onwards.

Control systems: Colonial, as regards CRMS, identifies, analyses, assesses, manages, controls and updates tax risks. Colonial has a tax policy and strategy aimed to minimising and controlling the impact of the tax risks, and takes the most appropriate decisions to achieve the Group's strategic and value growth goals.

E.6 Indicate the plans in place for responding to and supervising the entity'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 into one of the following categories according to the Company's response to each:

Avoid: This entails abandoning activities which generate risks where no response has been identified which could reduce its impact and/or likelihood to a level deemed as acceptable.

Reduce: This entails carrying out actions to reduce the likelihood and/or impact of the risk, thereby reducing the residual risk so that it is in line with the Company's risk tolerance level.

Share: The likelihood or impact of a risk is reduced by transferring or sharing part of the risk to reduce the residual risk so that it is in line with the Company's risk tolerance level.

Accept: No action is taken which may affect the likelihood or impact of the risk as the residual risk is already within the Company's risk tolerance level.

The owners of each risk are responsible for preparing the related 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. These records should detail: (i) the objective pursued by the action plan, (ii) a description of the action, (iii) the risk owner, (iv) deadline for implementation of the action, (v) details of the activities to be performed with the officers for implementation and start and completion dates.

Internal audit supervises the response plans that are the responsibility of the risk owners.

F. Internal control and risk management systems related to financial reporting (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

F.1 Control environment at the entity

Indicate the main characteristics of at least:

F.1.1 Bodies and/or functions responsible for: (i) the existence and maintenance of an adequate ICFR system; (ii) its implementation; and (iii) monitoring thereof.

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 Regulations of the Board of Directors ("General Functions and Competences") stipulates, inter alia, the following functions:

1. Determining the Company's general policies and strategies, approving the investment and financing policy, the strategic or business plan, the annual management targets and annual budgets, and the treasury share policy, determining the corporate governance policy of the Company and the Group and the dividend policy and approving 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 Control and Risk Management 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. The approval of the financial information that all listed companies must periodically disclose.

   To this end, Colonial has published a manual for disclosure of statutory information which covers the aspects mentioned in this section and which has been approved by the ACC.

3. Supervising the effective operation of the committees that the Board has formed and the actions of the delegated bodies and the executives appointed.

4. Approving and amending the Regulations of the Board of Directors.

The ICFR Organisational and Monitoring Model, approved by the ACC, establishes the mechanism which the Board, 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 entrusted with the following functions, among others, regarding the ICFR organisational model:

1. Submit to the Board for approval a report on the control and risk management policy, which identifies at least: (i) the different types of financial and non-financial risks facing the Company, including financial or economic risks, contingent liabilities and other off-balance-sheet risks; (ii) the setting of the risk level the Company sees as acceptable; (iii) the measures in place to mitigate the impact of the risks events should they occur; and (iv) the internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

2. Overseeing the preparation and filing of required financial information.

3. With respect to internal control and reporting systems: (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; (ii) monitor the independence and effectiveness of the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the Company is exposed to; receive regular report- backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports; and (iii) establish and supervise a mechanism whereby employees can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the Company.

4. Act as a communications channel between the board of directors and the Company's external auditor, assessing the results of each audit. Also, it relates to the external auditor to: (i) to receive information on a regular basis from the auditor on the audit plan and its implementation.

5. Inform the board of all matters established by law, the bylaws and the board of directors regulations, in particular regarding:

   a) The financial information that the Company must make public on a periodic basis.

Minutes will be taken of all committee meetings and will be 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 will 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 The existence or otherwise of the following components, especially in connection with the financial reporting process:

- **Departments and/or mechanisms responsible for: (i) designing and reviewing the organisational structure; (ii) clearly defining the lines of responsibility and authority with an adequate distribution of tasks and functions; and (iii) ensuring that there are sufficient procedures in place to correctly disseminate them throughout the entity.**

The responsibility for developing Colonial's ICFR organisational model lies with the internal audit department and the operations and finance department, as they are the two departments with the most involvement in the development and subsequent monitoring of financial information to be published.

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, in which the main guidelines of operation of the ICFR and high-level roles and responsibilities are developed.

b) Identification of the relevant risk events which, if they occur, may materially affect financial information.

c) For those risks identified in the relevant processes, specific mitigating controls are implemented to reduce these risks to acceptable levels. The affected operations departments 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 on the IT systems.

e) Lastly, the internal audit function and ACC are responsible for overseeing ICFR in order to ensure the operational efficiency thereof.

- **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.**

On 28 September 2011 the board of directors of the Company approved Colonial's Code of Ethics. 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 the financial information, Article 6.5 of the Code establishes the following:

"Colonial assumes as a guiding principle for its corporate behaviour with its shareholders, investors, analysts and the market in general, to disclose true, complete information which expresses the true and fair view of the Company and the Group, its corporate activities and its business strategies.

This information shall always be disclosed in accordance with regulations and within the timeframes established by prevailing legislation. The corporate actions and the strategic decisions of Colonial are focused on creating value for its shareholders, transparency in its management, the adoption of best corporate governance practices at its companies and the strict observance of prevailing regulations in this matter."

Colonial's Regulatory Compliance Unit, which reports to the ACC, is responsible for disseminating, both internally and externally, the Code of Ethics.

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 actions based on the fines and sanctions detailed in the collective bargaining agreement or applicable employment legislation.

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.

- **Whistle-blowing hotline, which allows the audit committee to be informed of any financial and accounting irregularities, in addition to any breaches of the Code of Conduct and irregular activities within the organisation, stating whether this channel is confidential in nature.**

Under Article 32 of Colonial's Regulations of the Board of Directors, the ACC's responsibility is, among others:

"With respect to internal control and reporting systems: ... (iv) establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

As noted in the point above, the Regulatory Compliance Unit, 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 whistle-blowing channel on its intranet where employees can report any irregularities and breaches identified at the Company.

This channel is managed by the Regulatory Compliance Unit, and is regularly reviewed to guarantee its confidentiality and compliance with applicable regulations.

- **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 corporate training plan which covers all business areas according to the specific needs of each one. However, the functional business areas themselves, under the coordination and supervision of the human resources department, are responsible for designing and suggesting specific training plans for their areas.

For staff involved in preparing and reviewing financial information, training is structured around attending events about regulatory updates on financial, accounting and tax regulations, as well as receiving, distributing and analysing documentation from external advisors regarding regulatory developments.

In addition, the Regulatory Compliance Unit, 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 function attended thematic courses and forums outside the Company related to the evaluation of certain internal control and risk management aspects.

F.2 Assessment of financial reporting risks

Provide information on, at least:

F.2.1 The main characteristics of the risk identification process, including risks of error or fraud, stating:

- **Whether the process exists and is documented.**

Colonial has a Control and Risk Management System (CRMS), 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 CRMS, as indicated in sections F.1.1 and F.1.2 of this report.

Colonial's ICFR organisational and monitoring structure, 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 CRMS, 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 with what frequency.**

The ICFR Internal Control and Risk Management Manual provides for the following seven types of risk:

1) Completeness: Transactions, events, assets, liabilities or equity interests that are not identified and, consequently, are not included in the Company's accounting records. Data entries not captured in the ledgers or data entries which have been rejected. Disclosures not identified and, consequently, not included in the notes to the financial statements or deliberately omitted.

2) Existence: Unauthorised transactions which are entered into the Company's accounting software. Duplicate transactions. Erroneous adjustments in the 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 setting market values, amortised costs, value in use or due to an error in the depreciation, as well as adjustments made and are not duly 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 corresponding 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 resulting 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 Regulations for the Board of Directors, and, specifically the section regarding the responsibilities of the ACC, stipulate that these responsibilities include, among others:

"With respect to internal control and reporting systems: (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 which stipulates, as a basic procedure, the determination of the Group's scope of consolidation at every accounting close.

This procedure is implemented by the Accounting, Consolidation and Tax Department which reports to the Operations-Finance Department. The ACC is notified when the scope of consolidation is changed.

• Whether the process considers the impact of other risk types (operational, technological, financial, legal, tax, reputational, environmental, etc.) that may affect the financial statements.

As described in the first point of section F.2.1, the basic function of the ACC, as delegated by the 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.

Colonial's ICFR organisational and monitoring structure, as well as its Internal Control and Risk Management Manual, are aligned with and form part of Colonial's general risk policy (see section E of this report), and have been approved by the CAC.

In the process of identifying risks to the financial information within the ICFR system, all the areas of risk identified in Colonial's risk map have been considered.

• Which of the entity's governing bodies supervises the process.

Colonial's Regulations for the Board of Directors, and, specifically the section regarding the responsibilities of the ACC, stipulate that these responsibilities include, among others:

"With respect to internal control and reporting systems: ... (ii) to review internal control and risk management systems on a regular basis, so that the main risks are properly identified, managed and disclosed."

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 will 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 feature, if available, on, at least:

F.3.1 Procedures to review and authorise financial information and the ICFR system description to be published on the securities markets, indicating those responsible for execution, 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 close and the specific review of relevant judgements, 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 which 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) Relevant events.

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 at the CEO, Board of Directors or the General Shareholders' Meeting itself.

Monitoring of the manual for disclosure of statutory information as well as the completion of the specific internal control questionnaires are mandatory and subject to review by Colonial's Internal Audit function.

In terms of the documentation 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 which has been 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 reporting 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 which 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.

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 Audit 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 in place control activities 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 at 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 accounting policies manual.

h) Taxes.

i) Reporting systems, including capture and preparation mechanisms for supporting financial information.

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 which must be adhered to. Therefore, it is essential that all the functions/departments involved monitor the processes established, as well as the controls in place, to guarantee security when preparing financial information at Colonial. The most senior-ranking employee in each of the departments involved in the procedures documented in the internal control model 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 to supervise management of activities outsourced to third parties, as well as issues related to evaluation, calculation or measurement which are entrusted to independent experts and which may have a material impact on the financial statements.

As described in section F.3.1, Colonial has identified the key processes which may materially affect its financial information. Among the criteria used to identify these processes, the Company has considered criteria for activities with a high level of third-party involvement and also those which are fully outsourced.

In this regard, the relevant processes involving significant third-party participation are as follows:

a) Valuation of 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 function's annual plan includes the monitoring activities needed to ensure the processes described are correctly executed.

F.4 Reporting and communication

Provide information, indicating salient feature, 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 the 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 in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

Colonial has implemented a 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 model financial statements which all Group companies must follow and which are set up in the tool thereby guaranteeing the uniformity of the financial information.

The preparation of statutory financial information, as well as the 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, in 2016 Colonial implemented 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 2016 consisted of approving the Internal Audit Plan for 2016, 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 directors' 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 for the Board of Directors, and, specifically the section regarding the responsibilities of the ACC, stipulate that these responsibilities include, among others:

"With respect to internal control and reporting systems:

(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 which comprise the internal control system and offering suggestions for improvement.

The ACC has already approved the Internal Audit Plan for 2017, 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 A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its audit committee or board of directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

Colonial's board of directors regulations provide as follows:

"Dealings of the board of directors with the external auditor will be through the Audit and Control Committee."

In this regard, the board of directors regulations govern 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, it relates to the external auditor to receive regular information from the auditors on the audit plan and performance 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 Company's board 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 relevant information

No additional issues to disclose have been identified.

F.7 External auditor's report

Indicate:

F.7.1 Whether ICFR information reported to the markets has been reviewed by the external auditor, in which case the entity should include the corresponding report as an Appendix. Otherwise, explain the reasons for the absence of this review.

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. Level of compliance with corporate governance recommendations

Please specify the Company's level of compliance with recommendations from the Unified Good Governance Code.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

1. The Bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Complies

2. When a parent and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other Group companies.

b) The mechanisms in place to resolve possible conflicts of interest.

Complies

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

a) Changes taking place since the previous annual general meeting.

b) The specific reasons for the Company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Complies

4. The Company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy is disclosed on the Company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Complies

5. The board of directors does not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the Company immediately posts a report on its website explaining the exclusion as envisaged in company legislation.

Complies

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

a) Report on auditor independence.

b) Reviews of the operation of the audit committee and the appointments and remuneration committee.

c) Audit committee report on related-party transactions.

d) Report on corporate social responsibility policy.

Complies

7. The Company broadcasts its general meetings live on the corporate website.

Explain

The 2016 annual general meeting was not broadcast live on the corporate website, although it is expected that the recommendation will be met in 2017. Complementing the foregoing, it should be added that the regulations of the annual general meeting provide that the Board of Directors may broadcast the general meeting on the corporate website.

8. The audit committee strives to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Complies

9. The company discloses its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the Company should:

a) Immediately circulate the supplementary items and new proposals.

b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.

c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.

d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies

11. In the event that a Company plans to pay for attendance at the general meeting, it first establishes a general, long-term policy in this respect.

Not applicable

12. The Board of Directors discharges its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It is guided at all times by the Company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies

13. The board of directors has an optimal size to promote its efficient functioning and maximise participation. The recommended range is therefore between five and fifteen members.

Complies

14. The board of directors should approve a director selection policy that:

a) Is concrete and verifiable.

b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs.

c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs is written up in the appointments committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy pursues the goal of having at least 30% of total board places occupied by women directors before 2020.

The appointments committee runs an annual check on compliance with the director selection policy and sets out its findings in the annual corporate governance report.

Complies

15.Proprietary and independent directors constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Complies

16. The percentage of proprietary directors out of all non-executive directors is no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the Company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Complies

17. Independent directors are at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors occupy, at least, a third of board places.

Complies

18. Companies should post the following director particulars on their websites, and keep them permanently updated:

a) Professional experience and background.

b) Directorships held at other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.

d) Dates of their first appointment as a board member and subsequent re-elections.

e) Shares held in the Company, and any options on the same.

Complies

19. Following verification by the appointments committee, the annual corporate governance report discloses the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Not applicable

20. Proprietary directors resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Complies

21. The board of directors does not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the appointments committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Complies

22. Companies establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board gives a reasoned account of all such determinations in the annual corporate governance report.

Complies

23. Directors express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation. The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Complies

24. Directors who give up their place before their tenure expires, through resignation or otherwise, state their reasons in a letter to be sent to all members of the board. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.

Complies

25. The appointments committee ensures that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations lay down the maximum number of company boards on which directors can serve.

Partially complies

The Company has set out in the board regulations that the ARC will, in evaluating the balance of skills, knowledge and experience on the board of directors, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.

Although a maximum number of boards to which directors may belong is not determined by the board regulations, this issue is taken into account in the analysis conducted by the ARC as a prerequisite for proposing their appointment, with a view to ensuring that they can properly discharge their duties as directors once appointed.

The Company considers that this formula, rather than reflecting a maximum number of boards, caters to the particular circumstances of each director for the discharge of their duties without being limited by a particular maximum number.

26. The board meets with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Complies

27. Director absences are kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors delegate their powers of representation with the appropriate instructions.

Complies

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the Company's performance, and such concerns are not resolved at the meeting, they are recorded in the minutes book if the person expressing them so requests.

Complies

29. The Company provides 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.

Complies

30. Regardless of the knowledge directors must possess to carry out their duties, they are also offered refresher programmes when circumstances so advise.

Complies

31. The agendas of board meetings clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Complies

32. Directors are regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Complies

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Complies

34. When a lead independent director has been appointed, the bylaws or board of directors regulations grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or deputy chairmen, if any; give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those relating to the Company's corporate governance; and coordinate the chairman's succession plan.

Complies

35. The board secretary strives to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the Company.

Complies

36. The board in plenary session should conduct an annual evaluation, adopting, where necessary, an action plan to correct weaknesses detected in:

a) The quality and efficiency of the board's operation.

b) The performance and membership of its committees.

c) The diversity of board membership and competences.

d) The performance of the chairman of the board of directors and the company's chief executive.

e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should be based on the reports they send the board of directors, while that of the board itself should be based on the report of the appointments committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the appointments committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Complies

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

Complies

38. The board is kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members receive a copy of the committee's minutes.

Complies

39. All members of the audit committee, particularly its chairman, are appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

Complies

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and internal control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Complies

41. The head of the unit handling the internal audit function presents an annual work programme to the audit committee, informs it directly of any incidents arising during its implementation and submits an activities report at the end of each year.

Complies

42. The audit committee has the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

   a) Monitor the preparation and the completeness of the financial information prepared on the Company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter and the correct application of accounting principles.

   b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the Company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

   c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

c) Ensure that the Company communicates any change of external auditor to the CNMV as a relevant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the Company's risk and accounting positions.

e) Ensure that the Company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Complies

43. The audit committee is empowered to meet with any Company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies

44. The audit committee is informed of any fundamental changes or corporate transactions the Company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the share exchange ratio proposed.

Complies

45. Control and risk management policy should specify at least:

a) The different types of financial and non-financial risk the Company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.

b) The determination of the risk level the Company sees as acceptable.

c) Measures in place to mitigate the impact of risk events should they occur.

d) The internal reporting and control systems to be used to control and manage these risks, including contingent liabilities and off-balance-sheet risks.

Complies

46. Companies should establish a risk control and management function in the charge of one of the Company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the Company is exposed to are correctly identified, managed and quantified.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the framework of the policy drawn up by the board of directors.

Complies

47. Appointees to the appointments and remuneration committee – or of the appointments committee and remuneration committee, if separately constituted – have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members are independent directors.

Complies

48. Large cap companies should operate separately constituted appointments and remuneration committees.

Not applicable

49. The Appointments Committee should consult with the company's Chairman of the Board of Directors and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the appointments committee to propose candidates that it might consider suitable.

Complies

50. The remuneration committee operates independently and has the following functions in addition to those assigned by law:

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) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual remuneration is proportionate to the amounts paid to other directors and senior officers in the Company.

d) Ensure that any conflicts of interest do not jeopardise the independence of external advice to the commission.

e) Verify the information on director and senior officers' remuneration contained in the various corporate documents, including the annual directors' remuneration report.

Complies

51. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies

52. The terms of reference of supervision and control committees are set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They include at least the following terms:

a) Committees are formed exclusively by non-executive directors, with a majority of independents.

b) They are chaired by independent directors.

c) The board appoints the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discusses their proposals and reports; and provides report-backs on their activities and work at the first board plenary following each committee meeting.

d) They may engage external advice, when they feel it necessary for the discharge of their functions.

e) Meeting proceedings should be minuted and a copy made available to all board members.

Not applicable

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy is assigned to one board committee or split between several, which could be the audit committee, the appointments committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the Company's internal codes of conduct and corporate governance rules.

b) Oversee the communication and relations strategy with shareholders and investors, including small- and medium-sized shareholders.

c) Periodically evaluate the effectiveness of the Company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

d) Review the Company's corporate social responsibility policy, ensuring that it is geared to value creation.

e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.

f) Monitor and evaluate the Company's interaction with its stakeholder groups.

g) Evaluate all aspects of the non-financial risks the Company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Complies

54. The corporate social responsibility policy states the principles or commitments the Company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) 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) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the Company's honour and integrity.

Complies

55. The Company reports on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Complies

56. Director remuneration is sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Complies

57. Variable remuneration linked to the Company's and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and participation in long-term savings schemes such as pension plans, retirement schemes and other employee welfare schemes is confined to executive directors.

The Company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs relating to acquisition thereof.

Complies

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 industry or circumstances of this kind.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the Company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short-, medium- and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies

59. A major part of variable remuneration components are deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Complies

60. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Complies

61. A major part of executive directors' variable remuneration is linked to the award of shares or financial instruments whose value is linked to the share price.

Complies

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors are not allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

This condition, however, will not apply to shares that the director must dispose of to defray costs relating to acquisition thereof.

Complies

63. Contractual arrangements include provisions that permit the Company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Complies

64. Termination payments do not exceed a fixed amount equivalent to two years of the director's total annual remuneration and are not be paid until the Company confirms that he or she has met the predetermined performance criteria.

Complies

H. Other information of interest

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

2. You may include in this section any other information, clarification or observation related to the above sections of this report.

   Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable identify the Code and date of adoption. In particular, mention whether the Code of Good Tax Practices of 20 June 2010 has been adhered to.

   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.

   A.2. The data included in this section reflect the information relating to significant holdings contained on the website of the Spanish National Securities Market Commission, although it has been adjusted to the resolutions relating to (i) capital increases with a charge to non-monetary contributions and (ii) grouping and share exchange (reverse split) adopted by the Company at the annual general meeting of 28 June 2016.

   Also, in relation to the shareholders BlackRock, Inc and Fidelity International Limited, it is hereby reported that there is no information available relating to the direct holder of the equity interests in Colonial.

   A.2 y C.1.3. In both sections Grupo Villar Mir, S.A.U. is indicated as the significant shareholder (section A.2) or the significant shareholder that represents the proprietary director (table relating to external proprietary directors in section C.1.3), although the ultimate significant shareholder is Inmobiliaria Espacio, S.A., since it wholly owns Grupo Villar Mir, S.A.U.

   A.3. The data included in this section reflect the information relating to significant holdings contained on the website of the Spanish National Securities Market Commission and/or information provided by the directors, although it has been adjusted to the resolutions relating to (i) capital increases with a charge to non-monetary contributions and (ii) grouping and share exchange (reverse split) adopted by the Company at the annual general meeting of 28 June 2016.

   C.1.36. At the Annual General Meeting of 28 June 2016 it was resolved to appoint PricewaterhouseCoopers Auditores, S.L. as the Company's auditor to review the separate and consolidated financial statements for a three-year period, including therefore the financial statements for the years ended 31 December 2017, 2018 and 2019.

   C.1.45. Although the contracts of the directors do not have to be approved by the shareholders at the Annual General Meeting, the general terms and conditions thereof are included in the remuneration policy, which they do approve.

   C.2.1. The composition of the executive committee included Carlos Fernández González and Adnane Mousannif as members of the committee, since they were appointed on 16 December 2016. However, under the bylaws, the appointment of the members of the Executive Committee shall not be valid until registered at the Mercantile Registry. In relation to these members, this took place on 31 January 2017.

   D.2. On 27 July 2016, the entities belonging to the Mora Banc Grup, S.A. group entered into an agreement with the Company whereby Mora Banc Grup, S.A., then a significant Colonial shareholder, and related group entities sold to Colonial 3,801,417 of its own shares, representing approximately 1.06% of Colonial's share capital, under the main terms indicated in the notes to the Company's financial statements for the year ended 31 December 2016, authorised for issue by Colonial's board of directors at its meeting held on 24 February 2017. At 31 December 2016, the date of preparation of this report, the Mora Banc Grup, S.A. group was not a significant shareholder of the Company.

This annual corporate governance report was approved by the Company's Board of Directors at its meeting held on 24 February 2017.

List whether any directors voted against or abstained from voting on the approval of this Report.

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

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 + NAV of 58.5% stake in SFL.
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 Vavancy	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.

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