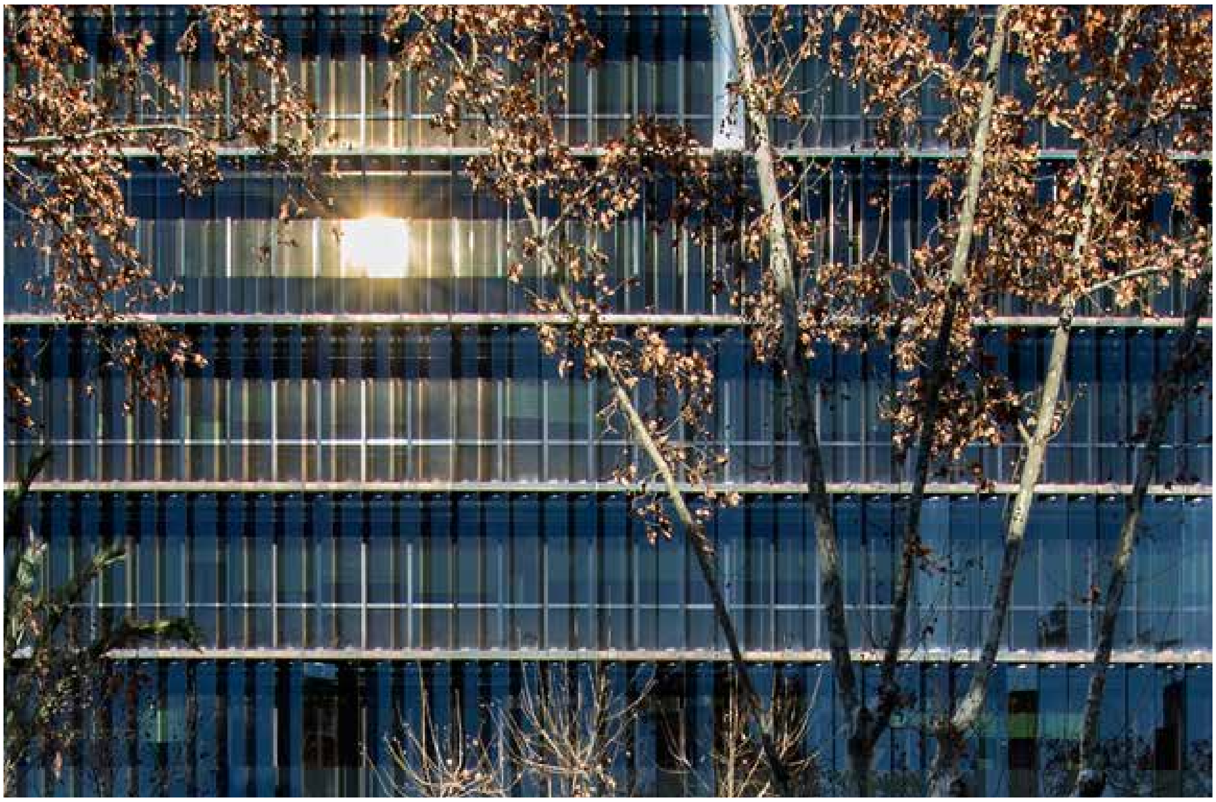
Colonial

Annual Report 2015



Colonial Annual Report 2015

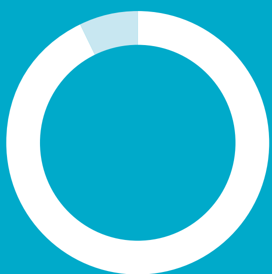
Main Figures 2015

€6,913m
GAV Group

56
Assets

771,313 sq m
above ground

94%
EPRA occupancy(1)



By use

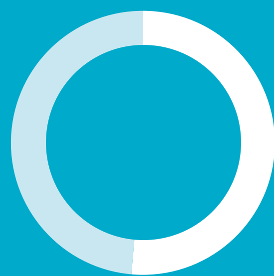
- 93% offices
- 7% retail

By area

- 70% Prime CBD
- 6% CBD
- 17% BD
- 7% others

Energy Efficiency

- 80% with energy certification



Valuation - by market

- 51.5% Spain
- 48.5% France

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

Note: Breakdown of the portfolio by GAV.


Paris
20 assets
Barcelona
17 assets
Madrid
19 assets

€6,913m
GAV Group

€2,047m
Market Capitalization

62 cents €/share
EPRA NAV

€415m
Net Profit

+16%
Like-for-like

+17%

+29%

+€624m(1)

(1) Variance excluding discontinued operations 2014.

EPRA Performance Measures

As at 31 December (€m)	2015	2014
EPRA Earnings	33	435
EPRA NAV	1,966	1,521
EPRA NNNAV	1,835	1,408

As at 31 December (%)	2015	2014
EPRA Net Initial Yield	3%	3.7%
EPRA “topped-up” Net Initial Yield	3.8%	4%
EPRA vacancy rate	5.8%	12.7%
EPRA Cost ratio (incl. vacancy costs)	23.3%	25.1%
EPRA Cost ratio (excl. vacancy costs)	19.1%	20.9%

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

Summary

Interview with the Chairman and CEO
Juan José Brugera Clavero and Pere Viñolas Serra

Colonial closed 2015 with profits of more than €400 million euros, among the highest in the Spanish sector. What aspects would you most highlight when looking at this year with perspective?

J.J. BRUGERA

We are very proud of the 2015 financial year. It was a year with important achievements in the operating business as well as in the financial area, which has created a solid base for long term sustainable growth. It was a very positive year, with results for our shareholders that will enable us to begin the path towards a sustainable dividend.

In the operating business, we have been able to capture a high volume of take up in our portfolio, substantially improving occupancy in the three markets.

This clearly shows the success of our strategy to focus on prime office assets in the city centre, making it a unique business model in the Pan European market. This focus has resulted in very attractive risk-adjusted returns.

In 2015, we increased our rental income by 9% (6% in like-for-like terms) and obtained a 20% growth in gross asset value, reaching a total value of almost €7,000 million.

If we analyse the performance by cities, it is important to highlight that we achieved a year-on-year growth in gross asset values of 16% in like-for-like terms in every one of the markets we operate in.

In addition to having strengthened our position in the prime office segment in Spain, it is worth highlighting our leadership in the prime office segment in Paris, which is one of the top 5 office markets worldwide, and the most important in the Eurozone.

Thanks precisely to this business model focused on top quality offices in prime locations with a Pan European diversification, we are pioneers in our sector in Spain, and the first ever Spanish property company to obtain an Investment Grade rating by Standard & Poor's in May 2015. This has enabled us to access the bond market in very competitive terms.

P. VIÑOLAS

I would like to highlight that 2015 was a year with historic results. We let more than 163,000 sq m, a record figure, increasing the occupancy of our office portfolio from 85% to 94% in 12 months.

The EBITDA increased 11% reaching €178 million and the net profit of the Colonial Group was €415 million.

Regarding the drivers of value creation, I would like to highlight two essential aspects:

In the first place, our industrial real estate knowledge: in 2015, we successfully delivered various projects in Spain and France, resulting in very attractive returns. It is particularly important to point out the #Cloud and 90 Champs Élysées projects in the centre of Paris. These assets have been totally repositioned and pre-leased at maximum rental price levels, establishing a new benchmark for prime rents in the centre of Paris.

In Spain, we have been able to take advantage of the start of the market recovery by delivering repositioned assets such as Jose Abascal in Madrid, and Paseo de los Tilos and Diagonal, 409 in Barcelona.

These successes are thanks to the Colonial Group's Prime Factory industrial approach that has enabled us to achieve returns above the market average.

In the second place, we closed 2015 having achieved our acquisition target. We acquired 4 office buildings in the centre of Madrid and a building in the centre of Paris, reaching the investment volume forecasted for the year and even more importantly, maintaining financial discipline regarding the quality of the product and the required returns.

All of this has given our shareholders a total return of 29% in one year, with an EPRA NAV (Net Asset Value) of €0.62 per share at 31 December 2015.

What are the main challenges for 2016?

J.J. BRUGERA

The beginning of 2016 can be characterized by an increase in the volatility of capital markets, although the fundamentals for the markets we operate in remain solid. We believe that in this environment, our prime quality portfolio is the best guarantee to obtain good results in increasingly competitive markets.

Going forward, we think that in the medium term a consolidation process will come about in the listed Spanish property market as well as in Europe. The capital markets demand players with a significant critical mass and we believe that specialization, and therefore leadership, in one single asset class will be the winning strategy in the long run.

This type of evolution has already happened in other more mature markets such as the listed property market in the United States.

P. VIÑOLAS

In 2015, we have laid solid foundations to guarantee sustainable growth in the long term.

We have returned to pre-crisis occupancy levels with an optimization of our capital structure to face our growth plan with financial strength.

Our future growth strategy is specifically based on the following points:

In the first place, our current portfolio: the assets still have upside potential to reach their full capacity to generate income, and there are refurbishments and repositioning projects to be delivered. Furthermore, the recovery of the rental cycle is pending in all three markets, especially Madrid and Barcelona.

In the second place, we will follow our growth strategy through selective acquisitions. We will especially focus on Prime Factory investment strategies that allow us to create property value through an industrial focus on asset repositioning, resulting in a clear competitive advantage in the sector and enabling us to obtain very attractive returns.

In addition, we will continue with the active management of our portfolio, adopting a rotation policy for mature assets to maximize the value creation of the portfolio.

Regarding the capital structure, we continue to work on improving our credit profile as well as the optimization of our financial costs.

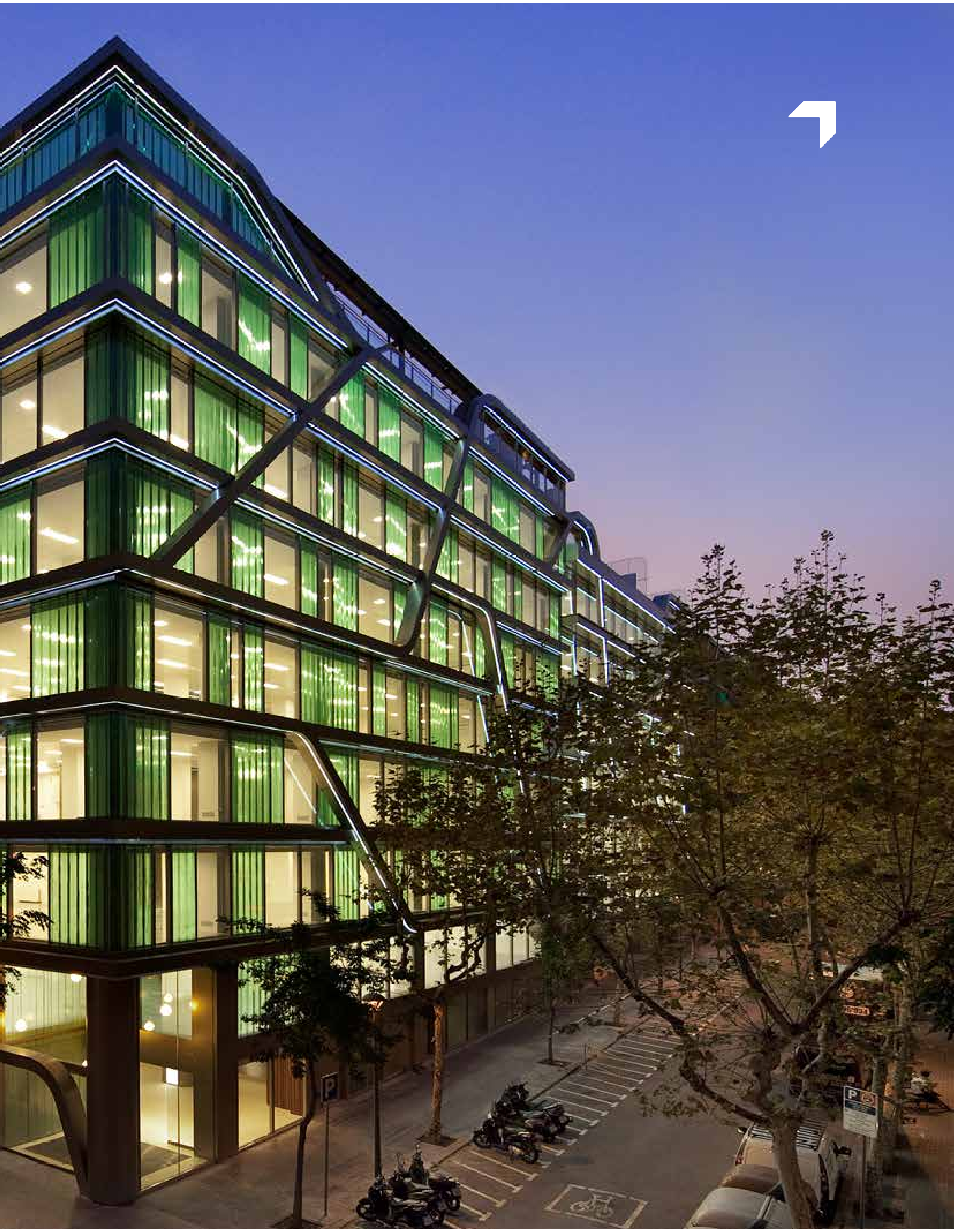
Based on this strategy to specialize in prime offices and unlocking the value of our knowledge and expertise in this segment, we will be able to offer attractive returns for all or our shareholders.

J.J. BRUGERA

To maintain a strong delivery of these attractive returns is and will be possible thanks to the efforts made by our entire team, to whom I thank for their professionalism and daily commitment, which is the key element to maximizing value creation for all the shareholders of the Group.

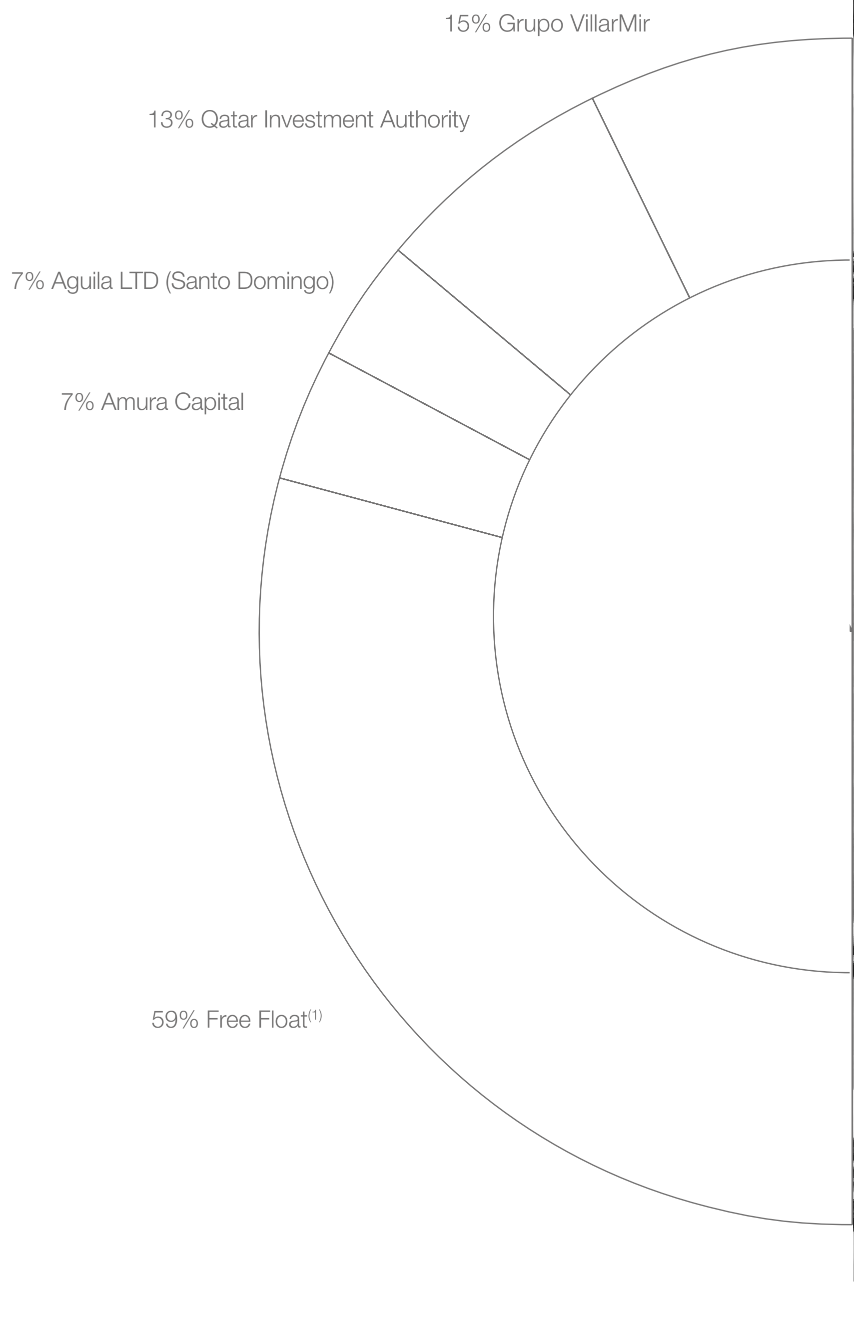
Additionally, I would like to thank all of our shareholders for their trust and for supporting our vision, management and results. With them and thanks to them, we are building the foundations of our future every day.

Shareholders structure and Corporate Governance

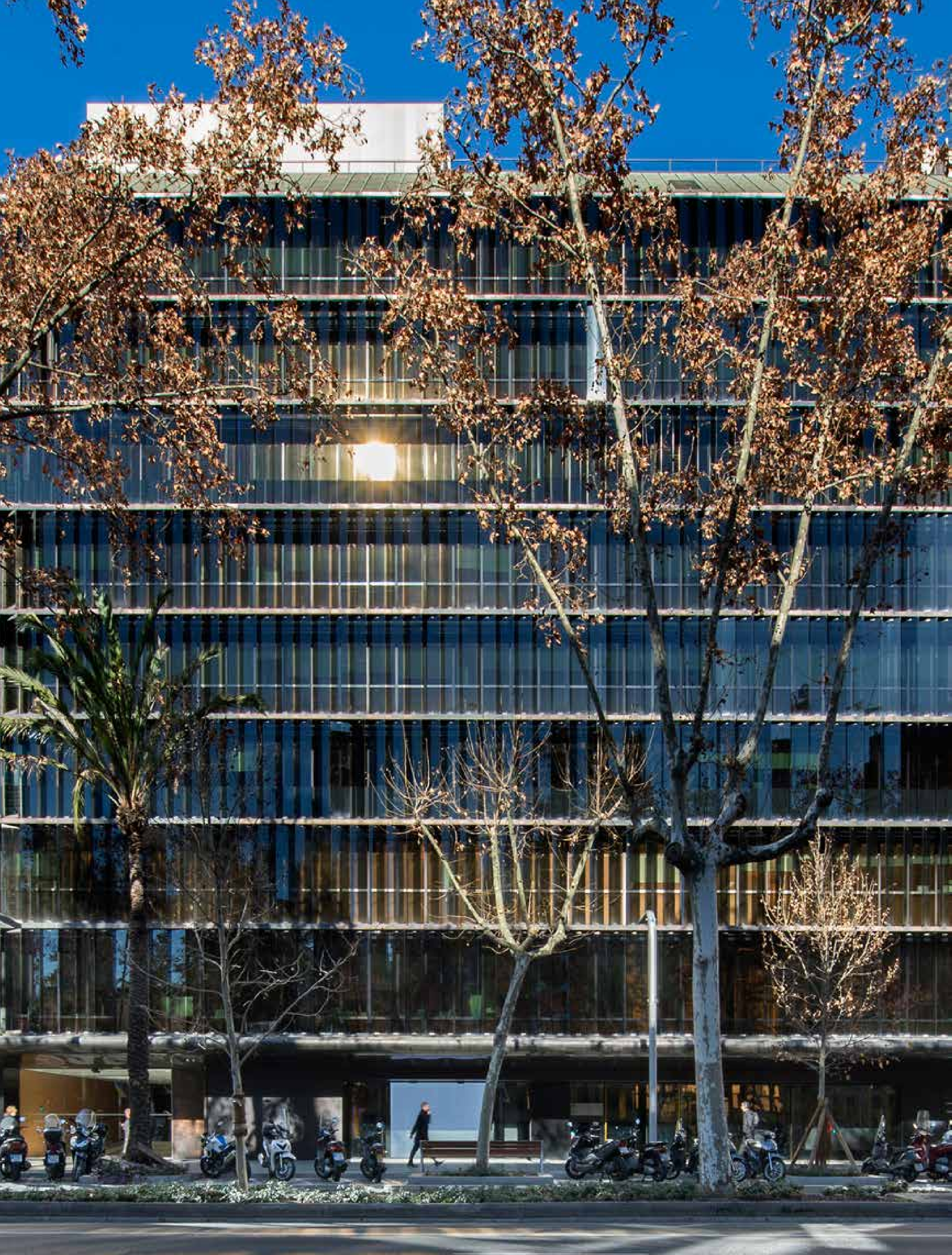


Company shareholder structure

Colonial's shareholder structure at 20/01/2016(*) is as follows:



(*) According to reports in the CNMV and notifications received by the company.
(1) Free Float: shareholders with minority stakes and without representation in the Board of Directors.



Corporate Governance

Board of Directors

NAME	TITLE		COMMITTEE ROLE
Juan José Brugera Clavero	Chairman	**Colonial**	Chairman
Grupo Villar Mir S.A.U. represented by Juan-Miguel Villar Mir	Vice-Chairman - Director	Villar Mir	Vice-Chairman
Pere Viñolas Serra	Chief Executive Officer	**Colonial**	Member
Juan Villar-Mir de Fuentes	Director	Villar Mir	Member
Sheikh Ali Jassim M. J. Al-Thani	Director	QIA	
Juan Carlos García Cañizares	Director	Aguila LTD (Santo Domingo)	Member
Francesc Mora Sagués	Director	Amura Capital	Member
Ana Sainz de Vicuña	Independent Director		Member
Carlos Fernández-Lerga Garralda	Independent Director		Member Chairman
Javier Iglesias de Ussel Ordís	Independent Director		Member Chairman
Luis Maluquer Trepat	Other External Director		Member
Francisco Palá Laguna	Secretary - Non-Director		Secretary
Nuria Oferil Coll	Vice-secretary - Non-Director		Vice-secretary

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 Develoment Officer

Àngels Arderiu
Chief Financial Officer

Juan Manuel Ortega
Chief Investment Officer

Highlights 2015

Highlights 2015
A year of outstanding performance

In 2015, the Colonial Group reached very positive results in all variables. It is particularly worth highlighting an increase of 29% in the net asset value of the shares (NAV), as well as a significant increase in the net result[1], as shown in the table below:

	2015	***Var. 12 months***
EPRA NAV (cts. €/share)	62 cts €/sh.	*+29%*
Recurring Net Profit	€37m	*+121%*
Net profit	€415m	*+€624m*[1]

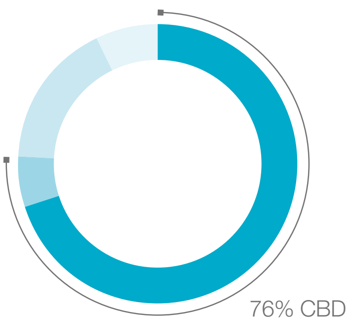
	2015	***Var. 12 months***
Gross Asset Value	€6,913m	*+16% LFL*
EPRA Occupancy - Offices Portfolio	94%	*+845 bps*
Gross Rents	€231m	*+6% LFL*
Recurring EBITDA	€178m	*+8% LFL*
Acquisitions and Repositioning	€362m	*Acquisitions 100% CBD*

	2015	***Var. 12 months***
Group LTV	41.8%	*(230 bp)*
Rating Standard & Poor's	BBB– Stable Outlook	
Finance cost Group	2.27%	*(104 bp)*
Maturity Group	4.8 years	*+0.9 years*

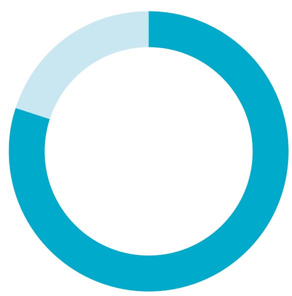
(1) Before discontinued operations divested in 2014.

BUSINESS MIX – GAV GROUP

- 70% Prime CBD
- 6% CBD
- 17% BD
- 7% others



- 80% with energy certification



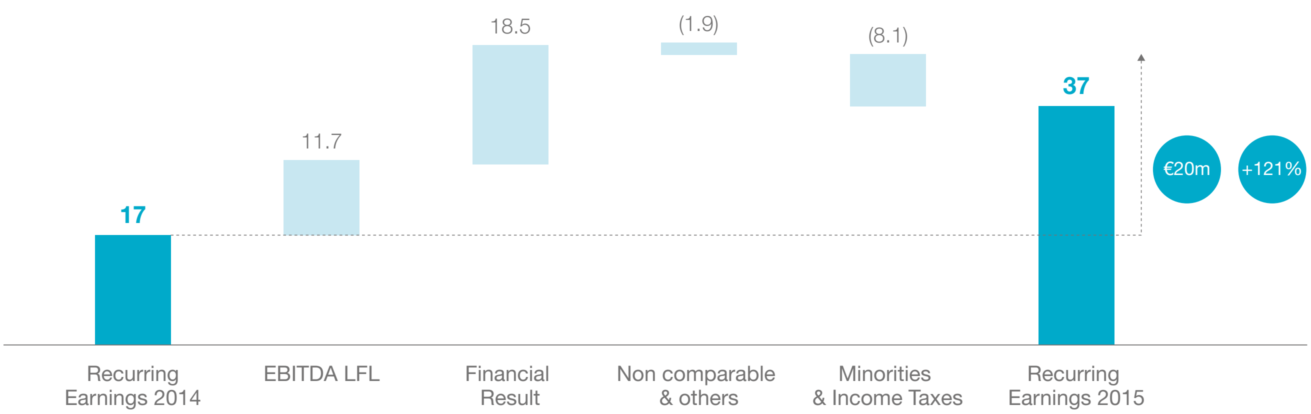
The recurring net profit of the Colonial Group amounted to €37m at the close of 2015, €20m higher than in the same period of the previous year, resulting in an increase of 121%.

PROFIT AND LOSS ACCOUNT

Results analysis - €m	**2015**	**2014**
Gross Rents	231	211
Net operating expenses(1)	(20)	(19)
Overheads	(33)	(32)
Recurring EBITDA	178	161
Results associated to SIIC de Paris - recurring	0	4
Recurring financial result	(83)	(102)
Income tax expense & others - recurring	(12)	(8)
Minority interests - recurring	(46)	(39)
Recurring Earnings	**37**	**17**
Variation of the asset value & Provisions	715	169
Non-recurring financial result & MTM	(48)	(124)
Income tax & others - non-recurring	(47)	(174)
Minority interests - non-recurring	(242)	(98)
Profit attributable before discontinued operations	**415**	**(209)**
Discontinued operations	0	701
Profit attributable to the Group	**415**	**492**

(1) Includes other income.

RECURRING INCOME - €M - VARIANCE ANALYSIS



The increase in the net recurring results is mainly due to two aspects:

1. A like-for-like increase in gross rental income of 9% compared to the previous year, due to:

A like-for-like increase of 6% in gross rental income. It is important to highlight the like-for-like increase in the Madrid portfolio (+7%) and the Paris portfolio (+6%). In Barcelona in 2015, the portfolio reached a positive year-on-year growth of 2% for the first time since the beginning of the crisis.

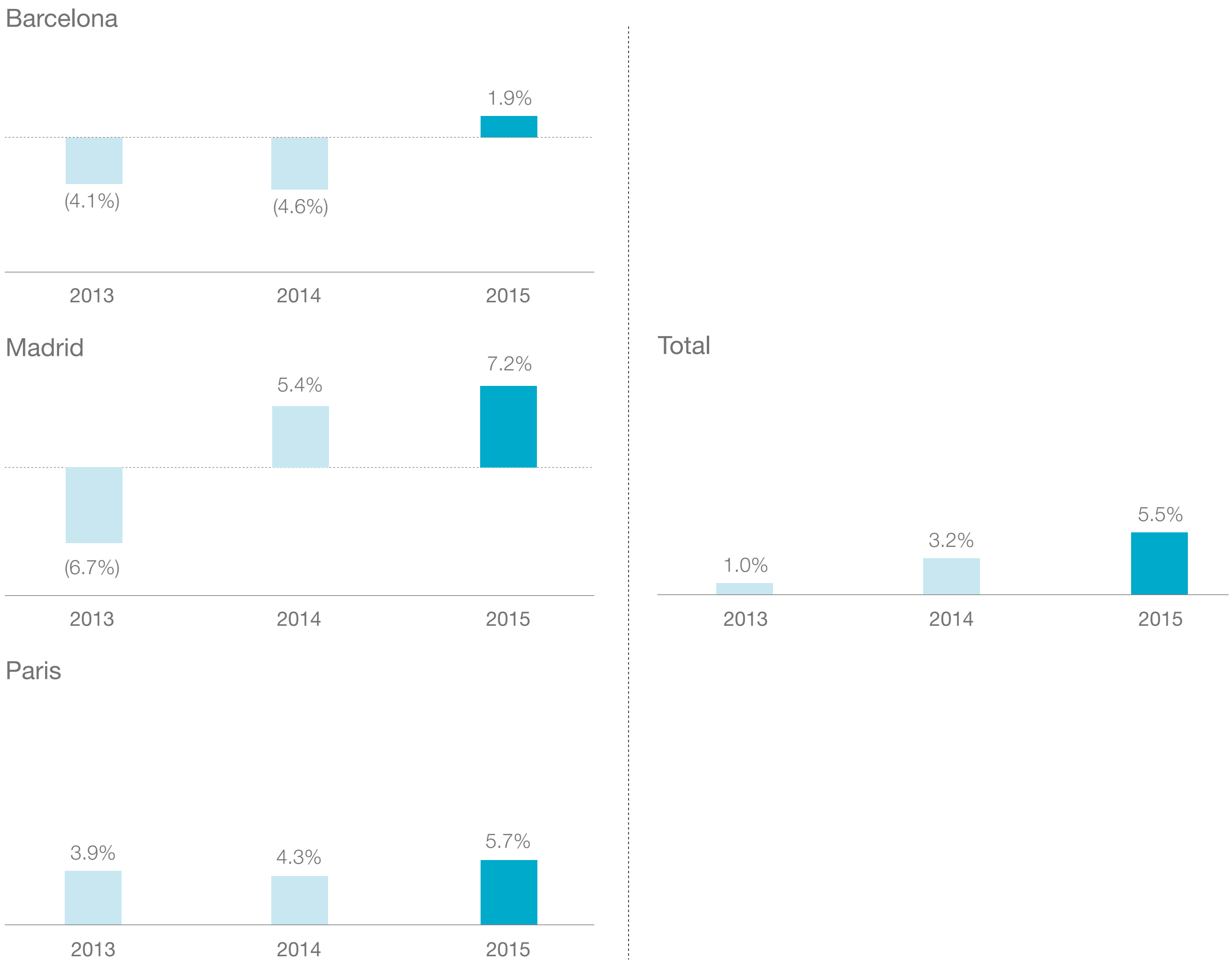
An increase of 5% of the gross rental income, due to new acquisitions.

Indemnities charged in 2014 and other non-comparable effects, resulted in a negative variance in the 2015 vs. 2014 comparison.

2. A significant reduction in the financial expenses, thanks to the optimizations of the financial structure carried out in 2015.

The growth of the gross rental income is clearly superior to the two previous years and shows the strong resilience of a Prime CBD portfolio like Colonial's.

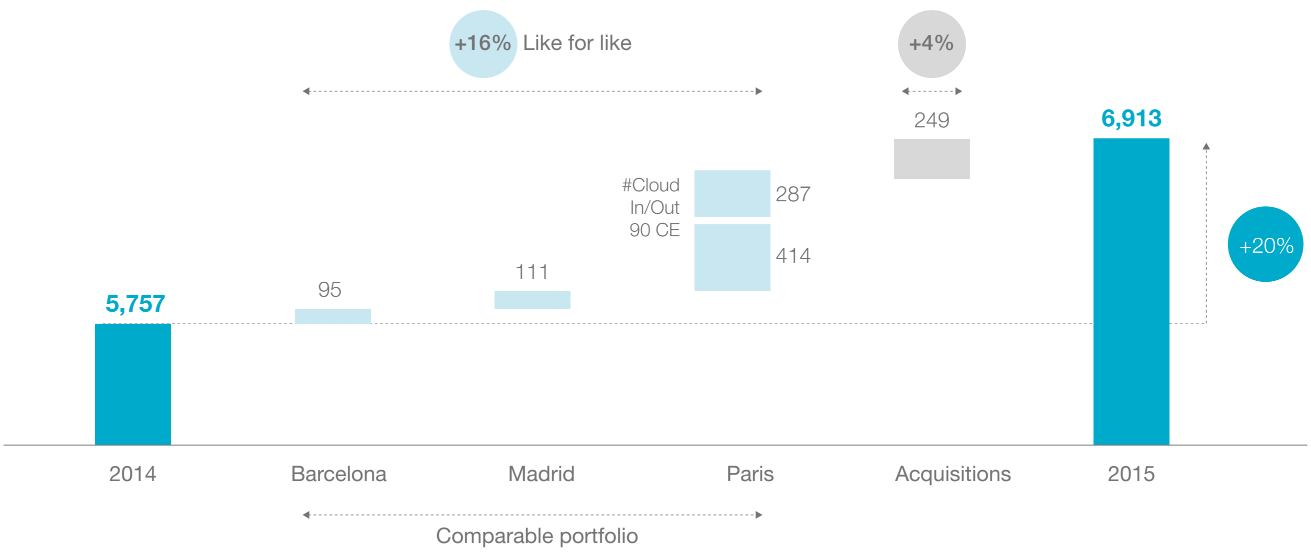
LIKE-FOR-LIKE GROWTH - GROSS RENTAL INCOME



The net results attributable to the Group amounted to €415m. Excluding the positive accounting effect of the "deconsolidation"(1) of Asentia in the previous year, the net results increased by €624m, mainly due to the increase in gross asset values.

Colonial's Group Gross Asset Value amounted to €6,913m at the close of 2015, resulting in an increase of 16% like-for-like compared to the previous year.

VARIANCE ANALYSIS - VALUE 12 MONTHS - €M



In **Spain**, the Gross Asset Value increased by 16% like-for-like in 12 months, mainly due to a yield compression, given the high interest in prime assets in Madrid and Barcelona. The portfolio in Madrid increased by 17% like-for-like, and in Barcelona it rose by 16% like-for-like.

In **France**, the Gross Asset Value of the portfolio increased 16% like-for-like compared to the previous year. This increase in value is a consequence of the successful execution of prime projects as well as positive impacts on rents and yields in the entire portfolio in the context of an investment market with high interest in prime offices in Paris.

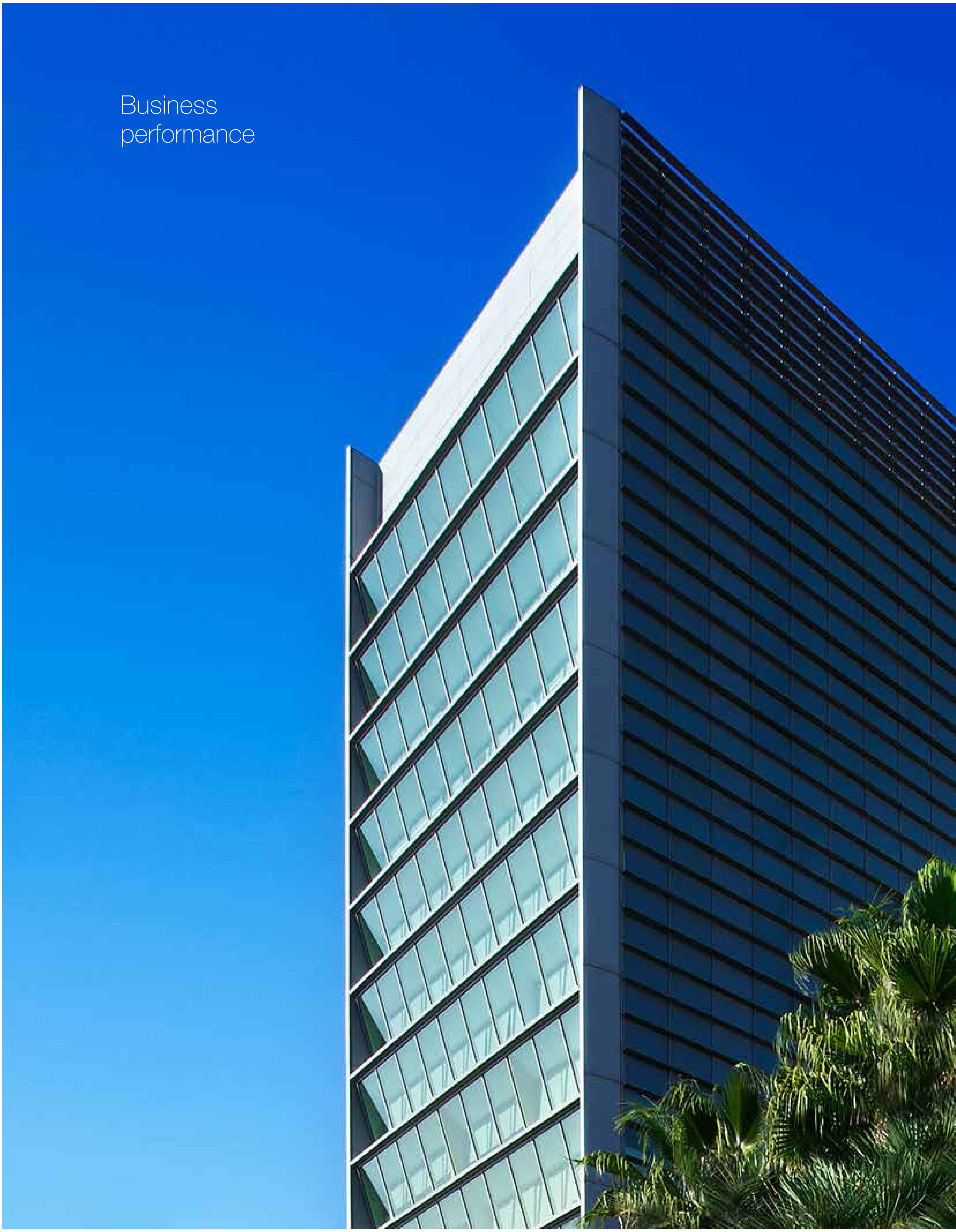
(1) The deconsolidation of Asentia refers to the exit from the consolidation perimeter.

Financial structure

In 2015, Colonial was the first ever and only listed property company in Spain to obtain an Investment Grade credit rating by Standard & Poor's.

The Group's high credit credentials, BBB– for Colonial and BBB for the subsidiary SFL, have enabled the Group to achieve new financing at very attractive costs and to optimize the new financial structure, in terms of maturities and sources of financing.

Business performance



Rental revenues and EBITDA of the portfolio

The rental revenues reached **€231m, 9% higher than the rents of 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 6% like-for-like**.

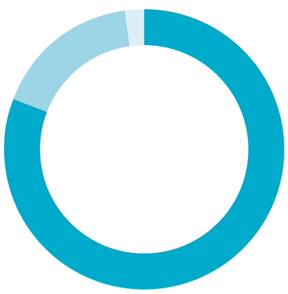
In Paris, the rental revenues rose by 6% like-for-like. In Spain, the rental revenues increased by 5% like-for-like, mainly due to the Madrid portfolio, which went up by 7%. In **Barcelona**, for the first time since the beginning of the crisis, the rental revenues had positive growth in 2015, up **2% like-for-like** year-on-year.

The like-for-like increase in rental revenues mainly corresponds to the new contracts signed on the Alfonso XII, Martínez Villergas and Miguel Ángel buildings in Madrid and the Edouard VII, In&Out, 131 Wagram, Call·LDA, Cézanne Saint Honoré and Washington Plaza buildings in Paris.

CONSOLIDATED GROUP

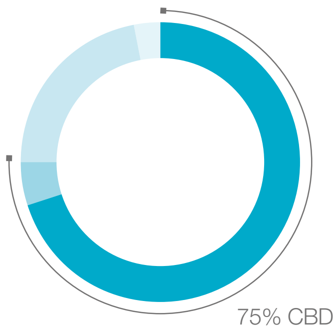
Revenues - by use

- 81% offices
- 17% retail
- 2% others



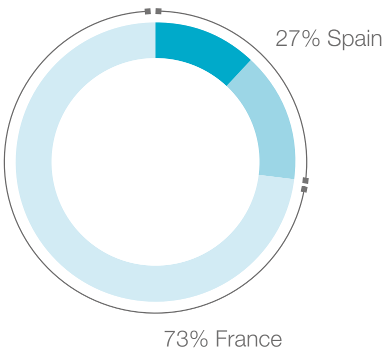
Revenues - by area

- 70% Prime CBD
- 5% CBD
- 22% BD
- 3% others



Revenues - by market

- 12% Barcelona
- 15% Madrid
- 73% Paris



Net rental income reached €209m, a 7% increase in like-for-like terms, with an EBITDA margin of 90%.

				Like-for-like	
PROPERTY PORTFOLIO - December cumulative - €m	**2015**	**2014**	**Var. %**	**€m**	**%**
Rental revenues - Barcelona	27	28	(2%)	0	2%
Rental revenues - Madrid	35	32	9%	2	7%
Rental revenues - Paris	169	152	11%	8	6%
Rental revenues	**231**	**211**	**9%**	**11**	**5%**
Net rental income - Barcelona	23	23	(2%)	1	6%
Net rental income - Madrid	31	28	12%	3	11%
Net rental income - Paris	155	139	11%	8	6%
Net rental income	**209**	**191**	**9%**	**12**	**7%**
Net rental income / Rental revenues - Barcelona	*85%*	*85%*	*(0.2 pp)*		
Net rental income / Rental revenues - Madrid	*88%*	*85%*	*2.8 pp*		
Net rental income / Rental revenues - Paris	*92%*	*92%*	*(0.5 pp)*		
Net rental income / Rental revenues	***90%***	***90%***	***0.1 pp***		

Pp: percentage points.

Portfolio letting performance

Breakdown of the current portfolio by surface area

At the end of 2015, the Colonial Group's portfolio totalled 1,088,166 sq m (771,313 sq m above ground), concentrated mainly on office assets.

At 31 December 2015, 89% of the portfolio was in operation and 11% corresponded to an attractive portfolio of projects and refurbishments.

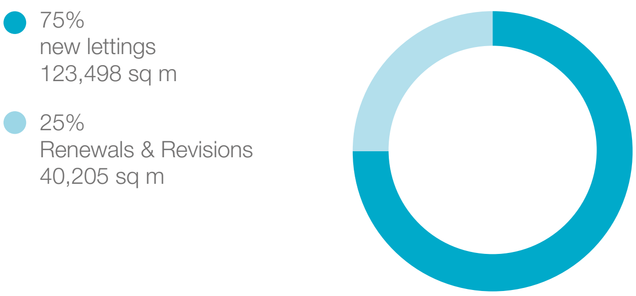
Commercial effort

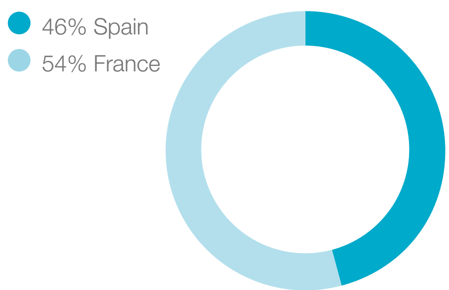
During 2015, the Colonial Group signed rental contracts for more than 163,000 sq m, a record which exceeds the volume of contracts signed in 2014 by 52%.

Of the total commercial effort, 75% (123,498 sq m) corresponds to new contracts, almost doubling the volume of new contracts signed the previous year (71,914 sq m). It is important to highlight that this record volume of contracts was generated in the three cities where the Colonial Group is present.

In **Barcelona**, almost 40,000 sq m were signed on the portfolio which registered significant activity momentum compared to the previous year. In the **Madrid** portfolio, more than 35,000 sq m were signed, and in **Paris** close to 90,000 sq m were signed.

LETTING PERFORMANCE - December cumulative - sq m	2015	% new rents *vs.* previous	Average maturity
Renewals & revisions - Barcelona	12,887	(5%)	2
Renewals & revisions - Madrid	15,775	(16%)	4
Renewals & revisions - Paris	11,543	(8%)	11
Total renewals & revisions	**40,205**	**(10%)**	**5**
New lettings - Barcelona	26,535		3
New lettings - Madrid	19,794		3
New lettings - Paris	77,169		10
New lettings	**123,498**	**n/a**	**7**
Total commercial effort	**163,703**	**n/a**	**7**





In **Spain**, almost 75,000 sq m were signed in 2015, highlighting the almost 40,000 sq m signed in Barcelona. In particular, almost 13,000 sq me were signed on the building in Sant Cugat. Similarly, it is important to point out the strong activity in the Diagonal 682, Diagonal 609-615 (DAU) and Diagonal 409 buildings, which are all located in the CBD and that have reached occupancy levels of close to 100%.

In **Madrid**, it is worth highlighting the signing of approximately 7,800 sq m on the Ortega and Gasset building, the renewals of almost 6,000 sq m with Gamesa Corporación Tecnológica on the Ramírez Arellano building, and the 6,000 sq m signed on the Recoletos property, among others.

In **Paris**, it is important to highlight the three contracts signed on the #Cloud property prior to the delivery of the project (10,800 sq m with the company Exane, 9,700 sq m with the company BlaBlaCar and 3,600 sq m with a world leading company in e-economy). As a result, the building is 90% pre-let. In addition, it is important to point out the signing of the rental contract with the Organization of Cooperation and Economic Development (OECD) for the entire In&Out property. This transaction was the largest rental transaction carried out in the first half of 2015 in the entire Paris market.

Main actions

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

BARCELONA

Building	Tenants	Surface (sq m)
Sant Cugat	Business Service for Information, Affinity & Accenture	13,122
Av. Diagonal, 609-615 (DAU)	Pharmaceutical company & others	6,221
Berlín - Numancia	Multinational consultancy & others	3,797
Travessera de Gracia/Amigó	Mobileaks, European Foundation & others	3,670
Av. Diagonal, 682	Solventis, AZ Capital & others	3,703

MADRID

Building	Tenants	Surface (sq m)
Ortega y Gasset	Public organization	7,792
Recoletos, 37-41	Leading financial institution & others	6,002
Ramirez de Arellano, 37	Gamesa Corporación Tecnológica	5,988
Jose Abascal, 56	Roca Junyent & others	3,801

PARIS

Building	Tenants	Surface (sq m)
In/Out	OECD	32,614
#Cloud	Exane, BlaBlaCar & Word leading "e-economy" firm	24,105
131 Wagram	TV5 Monde	7,549
Le Vaisseau	Revolution 9	6,026
Louvre Saint Honoré	Proparco & others	5,942
Washington Plaza	Meda Pharma, Akamai Technologies & others	3,964
Edouard VII	Multimedia company & others	3,457

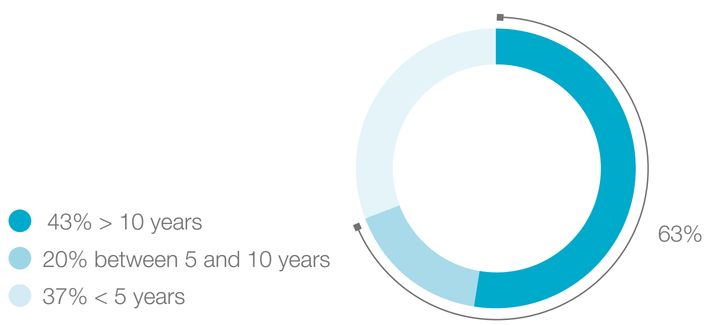
Analysis of tenant portfolio

Regarding the number of rental renewals in the contract portfolio, 28,662 sq m of renewals were signed in Spain, and 11,543 sq m were signed in France.

This high volume of renewals shows the capacity of the Colonial Group to retain clients. This fact is also reflected in the length of time the tenants stay, as 63% of the main tenants have been clients of the Group for more than 5 years.

RANKING OF THE MOST IMPORTANT TENANTS (46% OF RENTAL INCOME)

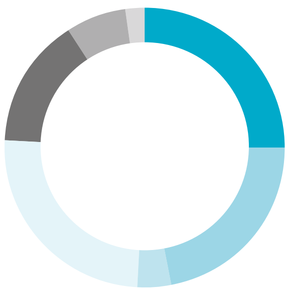
RK	Tenant	City	% total income	% cumul.	Age - Years
1	OECD	Paris	7%	7%	1
2	Natixis Immo Exploitation	Paris	4%	11%	12
3	La Mondiale Groupe	Paris	4%	15%	8
4	GRDF	Paris	3%	18%	150
5	Freshfields Bruckhaus Deringer	Paris	3%	21%	12
6	Exane	Paris	3%	24%	0
7	Hennes & Mauritz / H & M	Paris	3%	27%	6
8	Zara France	Paris	3%	30%	3
9	Gas Natural SDG	Barcelona	2%	32%	10
10	TV5 Monde SA	Paris	2%	34%	10
11	Fast Retailing France	Paris	2%	36%	1
12	Grupo Caixa	Barcelona / Madrid	2%	38%	23
13	Grupo Comunidad de Madrid	Madrid	2%	39%	20
14	Sociedad Estatal Loterias y Apuestas del Estado	Madrid	1%	41%	11
15	Iberia, Lineas Aereas de España	Madrid	1%	42%	3
16	Simosa -Serv. Integrales Mantenimiento y Operación	Madrid	1%	43%	3
17	Casino de Juego Gran Madrid	Madrid	1%	43%	3
18	Ajuntament de Barcelona	Barcelona	1%	44%	19
19	Melia Hotels International	Madrid	1%	45%	13
20	Grupo Agrolimen	Barcelona	1%	45%	13
Average					**16**



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)]



- 25% Professional Services
- 22% Financial / Insurance
- 4% Telecoms / Information Technology
- 25% Consumer Goods & Industry
- 15% Government Bodies
- 7% Media and communication
- 2% Leisure / Restoration

(1) Calculated on the entire portfolio.

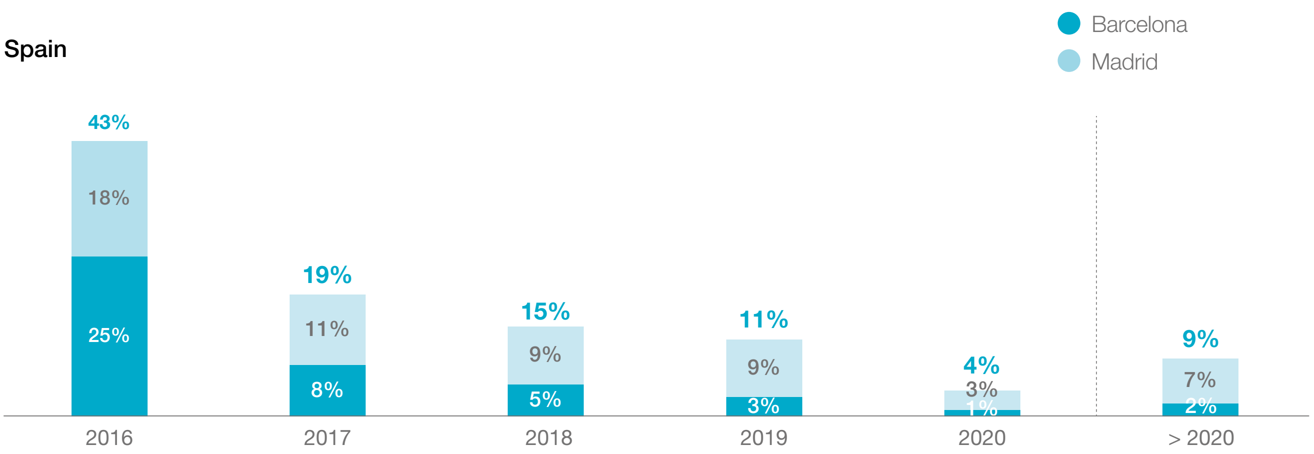
Commercial lease expiry

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

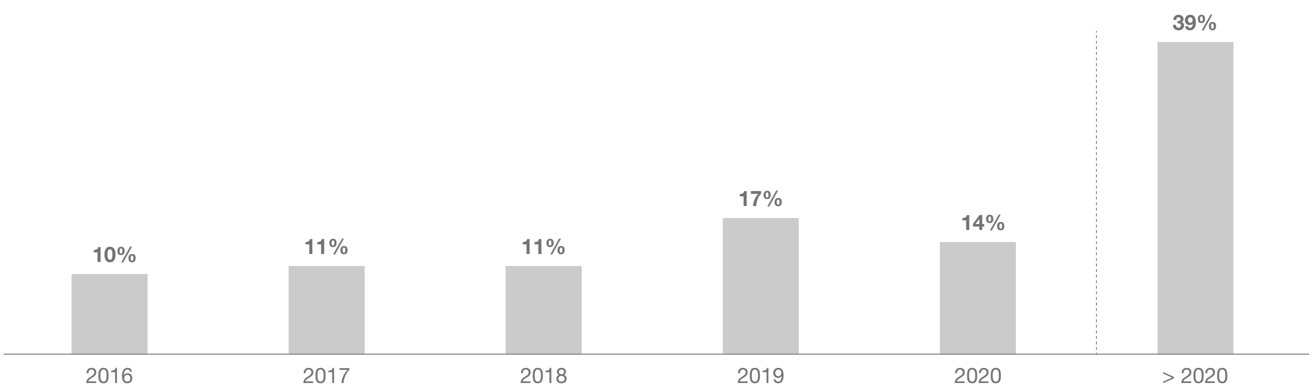
The **first graph** shows the commercial lease expiry dates if the tenants choose to end the contract at the first possible date (break option or end of contract).

COMMERCIAL LEASE EXPIRY DATES IN ECONOMIC TERMS[1] - FIRST POTENTIAL EXIT[2]
(% passing rent of surfaces to be leased)

Spain



France



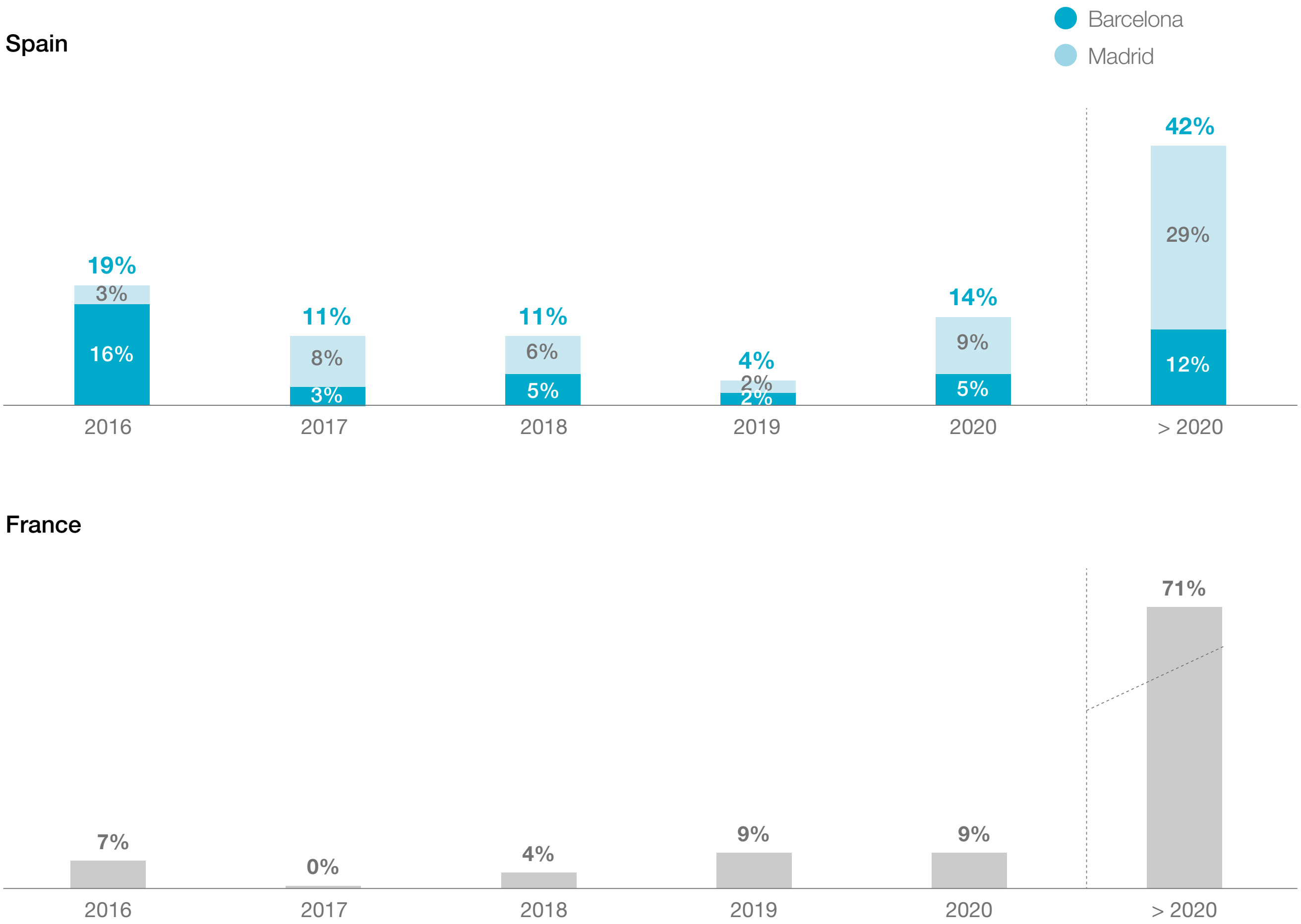
(1) % = surface to rent x current rents /current rentals revenues.
(2) Renewal dates based on first potential exit of the current contracts.

Therefore, in the Spanish portfolio, contract renewals of approximately 62% could take place in the next two years, which will allow the company to benefit from the positive impact of a recovery in the rental cycle.

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, being the contract structure in Spain more short-term than in France.

COMMERCIAL LEASE EXPIRY DATES IN ECONOMIC TERMS - EXPIRY DATE(3)
(% passing rent of surfaces to be leased)



(3) Renewal dates based on the expiry date of the current contracts.

Reversionary Potential

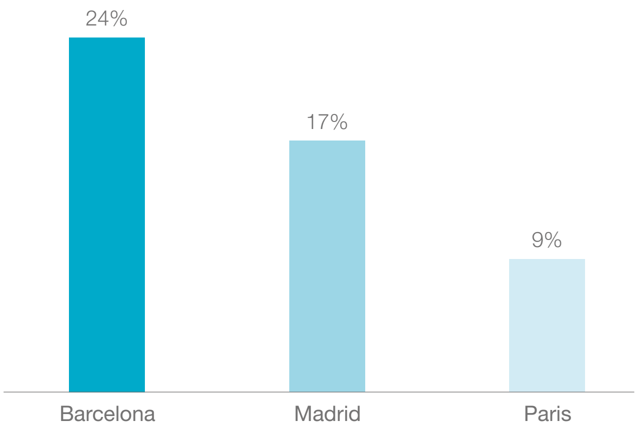
The Colonial Group's contract portfolio has significant reversionary potential.

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 the independent appraisers at December 2015 (not including the potential rents from the projects and refurbishments underway).

At the end of 2015, the static reversionary potential(2) of the rental revenues of the properties in operation (considering current rental prices without impacts from recovery in the cycle) stood at 24% in Barcelona, 17% in Madrid and 9% in Paris.

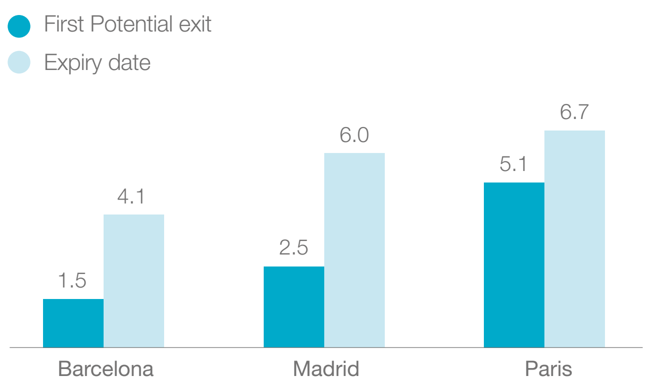
FIGURES AT DECEMBER 2015

Reversionary potential-rental income(2)



Current Rent(1)

Average maturity of the contracts (years)



(1) Current passing office rent of occupied surfaces.
(2) Not including impacts from the recovery of the rental cycle.

Specifically, the static reversionary potential[(2)] in the current portfolio would result in approximately €33m of additional annual rental revenues.

Reversionary potential-rental income

(2) Not including impacts from the recovery of the rental cycle.

Occupancy

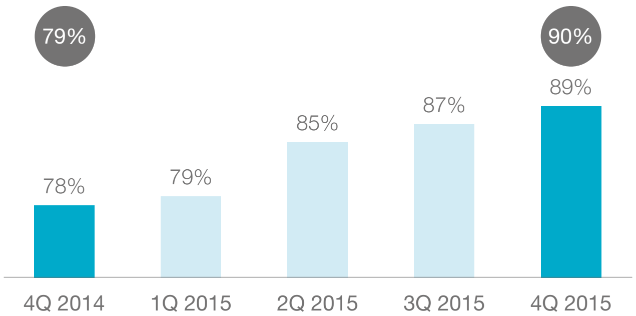
At the end of 2015, the Colonial Group's EPRA(1) financial occupancy for the office portfolio reached 94%, up 845 bp compared to the previous year and the total EPRA financial occupancy including all uses also reached 94% (up 698 bp *vs* 2014).

EPRA FINANCIAL OCCUPANCY(1)

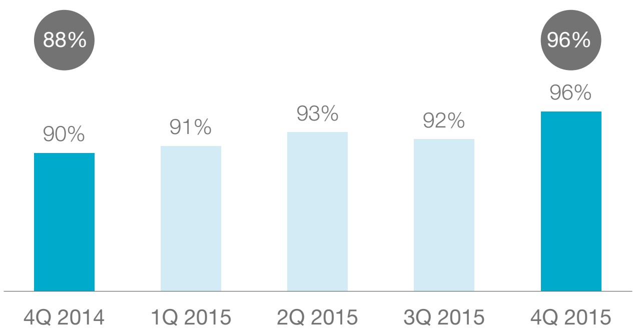
Office & Total Occupancy – Evolution of Colonial's Portfolio

Office occupancy
Total occupancy

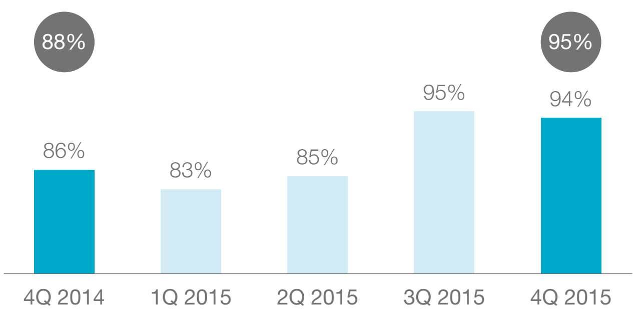
Barcelona



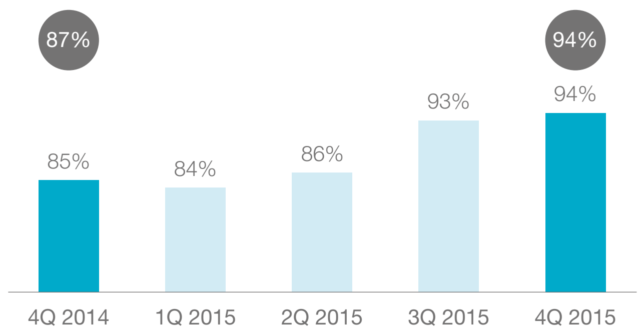
Madrid



Paris



Total



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

The office portfolios in Madrid and Barcelona (including all uses) reached an EPRA financial occupancy of 96% and 90%, respectively.

In **Barcelona**, the EPRA financial occupancy of the office portfolio increased +1,169 bp compared to the previous year (up +208 bp in this last quarter), reaching a ratio of 89%. This increase is mainly due to the contracts signed on the Sant Cugat, Avinguda Diagonal 609-615 (DAU), Travessera/Amigó, Avinguda Diagonal 682 and Berlín Numància buildings, among others.

In **Madrid**, the EPRA financial occupancy of the office portfolio was 96%, +600 bp above the previous year (up +340 bp in the last quarter). This increase is mainly due to the entry into operation of the Alfonso XII, Jose Abascal 56, Paseo de la Castellana 52 and López de Hoyos 35 buildings, among others. Of special mention is the occupancy level reached on the Génova 17 building, which stood at 100% at end of 2015 (66% occupancy at the time of acquisition in July 2015).

In **Paris**, the EPRA financial occupancy of the office portfolio increased by +828 bp compared to the previous year, reaching a ratio of 94%. The occupancy of the entire portfolio stood at 95%.

The table below shows an analysis of the vacant office surfaces by city and area. In Paris, the vacancy stood at 15,509 sq m, mainly corresponding to the surface of the #Cloud property which just came into operation, as well as the repositioned surfaces in the Washington Plaza and Louvre des Antiquaires buildings, among others. In Barcelona, the vacancy was at 19,797 sq m, 41% of which corresponded to projects and refurbishments that have entered into operation. In Madrid, the vacancy stood at 8,191 sq m.

VACANT SURFACE OF OFFICE PORTFOLIO

Surface above ground (sq m)	Entries into operation(1)	BD area and others	CBD area	2015	EPRA Vacancy Rate Offices
Barcelona	8,025	7,483	4,289	19,797	**11%**
Madrid	0	3,840	4,352	8,191	**4%**
Paris	6,963	0	8,546	15,509	**6%**
Total	**14,988**	**11,323**	**17,186**	**43,497**	6%

(1) Projects and refurbishments that have entered into operation.

New acquisitions, portfolio
of projects and refurbishments

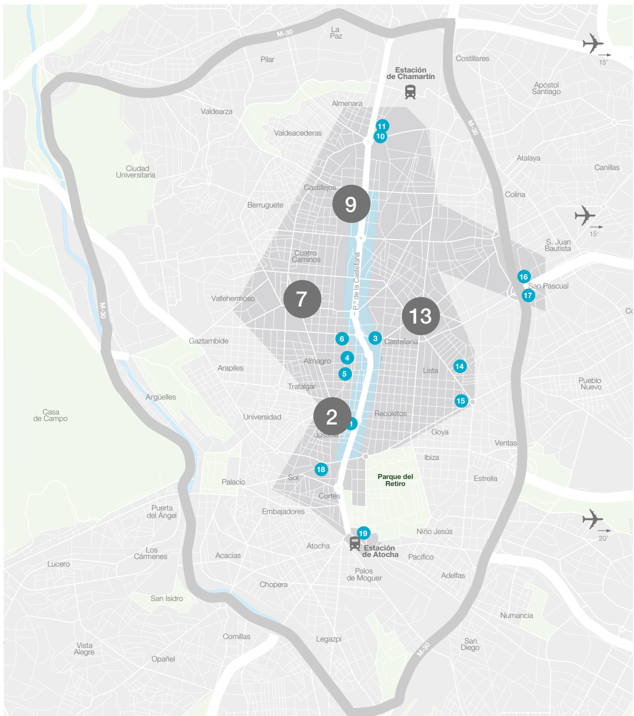
New acquisitions

In 2015, the Colonial Group acquired office buildings for a volume of €234m, and has invested more than €128 in “Prime Factory” projects and refurbishments of the current portfolio.

All of the investments were carried out in prime locations, with a selective strategy, fulfilling the Group investment target for 2015, in terms of investment volume and required returns.

In 2015, the Colonial Group acquired four office buildings in the centre of Madrid (Estébanez Calderón 3-5, Príncipe de Vergara 112, Génova 17 and Santa Engracia) for a total amount of €166m, as well as the 9 Av. Percier building in the centre of Paris for €68m.

Madrid



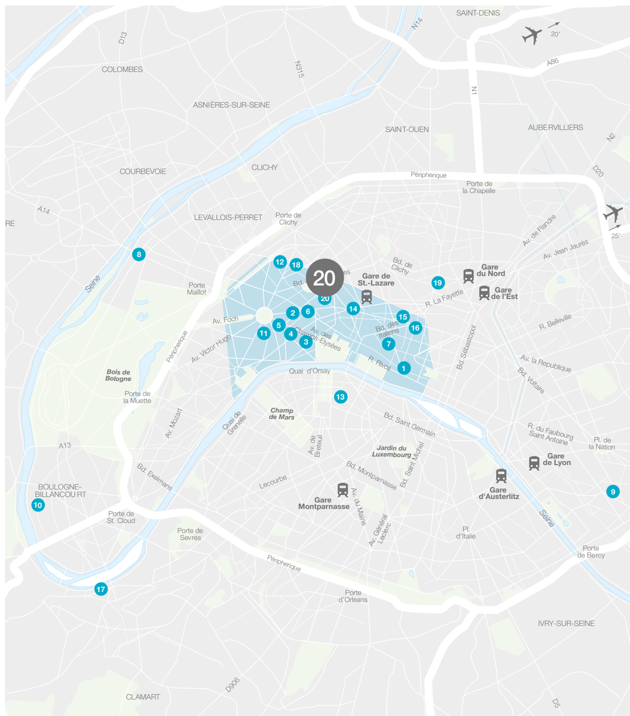
2 Génova, 17

7 Santa Engracia

9 Estébanez Calderón, 3-5

13 Príncipe de Vergara, 112

Paris



20 9 Avenue Percier

Estébanez Calderón, 3-5 and Príncipe de Vergara 112 correspond to “Prime Factory” acquisitions that involve totally new projects, while Génova 17, Santa Engracia and 9 Av. Percier are income generating “Core” investments.

The majority of these acquisitions were carried out through off-market transactions.

"Prime Factory" Investments

Estébanez Calderón 3-5
Madrid Prime CBD

Príncipe de Vergara 112
Madrid CBD

"Core" Investments

Génova 17
Madrid Prime CBD

Santa Engracia
Madrid CBD

9 Av. Percier
París Prime CBD

Delivered projects

In 2015, the Colonial Group invested, mainly in France, €128m in refurbishments and projects to optimize the positioning of the property portfolio.

In particular, the Colonial Group successfully delivered in 2015 two large projects in Paris (the #Cloud building and 90 Champs Elysées), and successfully repositioned the José Abascal building in Madrid, as well as the Tilos building and the Travessera de Gracia/Amigó complex in Barcelona.

All of the released repositionings have reported high pre-let ratios, with top-tier tenants and significant increases in the market rental prices, offering very attractive returns. These iniciatives prove the high value creation capacity through value-added/"Prime Factory" strategies. The Travessera de Gracia/Amigó complex, which was delivered at the beginning of 2015, is being commercialized with a current occupancy of 49%.

90 Champs-Élysées

#Cloud

José Abascal 56

Travessera de Gràcia 11
Amigó 11-17
(TGA)

Paseo de los Tilos 2-6

Project portfolio and refurbishments underway

Regarding the current pipeline, of special mention are the projects Estébanez Calderón and Príncipe de Vergara with 21,000 sq m above ground:

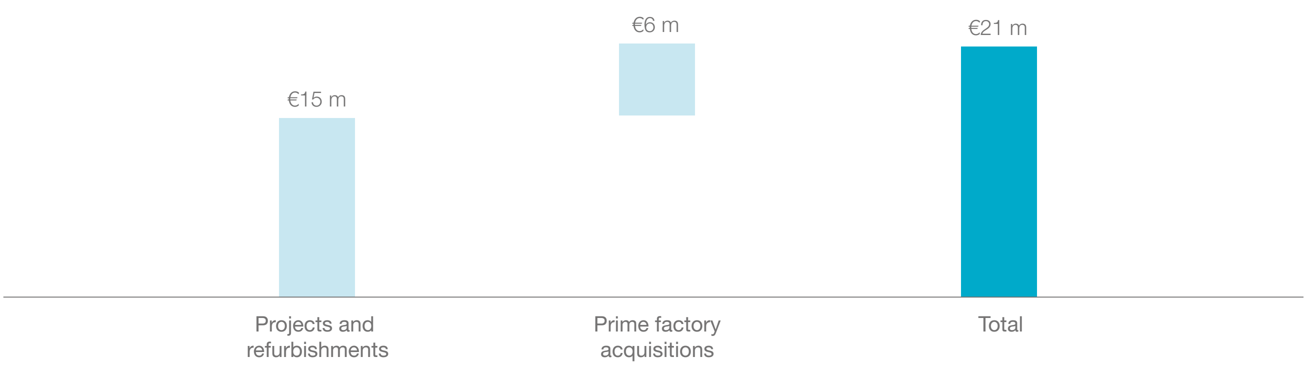
Projects	Entry into operation	% Group	Market	Use	Surface above ground (sq m)(1)
Estébanez Calderón 3-5	2017	100%	Madrid	Offices	10,458
Príncipe de Vergara 112	2017	100%	Madrid	Offices	11,308
Total					**21,766**
Yield on cost(2)					**7%**

(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.
Note: As of 31 of December there is no prelet surface.

In addition, the Colonial Group is currently carrying out substantial refurbishment projects for 50,256 sq m above ground, with the objective of optimizing the positioning of these assets in the market. It is important to highlight the refurbishments on the properties Louvre des Antiquaires, Le Vaisseau and Percier, among others.

The project portfolio and the new acquisitions will result in additional rental revenues of approximately €21m(*) annually.

ADDITIONAL RENTAL INCOME OF PROJECTS AND SIGNIFICANT REFURBISHMENTS



(*) Estimated rents at current market prices, without including positive impacts of the recovery of the cycle.

Regarding the current projects its worth highlighting details of the following two assets:

Estébanez Calderón 3-5, is a property acquired in May 2015, located in the centre of Madrid. This transaction involves demolishing the current building to build a new unique “LEED Gold” property with a total of 10,500 sq m of surface area above ground, which will incorporate the latest technologies and innovation in materials and which will receive the most prestigious environmental and sustainability certificates. Colonial has recently started to demolish this building. The project, led by the Lamela studio, is expected to be released in the second half 2017.

Príncipe de Vergara 112, is a property which was acquired in July 2015, located in the centre of Madrid. The transaction involves demolishing the current property to build a unique new office building which will provide a total surface area above ground of 11,400 sq m, with optimal space efficiency on all floors, enabling it to obtain the “LEED Gold” energy certificate.

Financial and economic situation

Analysis of the Profit and Loss Account

ANALYSIS OF THE PROFIT AND LOSS ACCOUNT

December cumulative - €m	2015	2014	Var.	Var. %[1]
Rental revenues	231	211	20	9%
Net operating expenses[2]	(23)	(21)	(2)	(8%)
Net rental income	209	191	18	9%
Other income	2	2	0	17%
Overheads	(33)	(32)	(1)	(4%)
EBITDA recurring business	**178**	**161**	**17**	**11%**
Results associated to SIIC de Paris	**0**	**6**	**(6)**	**(100%)**
EBITDA - asset sales	**0**	**(0)**	**0**	**–**
Exceptional items	**(4)**	**(7)**	**(10)**	**46%**
Operating profit before revaluation, amortizations and provisions and interests (incl. Results associated to SIIC de Paris)	**175**	**161**	**14**	**9%**
Change in fair value of assets	720	332	388	117%
Amortizations & provisions	(7)	(164)	157	95%
Financial results (excl. equity method)	(131)	(225)	94	42%
Profit continued operations before taxes & minorities	**756**	**103**	**653**	**(631%)**
Income tax	(53)	(176)	123	70%
Gain/loss on discontinued operations	0	701	(701)	–
Minority Interests	(288)	(136)	(151)	(111%)
Profit attributable to the Group	**415**	**492**	**(77)**	**(16%)**

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

Results Analysis - €m	2015	2014	Var.	Var. %(1)
Rental revenues	231	211	20	9%
Net operating expenses(2) and other income	(20)	(19)	(1)	(7%)
Overheads	(33)	(32)	(1)	4%
Recurring EBITDA	178	161	17	11%
Result associated to SIIC Paris - recurring	0	4	(4)	(100%)
Recurring financial result	(83)	(102)	18	18%
Income tax expense & others - recurring result	(12)	(8)	(4)	(49%)
Minority interest - recurring result	(46)	(39)	(7)	(18%)
Recurring net profit - post company-specific adjustments(3)	**37**	**17**	**20**	**121%**
EPRA Earnings - pre company-specific adjustments(4)	**33**	**435**	**(402)**	**n.a.**
Profit attributable to the Group	**415**	**492**	**(77)**	**(16%)**

(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.

EPRA
EUROPEAN PUBLIC REAL ESTATE ASSOCIATION


THEATRE

The rental revenues of the Colonial Group at the end of 2015 reached €231m, 9% higher than the same period of the previous year, due to the 6% like-for-like increase in gross rental income as well as to the new acquisitions made in 2014 and 2015.

The recurring EBITDA of the Group reached €178m, 11% higher than the same period of the previous year.

The extraordinary expenses mainly relate to advisory services in relation to exceptionals.

The operating profit before the net revaluations, amortizations, provisions and interests was €175m, 9% higher than the amount reached in the same period of the previous year.

The impact on the profit and loss account due to the revaluation of the property investments reached €720m. This revaluation, which was registered in France (€514m) and Spain (€206m), is the result of the like-for-like increase of 16% in the appraisal values of the assets in 2015.

The net financial results amounted to €(131)m, 42% lower than the same period of the previous year.

The recurring financial results of the Group amounted to €(83)m, 18% lower than the same period of the previous year, mainly due to the optimization of the financial structure carried out in 2015.

The non-recurring financial results amounted to €(48)m. In Spain, this includes the impact of the close-out costs of Colonial's syndicate loan, while in France, it corresponds to variances in the value of the financial instruments, mainly due to the impact of the cancellation by SFL of non-IAS-compliant hedging transactions, as well as the close-out costs related to the liability management in France.

The profit of continued operations before taxes and minorities, at the close of 2015, amounted to €756m, a figure clearly higher than that reached during the same period of the previous year, mainly as a result of the impact of the asset revaluation, the increase in gross rental income, as well as the reduction in financial expenses.

Corporate tax amounted to €53m, mainly due to the registering of deferred taxes in relation to the asset revaluation in 2015. It is important to highlight that these tax expenses do not generate a cash outflow.

Finally, and after deducting the results attributed to the minority interests amounting to €(288)m, the result after taxes attributable to the Group amounted to €415m. This result has increased by €624m with respect to the previous year, if we exclude the positive accounting effect of the deconsolidation[1] of Asentia in 2014.

(1) The deconsolidation of Asentia refers to the exit from the consolidation perimeter.

Financial structure

In 2015, Colonial was the first ever listed property company in Spain to obtain an Investment Grade credit rating by Standard & Poor's.

The Group's high credit credentials, BBB– for Colonial and BBB for the subsidiary SFL, have enabled the Group to achieve new financing at very attractive costs and to optimize the new financial structure, in terms of maturities and sources of financing.

The following transactions carried out in 2015 are particularly worth highlighting:

	Bond issue Spain		Bond issue SFL	Syndicate Loan Spain
	4-year	8-year	7-year	5-year
Size	€750m	€500m	€500m	€350m
Coupon	1.863%	2.728%	2.250%	na
Spread to Euribor	ms + 160 pb	ms + 200 pb	ms + 170 pb	ms + 160 pb
Maturity	5 June 2019	5 June 2023	16 November 2022	June 2019 (ext. Nov'20)
Rating	BBB–	BBB–	BBB	

The financial net debt of the Colonial Group stood at €2,992m at 31 December 2015. The Group LTV is at 41.8%[(1)] (230 bp below that of 2014) and the spot financial cost stands at 2.27% (2.14% in Spain and 2.36% in France).

In addition, the Group has more than €1,110m of undrawn balances, including cash and undrawn debt.

(1) Calculated as net financial debt of the Group, excluding committed cash 12-2015 /GAV Group (including transfer costs) at 12-2015.

The main debt figures are:

COLONIAL GROUP	**12/2015**	**Var. *vs* 2014**
Gross financial debt	3,209	*+20%*
Net financial debt	2,992	*+17%*
Undrawn balances(*)	1,110	*+61%*
% debt fixed or hedged	93%	*+9%*
Average maturity of the debt (years)	4.8	*0.9*
Average cost of current debt	2.27%	*(104bp)*
Rating COL	BBB–	–
Rating SFL	BBB	*In 2014 BBB–*
LtV Group (including transfer costs)	41.8%	*(230bp)*

(*) Liquidity (cash + unwilling lines).

Colonial has a top quality financial structure:

1. Very competitive financing cost.
2. More than €1bn of undrawn balances.
3. A debt with a long-term maturity.

COMPETITIVE FINANCE COSTS

Financing costs % - Spot as of 31/12/15

Group	Spain	France
2.27%	2.14%	2.36%

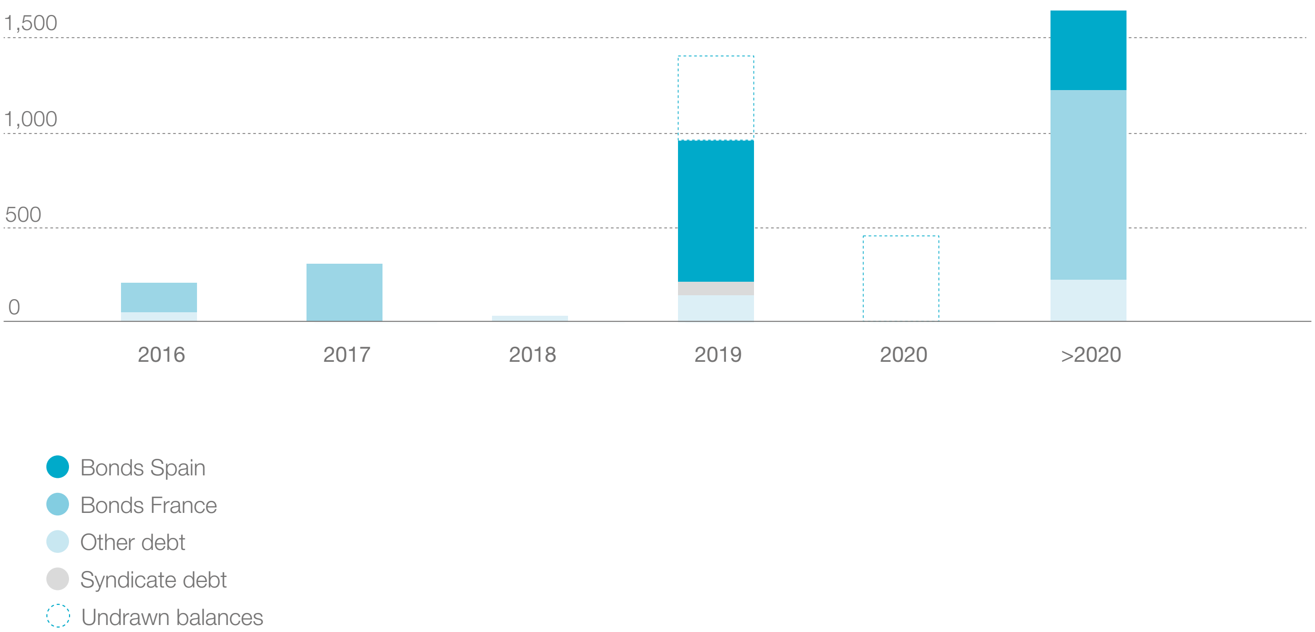
FIRST CLASS FINANCING WITH HUGE FIRE POWER CAPACITY

- 45% bonds France
- 2% syndicate debt
- 14% other debt
- 39% bonds Spain

Available cash & undrawn balances

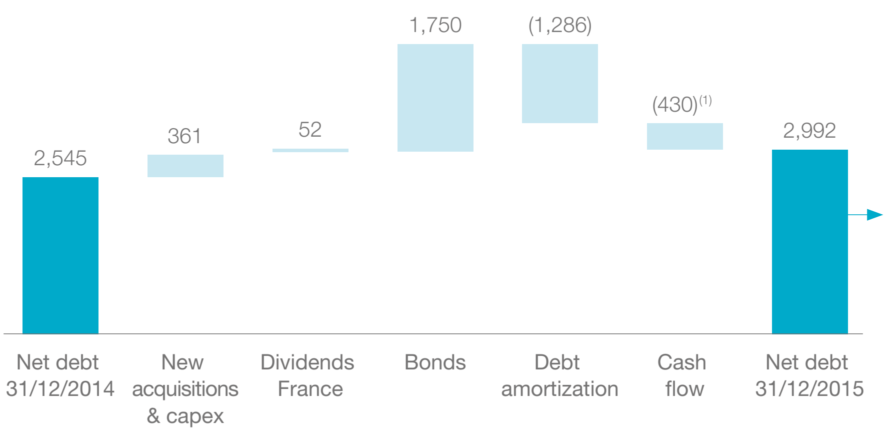
Spain	€488m
France	€622m
Total	**€1,110m**

A LONG TERM MATURITY PROFILE



The evolution of the Group's net debt during 2015 is as follows:

NET DEBT MOVEMENTS - DECEMBER 2015



Gross debt	1,356
Available cash	(172)
Committed cash	(33)
Net debt Spain	1,151
Gross debt	1,853
Available cash	(12)
Net debt France	1,841

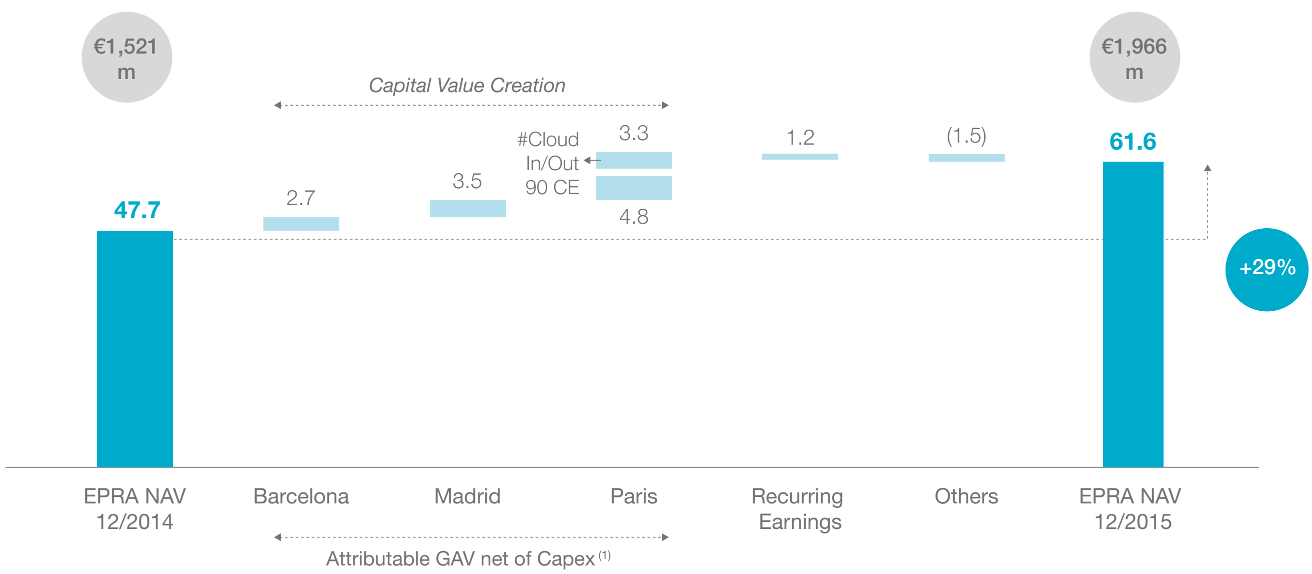
(1) Including the cash obtained by the bonds issue.

EPRA Net Asset Value (NAV)

Colonial's EPRA Net Asset Value increased by 29% in 2015 reaching €62cents/share.

The main variations of the NAV at 31 December 2015 *vs.* the NAV at 31 December 2014 are shown in the graph below.

EPRA NAV COLONIAL - CTS. €/SHARE



(1) In France includes net impact of the increase in the transfer tax rate and the additional tax levied as from 1 January 2016 (€49m).

Of the 29% growth in the NAV, 13% is due to the increases in value of the Madrid and Barcelona portfolios, mainly as a consequence of yield compressions. The assets in France contribute 17% to the growth of the NAV, part of this growth is based on the successful execution of value-added projects.

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	**12/2015**	**12/2014**
NAV per the Consolidated financial statements	**1,837**	**1,423**
Include:		
(i.a) Revaluation of investment properties (if IAS 40 cost option is used)	8	4
(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	17	11
(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	4	9
(v.a) Deferred tax	100	73
(v.b) Tax credits on balance	–	–
Include/exclude:		
Adjustments (i) to (iii) above in respect of joint ventures interests	na	na
EPRA NAV - €m	**1,966**	**1,521**
EPRA NAV - Euros cents per share	***61.6***	***47.7***
Nº of shares (m)	*3,189*	*3,189*

Calculation of the EPRA NAV

Following the EPRA recommendations and starting from the consolidated equity of €1,837m, 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 €8m.

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 (+€4m).

4. Adjustment of deferred taxes: adjustment of the amount of deferred taxes associated with the revaluation of the property assets (+€100m), registered on the balance sheet.

EPRA NNNAV amounted to €1,835m at 31 December 2015, which corresponds to **€58cents/share**.

EPRA Triple Net Asset value (NNNAV) - €m	12/2015	12/2014
EPRA NAV	**1,966**	**1,521**
Includes:		
(i) Fair value of financial instruments	(4)	(9)
(ii) Fair value of debt	(27)	(32)
(iii) Deferred tax	(100)	(71)
EPRA NNNAV - €m	**1,835**	**1,408**
EPRA NNNAV - Euros cents per share	***57.5***	***44.2***
Nº of shares (m)	*3,189*	*3,189*

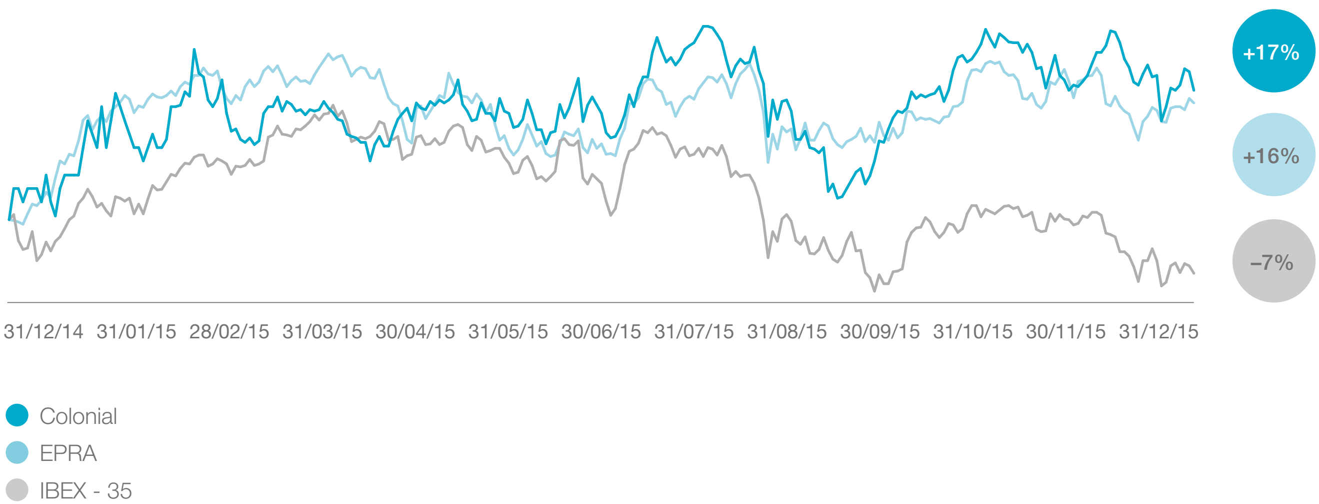
For its calculation, the following items have been adjusted in the EPRA NAV: the fair market value of the financial instruments (–€4m), the fair market value of the debt (–€27m), and the taxes that would be accrued in case of the disposal of the assets at their market value (–€100m).

The Colonial Group has tax credits for the amount of €1,362m (not accounted for the balance sheet neither in NAV), associated with the taxable bases of carry forward losses pending to be offset by future generated income. This means that the corporate tax generated in the future will be partially offset by the aforementioned tax credits, which, with the new tax reform, will have no time limit to be completely offset. With the current legislation (LIS), the effective corporate tax rate going forward is 7.5% for the Spanish operations.

Share price performance

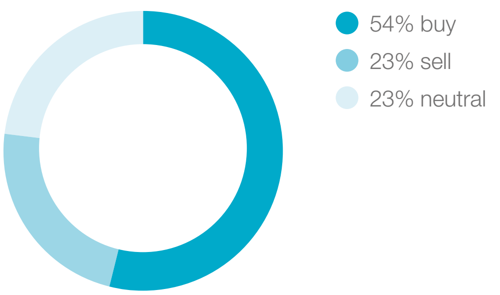
Colonial's shares closed the year 2015 with a revaluation of 17%, outperforming the IBEX35 as well as the EPRA Europe Developed index.

PERFORMANCE OF THE SHARE PRICE *VERSUS* EPRA & IBEX (2015)



The daily average trading volume reached €7.5m, positioning Colonial as one of the most liquid values among the listed European property companies in the office segment.

During the last few months, the number of analysts that cover the Company has increased substantially to 13 analysts, more than half of them have issued recommendations to buy. According to analysts' consensus, the average target price is €71cents/share, a premium of 11% with respect to the closing price at 31 December 2015. The maximum target price levels were above €90cents/share (Goldman Sachs & Alpha Value).



The target prices and recommendations are as follows:

Institution	Analyst	Date	Recommendation	Target Price actual (€/share)
JB Capital	Daniel Gandoy	28/09/2015	Underweight	0.58
Banc Sabadell	Ignacio Romero	29/10/2015	Buy	0.76
Kepler Cheuvreux	Javier Campos	05/11/2015	Neutral	0.70
Main First Bank	Ignacio Carvajal	13/11/2015	Underweight	0.63
Ahorro Corporación	Guillermo Barrio	13/11/2015	Sell	0.60
Morgan Stanley	Bart Gysens	13/11/2015	Overweight	0.72
Alpha Value	Alda Kule Dale	03/12/2015	Buy	0.90
Banco Santander	Jose Alfonso Garcia	21/12/2015	Buy	0.77
Kempen	Tania Valiente	05/01/2016	Neutral	0.66
Merrill Lynch	Samuel Warwood	07/01/2016	Neutral	0.67
N+1 Equities	Jaime Amoribieta	21/01/2016	Buy	0.70
Bankinter	Juan Moreno	21/01/2016	Buy	0.63
Goldman Sachs	Jonathan Kownator	21/01/2016	CL buy	0.95
Analysts consensus				**0.71**

Source: Bloomberg & reports of analysts.

In September, EPRA awarded Colonial the “EPRA Best Practices Gold Award – Financial Reporting”, as well as the “Most Improved Annual Report – Award”, confirming its excellence and transparency in financial communication.

Currently it is the only Spanish company in the EPRA index that has been recognized with this top award.

Colonial is part of two EPRA indices: the FTSE EPRA/NAREIT Developed Europe and the FTSE EPRA/NAREIT Developed Eurozone. In addition, it is part 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 included in the Morgan Stanley Capital International (MSCI) index, a global property benchmark index for profitability.

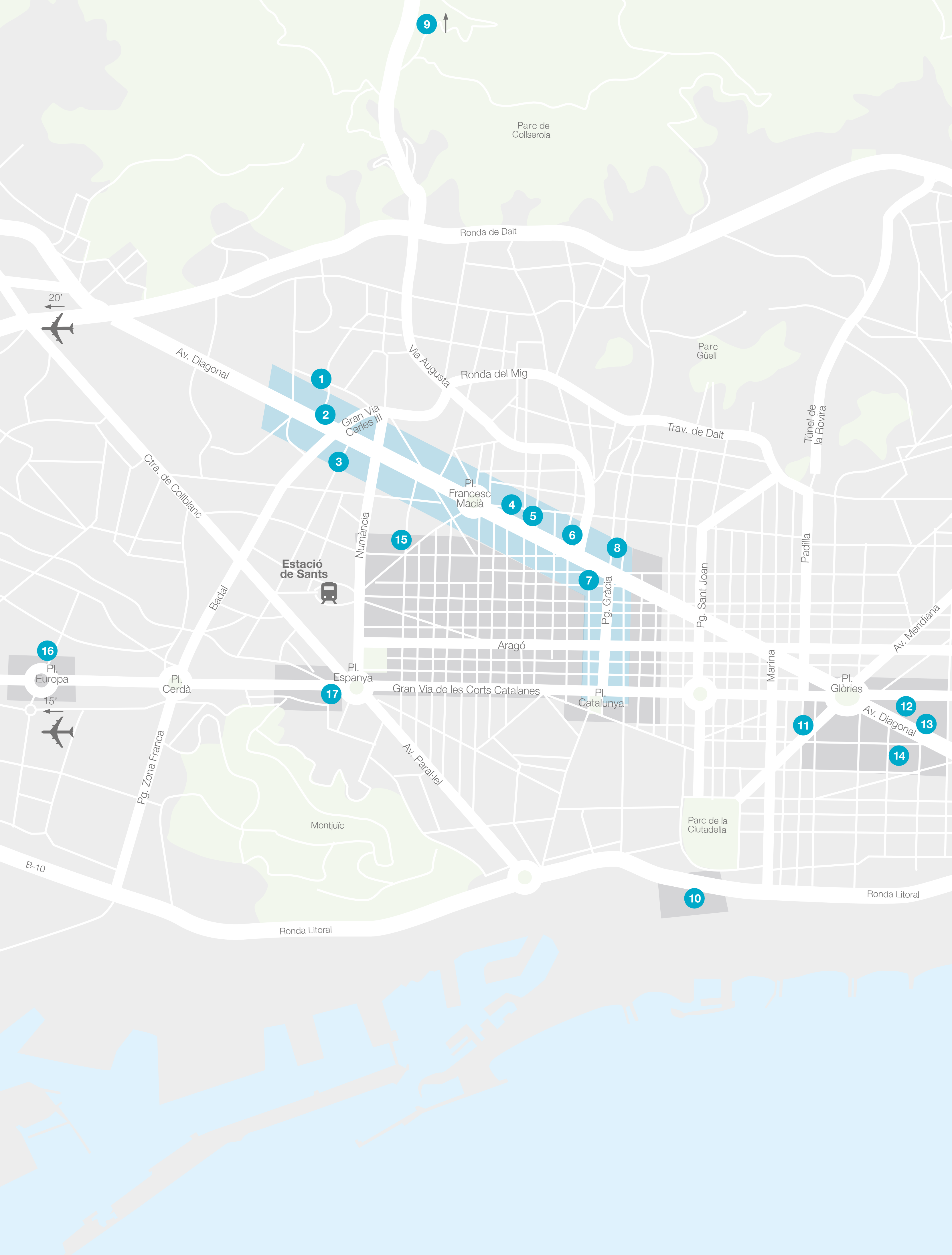
Asset portfolio

Barcelona
17 assets
202,134 sq m above ground

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. Ausiàs Marc, 148
12. Diagonal Glòries
13. Parc Central 22@ - land plot
14. Offices Complex Illacuna
15. Berlín, 38-48 / Numància, 46
16. Plaza Europa, 42-44
17. Torre BCN

Prime Central Business District

Business District



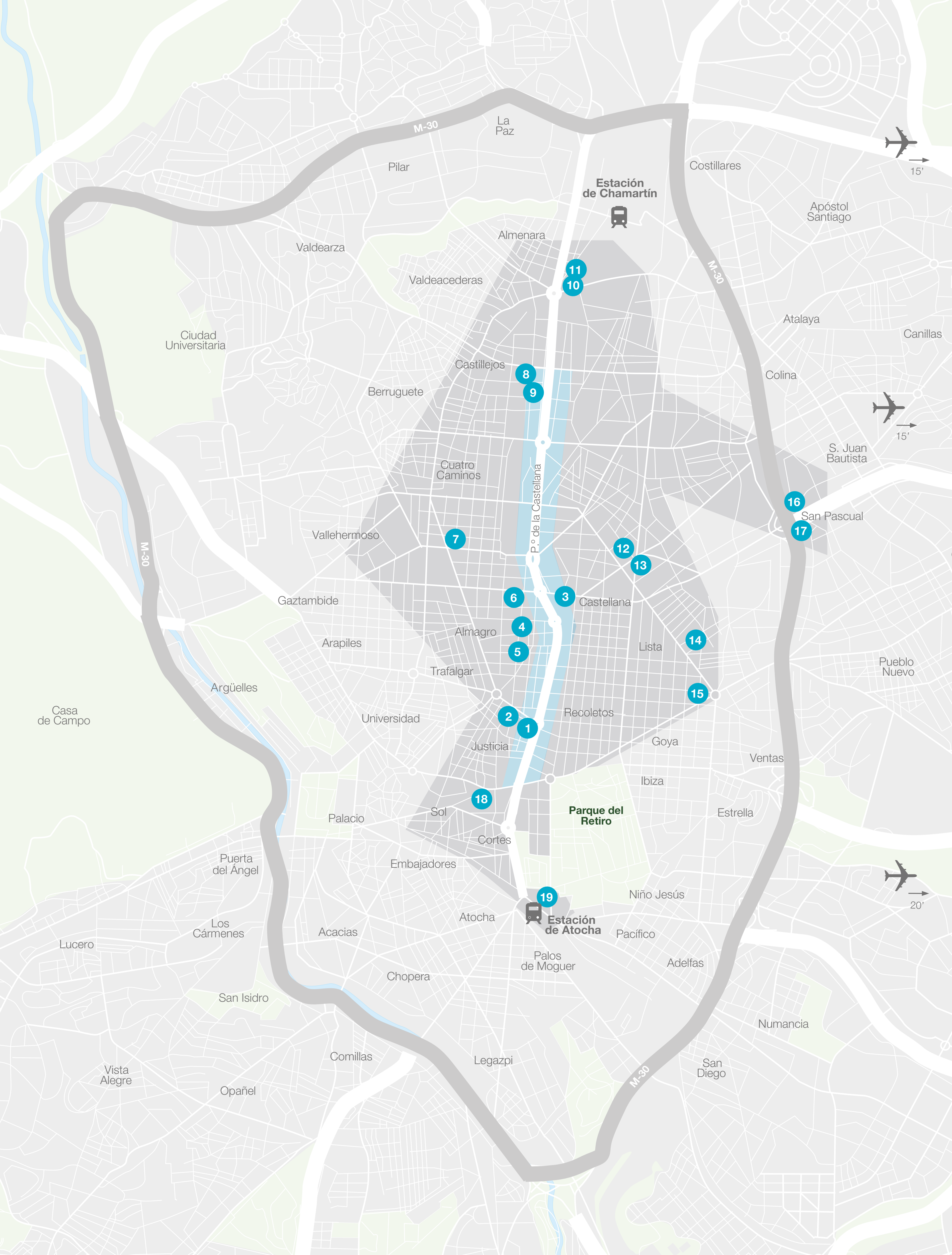
9
Parc de Collserola
Ronda de Dalt
20'
Av. Diagonal
Via Augusta
Ronda del Mig
Parc Güell
1
2
Gran Via Carles III
3
Trav. de Dalt
Túnel de la Rovira
Pl. Francesc Macià
4
5
6
8
7
Ctra. de Collblanc
Numància
15
Estació de Sants
Badal
Pg. Gràcia
Pg. Sant Joan
Padilla
Av. Meridiana
Aragó
Marina
16
Pl. Europa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

Madrid
19 assets
211,337 sq m above ground

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

Prime Central Business District

Business District

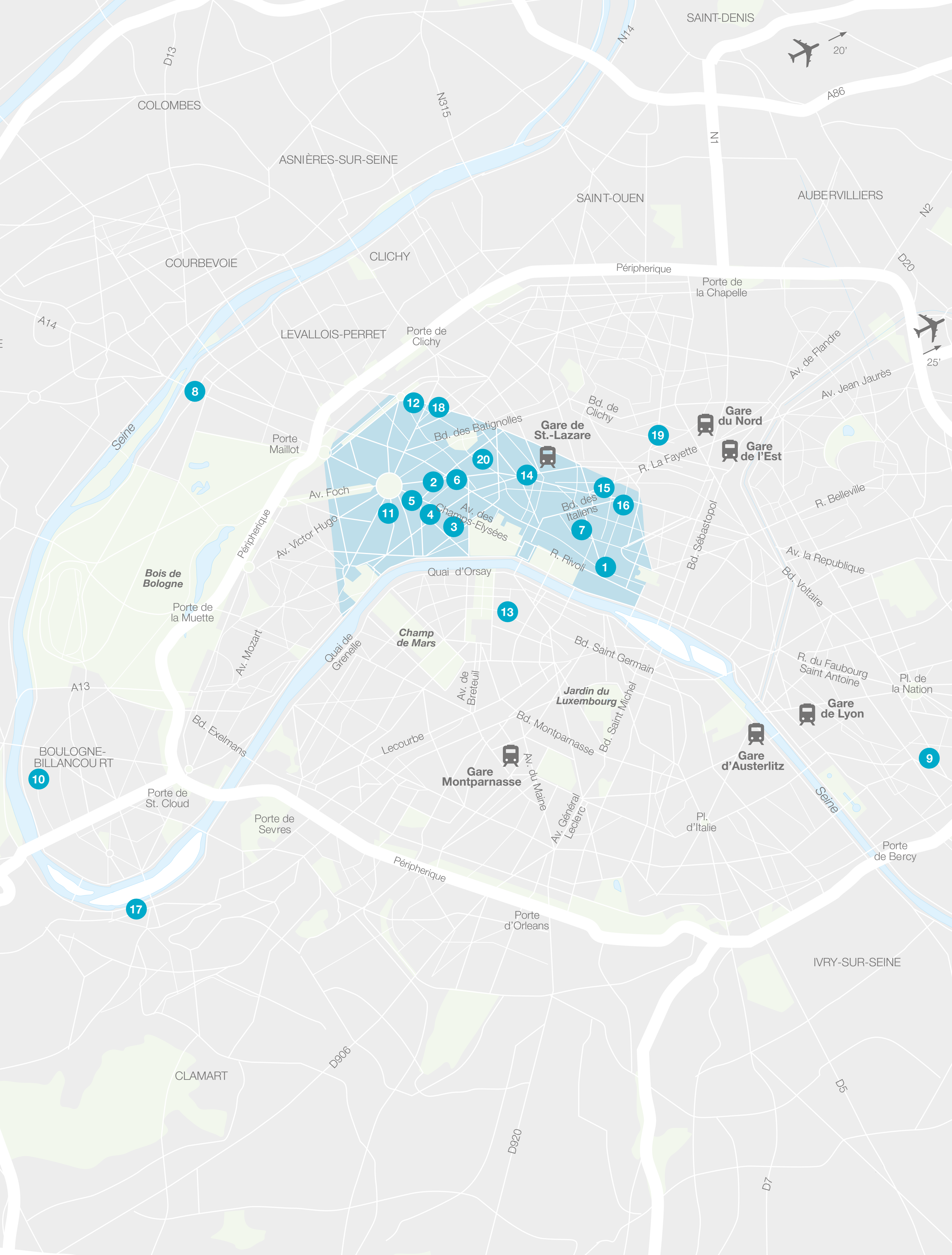


M-30
La Paz
Pilar
Estación de Chamartín
Costillares
Apóstol Santiago
Almenara
Valdearza
Valdeacederas
Atalaya
Canillas
Ciudad Universitaria
Castillejos
Colina
Berruguete
S. Juan Bautista
Cuatro Caminos
P.º de la Castellana
San Pascual
Vallehermoso
Gaztambide
Castellana
Almagro
Arapiles
Lista
Pueblo Nuevo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

Paris
20 assets
357,842 sq m above ground

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

Prime Central Business District


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

Valuation of the assets

At the end of 2015, the assets of the Colonial Group were valued at €6,913m (€7,239m 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.

The appraisal figures are updated half-yearly, following the best market practices, 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. Market valuations defined by the RICS are recognized internationally for advisers and accountants from investors and corporations that own real estate assets, as well as European Group of Valuers The (TEGoVA) and The International Valuation Standards Committee (IVSC). Appraisers' fees are determined by the volume for the specific development of each work.

GROSS ASSET VALUES - EXCLUDING TRANSFER COSTS

				Dec 15 *vs* Jun 15		Dec 15 *vs* Dec 14	
Asset valuation (€m)	**31-Dec-15**	**30-Jun-15**	**31-Dec-14**	**Total**	**LfL (1)**	**Total**	**LfL (1)**
Barcelona	676	639	582	5.8%	5.8%	16.2%	16.2%
Madrid	906	765	687	18.4%	4.8%	31.8%	16.7%
Paris	5,242	4,477	4,025	17.1%	6.2%	30.3%	11.5%
Portfolio in operation(2)	**6,824**	**5,881**	**5,294**	**16.0%**	**6.0%**	**28.9%**	**12.7%**
Projects	**82**	**400**	**454**	**(79.4%)**	**10.8%**	**(81.8%)**	**5.2%**
Others	6	9	10	(32.2%)	(32.2%)	(36.2%)	(36.2%)
Colonial Group	**6,913**	**6,291**	**5,757**	**9.9%**	**7.7%**	**20.1%**	**15.7%**
Spain	1,670	1,458	1,292	14.5%	5.2%	29.3%	15.9%
France	5,242	4,833	4,466	8.5%	8.5%	17.4%	15.7%

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

The valuation certificate is available on the corporate website of the Company.

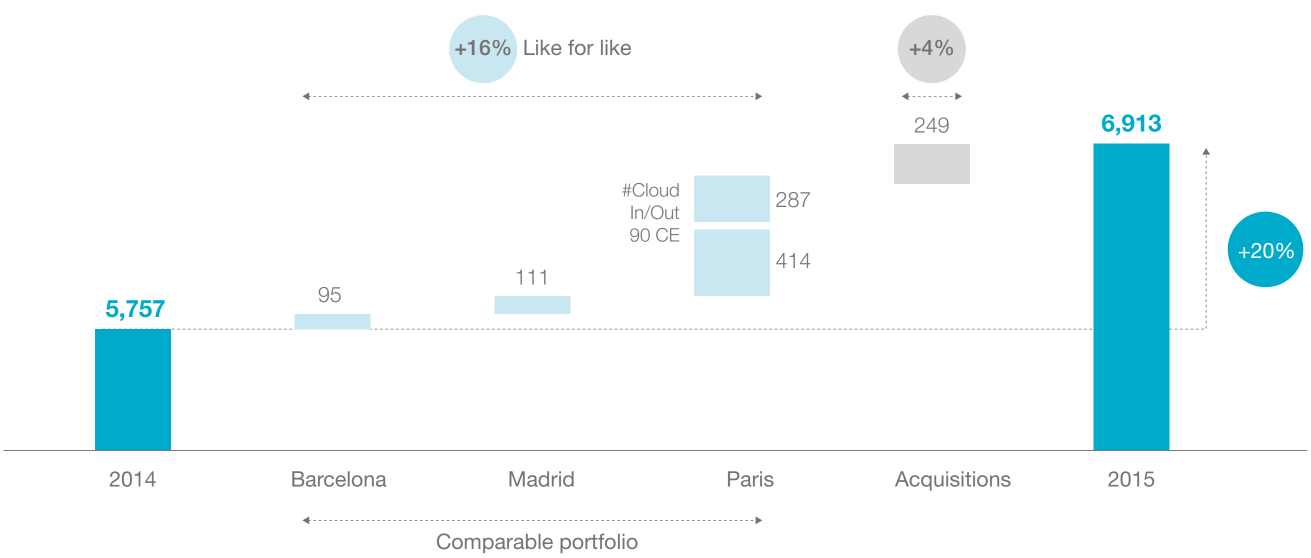
GROSS ASSET VALUES - INCLUDING TRANSFER COSTS

				Dec 15 *vs* Jun 15		Dec 15 *vs* Dec 14	
Asset valuation (€m)	**31-Dec-15**	**30-Jun-15**	**31-Dec-14**	**Total**	**LfL (1)**	**Total**	**LfL (1)**
Colonial Group Total	**7,239**	**6,588**	**6,033**	**9.9%**	**7.7%**	**20.0%**	**15.7%**
Spain	1,720	1,501	1,330	14.6%	5.2%	29.3%	15.9%
France	5,519	5,087	4,703	8.5%	8.5%	17.3%	15.6%

(1) Portfolio in comparable terms.

Colonial's Group Gross Asset Value at December 2015 rose by +16% like-for-like compared to December 2014 (up 8% in 6 months).

VARIANCE ANALYSIS - VALUE 12 MONTHS - €M



In **Spain** the Gross Asset Value increased by 16% like-for-like in 12 months, mainly due to a yield compression given the high interest in prime assets in Madrid and Barcelona. The portfolio in Madrid increased by 17% like-for-like, and in Barcelona it rose by 16% like-for-like.

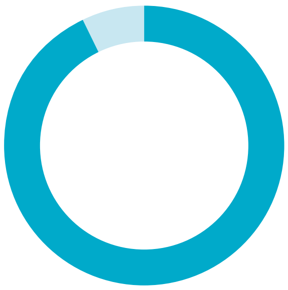
In **France** the Gross Asset Value of the portfolio increased 16% like-for-like compared to the previous year. This increase in value is as a consequence of the successful execution of prime projects as well as positive impacts on rents and yields in the entire portfolio, in the context of an investment market with high interest in prime offices in Paris.

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

CONSOLIDATED GROUP

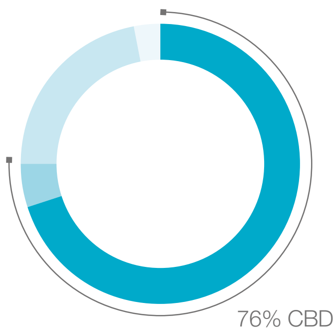
Valuation - by use

- 93% offices
- 7% retail



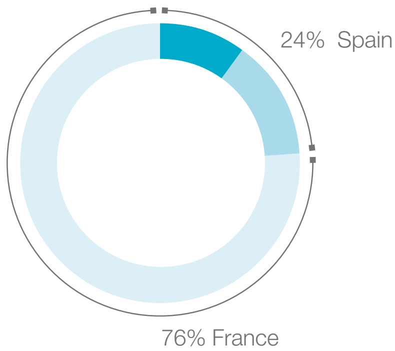
Valuation - by area

- 70% Prime CBD
- 6% CBD
- 17% BD
- 7% others



Valuation - by market

- 10% Barcelona
- 14% Madrid
- 76% Paris



COLONIAL HOLDING(1)

Valuation - by market

- 51.5% Spain
- 48.5% France

(1) France= SFL shares valued at NAV. Spain = GAV of directly held assets + NAV stake TM SPV.

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

MAIN PARAMETERS OF ASSET APPRAISAL

Portfolio in operation	€m	sq m above ground (*)	€/sq m (*)	Valuation Yield	
Barcelona	676	187,294	3,607	5.54%	Gross yields
Madrid	906	177,185	5,113	4.92%	
Paris	5,242	357,881	14,648	4.08%	Net yields

(*) 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 202,134 sq m, excluding 14,737 sq m of the Parc Central project and 103 sq m of non-core retail assets.
In Madrid, the sq m correspond to the surface above ground of all the assets of 198,951 sq m, excluding the Estébanez Calderón project of 10,458 sq m and Príncipe de Vergara of 11,308 sq m.
In France, the sq m correspond to the surface above ground of the entire portfolio, which amount to 357,842 sq m, including an additional 39 sq m of non-core retail assets.

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)

Asset details

RENTAL PORTFOLIO BARCELONA (sq m)

	Floor space above ground					
	Offices	Retail	Floor space above ground	Floor space below ground	Total surface	Parking units
Av. Diagonal 409	3,680	851	4,531	0	4,531	
Av. Diagonal 530	9,226	2,555	11,781	4,708	16,489	99
Av. Diagonal 609-615 (DAU)	21,381		21,381	18,839	40,220	438
Av. Diagonal 682	8,372	250	8,622	1,795	10,417	50
Pedralbes Centre	0	5,558	5,558	1,312	6,870	
Ausias Marc / Lepant	5,060	1,370	6,430	1,521	7,951	64
Berlin, 38-48/Numancia, 46	9,644	3,173	12,817	3,780	16,597	99
Glories - Diagonal	11,672		11,672	536	12,208	40
Illacuna	19,639	812	20,451	13,620	34,071	480
Tilos 2-6	5,143		5,143	3,081	8,224	79
Via Augusta 21-23	4,620	218	4,838	0	4,838	
Travessera De Gracia 11	4,105	410	4,515	1,994	6,509	61
Amigó	2,960	620	3,580	1,766	5,346	88
Plaza Europa 42-44	4,869		4,869	2,808	7,677	68
Torre BCN	9,600	235	9,835	3,398	13,233	88
Torre Marenostrum	22,750		22,750	19,370	42,120	609
Sant Cugat Nord	27,904		27,904	20,627	48,531	690
Singular buildings	**170,625**	**16,052**	**186,677**	**99,155**	**285,832**	**2,953**
Others		103	103	0	103	
Portfolio in operation	**170,625**	**16,155**	**186,780**	**99,155**	**285,935**	**2,953**
Parc Central	14,737		14,737	14,737	29,474	184
Sant Cugat Nord	0			435	435	
Berlin, 38-48/Numancia, 46	0		0	25	25	
Av. Diagonal 609-615 (DAU)	615		615	150	765	
Av. Diagonal 530	0	2	2	565	567	
Pedralbes Centre	0			18	18	
Av. Diagonal 682	0			237	237	
Projects and refurbishments	**15,352**	**2**	**15,354**	**16,166**	**31,520**	**184**
Total Barcelona	**185,977**	**16,157**	**202,134**	**115,321**	**317,455**	**3,137**

Note: In order to facilitate the analysis of the portfolio, a breakdown of retail GLA for every office building has been specified (generally the ground floor of many office assets has retail use).
All the assets of the Barcelona portfolio are 100% owned by Colonial, except Torre Marenostrum of which Colonial holds 55%.

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

	Floor space above ground			Floor space above ground	Floor space below ground	Total surface	Parking units
	Offices	Retail	Hotel				
P. Castellana 52	6,496	1,027		7,523	2,615	10,138	49
Recoletos 37	13,642	3,560		17,202	5,340	22,542	175
Castellana 43	5,999			5,999	2,441	8,440	81
Miguel Angel 11	5,370	930		6,300	2,231	8,531	81
Jose Abascal 56	10,857	1,468		12,325	6,437	18,762	219
Génova 17	3,638	1,038		4,676	2,601	7,277	70
Alcala 30-32	8,573	515		9,088	1,700	10,788	52
Alfonso XII 62	13,135			13,135	2,287	15,422	78
Santa Engracia	13,430			13,430	5,562	18,992	181
Francisco Silvela 42	5,725			5,725	3,654	9,379	105
Ortega y Gasset 100	6,870	922		7,792	2,563	10,355	96
Capitan Haya	13,685	2,330		16,015	9,668	25,683	295
Lopez de Hoyos 35	7,140			7,140	4,105	11,245	111
Agustín de Foxa 29	5,826	831		6,657	2,557	9,213	158
Centro Norte Hotel	0	385	8,073	8,458	11,089	19,547	
Martinez Villergas 49	24,135			24,135	14,746	38,881	437
Ramirez de Arellano 37	5,988			5,988	4,923	10,911	160
Hotel Marina de la Torre	0		11,519	11,519	0	11,519	
Singular buildings	**150,509**	**13,006**	**19,592**	**183,106**	**84,518**	**267,624**	**2,348**
Other		866		866	350	1,216	
Portfolio in operation	**150,509**	**13,872**	**19,592**	**183,972**	**84,868**	**268,841**	**2,348**
Estébanez Calderón 3-5	9,244	1,214		10,458	3,196	13,654	110
Príncipe de Vergara 112	11,308			11,308	3,646	14,955	110
Orense	0	5,010		5,010	1,384	6,394	51
Alfonso XII 62	0			0	0	0	
Centro Norte	576			576	0	576	
Jose Abascal 56	12			12	0	12	
Miguel Angel 11	0				818	818	
Projects and refurbishments	**21,140**	**6,224**		**27,364**	**9,044**	**36,409**	**271**
Total Madrid and rest of Spain	**171,649**	**20,096**	**19,592**	**211,337**	**93,912**	**305,249**	**2,619**

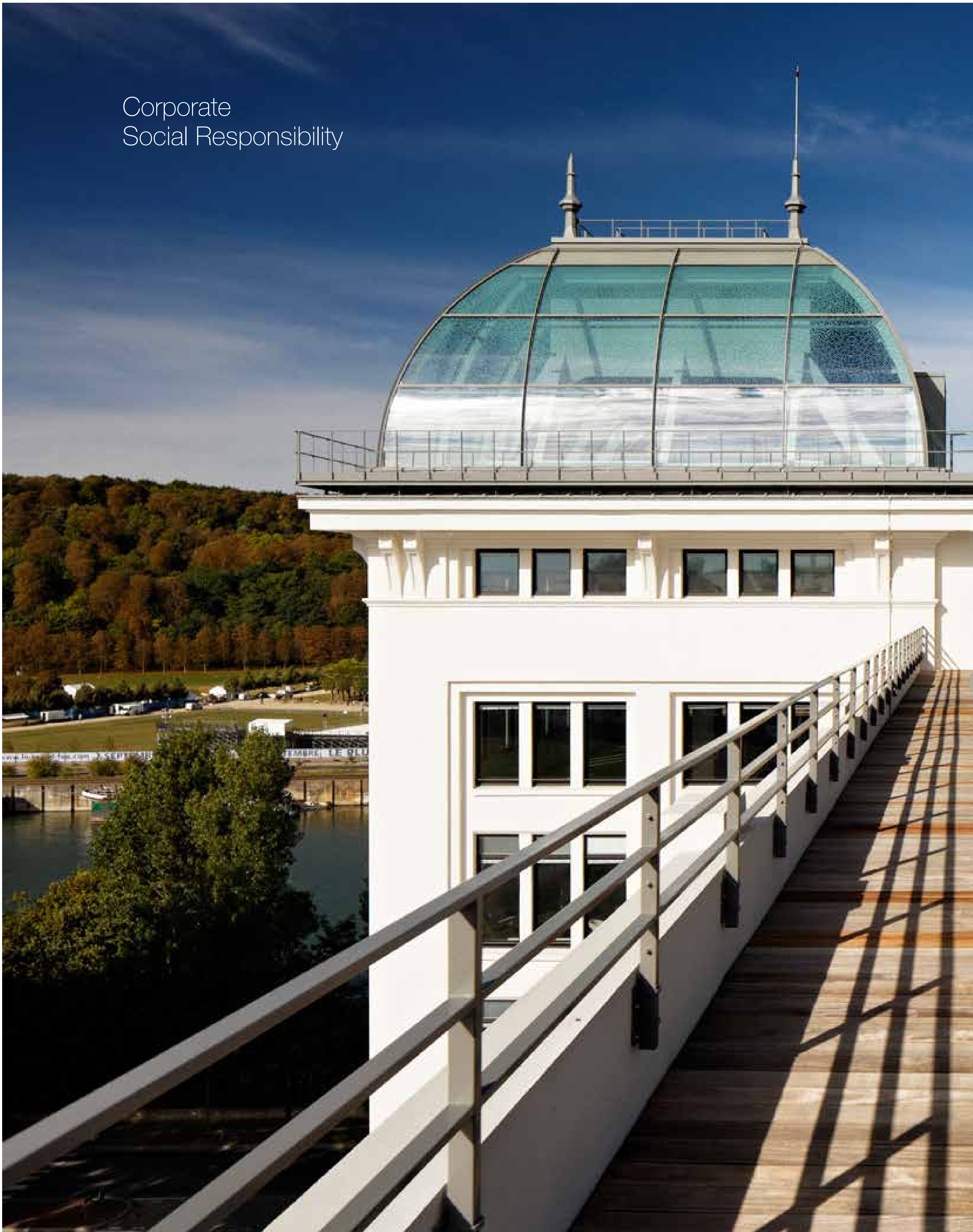
Note: In order to facilitate the analysis of the portfolio, a breakdown of retail GLA for every office building has been specified (generally the ground floor of many office assets has retail use).
All the assets of the Madrid and rest of Spain portfolio are 100% owned by Colonial.

RENTAL PORTFOLIO FRANCE (sq m)

	Floor space above ground				Floor space above ground	Floor space below ground	Total surface	Parking units
	Offices	Retail	Residential	Hotel & others				
Louvre des Antiquaires	24,897	410		2,134	27,441	5,730	33,172	236
Édouard VII	26,645	15,998	4,509	4,237	51,389	5,043	56,431	523
Hanovre Lb	3,325				3,325	1,246	4,571	0
Ilot Richelieu (#Cloud)	28,192			1,860	30,051	6,668	36,720	99
Condorcet	20,376		1,562	1,301	23,239	2,457	25,696	50
Galeries C. Élysées 8288		4,067			4,067	3,789	7,856	125
C. Élysées 90	7,912	981			8,893		8,893	
C. Élysées 92 (Ozone)	4,110	3,089			7,199		7,199	
Cézanne Saint Honoré	24,411	1,849			26,261	3,337	29,598	128
Prony-Wagram	7,100			449	7,549	3,119	10,668	124
96 Iéna	7,505				7,505	4,711	12,217	264
108-112 Wagram	4,470	892			5,362	546	5,908	29
Washington Plaza	38,708	416		2,214	41,339	13,125	54,463	662
Haussmann 104-110	11,683	791			12,474	2,650	15,124	104
Percier	3,759				3,759	419	4,177	14
176 Charles De Gaulle	5,749	389			6,138	2,739	8,876	145
In/Out	32,614				32,614	14,567	47,181	581
Rives de Seine	20,270			1,760	22,030	6,589	28,619	366
103 Grenelle	13,564	258		1,052	14,873	1,872	16,745	100
Saint Denis			60		60	16	76	1
Portfolio in operation	**285,289**	**29,140**	**6,132**	**15,007**	**335,567**	**78,622**	**414,190**	**3,551**
Louvre des Antiquaires	3,606	6,270			9,876	8,462	18,339	
Le Vaisseau	6,026				6,026	2,321	8,347	124
Percier	2,187				2,187	553	2,740	
Others	3,655	531			4,186	17,660	21,846	
Projects and refurbishments	**15,473**	**6,802**			**22,275**	**28,997**	**51,272**	**124**
Total France	**300,761**	**35,942**	**6,132**	**15,007**	**357,842**	**107,620**	**465,461**	**3,675**
Total Colonial Group	**658,387**	**72,195**	**6,132**	**34,598**	**771,313**	**316,853**	**1,088,166**	**9,431**

Colonial holds 53% of the shares of SFL. SFL holds 100% ownership of its entire rental portfolio except Washington Plaza of which SFL owns 66% and the C.Elysées 90, 8288 and Galeries C.Elysées 104-110 Haussmann of which SFL owns 50%.

Corporate Social Responsibility



Corporate Social Responsibility

In 2015, the Colonial Group worked on the development of its commitments in the field of sustainability with the aim of achieving an overall improvement in value creation for its stakeholders. As a result of this work, the Board of Directors approved the Group Corporate Social Responsibility Policy, which details five main action areas in corporate responsibility that are strategic for the Group and the systems to be used for their management.

The aforementioned Policy describes the CSR Governance Model, which establishes that the Audit and Control Committee assumes the responsibility of monitoring the CSR Policy thanks to a delegation of this role by the Board of Directors.

In response to these commitments, during 2015 a series of initiatives and actions in matters of CSR have been carried out in the five main action areas, the primary results of which are shown below:

Personal Development
The Colonial Group's culture is based on commitment, teamwork and cooperation among the people that make up the Group.

Client Satisfaction and Loyalty
Ensuring the satisfaction, trust and loyalty of our clients is critical to assure the sustainability of the Colonial Group. Through active dialogue, the Group seeks to seize opportunities for growth, meet the needs of its client network.

Eco-efficient Management
The management of our property portfolio must be aligned with our values and commitments, in order to actively contribute to a more sustainable world. By incorporating eco-efficient processes and actions, the Group seeks to reduce its environmental impact in the markets where it is present.

Sustainable Value Creation
Integrated management of financial, social and environmental aspects is incorporated into the Colonial Group's policies and processes. In this respect, all of the Group's practices must set a standard for corporate behaviour, and must be geared towards having a positive social impact through value creation for stakeholders.

Ethics and Compliance
The Colonial Group is committed, vis-à-vis both its investors and its different stakeholders, to carry out its activities in an ethical, transparent manner and in keeping with regulatory requirements. Through instruments such as the Code of Ethics and the Compliance Unit, the Group seeks to have a positive social impact in this area.

Team of professionals

The Colonial Group considers that its commitments to the people who work at the Group, as well as to the suppliers that make up the organization's supply chain, are part of its social dimension.

One of the objectives of Human Resources management is to continually develop the workforce through a strong commitment to training. In this regard, the Group has developed a Training Plan, with the aim of promoting internal talent and launching new initiatives to attract, develop, promote and retain professionals.

At the end of 2015, the Group had 139 employees, 52% of which worked in France and 48% in Spain.

COLONIAL GROUP WORKFORCE 31/12/2015

	2015		**2014**	
	Men	**Women**	**Men**	**Women**
Job Category				
Management	11	5	12	5
Middle managers	27	27	31	25
Administration	15	54	14	58
Age				
Under 30 years old	4	3	2	3
30-50 years old	35	57	60	39
More than 50 years old	14	26	26	15
Total workforce	**139**		**145**	

Employees subject to the industry collective agreement	**139**	**143**
% of employees subject to the industry collective agreement in relation to the total workforce	**100%**	**98.62%**

COLONIAL GROUP TRAINING

	2015			
	Spain		France	
	Participants	Hours of Training	Participants	Hours of Training
Categories				
Management	5	209	2	105
Middle management	18	1,763	32	925
Administrative	43	1,863	14	338
Gender				
Women	43	2,733	33	811
Men	23	1,102	15	557
Total	**66**	**3,835**	**48**	**1,368**

	2015		2014	
	Colonial Group Total		Colonial Group Total	
	Participants	Hours of Training	Participants	Hours of Training
Categories				
Management	7	314	5	185
Middle management	50	2,688	28	900
Administrative	57	2,201	77	2,842
Gender				
Women	76	3,290	71	2,573
Men	38	1,913	39	1,454
Total	**114**	**5,203**	**110**	**4,027**

Training in safety matters have not been included.

Satisfied clients

The Colonial Group continues to be committed to the trust that many clients place in the organization, and, for this reason, one of the main strategic objectives of the Group is to continue advancing in its relationships with existing clients, as well as with potential clients.

In this regard, the Colonial Group is actively working in order to gain a better understanding of the clients that make up its portfolio by conducting satisfaction surveys as well as promoting the various channels of communication between the organization and its customers ("A coffee with the building manager", intranet, etc.).

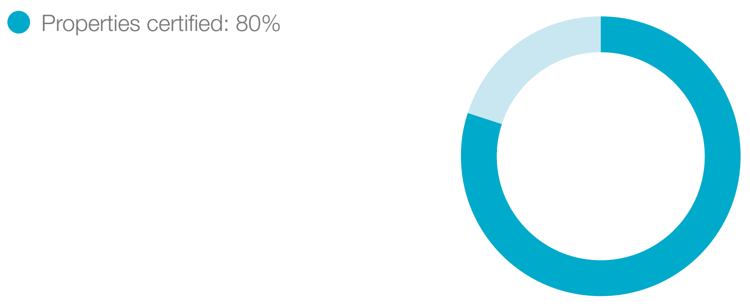
Additionally, in order to continue moving forward in the offering of quality products and services, the Group has carried out a series of reforms to improve the property supply as well as to improve access to it. The results of this effort can be perceived by the increasing number of certifications for the properties in the Group's portfolio.

Certification

In line with the first priority of its CSR policy, the Colonial Group continues working to increase its energy efficiency by obtaining energy certification, and subsequently to implement processes for continual improvements in its buildings. Accordingly, there has been an increase in the number of buildings in the portfolio which have obtained certification from five internationally recognized standards: ISO 50001, ISO 14001, BREEAM, LEED and HQE, as well as mandatory energy efficiency certifications in Spain.

Thus, all buildings belonging to the Group in France have a BREEAM certification in 2015, 97% of which have received a qualification equal to or more than BREEAM "Very good".

ENVIRONMENTAL CERTIFICATION OVER THE PORTFOLIO'S VALUE



Eco-efficiency

The sustainability of its buildings is one of the strategic pillars of the Colonial Group, and reflects a long-term commitment to its stakeholders. The Group seeks to achieve out a differentiated, competitive position through a building portfolio with the best energy and environmental certifications, so as to ensure that it attracts quality demand and maximizes the value creation.

In 2015, the Colonial Group continued to working with its clients' suppliers and employees, in order to raise its efficiency in the use and operation of the buildings in its portfolio. The Group carried out a series of actions to increase the number of buildings with energy and environmental certifications and thereby minimize any negative impacts that could be caused by its companies.

The Colonial Group manages sustainability and reduces its environmental impact through a continual improvement process based on the implementation of internationally recognized certification of environmental management systems, efficiency and sustainable construction. Progress has also been made in implementing tools and systems to monitor consumption levels in buildings in order to support continual improvement and efficient management. In 2015, the Colonial Group emphasized actions to improve energy efficiency as well as to reduce emissions.

Energy efficiency and reduction of emissions

A) ENERGY CONSUMPTION AND EMISSIONS AT WHOLLY-OWNED OFFICES

Sustainability Indicators	Measurement Unit	Coverage	Consumption/ Emission 2015	Consumption/ Emission 2014	Variation
Electricity consumed (Indirect, Elec-Abs, Elec-LfL,) (G4-EN4, EN5, CRE1)	Mwh	3 of 3	771	1,069	–28%
Fuel consumed(1) (Direct, Fuels-Abs, Fuels-LfL,) (G4-EN3, EN5, CRE1)	Mwh	2 of 3	713	713	0%
Total electricity consumed (Energy-Int)	Mwh	3 of 3	1,484	1,782	–20%
Direct CO_2 emissions(2) (GHG-Dir-Abs, GHG-Dir-LfL, GHG-Int) (G4-EN15, CRE3, G4-EN18)	$TeqCo_2$	2 of 3	130	130	0%
Indirect CO_2 emissions(2) (GHG-Indir-Abs, GHG-Indir-LfL, GHG-Int) (G4-EN16, CRE3, G4-EN18)	$TeqCo_2$	3 of 3	200	340	–70%

Consumption at the wholly-owned offices at Diagonal 530 and Washington Plaza was estimated on the basis of the surface area of the wholly-owned office as a percentage of the total building, by applying it to the total amount consumed in 2015. In order to calculate the intensity at Castellana 52 the office's surface area was taken into consideration, because energy consumed by the offices is controlled by the lessees.
Communal surface areas were not taken into account in the intensity data.
Due to the fact that the Colonial Group's portfolio is almost exclusively aimed at the prime offices market, an analysis of consumption per segment of property has not been included.
(1) In 2015, the Group began to monitor fuel consumed at the offices in Spain. In order to estimate the change in the consumption and emissions, consumption in 2014 was estimated to be unchanged, given that fuel consumption should not vary greatly from one year to the next. The information for the remaining data presented in the table are Colonial Group's consumption invoices, which do not include estimations.
(2) See sources of emission in chapter 9 *Report characteristics* of the Colonial Group's CSR Report 2015.

	Square meters	Measurement Unit	Intensity 2015	Adjusted intensity 2015	Intensity 2014	Adjusted intensity 2014	Variation	Adjusted variation
	4,575	Mwh/m²	0.17	0.17	0.23	0.23	–28%	–28%
	2,775	Mwh/m²	0.26	0.26	0.26	0.26	0%	0%
	4,575	Mwh/m²	0.32	0.32	0.39	0.39	–17%	–17%
	2,775	$TeqCo_2/m^2$	0.05	0.05	0.05	0.05	0%	0%
	4,575	$TeqCo_2/m^2$	0.04	0.04	0.07	0.07	–41%	–41%

B) ENERGY CONSUMED AND EMISSIONS AT OFFICES LEASED IN BUILDINGS OVER WHICH THE COMPANY HAS TOTAL CONTROL OF ENERGY CONSUMED

Sustainability Indicators	Measurement Unit	Coverage	Consumption/ Emission 2015	Consumption / Emission 2014	Change
Electricity consumed (Elec-Abs, Elec-Lfl) (G4-EN4, EN5)	Mwh	32 of 64	73,310	68,656	7%
Fuel consumed[1] (Fuels-Abs, Fuels-LfL) (G4-EN4, EN5)	Mwh	17 of 64	14,042	12,540	12%
Heating and cooling consumed (DH&C-Abs, DH&C-LfL) (G4-EN4, EN5)	Mwh	4 of 64*	10,401	18,438	–44%[2]
Total energy consumed (Energy-Int) (G4-EN4, EN5)	Mwh	32 of 64	97,753	99,633	–2%
Indirect $C0_2$ emissions (GHG-Int, GHG-Indir-Abs, GHG-Indir-LfL) (G4-EN16, G4-EN16, G4-EN18)	$TeqCo_2$	32 of 64	18,267	16,762	9%

See sources of emission in Chapter 9 Report parameters of the Colonial Group's CSR Report 2015.
Due to the fact that the Colonial Group's portfolio is almost exclusively aimed at the prime offices market, an analysis of consumption per segment of property has not been included.
(1) Fuel consumption levels and the corresponding intensities for 2014 were updated to make them comparable with the scope of buildings in 2015. In addition, fuel consumption levels corresponding to the leased portion of Diagonal 530 were also included.
The source of information for the remaining data presented in the table are the Colonial Group's consumption invoices, therefore estimations and data from tenants have not been included.
The intensity has been calculated by using the total square meters of the buildings over which the Colonial Group has total control of the property's consumption, as well as the square meters of the various buildings' communal areas that the Group has control over in terms of consumption for said areas.
* Only 4 out of 64 properties of the perimeter have data on heating and cooling monitoring. In the rest of the properties said consumption does not apply.
(2) The 44% change in the consumption of heating and cooling reflects a change in the monitoring criteria used for this type of consumption. In 2014, the reported number represented an estimation, whereas in 2015 said number was monitored and reported based on real consumption. The rest of the data does not show any significant changes.

Square meters	Measurement Unit	Intensity 2015	Adjusted intensity 2015	Intensity 2014	Adjusted intensity 2014	Change	Adjusted change
383,973	Mwh/m^2	0.19	0.20	0.18	0.21	7%	–4%
203,573	Mwh/m^2	0.07	0.07	0.06	0.07	12%	4%
90,533	Mwh/m^2	0.11	0.12	0.20	0.21	–44%	–45%
383,973	Mwh/m^2	0.25	0.27	0.26	0.30	–2%	–12%
383,973	$TeqCo_2/m^2$	48	50	44	51	9%	–2%

A) WATER CONSUMPTION AT WHOLLY-OWNED OFFICES

Sustainability Indicators	Measurement Unit	Coverage	Consumption 2015	Consumption 2014	Variation
Water consumed (Water-Abs, Water-Int, Water-LfL) (G4-EN8, CRE2)	m^3	3 of 3	2,077	1,915	8%

The source of information for the remaining data presented in the table are the Colonial Group's consumption invoices, therefore estimations have not been included.

B) WATER CONSUMED AT OFFICES LEASED IN BUILDINGS OVER WHICH THE COMPANY HAS TOTAL CONTROL OF THE ENERGY CONSUMPTION

Sustainability Indicators	Measurement Unit	Coverage	Consumption 2015	Consumption 2014	Change
Water consumed (Water-Abs, Water-LfL, Water-Int) (G4-EN8, CRE2)	m^3	32 of 64	246,962	237,520	4%

The intensity has been calculated by using the total square meters of the buildings over which the Colonial Group has total control of the property's consumption, as well as the square meters of the various buildings' communal areas that the Group has control over in terms of consumption for said areas.
The source of information for the remaining data presented in the table are the Colonial Group's consumption invoices, therefore estimations and data from tenants have not been included.
Due to the fact that the Colonial Group's portfolio is almost exclusively aimed at the *prime* offices market, an analysis of consumption per segment of property has not been included.

Square meters	Measurement Unit	Intensity 2015	Adjusted intensity 2015	Intensity 2014	Adjusted intensity 2014	Variation	Adjusted variation
4,575	m^3/m^2	0.45	0.45	0.42	0.42	8%	8%

Square meters	Measurement Unit	Intensity 2015	Adjusted intensity 2015	Intensity 2014	Adjusted intensity 2014	Change	Adjusted change
425,759	m^3/m^2	0.58	0.62	0.56	0.66	4%	–6%

Generating sustainable value

In line with the commitment to develop and promote practices aimed at generating positive social impact and value creation for stakeholders, in 2015 the Group carried out a series of actions in order to increase awareness of Corporate Social Responsibility within the organization as well as outside of the organization.

Internally, various meeting and breakfasts among employees have been organised in order to promote awareness and debates on CSR issues, such as the environment, biodiversity and waste management. Externally, the Group has developed a section on its webpage to communicate their progress in CSR and has also been awarded the title of “EPRA Best Practices Gold Award Financial Reporting”, as well as the “Most Improved Annual Report Award”, which reflects an improvement in the transparency and professionalism of the Group’s financial communication.

Ethics and compliance

The Colonial Group is recognized in the sector for its corporate governance practices and compliance. In this sense, it has continued to advance in its commitment to developing its business in an ethical and transparent way, in line with regulatory requirements, by performing a series of actions through the Compliance Unit (update of the Groups compliance environment and adaptations of corporate texts, among others) and trainings on the Code of Ethics and other specific regulatory requirements (money laundering, data protection law, etc.)

For more information see the Colonial Group’s Corporate Social Responsibility Report 2015.


Our
properties


NATEXIS

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.

BREEAM® ES

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® ES

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.

11 Ausiàs Marc, 148

This building is unique in Barcelona due to its location in one of the areas with the greatest cultural facilities in the city – L'Auditori de la Música, El Teatre Nacional de Catalunya – and near to the 22@ business district. Fully refurbished with the latest advances in technology and services, Ausiàs Marc 148 is a sustainable building that is outstanding for its intelligent lighting system using photovoltaic energy; besides this, it features a grey water treatment system and a series of technological qualities that ensure huge savings in water and electricity consumption.

12 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.

13 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.

Barcelona

14 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.

15 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.

16 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.

17 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.

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

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 10,500 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 575 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. It has its own car park.

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

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.

BREEAM® ES

Paris

All of the Paris portfolio have energy certifications

Paris

1 Louvre Saint-Honoré

Enjoying an upmarket location just opposite the Louvre, this building offers vast functional areas spanning 5,400 sq m/floor. 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. The artist François Morellet has enhanced the building through the architectural integration design called “Great Waves” a work in progress until 2016.

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 and 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 news offices offers floor spaces of over 1,100 sq m, which are both flexible, efficient and full of light.

Paris

All of the Paris portfolio have energy certifications

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.

EPRA ratios

EPRA Ratios

In accordance with EPRA's Best Practice Recommendations, Colonial discloses the EPRA Performance Measures

EPRA Performance Measures - Summary Table	12/2015		12/2014	
	€m	Cent per share	€m	Cent per share
EPRA Earnings	33	1	435	14
EPRA NAV	1,966	62	1,521	48
EPRA NNNAV	1,835	58	1,408	44
EPRA Net Initial Yield		3.0%		3.7%
EPRA "topped-up" Net Initial Yield		3.8%		4.0%
EPRA vacancy rate		5.8%		12.7%
EPRA Cost ratio (including vacancy costs)		23.3%		25.1%
EPRA Cost ratio (excluding vacancy costs)		19.1%		20.9%

1. EPRA Earnings

EPRA Earnings - €m	2015	2014
Earnings per IFRS Income statement	**415**	**492**
Earnings per IFRS Income statement - Euros cents per share	**13**	**16**
Adjustments to calculate EPRA Earnings, exclude:		
(i) Changes in value of investment properties, development properties held for investment and other interests	(718)	(332)
(ii) Profits or losses on disposal of investment, development properties held for investment and other interests	(1)	(8)
(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	120
(vi) Changes in fair value of financial instruments and associated close-out costs	51	33
(vii) Acquisition costs on share deals and non controlling joint venture interests	0	0
(viii) Deferred tax in respect of EPRA adjustments	43	26
(ix) Adjustments (i) to (viii) above in respect of joint ventures (unless already included under proportional consolidation)	0	6
(x) Minority interests in respect of the above	242	98
EPRA Earnings	**33**	**435**
EPRA Earnings per Share (EPS) - Euros cents per share	**1**	**14**
Company specific adjustments:		
(a) Discontinued operations	0	(701)
(b) Extraordinary expenses	6	49
(c) Non recurring financial result	(2)	90
(d) Tax credits	0	143
Company specific Adjusted EPRA Earnings	**37**	**17**
Company adjusted EPRA Earnings per Share (EPS) - Euros cents per share	**1.2**	**0.5**

2. EPRA NAV

EPRA Net Asset value - €m	12/2015	12/2014
NAV per the Consolidated financial statements	**1,837**	**1,423**
Include:		
(i.a) Revaluation of investment properties (if IAS 40 cost option is used)	8	4
(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	17	11
(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	4	9
(v.a) Deferred tax	100	73
(v.b) Tax credits on balance	–	–
Include/exclude:		
Adjustments (i) to (iii) above in respect of joint ventures interests	na	na
EPRA NAV - €m	**1,966**	**1,521**
EPRA NAV - cents €/share	***61.6***	***47.7***
Nº of shares (m)	**3,189**	**3,189**

3. EPRA NNNAV

EPRA Triple Net Asset value (NNNAV) - €m	12/2015	12/2014
EPRA NAV	**1,966**	**1,521**
Include:		
(i) Fair value of financial instruments	(4)	(9)
(ii) Fair value of debt	(27)	(32)
(iii) Deferred tax	(100)	(71)
EPRA NNNAV - €m	**1,835**	**1,408**
EPRA NNNAV - Euros cents per share	***57.5***	***44.2***
Nº of shares (m)	***3,189***	***3,189***

4. EPRA Net Initial Yield and "Topped-Up" Net Initial Yield

EPRA Net Initial Yield & "Topped-Up" Net Initial Yield

Figures in €m		Barcelona	Madrid	Paris	Total 2015	Total 2014
Investment property – wholly owned		689	981	5,242	6,913	5,757
Investment property – share of JVs/Funds		na	na	na	na	na
Trading property (including share of JVs)		na	na	na	na	na
Less developments		(13)	(75)	(233)	(321)	(597)
Completed property portfolio	**E**	**676**	**906**	**5,010**	**6,591**	**5,160**
Allowance for estimated purchasers' costs		20	28	261	309	252
Gross up completed property portfolio valuation	**B**	**695**	**934**	**5,271**	**6,900**	**5,412**
Annualised cash passing rental income		29	38	151	218	215
Property outgoings		(2)	(3)	(6)	(12)	(15)
Annualised net rents	**A**	**27**	**35**	**145**	**206**	**199**
Add: notional rent expiration of rent free periods or other lease incentives		2	1	53	55	16
"Topped-up" net annualised rent	**C**	**28**	**36**	**198**	**262**	**215**
EPRA Net Initial Yield	**A/B**	**3.8%**	**3.7%**	**2.8%**	**3.0%**	**3.7%**
EPRA "Topped-Up" Net Initial Yield	**C/B**	**4.1%**	**3.8%**	**3.8%**	**3.8%**	**4.0%**
Gross Rents 100% Occupancy	F	35	42	218	294	254
Property outgoings 100% Occupancy		(0)	(2)	(3)	(5)	(8)
Annualised net rents 100% Occupancy	**D**	**34**	**40**	**215**	**289**	**246**
Net Yield 100% Occupancy	**D/B**	**4.9%**	**4.3%**	**4.1%**	**4.2%**	**4.6%**
Gross Yield 100% Occupancy	**F/E**	**5.1%**	**4.6%**	**4.3%**	**4.5%**	**4.9%**

5. EPRA Vacancy Rate

EPRA Vacancy Rate - Offices Portfolio - Annualized figures

€m	2015	2014	Var. %
BARCELONA			
Vacant space ERV	3	7	
Portfolio ERV	31	30	
EPRA Vacancy Rate Barcelona	**11%**	**22%**	**(12 pp)**
MADRID			
Vacant space ERV	2	3	
Portfolio ERV	38	33	
EPRA Vacancy Rate Madrid	**4%**	**10%**	**(6 pp)**
PARIS			
Vacant space ERV	12	23	
Portfolio ERV	185	159	
EPRA Vacancy Rate Paris	**6%**	**14%**	**(8 pp)**
TOTAL PORTFOLIO			
Vacant space ERV	17	33	
Portfolio ERV	255	221	
EPRA Vacancy Rate Total Portfolio	**6%**	**15%**	**(8 pp)**

EPRA Vacancy Rate - Total Portfolio - Annualized figures

€m	2015	2014	Var. %
BARCELONA			
Vacant space ERV	3	7	
Portfolio ERV	33	31	
EPRA Vacancy Rate Barcelona	**10%**	**21%**	**(11 pp)**
MADRID			
Vacant space ERV	2	4	
Portfolio ERV	40	35	
EPRA Vacancy Rate Madrid	**4%**	**12%**	**(7 pp)**
PARIS			
Vacant space ERV	12	23	
Portfolio ERV	222	199	
EPRA Vacancy Rate Paris	**5%**	**12%**	**(6 pp)**
TOTAL PORTFOLIO			
Vacant space ERV	17	34	
Portfolio ERV	295	265	
EPRA Vacancy Rate Total Portfolio	**6%**	**13%**	**(7 pp)**

6. EPRA Cost Ratios

Figures in €m		12/2015	12/2014
(i) Administrative/operating expense line per IFRS income statement[1]		35	35
(ii) Net service charge costs/fees		23	21
(iii) Management fees less actual/estimated profit element		0	(1)
(iv) Other operating income/recharges intended to cover overhead expenses less any related profits		(0)	(0)
(v) Share of Joint Ventures expenses		0	2
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)	(2)
EPRA Costs (including direct vacancy costs)	**A**	**52**	**54**
(ix) Direct vacancy costs		(9)	(9)
EPRA Costs (excluding direct vacancy costs)	**B**	**43**	**45**
(x) Gross Rental Income less ground rent costs - per IFRS		231	211
(xi) Less: service fee and service charge costs components of Gross Rental Income (if relevant)		(6)	(3)
(xii) Add: share of Joint Ventures (Gross Rental Income less ground rent costs)		0	9
Gross Rental Income	**C**	**225**	**217**
EPRA Cost Ratio (including direct vacancy costs) (A/C)	**A/C**	**23.3%**	**25.1%**
EPRA Cost Ratio (excluding direct vacancy costs) (B/C)	**B/C**	**19.1%**	**20.9%**

(1) 2015: 32.9€m refer to administrative expense and 1.9€m refer to extraordinary operating expenses.
2014: 32.3€m refer to administrative expense and 2.2€m refer to extraordinary operating expenses.
Commercialisation fees and overheads which are directly related to projects are capitalised.

Additional information in electronic format

Appendix 1.1 Consolidated balance sheet

€m **ASSETS**	**2015**	**2014**
Property investments	6,743	5,663
Other non-current assets	46	47
Non-current assets	**6,789**	**5,710**
Debtors and other receivables	85	71
Other current assets	242	128
Assets available for sale	13	17
Current assets	**340**	**215**
Total Assets	**7,130**	**5,925**

€m LIABILITIES	2015	2014
Share capital	*797*	*797*
Reserves and others	*625*	*134*
Profit (loss) for the period	*415*	*492*
Equity	1,837	1,423
Minority interests	1,612	1,376
Net equity	**3,449**	**2,799**
Bond issues and other non-current issues	2,539	1,196
Non-current financial debt	442	1,401
Deferred tax	244	197
Other non-current liabilities	114	124
Non-current liabilities	**3,339**	**2,918**
Bond issues and other current issues	176	9
Current financial debt	54	68
Creditors and other payables	73	93
Other current liabilities	38	39
Current liabilities	**341**	**209**
Total Equity & Liabilities	**7,130**	**5,925**

MARKET VALUE RECONCILIATION	€m
Tangible fixed assets - own use[1]	30
Real estate investment (w/o advances on fixed assets)[2]	6,743
Non-current assets held for sale - Investment properties[3]	13
Value accounted on balance	**6,786**
Unrealized capital gains - own use	18
Not appraised	(0)
Fiscal adjustments	49
Rent free periods	59
Adjustments	**127**
Appraisal value according to external appraisers	**6,913**

(1) Included in the line of “Other non-current assets”.
(2) Included in the line of “Property Investments”.
(3) Included in the line of “Assets available for sale”.

Appendix 1.2 Financial results

The breakdown of the financial results of the Group are shown in the table below:

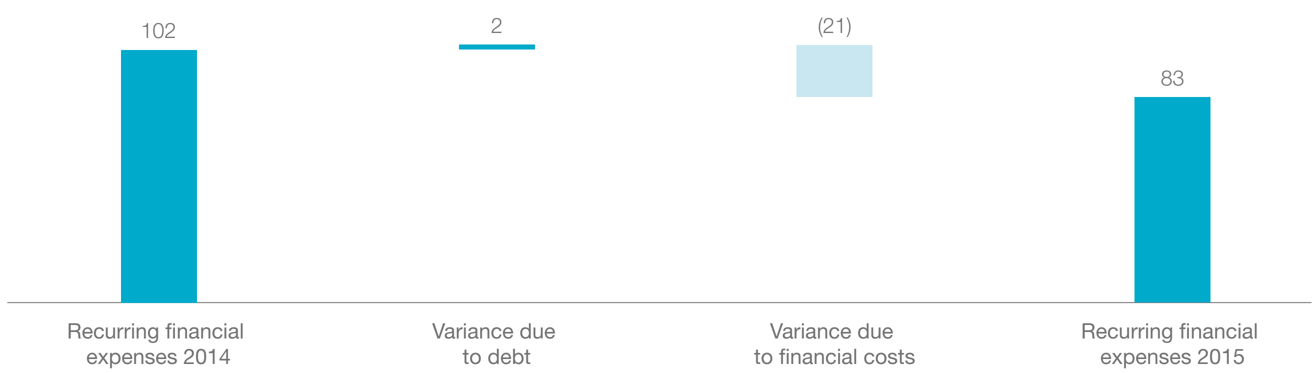
FINANCIAL RESULTS

December cumulative - €m	**Spain**	**France**	**2015**	**2014**	**Var. % (1)**
Recurring financial expenses - Spain	(37)	0	**(37)**	(47)	21%
Recurring financial expenses - France	0	(53)	**(53)**	(62)	15%
Recurring Financial Income	1	0	**1**	1	0%
Capitalized interest expenses	0	6	**6**	7	8%
Recurring Financial Result	**(36)**	**(47)**	**(83)**	**(102)**	**18%**
Non-recurring financial expenses	(26)	(14)	**(40)**	(114)	65%
Change in fair value of financial instruments	0	(8)	**(8)**	(9)	11%
Financial Result	**(62)**	**(69)**	**(131)**	**(225)**	**42%**

(1) Sign according to profit impact.

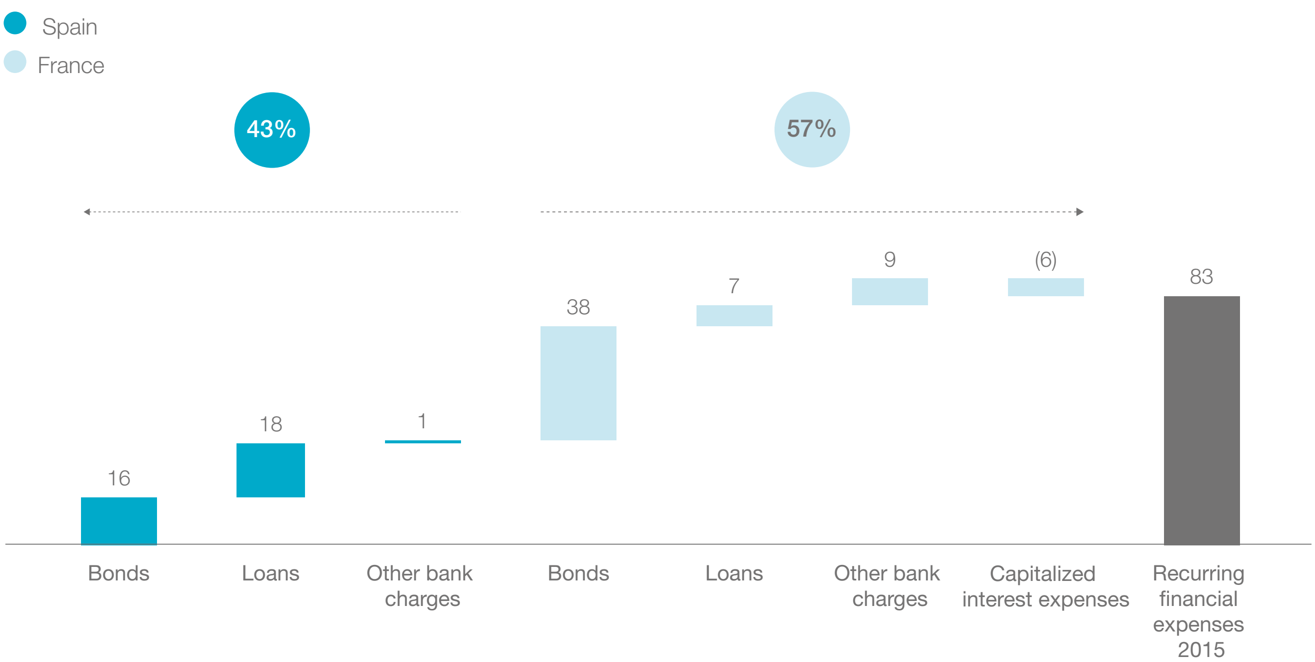
The total financial results of the Group up to 31 December 2015 decreased by 42% compared to the previous year. From the total of €(131)m, €(83)m corresponded to recurring financial results and €(48)m to non-recurring financial expenses.

The recurring financial expenses of the Group were 17% below that of 2014, mainly due to a lower financial cost.



The breakdown the of the recurring financial cost in 2015 is as follows:

BREAKDOWN RECURRING FINANCIAL EXPENSES - DECEMBER 2015



The non-recurring financial expenses decreased by 65%. In 2014, this concept included the capitalizable interests of 686 bp on Colonial's old syndicate loan (cancelled in May 2014). The amount of €(31)m registered in 2015 mainly corresponds to the close out costs of Colonial's previous syndicate loan. In France, the non-recurring financial results mainly corresponded to the Liability Management transaction and the impact of the early cancellation by SFL of non-IAS-compliant hedging transactions. In July 2015, SFL cancelled the hedging instruments in force at that date, as the debt associated with them was renewed, changing the variable rate to a fixed rate.

The capitalized financial expenses corresponded to the financing of a project in France.

The average credit *spread* of the Group in 2015 (excluding fees) is 208 bp over Euribor (259 bp in Spain and 173 bp in France). The breakdown of the Group's financial cost of debt is shown in the chart below:

DECEMBER CUMULATIVE - €m	**SP**	**FR**	**2015**	**2014**	**Var. %**
Average cost of debt	2.94%	2.87%	**2.89%**	3.54%	(64 bp)
Drawdown fees	0.53%	0.22%	**0.34%**	0.44%	(11 bp)
Cost of debt - % total	3.47%	3.09%	**3.23%**	3.98%	(75 bp)
Average spread (without comissions)	259pb	173pb	**208pb**	247pb (1)	(39 bp)
Cost of debt spot 31/12/2015	**2.14%**	**2.36%**	**2.27%**	**3.31%**	**(104 bp)**

(1) Excluding step up of old syndicate loan.

The bond issue and the cancellation of Colonial's previous syndicate loan have considerably reduced the spread of the actual debt in Spain, which at 31 December 2015 stood at 172 bp.

Appendix 1.3 Debt

Main leverage ratios and liquidity

As at December 2015, the Group's net debt amounted to €3,025m(1) with an LTV (Loan to Value) of 41.8%(2). The LTV of the parent company in Spain was 34.7%(3).

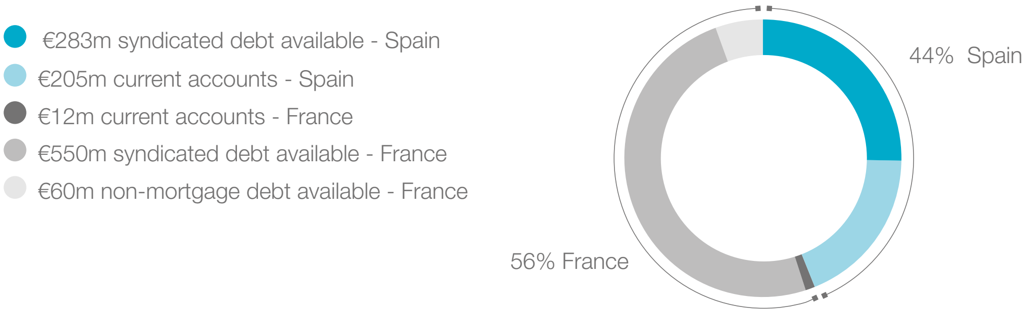
MAIN LEVERAGE RATIOS

31/12/2015 - €m	Holding	Group
GAV incl. transfer costs(*)	3,309	7,239
Net debt - excluding committed cash	1,149	3,025
LTV incl. transfer costs	**34.7%**	**41.8%**

(*) Including transfer costs.

Undrawn balances of the Colonial Group at 31 December 2015 amounted to €1,110m, distributed as shown in the graph below.

UNDRAWN BALANCES



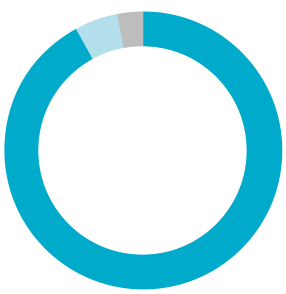
(1) Group net debt at 30/12/2015 (excluding €33m of committed cash).
(2) Financial net debt Group, excluding committed cash at 12/2015/ GAV Group (including transfer costs) at 12/2015.
(3) Financial net debt Holding, excluding committed cash at 12/2015/ GAV Parent Company (including transfer costs) at 12/2015.

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

TYPE OF DRAWN DEBT - 31/12/2015

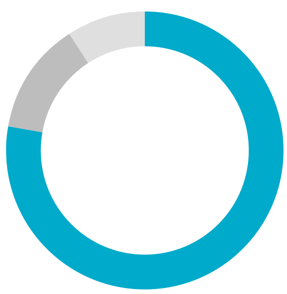
Spain

- 92% bonds
- 5% syndicate
- 3% mortgage debt



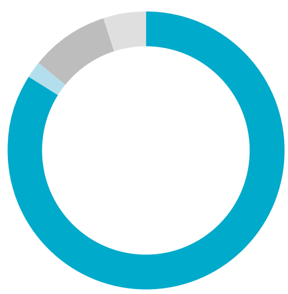
France

- 78% bonds
- 13% mortgage debt
- 9% non mortgage debt



Group

- 84% bonds
- 2% syndicate
- 9% mortgage debt
- 5% non mortgage debt



MATURITY OF CONTRACTED DEBT - 31/12/2015

Spain

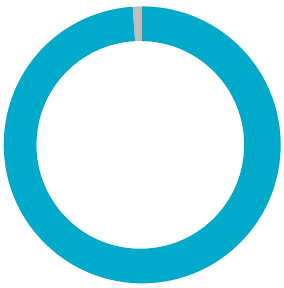
- 99% more than 3 years
- 1% less than 3 years

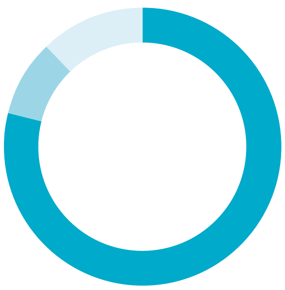
France

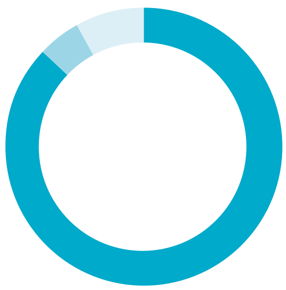
- 79% more than 3 years
- 9% less than 1 year
- 12% from 1 to 3 years

Group

- 87% more than 3 years
- 5% less than 1 year
- 8% from 1 to 3 years

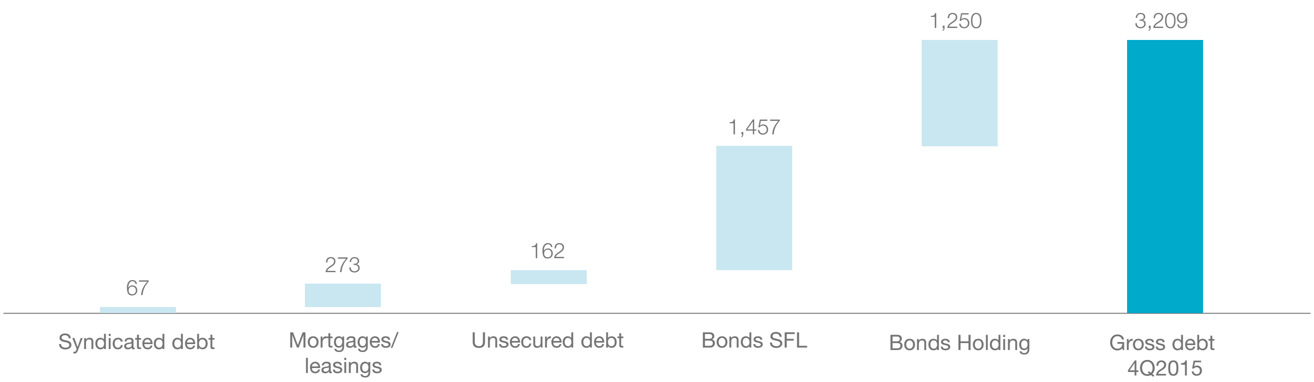






	Spain	France	Total
Spread	172 bp	162 bp	166 bp
Cost of debt	2.14%	2.36%	2.27%
Average life of drawn down debt (years)	5.0	4.8	4.8
Average life of the contracted debt (years)	4.7	4.7	4.7
Contracted debt	€1,639m	€2,463m	€4,102m

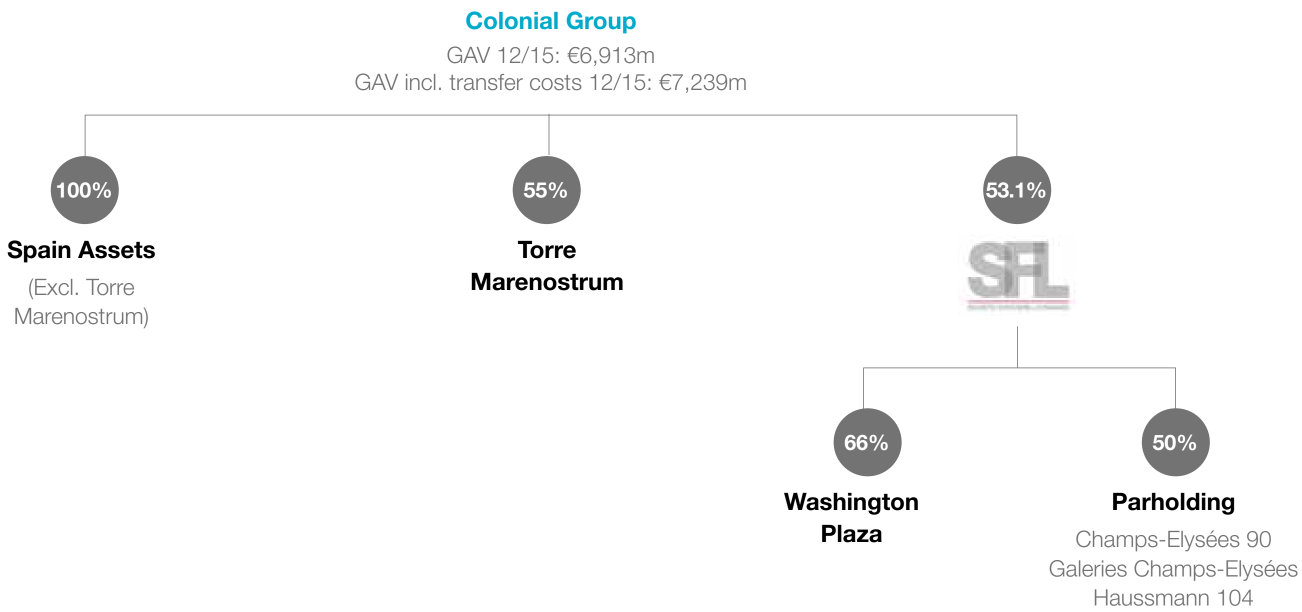
The composition of the debt of the Group at 31 December 2015 is as follows:



Cost of debt	1.60%	1.49%	1.04%	2.63%	2.21%
Maturity (years)	3.4	5.5	2.9	4.8	5.0

Average cost of debt: 2.27% & 4.8 years

Appendix 1.4 Legal structure



Appendix 1.5 Historical series

HISTORICAL SERIES BREAKDOWN

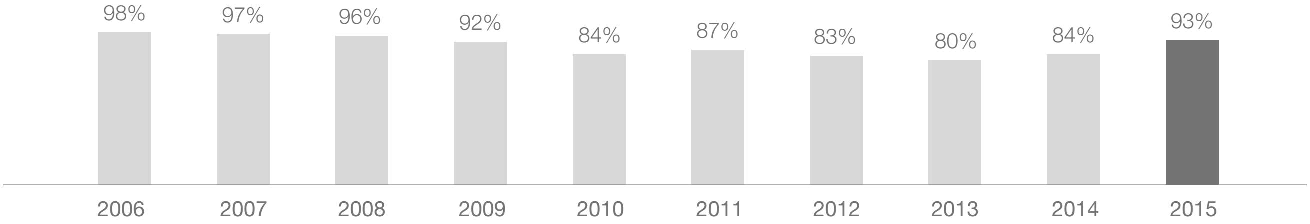
	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Barcelona												
Physical Offices Occupancy (%)	97%	100%	99%	94%	95%	91%	78%	78%	79%	80%	77%	89%
Rental income (€)	55	53	56	60	51	49	39	32	31	28	28	27
Net rental income (€m)	53	51	55	58	49	47	37	28	27	25	23	23
Net rental income / Rental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

Evolution of Physical Office Occupancy

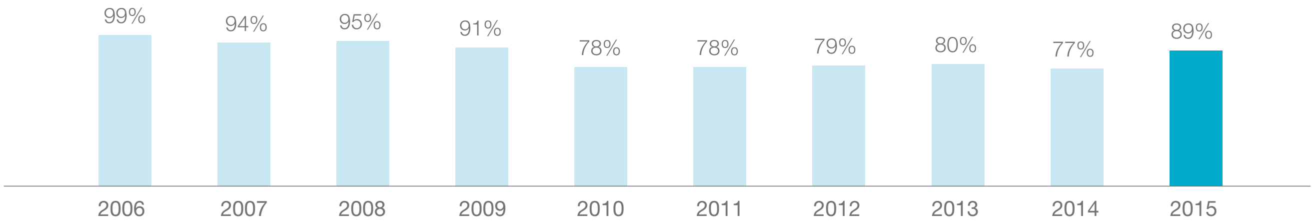
OFFICE OCCUPANCY[1] – EVOLUTION OF COLONIAL'S PORTFOLIO

Physical occupancy (surface)

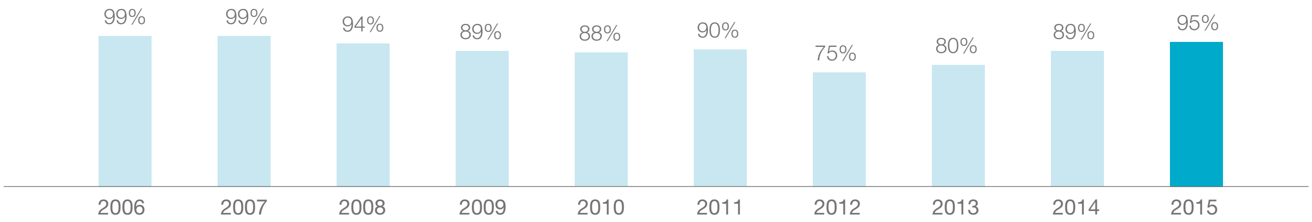
Total



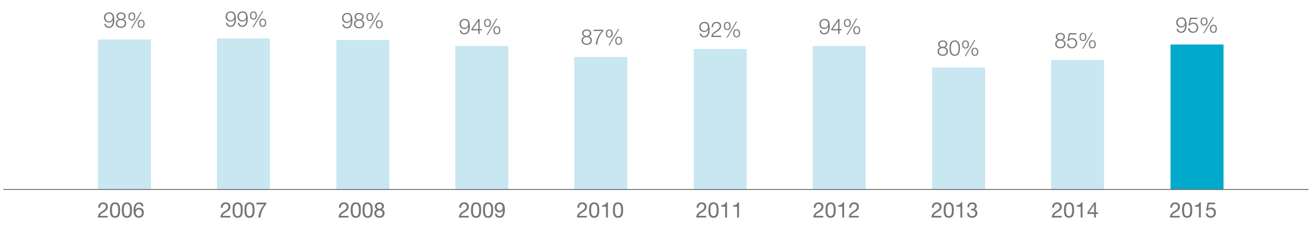
Barcelona



Madrid



Paris



(1) Occupied surfaces / surfaces in operation.

2. Consolidated Financial Statements 2015

Inmobiliaria Colonial, S.A. and Subsidiaries

Consolidated Financial Statements for the year ended 31 December 2015, 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 27). In the event of a discrepancy, the Spanish-language version prevails.

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Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of 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 27). 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 2015, 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 2015, 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.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2015 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 2015. 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

19 February 2016

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

Consolidated Statement of Financial Position at 31 December 2015

Thousands of Euros

Assets	**Note**	**31 December 2015**	**31 December 2014**
Intangible assets	–	3,090	2,486
Property, plant and equipment	8	33,118	32,985
Investment property	9	6,743,313	5,663,309
Non-current financial assets	10	8,954	10,070
Non-current deferred tax assets	18	865	1,422
Other non-current assets	11	156	126
Non-current assets		**6,789,496**	**5,710,398**
Non-current assets held for sale	24	12,727	16,539
Trade and other receivables	12	71,966	58,008
Current financial assets	–	9	63
Tax assets	18	37,552	14,513
Cash and cash equivalents	14	217,776	125,956
Current assets		**340,030**	**215,079**
Total assets		**7,129,526**	**5,925,477**

The accompanying Notes 1 to 27 and the Appendix are an integral part of the consolidated statement of financial position for the year ended 31 December 2015.

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

Consolidated Statement of Financial Position at 31 December 2015

Thousands of Euros

Equity and liabilities	**Note**	**31 December 2015**	**31 December 2014**
Share capital		797,214	797,214
Share premium		560,606	560,606
Reserves of the Parent		1,163,954	1,165,187
Prior years' losses at the Parent		(1,147,975)	(944,584)
Reserves in consolidated companies		64,881	(621,819)
Valuation adjustments recognised in equity - financial instruments		(2,504)	(6,368)
Other equity instruments		2,895	1,904
Treasury shares		(17,065)	(21,291)
Profit for the year		415,413	491,994
Equity attributable to shareholders of the Parent		**1,837,419**	**1,422,843**
Non-controlling interests		**1,612,048**	**1,376,108**
Equity	13	**3,449,467**	**2,798,951**
Bank borrowings and other financial liabilities	14 and 15	512,615	1,479,951
Bonds and similar securities issued	14	2,539,285	1,195,564
Non-current deferred tax liabilities	18	246,980	203,750
Non-current provisions	17	12,519	13,611
Other non-current liabilities	16	28,018	24,891
Non-current liabilities		**3,339,417**	**2,917,767**
Bank borrowings and other financial liabilities	14 and 15	59,937	73,468
Bonds and similar securities issued	14	175,955	8,775
Trade payables	16	85,642	104,302
Tax liabilities	18	8,902	16,035
Current provisions	17	10,206	6,179
Current liabilities		**340,642**	**208,759**
Total equity and liabilities		**7,129,526**	**5,925,477**

The accompanying Notes 1 to 27 and the Appendix are an integral part of the consolidated statement of financial position for the year ended 31 December 2015.

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

Consolidated statement of comprehensive income for the year ended 31 december 2015

Thousands of Euros

Statement of comprehensive income	Note	2015	2014
Revenue	20	231,185	211,477
Other income	20	3,143	2,606
Staff costs	20	(23,296)	(25,432)
Other operating expenses	20	(36,481)	(54,333)
Depreciation and amortisation charge		(1,676)	(1,444)
Net change in provisions		(3,322)	(17,941)
Net gain/(loss) on sales of assets	20	–	(27)
Operating profit		**169,553**	**114,906**
Changes in fair value of investment properties	20	719,982	331,953
Impairment charges and net gains/(losses) on assets	20	(2,474)	(124,579)
Finance income	20	10,466	19,402
Share of profit/(loss) of companies accounted for using the equity method	20	–	(2,176)
Finance costs	20	(143,852)	(232,366)
Impairment of financial assets		2,267	(3,733)
Profit before tax		**755,942**	**103,407**
Income tax expense	18	(52,797)	(175,783)
Consolidated net profit/(loss) from continuing operations		**703,145**	**(72,376)**
Profit from discontinued operations	24	–	700,861
Consolidated net profit		**703,145**	**628,485**
Net profit for the year attributable to the Parent		415,413	491,994
Net profit attributable to non-controlling interests	13	287,732	136,491
Basic earnings per share (€)	5	0.130	0.228
Diluted earnings per share (€)	5	0.130	0.228

The accompanying Notes 1 to 27 and the Appendix are an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2015.

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

Consolidated statement of comprehensive income for the year ended 31 december 2015

Thousands of Euros

Other comprehensive income	**Note**	**2015**	**2014**
Consolidated net profit		**703,145**	**628,485**
Other components of comprehensive income recognised directly in equity		**357**	**3,955**
Gains on hedging instruments	15	615	4,329
Tax effect on prior years' profit or loss		(258)	(374)
Transfers to comprehensive income		**8,122**	**10,742**
Gains on hedging instruments	15	8,122	10,742
Consolidated comprehensive profit		**711,624**	**643,182**
Comprehensive profit for the year attributable to the Parent		419,277	503,984
Comprehensive profit attributable to non-controlling interests		292,347	139,198
Comprehensive basic earnings per share (euros)		0.132	0.234
Comprehensive diluted earnings per share (euros)		0.132	0.234

The accompanying Notes 1 to 27 and the Appendix are an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2015.

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

Consolidated statement of changes in equity for the year ended 31 december 2015

Thousands of Euros

	Note	Share capital	Share premium	Reserves of the Parent	Prior years' losses at the Parent
Balance at 31 December 2013	**13**	**225,919**	**109**	**1,083,485**	**(837,243)**
Total recognised income and expense for the period		–	–	–	–
Share capital increase		740,714	558,492	(49,977)	–
Share capital reduction		(169,439)	–	169,439	–
Allocation of 2013 loss		–	–	–	(107,341)
Issuance of other equity instruments		20	2,005	(15)	–
Treasury share portfolio		–	–	(35,267)	–
Share-based payment transactions		–	–	–	–
Changes in scope of consolidation and other changes		–	–	(2,478)	–
Balance at 31 December 2014	**13**	**797,214**	**560,606**	**1,165,187**	**(944,584)**
Total recognised income and expense for the period		–	–	–	–
Share capital increase		–	–	–	–
Distribution of 2014 profit		–	–	–	(203,391)
Treasury share portfolio		–	–	(1,182)	–
Share-based payment transactions		–	–	–	–
Changes in scope of consolidation and other changes		–	–	(51)	–
Balance at 31 December 2015	**13**	**797,214**	**560,606**	**1,163,954**	**(1,147,975)**

The accompanying Notes 1 to 27 and the Appendix are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2015.

Reserves in consolidated companies	Valuation adjustments recognised in equity - financial instruments	Treasury shares	Other equity instruments	Profit/(loss)	Non-controlling interests	Total
(193,463)	**(18,358)**	**(59,945)**	**2,488**	**(546,928)**	**1,272,765**	**928,829**
–	11,990	–	–	491,994	139,198	643,182
–	–	–	(2,025)	–	–	1,247,204
–	–	–	–	–	–	–
(439,587)	–	–	–	546,928	(49,288)	(49,288)
–	–	–	15	–	–	2,025
(524)	–	38,654	–	–	(132)	2,731
–	–	–	1,426	–	207	1,633
11,755	–	–	–	–	13,358	22,635
(621,819)	**(6,368)**	**(21,291)**	**1,904**	**491,994**	**1,376,108**	**2,798,951**
–	3,864	–	–	415,413	292,347	711,624
–	–	–	–	–	–	–
695,385	–	–	–	(491,994)	(57,305)	(57,305)
(926)	–	(4,006)	–	–	70	(6,044)
–	–	–	991	–	873	1,864
(7,759)	–	8,232	–	–	(45)	377
64,881	**(2,504)**	**(17,065)**	**2,895**	**415,413**	**1,612,048**	**3,449,467**

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

Consolidated statement of cash flows for the year ended 31 december 2015

Thousands of Euros

Cash flows in continuing operations	**Note**	**2015**	**2014**
1. Cash flows in operating activities			
Profit from operations		169,553	114,906
Adjustments to profit			
Depreciation and amortisation (+)		1,676	1,444
Net change in provisions (+/–)	20	3,322	17,941
Others	20	3,351	(8,025)
Gains/(losses) on sale of investment property (+/–)	20	–	27
Adjusted profit		**177,902**	**126,293**
Taxes paid (–)		(39,392)	8,883
Dividends received from associates (+)	10	–	7,279
Increase/(decrease) in current assets and liabilities			
Increase/(decrease) in receivables (+/–)		(13,230)	(24,765)
Increase/(decrease) in payables (+/–)		(15,754)	(2,774)
Increase/(decrease) in other assets and liabilities (+/–)		3,097	–
Total net cash flows in operating activities		**112,623**	**114,916**
2. Cash flows in investing activities			
Investments in (–)			
Intangible assets		(708)	(1,027)
Property, plant and equipment	8	(165)	(88)
Investment property	9	(324,604)	(375,186)
Equity investments, financial assets and other		(28,869)	–
		(354,346)	**(376,301)**
Disposals of (+)			
Property, plant and equipment	8	–	121
Financial assets	10	–	303,351
		–	**303,472**
Total net cash flows in investing activities		**(354,346)**	**(72,829)**

The accompanying Notes 1 to 27 and the Appendix are an integral part of the consolidated statement of cash flows at 31 December 2015.

Thousands of Euros

Cash flows in continuing operations	Note	2015	2014
3. Cash flows in financing activities			
Dividends paid (–)	13	(57,305)	(49,288)
Repayment of bank borrowings (–)	14	(1,104,350)	(2,188,969)
Repayment of debt with bondholders (–)	14	(243,500)	–
Interest paid (+/–)	20	(139,462)	(189,284)
Cancellation of derivative financial instruments	20	–	(22,384)
Treasury share transactions (+/–)	13	(7,249)	2,731
		(1,551,866)	**(2,447,194)**
New bank borrowings obtained (+)	14	136,018	1,209,206
New bondholder borrowings obtained (+)	14	1,750,000	–
Capital increase (+)	13	(51)	1,263,338
Expenses associated with capital increases	13	–	(49,977)
Other proceeds/(payments) for current financial assets and other (+/–)		(558)	54,939
		1,885,409	**2,477,506**
Total net cash flows in financing activities		**333,543**	**30,312**
4. Net increase / decrease in cash and cash equivalents			
Cash flow for the year in continuing activities		91,820	72,399
Cash and cash equivalents at beginning of year from continuing operations	14	125,956	53,557
Cash transferred to discontinued operations		–	–
Cash and cash equivalents at end of year	14	217,776	125,956

Inmobiliaria Colonial, S.A. and Subsidiaries Notes to the consolidated financial statements for the year ended 31 December 2015

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 located 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 real estate, 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, Barcelona, Valencia and Bilbao stock exchanges.

On 5 June 2015 the Parent 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. The SFL subsidiary also improved its rating from "BBB-" to "BBB" in the long term, and from "A-3" to "A-2" in the short term.

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 and rules and measurement bases, the Spanish Code of Commerce, the Spanish Limited Liability Companies Law, the Spanish Securities Markets Law and other applicable company law, as well as regulations laid down by the Spanish National Securities Market Commission (CNMV), to present a true and fair view of the Colonial Group's consolidated equity and financial position at 31 December 2015 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 2015 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 19 February 2016.

However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements at 31 December 2015 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 2014 were approved by the shareholders of the Parent at the General Meeting held on 24 April 2015.

b) Adoption of International Financial Reporting Standards

The Colonial Group's consolidated financial statements were prepared in accordance with IFRSs, 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 in accordance with the IFRSs approved in Europe is in turn regulated by final provision eleven of Law 62/2003, of 30 December, on tax, administrative, labour and social security measures.

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

Standards and interpretations effective in 2015

New accounting standards became effective in 2015 and were accordingly taken into account in 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**
• IFRIC 21 Levies (issued in May 2013) Guidance on when to recognise a liability for levies charged for participation in a market on a specified date	17 June 2014 (1)
• Improvements to IFRSs 2011-2013 Cycle (issued in December 2013) Minor amendments to a series of standards	01 January 2015 (2)

(1) The European Union endorsed IFRIC 21 (EU Bulletin 14 June 2014), replacing the original entry date in force established by the IASB (1 January 2014) with that of 17 June 2014.
(2) The IASB effective date of the standard was for annual periods beginning on or after 1 July 2014.

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 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	
• 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.	01 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 interest in a joint operation that constitutes a business.	01 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.	01 January 2016
• Improvements to IFRSs 2012-2014 Cycle (issued in September 2014) Minor amendments to a series of standards.	01 January 2016
• Amendments to IAS 27 Equity Method in Separate Financial Statements (issued in August 2014) An investor may now be accounted for using the equity method in separate financial statements.	01 January 2016
• Amendments to IAS 1 Disclosure Initiative (December 2014) Miscellaneous clarifications regarding disclosures (materiality, aggregation, order of notes, etc.).	01 January 2016

(1) The IASB effective date of these standards was for annual periods beginning on or after 1 July 2014.

New standards, amendments and interpretations	Mandatory application for annual periods beginning on or after
Not yet approved for use by 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).	01 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.	01 January 2018
• IFRS 16 Leases (issued in January 2016) New leases standard which replaces IAS 17. Lessees shall include all leases on the balance sheet as if they were financed purchases.	01 January 2019
• Amendment to IFRS 10, IFRS 12 and IAS 28 Investment Entities (December 2014) Clarifications on applying the consolidation exception to investment entities.	01 January 2016
• 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 8 and 9).

– This market value was obtained from the appraisals periodically made by independent experts. Such appraisals were made on 30 June 2015 and 31 December 2015 in accordance with the methods described in Notes 4-b and 4-c.

– Measurement of non-current assets held for sale (Note 24).

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

– The recoverability of tax credits in respect of tax loss carryforwards and deferred tax assets recognised in the consolidated statement of financial position (Note 18).

– The market value of certain financial assets, including derivative financial instruments (Note 15).

– Evaluation of lawsuits, obligations and contingent assets and liabilities at year-end (Notes 17 and 19).

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), which would mean, except for goodwill impairment charges, which cannot be reversed in the future, prospectively recognising the effects of said changes in the consolidated statement of comprehensive income, pursuant to IAS 8.

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) The equity of their investees is presented within Equity under "Non-controlling interests" in the consolidated statement of financial position.

   b) Profit or loss for the period is recognised under "Net profit attributable to non-controlling interests" in the consolidated statement of comprehensive income.

6. The Group used the following criteria to determine the consolidation method applicable to the various companies comprising the Group:

   Full consolidation:

   – Subsidiaries are fully consolidated and are considered to be all entities in which the Group directly or indirectly controls the financial and operating policies such that power is exercised over the investee. This is generally accompanied by an ownership interest of more than half of an entity's voting rights. In addition, to evaluate whether the Group controls another entity, it considers the power over the investee; the exposure or rights to variable returns of the investment; and the ability to use this power over the investee to affect the amount of the investor's returns. When evaluating whether the Group exercises control over an entity, the existence and the effect of any potential voting rights, both those held by the Parent and by third parties, are taken into consideration, provided they are of a substantive nature.

   – Subsidiaries are accounted for using the 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 2015 and 2014 are included in the Appendix).

   The equity method:

   – Companies considered to be associates are accounted for using the equity method. Investment in an associate is initially recognised at acquisition cost.

   – Associates are entities in which the Colonial Group has significant influence but neither control nor joint control. Significant interest is generally evidenced by an interest of between 20% and 50% in the voting shares of a company.

   – The Group's share in an associate's post-acquisition profits or losses is recognised in the consolidated statement of comprehensive income, while its share in subsequent changes in equity recognised directly in the associate's reserves is also recognised directly in the Group's equity. The carrying amount of the initial investment is increased or decreased to recognise the accumulated aforementioned changes. If the Group's share of the losses of an associate is equal to or greater than the value of its investment, including any account receivable not guaranteed, no further losses are recorded by the Colonial Group unless obligations have been incurred or payments have been made on behalf of the associate.

   – Unrealised gains on transactions between the Colonial Group and its associates are eliminated to the extent of the Group's interest in that associate. Unrealised losses are similarly eliminated, unless losses are evidence of impairment.

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 2015:

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

The changes in the scope of consolidation in 2014 were as follows:

– On 25 February 2014, Asentia Project, S.L. (hereinafter, "Asentia") increased its share capital, which was undertaken in full through the conversion of debt into equity by three of Asentia's creditors. Subsequently, various capital increases were carried out, subscribed in full through the conversion of debt into equity by various creditors of Asentia, and reduced Colonial's interest to 3.79% at 31 December 2014.

As a result of the first share capital increase and the change to the composition of the company's Board, Colonial lost control over Asentia, and the ownership interest was recognised in the consolidated statement of financial position as an available-for-sale financial asset with a value of 0 euros. The effect of the financial collateral furnished on behalf of the Asentia Group was also recognised as a result of this loss of control.

The impact of the loss of control over the Asentia subgroup on the consolidated statement of comprehensive income for 2014 was as follows:

	Thousands of euros
	2014
Derecognition of assets and liabilities of non-controlling interests	735,531
Recognition of financial collateral	(26,065)
Recycling of the derivatives reserve to the statement of comprehensive income	(5,317)
Other items recycled to the statement of comprehensive income	(3,288)
Profit from discontinued operations	**700,861**
Attributable to shareholders of the Parent (Note 5)	700,740
Attributable to non-controlling interests	121

In 2015 the residual shareholding held at 31 December 2014 was sold to Asentia for 4 thousand euros.

– On 23 July 2014, SFL transferred all its shares (29.63%) in the share capital of SIIC de Paris. This interest was accounted for using the equity method. The sale price, net of transfer costs, amounted to 303,557 thousand euros, generating accounting capital gains of 8,485 thousand euros.

– On 1 October 2014, effective for accounting purposes as of 1 January 2014, all the assets and liabilities of the subsidiary Abix Service S.L.U. (hereinafter “Abix”) were transferred en bloc to the Parent. This transaction had no impact on the consolidated financial statements at 31 December 2014.

– On 4 December 2014, SFL acquired 100% of the share capital of the French subsidiaries SNC Condorcet Holding and SNC Condorcet Propco, owners of a property located at rue Condorcet, Paris. The acquisition price was 229,438 thousand euros.

At 31 December 2015 and 2014, 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 2015, the Group had a working capital deficiency of 612 thousand euros. When drawing up these notes to the consolidated financial statements, the Parent’s directors took into account the capacity for additional drawdowns on credit facilities undertaken by the Group (Note 14).

h) Comparative information

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

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 2014.

3. Distribution of the Parent's profit

The distribution of 2015 profit proposed by the Board of Directors of the Parent for approval by its shareholders at the Annual General Meeting is as follows:

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

4. Accounting policies

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, goodwill (Note 7) and intangible assets

Business combinations and goodwill

Business combinations are accounting for by applying the acquisition (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.

The Parent's directors make a provisional allocation of the purchase price for the business combination at the acquisition date; this initial assessment is re-evaluated, as appropriate, within 12 months from the date control is obtained.

Goodwill is allocated by the Parent's directors to the various cash generating units (CGUs) expected to benefit from the business combination synergies, regardless of other acquired assets and liabilities that are allocated to these CGUs or groups of CGUs.

The Parent's directors test each CGU for impairment at year-end or whenever there are indications that the CGU has suffered an impairment loss by comparing the carrying amount of the aforementioned CGU, including allocated goodwill, with its recoverable amount.

If the CGU's recoverable amount exceeds its carrying amount, the CGU and its allocated goodwill are not considered to be impaired. Otherwise, the Group recognises an impairment loss using the following criteria:

– First, the goodwill allocated to the CGU is reduced and, where the impairment loss exceeds this amount.

– The impairment loss is distributed over the CGU's remaining assets in proportion to their respective carrying amounts.

Impairment losses recognised for goodwill may not be reversed subsequently.

Intangible assets

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

b) Property, plant and equipment (Note 8)

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 items of property, plant and equipment using the straight-line method at annual rates based on the years of estimated useful life. The years of estimated useful life for 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	3 to 10	10 to 50
Other property, plant and equipment	3 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 9)

"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.

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 (Jones Lang LaSalle in Spain and CB Richard Ellis Valuation, Jones Lang La Salle and BNP Paribas Real Estate, in both 2015 and 2014) at the date of preparing the consolidated statement of financial position, so that the year-end fair values for investment property items reflect prevailing market conditions. The valuation reports prepared by independent experts contain only the standard warnings and/or disclaimers concerning the scope of the findings of the appraisals carried out, referring basically to the comprehensiveness and accuracy of the information provided by the Group.

The Discounted Cash Flow (hereinafter, “DCF”) method was primarily used to determine the market value of the Group’s property investments in 2015 and 2014.

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

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

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

With regard to acceptable discount rates, conversations are regularly held with various institutions to assess their attitude towards different investment rates. This general consensus, together with the data on any sales made and market forecasts relating to variations in the discount rates, serve as starting points for the 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 2015 and 2014 are set out in the tables below:

Yields (%) - Offices	Gross 31 December 2015	 31 December 2014
Barcelona – Prime Yield		
Leased out	5.54	6.31
Total portfolio	5.57	6.32
Madrid – Prime Yield		
Leased out	4.92	5.80
Total portfolio	4.91	5.80
Paris – Prime Yield		
Leased out	4.08	4.54
Total portfolio	4.08	4.54

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

Assumptions made at 31 December 2014

Rental increases (%) - Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona					
Leased out	2.5	2.5	2.5	2.5	2.5
Total portfolio	2.5	2.5	2.5	2.5	2.5
Madrid					
Leased out	2.5	2.5	2.5	2.5	2.5
Total portfolio	2.5	2.5	2.5	2.5	2.5
Paris					
Leased out	0.5	1.5	2.0	2.0	2.0
Total portfolio	0.5	1.5	2.0	2.0	2.0

In addition, developments in progress were valued using the residual method, which was deemed the best approach. This method begins with an estimate of the income yielded by the developed and fully leased property; from this value, development, 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 2015 and 2014 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 2015	6,912,522	+431,620	(383,189)
December 2014	5,757,247	+307,574	(302,901)

The table below details the borrowing costs capitalised in 2015 and 2014 (Note 20-g):

	Thousands of euros	
	Amount capitalised during the period	Average interest rate
2015:		
Danieltown Spain, S.L.U.	1	3.40%
SFL subgroup	6,048	2.77%
Total 2015:	**6,049**	**–**
2014:		
SFL subgroup	7,473	3.52%
Total 2014:	**7,473**	**–**

The rental income earned in 2015 and 2014 from the lease of investment properties amounted to 231,185 thousand and 211,477 thousand euros, respectively (Note 20-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 and 2014, all these rights related to investment property and are therefore measured at market value and are not depreciated.

"Bank borrowings and other financial liabilities" (Note 14), 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 10)

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:

– Investments accounted for using the equity method are carried at the Group's share of the associate's equity, adjusted for unrealised gains at the time of acquisition.

– Loans and receivables include the credit facilities granted to third parties and associates. They are measured at their nominal 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 include current and non-current fixed-income securities which are generally held until maturity and 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.

Financial liabilities (Note 14)

Financial liabilities consist primarily of loans from banks 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 12)

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 2015 and 2014, the Group had no significant receivables past due but not impaired.

In 2015, impairment losses in the amount of 1,167 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 14)

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

h) Own equity instruments (Note 13)

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 17 and 19)

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 17). Contingent liabilities are not recognised, but are disclosed in Note 19.

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 an expense in the year in which the decision to terminate the contract is taken and a valid expectation regarding termination is transmitted to third parties. At 31 December 2015, the Parent recorded a provision in this connection for 752 thousand euros.

Pension obligations (Note 17)

At 31 December 2015, the SFL subgroup had several defined-benefit pension plans. Defined benefit obligations are calculated periodically by independent actuarial experts. The actuarial assumptions currently used to calculate these liabilities are adapted to applicable French legislation, in accordance with IAS 19. The actuarial cost recorded in the consolidated statement of comprehensive income in relation to said plans is the sum of the service costs for the period, interest expense and actuarial gains and losses.

Share-based payments (Note 21)

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 15)

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 2015 and 2014).

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 testing for hedge effectiveness is carried out on a monthly basis.

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

– Prospective tests measure the instrument's expected effectiveness on the basis of forward interest rates as published by Bloomberg at the measurement date. This is adjusted monthly from the inception of the hedge on the basis of the 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 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 main activity is the rental business, the normal cycle of which is considered to correspond to the calendar year; consequently, assets and liabilities maturing in one year or less are classified as current and those maturing thereafter as non-current.

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

m) Income tax (Note 18)

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 from investments 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 2015. The effective settlement rate was therefore set at 7.5%.

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 real estate investment companies ("the SIIC regime"). This regime enabled the recognition at market value of assets allocated to the rental business at 1 January 2003, subject to a tax rate of 16.5% ("exit tax"), payable within a period of four years, on the capital gains from the asset revaluations recorded for accounting purposes as of this date.

This regime affects only real estate activities, and is not applicable to companies engaged in sales and services, such as Segpim, S.A. and Locaparis SAS in the SFL subgroup, to properties under finance leases (unless the lease is cancelled early) or to the subgroups and 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 holds an ownership interest of less than 60% in SFL.

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 20)

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. In this regard, at 31 December 2015 and 2014, all of the Group's leases qualified as operating leases, except for the finance leases described in Note 9.

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 are substantially 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 or disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of the contributed equity and borrowings that are not operating activities.

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 2015 and 2014, the Group invoiced 45,357 thousand and 40,616 thousand euros, respectively, in connection with costs passed on to lessees, recognising them as a reduction in the related expense heading in the consolidated statement of comprehensive income.

Direct operating expenses associated with investment properties which generated rental income during the years ended 31 December 2015 and 2014, included under “Operating profit” in the accompanying consolidated statements of comprehensive income, amounted to 63,010 thousand and 61,374 thousand euros, respectively. Expenses incurred in connection with investment properties that did not generate rental income were not material.

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 and discontinued operations (Note 24)

s.1) Non-current assets held for sale

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.

s.2) Discontinued operations

Discontinued operations consist of the sale, disposal in other ways or classification as “held for sale” of a component of the Group, which in addition:

– represents a separate major line of business or geographical area of operations,

– is part of an individual coordinated plan to dispose of a separate major line of business or geographical area of operations, or

– is a subsidiary acquired exclusively with a view to resale.

In keeping with the above, the Group considers that sales of investment properties (non-current assets) made as part of its ordinary business activities and included in the asset rotation plan should be classified as held for sale in the consolidated statement of financial position, to the extent they meet the conditions for such classification but do not require disclosure as discontinued operations, as they do not meet the requirements established above.

When a transaction qualifies as a discontinued operation, the Group presents the profit after tax of this discontinued operation under a single heading in the consolidated statement of comprehensive income, together with the possible loss resulting from its recognition at the lower of its carrying amount and fair value, less costs to sell, and the loss or gain if the asset is disposed of.

At 31 December 2013, the Parent carried its interest in Asentia as a non-current asset held for sale and the activity of its land and development business segment as a discontinued operation. On 25 February 2014, the interest in Asentia was no longer included in Colonial’s scope of consolidation.

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 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 2015

Thousands of euros

	Level 1	Level 2	Level 3
Assets			
Investment property	–	–	6,743,313
Derivative financial instruments (*)	–	–	–
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 15).

(**) 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 14).

31 December 2014
Thousands of euros

	Level 1	Level 2	Level 3
Assets			
Investment property	–	–	5,663,309
Derivative financial instruments (*)	–	1,884	–
Non-current assets held for sale	–	–	16,539
Total assets	**–**	**1,884**	**5,679,848**
Liabilities			
Bank borrowings and other liabilities	–	–	1,541,814
Bonds and similar securities issued (**)	1,251,121	–	–
Derivative financial instruments (*)			
Cash flow hedges	–	7,787	–
Not classified as hedges	–	5,582	–
Total liabilities	**1,251,121**	**13,369**	**1,541,814**

(*) At 31 December 2014, 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 15).
(**) At 31 December 2014, the carrying amount of the bonds issued by SFL was 1,200,000 thousand euros (Note 14).

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 2014, all the outstanding bonds at 31 December 2013, amounting to 15,184, were converted into shares of the Parent (Note 13).

Thousands of euros

	31 December 2015	31 December 2014
Consolidated profit for the year attributable to shareholders of the Parent:	**415,413**	**491,994**
– from continuing operations	415,413	(208,746)
– from discontinued operations	–	700,740
	No. of shares	**No. of shares**
Average number of ordinary shares (in thousands)	3,185,837	2,156,420
Number of potential ordinary shares resulting from the conversion of bonds (in thousands)	–	–
Average number of diluted ordinary shares (in thousands)	3,185,837	2,156,420
	Euros	**Euros**
Basic and diluted earnings per share:	**0.130**	**0.228**
– from continuing operations	0.130	(0.097)
– from discontinued operations	–	0.325

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 2015, which has been used by the Group's management to analyse the financial performance of the various operating segments.

Until the date on which effective control over the Asentia subgroup was lost (Note 2-f), the Group was organised along the following main business segments, which formed the basis on which the Group presented the information on its operating segments:

– The rental business, which includes office rentals. The Parent's management monitors its rental activities for each one of the markets in which the Group operates. The Barcelona, Madrid and Paris operating segments reflect the organisational structure of the Colonial Group.

– The land and development business, which includes the shopping centres managed by the Riofisa subgroup.

– Revenue and expenses which are not directly related and allocated to these lines of business are allocated to the "Corporate Unit".

Following the deconsolidation of Asentia, all of the Group's activities were carried out in Spain and France within the property rental segment.

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:

2015 segment reporting

Thousands of euros

	Rentals							
	Barcelona	**Madrid**	**Paris**	**Other**	**Total rentals**	**Development & land**	**Corporate Unit**	**Total Group**
Income	27,102	35,331	170,099	–	232,532	–	1,796	**234,328**
Revenue (Note 20-a)	27,087	35,304	168,794	–	231,185	–	–	**231,185**
Other income (Note 20-b)	15	27	1,305	–	1,347	–	1,796	**3,143**
Net gain/(loss) on sales of assets (Notes 20-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 20-f)	92,233	118,776	513,654	(4,681)	719,982	–	–	**719,982**
Impairment charges and net gains/(losses) on assets (Note 20-e)	(2,880)	(390)	(11)	–	(3,281)	–	807	**(2,474)**
Financial loss (Note 20-g)	–	–	–	–	–	–	(131,119)	**(131,119)**
Profit before tax	–	–	–	–	–	–	755,942	**755,942**
Consolidated net profit from continuing operations	–	–	–	–	–	–	703,145	**703,145**
Profit/(loss) from discontinued operations	–	–	–	–	–	–	–	**–**
Consolidated net profit	–	–	–	–	–	–	703,145	**703,145**
Net loss attributable to non-controlling interests (Notes 20-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**	**Development & land**	**Corporate Unit**	**Total Group**
Assets								
Intangible assets, property, plant and equipment and investment property (Notes 8 and 9)	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 24)	–	6,942	–	5,785	12,727	–	–	**12,727**
Total	**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**	**Development & land**	**Corporate Unit**	**Total Group**
Liabilities								
Bank borrowings and other financial liabilities (Note 14)	–	–	–	–	–	–	572,552	**572,552**
Bonds and similar securities issued (Note 14)	–	–	–	–	–	–	2,715,240	**2,715,240**
Trade liabilities (suppliers and payables)	–	–	–	–	–	–	85,642	**85,642**
Other disclosures								
Investments in intangible assets, property, plant and equipment and investment property	4,789	168,290	192,265	–	365,344	–	186	**365,530**

Thousands of euros

	Rentals							
	Barcelona	Madrid	Paris	Other	Total rentals	Development & land	Corporate Unit	Total Group
Other disclosures								
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 charge for the year								
Changes in provisions	6	(994)	(252)	–	(1,240)	–	(2,082)	**(3,322)**
Change in fair value of investment property (Note 20-f)	92,233	118,776	513,654	(4,681)	719,982	–	–	**719,982**
Impairment charges and net gains/(losses) on assets (Note 20-e)	(2,880)	(390)	(11)	–	(3,281)	–	807	**(2,474)**

2014 segment reporting

Thousands of euros

	Rentals							
	Barcelona	**Madrid**	**Paris**	**Other**	**Total rentals**	**Development & land**	**Corporate Unit**	**Total Group**
Income	28,088	32,542	153,453	–	214,083	–	–	**214,083**
Revenue (Note 20-a)	27,525	32,444	151,508	–	211,477	–	–	**211,477**
Other income (Note 20-b)	563	98	1,945	–	2,606	–	–	**2,606**
Net gain/(loss) on sales of assets (Note 20-f)	(27)	–	–	–	(27)	–	–	**(27)**
Operating profit/(loss)	23,400	28,070	121,521	(321)	172,670	–	(57,764)	**114,906**
Change in fair value of investment property (Note 20-f)	22,244	83,777	227,542	(1,610)	331,953	–	–	**331,953**
Impairment charges and net gains/(losses) on assets (Note 20-e)	(623)	(4,296)	–	–	(4,919)	–	(119,660)	**(124,579)**
Financial loss (Note 20-g)	–	–	–	–	–	–	(218,873)	**(218,873)**
Profit before tax	–	–	–	–	–	–	103,407	**103,407**
Consolidated net loss from continuing operations	–	–	–	–	–	–	(72,376)	**(72,376)**
Profit from discontinued operations	–	–	–	–	–	700,861	–	**700,861**
Consolidated net profit	–	–	–	–	–	–	628,485	**628,485**
Net loss attributable to non-controlling interests (Note 20-i)	–	–	–	–	–	–	(136,491)	**(136,491)**
Net profit attributable to shareholders of the Parent (Note 5)	–	–	–	–	–	–	491,994	**491,994**

There were no significant inter-segment transactions in 2014.

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	Development & land	Corporate Unit	Total Group
Assets								
Intangible assets, property, plant and equipment and investment property (Notes 8 and 9)	588,188	675,762	4,399,347	–	5,663,297	–	35,483	**5,698,780**
Financial assets	61,224	1,127	17,826	–	80,177	–	55,912	**136,089**
Other non-current assets	–	–	–	–	–	–	1,548	**1,548**
Trade receivables and other current assets	–	–	–	–	–	–	72,521	**72,521**
Non-current assets held for sale (Note 24)	–	6,994	–	9,545	16,539	–	–	**16,539**
Total	**649,412**	**683,883**	**4,417,173**	**9,545**	**5,760,013**	**–**	**165,464**	**5,925,477**

Thousands of euros

	Rentals							
	Barcelona	Madrid	Paris	Other	Total rentals	Development & land	Corporate Unit	Total Group
Liabilities								
Bank borrowings and other financial liabilities (Note 14)	–	–	–	–	–	–	1,553,419	**1,553,419**
Bonds and similar securities issued (Note 14)	–	–	–	–	–	–	1,204,339	**1,204,339**
Trade liabilities (suppliers and payables)	–	–	–	–	–	–	104,302	**104,302**
Other disclosures								
Investments in intangible assets, property, plant and equipment and investment property	24,719	3,313	358,686	–	386,718	–	237	**386,955**

Thousands of euros

	Rentals							
	Barcelona	**Madrid**	**Paris**	**Other**	**Total rentals**	**Development & land**	**Corporate Unit**	**Total Group**
Other disclosures								
Depreciation and amortisation charge	–	–	(1,011)	–	(1,011)	–	(433)	**(1,444)**
Expenses that do not entail outflows of cash other than the depreciation and amortisation charge for the year								
Changes in provisions	7	(226)	290	–	71	–	(18,012)	**(17,941)**
Change in fair value of investment property (Note 20-f)	22,243	85,385	227,542	1	335,171	–	–	**335,171**
Impairment charges and net gains/(losses) on assets (Note 20-e)	(623)	(4,296)	–	–	(4,919)	–	(119,660)	**(124,579)**

7. Goodwill

The changes in “Goodwill” in the consolidated statement of financial position in 2015 and 2014 were as follows:

	Thousands of euros
Balance at 31 December 2013	**120,000**
Impairment	(120,000)
Balance at 31 December 2014	**–**

Goodwill included that arising from the business combination between the current Inmobiliaria Colonial, S.A. (formerly, Inmocaral Servicios, S.A.) and Inmobiliaria Colonial, S.A. (absorbed company).

To test the goodwill allocated to the rental business CGU for impairment, the Parent’s management relied on historical Group data for the Spanish and French businesses, making rental projections for the properties already leased, as well as factoring in management and administrative cost assumptions.

Since 2012, goodwill has been entirely allocated to the French rentals business. Consequently, the impairment testing of goodwill carried out at year-end 2013 and 2012 relied only on the cash flows of the Group’s rentals business in France.

In 2014, the Parent's directors re-assessed the recoverability of goodwill, considering mainly the effect of the sale of the interest held in SIIC de Paris, (Note 2-f) and the positive trend in the value of SFL's property assets (Note 6). This eliminated the difference between the recoverable amount of SFL's assets considered in the impairment test and their fair value, determined based on the assessments carried out by independent third parties, and generated a gain of 227,542 thousand euros as a result of changes in value of SLF's investment property in 2014 (Note 20-f). As a result of this verification, the impairment on all this goodwill was recognised under "Impairment charges and net gains/(losses) on assets" in the consolidated statement of comprehensive income and amounted to 120,000 thousand euros (Note 20-e).

8. Property, plant and equipment

The movement in property, plant and equipment in 2015 and 2014 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 2013	**43,095**	**(6,986)**	**(8,948)**	**10,774**	**(4,983)**	**53,869**	**(11,969)**	**(8,948)**	**32,952**
Additions or charges	15	(273)	–	73	(832)	88	(1,105)	–	(1,017)
Decreases	–	–	340	(82)	59	(82)	59	340	317
Transfers	–	–	–	789	(56)	789	(56)	–	733
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**

At 31 December 2015 and 2014, 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 are rented out. The value of buildings used for the Group's own purposes is recognised in "Property for own use".

At 31 December 2015, the need to recognise a reversal of the asset impairment charge recognised in previous years in the amount of 808 thousand euros was evidenced by the appraisals performed by independent experts (Note 20-e). In 2014, the Company recognised the reversal of the impairment loss on the value of the assets recognised in previous years in the amount of 340 thousand euros.

At 31 December 2015, as a result of the disposal by part of the Group of assets included under "Other tangible assets", the revenue generated, stated as the difference between its sale price and its carrying amount, is recognised in the consolidated statement of comprehensive income. This amounts to 14 thousand euros.

9. Investment property

The changes in this heading of the consolidated statement of financial position in 2015 and 2014 were as follows:

Thousands of euros

	Investment property	Investment property in progress	Prepayments	Total
Balance at 31 December 2013	**4,602,391**	**307,006**	**6,669**	**4,916,066**
Additions	261,767	120,981	3,095	**385,843**
Decreases	(5,067)	–	(3,184)	**(8,251)**
Transfers	149,837	(115,357)	–	**34,480**
Changes in fair value (Note 20-f)	336,034	(863)	–	**335,171**
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 20-f)	716,452	8,663	–	**725,115**
Balance at 31 December 2015	**6,574,272**	**169,041**	**–**	**6,743,313**

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 2014

In December 2014, SFL acquired a property in Paris (Condorcet) for 229,438 thousand euros. The Parent also acquired an asset located in Barcelona (Pza. Europa) for 10,587 thousand euros.

Additions in 2014 also include investments made in development and renovation projects, mainly at properties of the SFL subgroup, for the amount of 125,279 thousand euros, and at properties of the Parent amounting to 17,444 thousand euros.

A further property was transferred from "Non-current assets held for sale" to "Investment property – Investment property in progress" in the amount of 34,480 thousand euros. In addition, the costs of the refurbishment work and the partial renovation carried out on the properties of SFL were transferred from "Investment property in progress" to "Investment property".

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 2015 and 2014 of 725,115 thousand and 335,171 thousand euros, respectively (Note 20-f). These changes reflect the changes in the fair value of the Group's investment properties evidenced by the independent property appraisals dated 31 December 2015 and 2014 (Note 4-c).

Other disclosures

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

Total surface area (m²) of investment property

	For rental		Projects under development		Total	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Barcelona (*)	285,935	283,995	31,520	33,227	317,455	317,222
Madrid	256,105	229,579	30,014	1,499	286,119	231,078
Rest of Spain	458	458	–	–	458	458
Paris (*)	414,190	372,050	51,272	87,115	465,462	459,165
	956,688	**886,082**	**112,806**	**121,841**	**1,069,494**	**1,007,923**

(*) 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 buildings (owned by the Parholding subgroup, in which SFL holds a 50% interest) and the Torre del Gas building (owned by Torre Marenostrum, S.L., a company 55%-owned by the Parent).

At 31 December 2015, SFL and Torre Marenostrum, S.L. pledged assets as collateral for mortgage loans, the carrying amount of which is 932,850 thousand euros, and as collateral for debts in the amount of 273,479 thousand euros. At 31 December 2014, the corresponding balances were 836,351 thousand and 273,941 thousand euros.

At 31 December 2014, the Parent also pledged investment property as collateral for the syndicated loan (Note 14), the carrying amount of which was 1,145,483 thousand euros. At 31 December 2015, after the early cancellation of said syndicated loan, these guarantees were cancelled.

Since February 1999, the Parent has also been awaiting a ruling on various suits brought in connection with a purchase agreement signed for the acquisition of the building located at Francisco Silvela, 42 in Madrid for 21,799 thousand euros, which are recognised under “Trade payables”. Inmobiliaria Colonial, S.A. has deposited a bank guarantee in court for the amount on which payment is pending (Note 16). On 19 March 2014, the Parent and the sellers signed an agreement setting out the formalisation of the purchase of the asset by the Parent and the related payment of the outstanding amount, less the 432 thousand euros in legal costs borne by the Parent, putting an end to the legal proceedings. This agreement was approved by the Court on 4 November 2015. At 31 December 2015, the building was already entered in the property register on behalf of the Parent and the guarantee securing the amount payable has yet to be legally executed.

At 31 December 2015 and 2014, the Group had one property held under finance leases, the Prony – Wagram property owned by SFL. The following table shows the information relating to this lease:

			Thousands of euros		
				Payments outstanding	
Prony Wagram	**Average term in years**	**Average number of years elapsed**	**Asset's net carrying amount**	**Non-current**	**Current**
31 December 2015	7	6.5	27,271	–	27,271
31 December 2014	7	5.5	30,061	27,271	2,790

10. Non-current financial assets

The changes in this heading of the consolidated statement of financial position in 2015 and 2014 were as follows:

Thousands of euros

	31 December 2014	Acquisitions and charges	Disposals or decreases	Transfers to assets held for sale	31 December 2015
Deposits and guarantees given	10,070	888	(2,004)	–	8,954
Total	**10.070**	**888**	**(2.004)**	**–**	**8.954**

Thousands of euros

	31 December 2013	Acquisitions and charges	Disposals or decreases	Transfers to assets held for sale	31 December 2014
Investments accounted for using the equity method (Note 4-e)	302,341	1,980	(9,455)	(294,866)	–
Deposits and guarantees given	7,409	2,661	–	–	10,070
Total	**309,750**	**4,641**	**(9,455)**	**(294,866)**	**10,070**

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 related to the work yet had to be carried out on the UE-1. In this regard, the amount yet to be drawn down by DUE at 31 December 2015 totalled 11,232 thousand euros, and for such purpose, in accordance with the obligations assumed, the Parent recognise the appropriate provision under “Other non-current provisions” in the accompanying consolidated statement of financial position.

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

Lastly, the aforementioned loan accrues contingent interest based on compliance with certain conditions: At 31 December 2015 and 2014, no finance income was accrued in this connection.

Loan to Asentia Project, S.L.

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

On 28 May 2015, Asentia increased its share capital, partially subscribed by the Parent by means of the non-monetary contribution of the abovementioned collection right, which was valued by an independent third party (BDO Auditores, S.L.) appointed by the Mercantile Registry at 384 thousand euros. After this increase, the interest of the Parent in Asentia rose to 0.069%. Likewise, on 10 December 2015, the residual shareholding held at 31 December 2014 was sold to Asentia for 4 thousand euros.

Investments accounted for using the equity method

The movement in “Investments accounted for using the equity method” in 2014 is as follows:

	Thousands of euros SIIC de Paris, S.A.
Balance at 31 December 2013	**302,341**
Acquisitions or share of profit	1,980
Disposals or dividends received	(9,455)
Changes in the scope of consolidation (Note 2-f)	(294,866)
Balance at 31 December 2014	**–**

In 2014, SLF entered into an agreement with Eurosic for the sale of all its interest in the share capital of SIIC de Paris at a price of 23.88 euros per share (discounting the amount of any future dividend that may be paid after the agreement), conditional on the effective acquisition by Eurosic of the interest owned by Realia in SIIC de Paris. On 23 July 2014, the shares were transferred and the sale price, net of transfer costs, amounted to 303,351 thousand euros, generating an accounting gain of 8,485 thousand euros (Note 20-g).

Deposits and guarantees given

Long-term deposits and guarantees basically comprise deposits made with official bodies in each country for deposits collected from lessees, in accordance with prevailing legislation.

11. Other non-current assets

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

In 2015 the Parent returned the guarantees corresponding to the amounts deemed unrecoverable, thus recognising in the consolidated statement of financial position only those amounts considered to be recoverable, which amounts to 7,751 thousand euros. This amount was fully impaired at 31 December 2015 and 2014.

12. Trade and other receivables

The breakdown of this current asset heading in the accompanying consolidated statement of financial position at 31 December 2015 and 2014 is as follows:

Thousands of euros

	31 December 2015	31 December 2014
Trade receivables from sales and services	16,793	14,634
Accrual of lease incentives	59,160	43,614
Other receivables	85,630	156,074
Impairment of trade receivables (Note 20-e)	(90,093)	(157,495)
Other current assets	476	1,179
Total trade and other receivables	**71,966**	**58,008**

Trade receivables from sales and services

This mainly includes the amounts receivable from customers, primarily from the Group's rentals business in France, that are billed monthly, quarterly or yearly. At 31 December 2015 and 2014, 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).

Other receivables and impairment losses on trade receivables

At 31 December 2014, the amounts owed by Nozar, S.A. and NZ Patrimonio, S.L.U., resulting from the cancellation of the purchase contracts entered into in July 2007 as a result of failing to comply with the conditions precedent, are recognised under "Other receivables", and totalled 152,189 thousand euros, including accrued interest (Note 20-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 loss of 66,717 thousand euros, as soon as the insolvency manager disposed of all of its assets, without the amounts obtained being sufficient to pay that owed to the Parent.

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

13. Equity

Share capital

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

The following changes in the Parent's share capital occurred in 2014:

- On 17 February 2014, a capital reduction of 169,439 thousand euros was entered in the Barcelona Mercantile Register in order to increase restricted voluntary reserves by decreasing the par value of all shares from 1 euro to 0.25 euros per share.
- On 17 February 2014, the capital increase required to meet the last voluntary conversion of bonds convertible into shares of the Parent was registered in the Barcelona Mercantile Register, increasing the share capital by 0.5 thousand euros through the issue of 1,890 new shares with a par value of 0.25 euros.
- On 31 March 2014, the capital increase required to meet the ordinary redemption of all the outstanding bonds convertible into shares of the Parent was registered in the Barcelona Mercantile Register, increasing the share capital by 20 thousand euros through the issue of 79,101 new shares with a par value of 0.25 euros.
- On 6 May 2014, a capital increase for 734,499 thousand euros through the issuance of 2,937,995,853 new shares with a par value of 0.25 euros each was registered in the Barcelona Mercantile Register.
- On 8 May 2014, within the framework of the refinancing process, a capital increase for 486 thousand euros through the issuance of 1,944,444 new shares with a par value of 0.25 euros each was registered in the Barcelona Mercantile Register, each as a result of the exercise by the credit institution ING, of the warrants convertible into shares of the Parent, and which were delivered to guarantee the debt maintained by Abix Service, S.L.
- On 30 December 2014, a capital increase for 5,729 thousand euros through the issuance of 22,916,662 new shares with a par value of 0.25 euros each, was registered in the Barcelona Mercantile Register, each as a result of the exercise by the holding companies, of the warrants convertible into shares of the Parent, and which were delivered to guarantee the debt maintained by Asentia.

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

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

31 December 2015	% shareholding
Name or corporate name of the shareholder:	
Inmobiliaria Espacio, S.A.	14.567%
Qatar Investment Authority	13.138%
SICAV Amura Capital (Mora Banc Grup, S.A.)	7.050%
Aguila Ltd.	6.886%
Joseph Charles Lewis	5.085%
Third Avenue Management LLC	3.065%
Fidelity International Limited	1.974%
Invesco Limited	1.110%
Deutsche Bank A.G.	0.917%

Information dated 31 December 2015.

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

On 1 January 2016, Orbis Allan Gray Limited indirectly acquired an interest of 1.211% of the share capital of the Parent. On 5 January 2016, Joseph Charles Lewis reduced his shareholding to 5.075%.

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

31 December 2014	% shareholding
Name or corporate name of the shareholder:	
Inmobiliaria Espacio, S.A.	24.442%
Qatar Investment Authority	13.138%
SICAV Amura Capital (Mora Banc Grup, S.A.)	7.050%
Aguila Ltd.	6.886%
T. Rowe Price Associates, INC	3.092%
Third Avenue Management LLC	3.065%
Fidelity International Limited	1.974%

Information dated 31 December 2014.

The Parent has no knowledge of other significant equity interests.

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

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

Likewise, at the General Shareholders' Meeting held on 24 April 2015, the Board of Directors was authorised to issue, on behalf of the 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.

Share premium

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

- On 17 February 2014, the capital increase required to meet the last voluntary conversion of bonds convertible into shares of the Parent was registered in the Barcelona Mercantile Register, through the issue of 1,890 new shares with a share premium of 24.75 euros per share, thereby increasing the share premium by 47 thousand euros.
- On 31 March 2014, the capital increase required to meet the ordinary redemption of all the outstanding bonds convertible into shares of the Parent was registered in the Barcelona Mercantile Register, through the issue of 79,101 new shares with a share premium of 24.75 euros per share, thereby increasing the share premium by 1,958 thousand euros.

– On 6 May 2014, a capital increase of 2,937,995,853 new shares with a premium per share of 0.18 euros was registered in the Barcelona Mercantile Register, thereby increasing the share premium by 528,839 thousand euros.

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

– On 30 December 2014, a capital increase was registered in the Barcelona Mercantile Register relating to the exercise of the Asentia warrants, through the issue of 22,916,662 new shares with a premium per share of 11.75 euros, thereby increasing the share premium by 269,271 thousand euros. With regard to exercising the warrants of Asentia, the Parent received a collection right vis-à-vis Asentia for a nominal value of 275,000 thousand euros as a consideration for the shares issued (Notes 2-f and 10). The valuation carried out by an independent expert (BDO Auditores, S.L.), appointed by the Barcelona Mercantile Registry, placed the value of the collection right at 384 thousand euros and, therefore, the Parent recognised this collection right at 0 euros, reducing the amount of the share premium by 262,465 thousand euros. The net changes in the share premium therefore amounted to 6,806 thousand euros.

There were no changes to the share premium in 2015.

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.

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.

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

Likewise, the capital increases in 2014 entailed costs of 50,028 thousand euros, which were recognised under “Reserves of the Parent” in the consolidated statement of changes in 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 15).

The changes in this heading are as follows:

Thousands of euros

	31 December 2015	31 December 2014
Opening balance	(6,368)	(18,358)
Changes in the fair value of hedges in the period	196	1,248
Transfer to the statement of comprehensive income	3,668	5,425
Changes in the scope of consolidation (Note 2-f)	–	5,317
Closing balance	**(2,504)**	**(6,368)**

In 2015, together with the recycling of the reserves associated with cancelled hedging instruments associated with liabilities that are still valid, and as a result of the novation of the former loan of the Parholding companies (Note 14), 3,668 thousand euros have been transferred to the consolidated statement of comprehensive income.

In 2014, as a result of the write-off of the Parent's previous syndicated loan (Note 14), the amount recognised in the reserve relating to the hedging instruments associated with this loan was transferred to the consolidated statement of comprehensive income.

Treasury shares of the Parent

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

In 2015, the Company acquired 12,257,013 treasury shares for 7,396 thousand euros. In order to meet the obligations arising from the long-term Remuneration Plan described in Note 20, on 30 April 2015 the Company settled its remaining obligations by delivering 3,766,173 shares to the beneficiaries of the plan.

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

31 December 2015

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

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

Treasury shares of SFL

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

	31 December 2015	31 December 2014
No. of shares	377,465	426,695
Carrying amount (in thousands of euros)	12,052	21,291
% shareholding	0.81%	0.92%

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 SFL's shares are held to cover two share option plans with different maturity dates and strike prices (Note 21).

In 2015, 8,232 thousand euros in profit accumulated through SFL's treasury share transactions were transferred to "Consolidated reserves" in the consolidated statement of financial position.

At 31 December 2015, the net value of the shares (EPRA NNNAV) published by SFL was 58.48 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	Riofisa subgroup	Total
Balance at 31 December 2013	**17,771**	**1,268,810**	**(13,816)**	**1,272,765**
Profit for the year	1,222	135,148	121	136,491
Dividends and other	(442)	(48,250)	–	(48,692)
Changes in the scope of consolidation (Note 2-f)	–	3,976	13,695	9,719
Financial instruments	(547)	(1,580)	–	(2,127)
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**

The breakdown of the items included in “Dividends and other” at 31 December 2015 and 2014 is as follows:

Thousands of euros

	31 December 2015	31 December 2014
Dividend paid by the SFL subgroup to non-controlling interests	(52,992)	(45,363)
Dividend paid by Washington Plaza to non-controlling interests	(3,910)	(3,483)
Dividend paid by Torre Marenostrum to non-controlling interests	(403)	(442)
Others	898	596
Total	**(56,407)**	**(48,692)**

14. Bank borrowings, other financial liabilities and debt instruments and similar securities

The breakdown by maturity of “Bank borrowings and other financial liabilities” at 31 December 2015 and 2014 is as follows:

31 December 2015
Thousands of euros

	Current	Non-current						
	Less than 1 year	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**Over 5 years**	**Total non-current**	**Total**
Bank borrowings:								
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
Finance leases (Note 9)	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 15)	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**

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
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**

31 December 2014
Thousands of euros

	Current	Non-current						
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total non-current	Total
Bank borrowings:								
Lines of credit	56,340	–	–	–	–	–	–	56,340
Loans	6,076	6,340	199,977	3,188	103,483	25,800	338,788	344,864
Syndicated loans	–	–	–	1,040,000	–	–	1,040,000	1,040,000
Finance leases (Note 9)	2,790	27,271	–	–	–	–	27,271	30,061
Interest	4,425	–	–	–	–	–	–	4,425
Debt arrangement expenses	(1,858)	(1,852)	(1,679)	(816)	(261)	(147)	(4,755)	(6,613)
Total bank borrowings	**67,773**	**31,759**	**198,298**	**1,042,372**	**103,222**	**25,653**	**1,401,304**	**1,469,077**

31 December 2014
Thousands of euros

	Current	Non-current						
	Less than 1 year	**1 to 2 years**	**2 to 3 years**	**3 to 4 years**	**4 to 5 years**	**Over 5 years**	**Total non-current**	**Total**
Other financial liabilities:								
Current accounts	–	70,169	–	–	–	–	70,169	70,169
Derivative financial instruments (Note 15)	5,315	–	4,013	1,657	–	2,808	8,478	13,793
Other financial liabilities	380	–	–	–	–	–	–	380
Total other financial liabilities	**5,695**	**70,169**	**4,013**	**1,657**	**–**	**2,808**	**78,647**	**84,342**
Total bank borrowings and other financial liabilities	**73,468**	**101,928**	**202,311**	**1,044,029**	**103,222**	**28,461**	**1,479,951**	**1,553,419**
Bonds and similar securities issued:								
SFL bond issues	–	300,000	400,000	–	–	500,000	1,200,000	1,200,000
Interest	10,630	–	–	–	–	–	–	10,630
Arrangement expenses	(1,855)	(1,514)	(1,202)	(439)	(439)	(842)	(4,436)	(6,291)
Total bonds and similar securities issued	**8,775**	**298,486**	**398,798**	**(439)**	**(439)**	**499,158**	**1,195,564**	**1,204,339**
Total at 31 December 2014	**82,243**	**400,414**	**601,109**	**1,043,590**	**102,783**	**527,619**	**2,675,515**	**2,757,758**

The bonds issued by SFL, which are traded on the Euronext Paris secondary market, had a market value of 1,479,228 thousand euros (nominal value of 1,456,500 thousand euros) at 31 December 2015. At the same date, the fair value of bonds issued by the Parent and traded on the Irish Stock Exchange was 1,253,045 thousand euros (nominal value of 1,250,000 thousand euros).

Issue of the Parent's straight bonds and cancellation of the syndicated loan

The issue of two series of straight bonds by the Parent 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 1.863% coupon, payable yearly in arrears.

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

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

The interest accrued on the issue of these bonds, recognised in the consolidated statement of financial position at 31 December 2015, amounted to 15,843 thousand euros.

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" in the condensed consolidated statement of comprehensive income (Note 20-g).

These straight bonds establish the obligation, at 30 June and 31 December of each year, to meet a financial ratio whereby the value of the non-guaranteed asset in the 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 2015.

New 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, acting as the agent bank, for 350,000 thousand euros, initially maturing in June 2019, but which may be extended until November 2020. The main purpose of this syndicated loan is to finance possible acquisitions, as well as renovations and other investment requirements (CAPEX) on the property assets of the Company. At 31 December 2015, 67,250 thousand euros had been drawn down.

The main terms and conditions of the syndicated loan are:

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

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

– Compliance with the following financial ratios on a quarterly basis:

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

Note: €bn refers to billions of euros.

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

SFL syndicated loan

The breakdown of SFL's syndicated loan at 31 December 2015 and 2014 is as follows:

		Thousands of euros			
		31 December 2015		31 December 2014	
	Maturity	Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
SFL syndicated loan					
BNP Paribas loan facility	July 2020	400,000	–	400,000	–
BPCE loan facility	October 2019	150,000	–	150,000	45,000
Total SFL syndicated loan		**550,000**	**–**	**550,000**	**45,000**

The loan facility with BNP Paribas was novated in July 2015, extending its maturity to July 2020. Interest is accrued at a floating rate with a spread tied to EURIBOR.

Compliance with covenants

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

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

Note: €bn refers to billions of euros.

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

Mortgage-backed loans

At 31 December 2015 and 2014, the Group had the following mortgage loans, secured by its investment properties and non-current assets held for sale:

Thousands of euros

	31 December 2015		31 December 2014	
	Mortgage debt	Market value of collateral	Mortgage debt	Market value of collateral
Investment property - rentals (Note 9)	273,479	953,840	273,941	840,710
Non-current assets held for sale (Note 24)	177	6,942	986	6,994
	273,656	**960,782**	**274,927**	**847,704**

In July 2015, SFL subgroup novated several bilateral loans with mortgage guarantees in the amount of 207,480 thousand euros, extending the maturity by five years (from 2017 to 2022) and establishing a fixed interest rate of 1.571%.

Compliance with covenants

At 31 December 2015, two of the Group's loans, with a total of 246,209 thousand euros drawn down, were subject to compliance with certain financial ratios. At 31 December 2014, only one of the Group's loans was subject to certain ratios and the total amount drawn down amounted to 41,681 thousand euros.

At 31 December 2015 and 2014, the Company complied with the financial ratios required in the financing agreement

	Ratios
SFL subsidiaries: Pargal, Parchamps and Parhaus	LTV 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 2015, SFL had two bilateral loans, not secured by a mortgage guarantee, that were subject to compliance with various ratios. The total limits and balances drawn down are detailed as follows:

		Thousands of euros			
		31 December 2015		31 December 2014	
	Maturity	Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Other loans					
BECM	April 2019	150,000	140,000	150,000	100,000
Banco Sabadell	June 2020	50,000	-	–	–
Total other loans		**200,000**	**140,000**	**150,000**	**100,000**

The Banco Sabadell loan was arranged in June 2015 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
	LTV ratio <= 50%
	Interest coverage ratio >= 2
	Secured debt/equity value <= 20%
	Appraisal value of unmortgaged properties >= €2bn
BECM	Gross financial debt of subsidiaries / Gross consolidated financial debt < 25%
	LTV ratio <= 50%
	Interest coverage ratio >= 2
	Secured debt/equity value <= 20%
	Appraisal value of unmortgaged properties >= €2bn
Banco Sabadell	Gross financial debt of subsidiaries / Gross consolidated financial debt < 25%

Note: €bn refers to billions of euros.

At 31 December 2015 and 2014, SFL complied with the financial ratios stipulated in the respective financing agreements.

Issue of SFL straight bonds

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

				Thousands of euros		
Issue	**Term**	**Maturity**	**Fixed-rate coupon payable annually**	**Amount of the issue**	**31 December 2015**	**31 December 2014**
17/05/2011	5 years	25/05/2016	4.625%	500,000	155,800	300,000
28/11/2012	5 years	28/11/2017	3.50%	500,000	300,700	400,000
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	–
Total issues				**2,000,000**	**1,456,500**	**1,200,000**

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

In November 2015, SFL issued new bonds in the amount of 500,000 thousand euros. The seven-year bonds carry a fixed coupon of 2.25%, payable annually, with a final maturity in November 2022.

Of the amount obtained for the new issue, 243,500 thousand euros were allocated to the partial repurchase of the debentures maturing in 2016 and 2017 for 144,200 and 99,300 thousand euros, respectively. The cost associated with this partial repurchase amounted to 9,515 thousand euros (Note 20-g).

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

Lines of credit

The Group has lines of credit of up to 22,027 thousand euros, which at 31 December 2015 were fully drawn down. These credit facilities mature in the short term. At 31 December 2014, the balance of fully drawn-down lines of credit held by the Group totalled 56,340 thousand euros.

At 31 December 2015, the Group also had two current accounts in the amount of 59,047 thousand euros and 8,500 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 132 thousand euros. The total nominal amount, plus interest, at 31 December 2014 was 70,169 thousand euros.

Guarantees given

At 31 December 2015, the Parent had granted to government bodies, customers and suppliers guarantees in the amount of 33,111 thousand euros, of which 21,799 thousand euros related to the bank guarantee provided in connection with the purchase of the building located at Francisco Silvela, 42 in Madrid (Note 9). This amount is recognised under “Trade payables” in the consolidated statement of financial position (Note 16). Other than this, the main guarantees were:

– 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 17). 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

The breakdown of assets held under finance leases is disclosed in Note 9.

Cash and cash equivalents

At 31 December 2015 and 2014, amounts of 217,776 thousand and 125,956 thousand euros, respectively, were recognised under “Cash and cash equivalents”, of which 13,982 thousand and 14,565 thousand euros, respectively, were either restricted or pledged.

The Parent is obliged to make a payment of a maximum of 21,367 thousand euros in relation to the execution of the guarantee for the purchase of the Francisco Silvela building.

Debt arrangement expenses

At 31 December 2015, the debt arrangement expenses assumed by the Group and not yet accrued amounted to 22,639 thousand euros. These expenses are taken to the consolidated statement of comprehensive income during the term of the debt on a time proportion basis. In this regard, in 2015 the Group recognised in the consolidated statement of comprehensive income 9,256 thousand euros corresponding to the costs paid during the year.

Interest rate on borrowings

The interest rate paid by the Group in 2015 on borrowings allocated to continuing operations was 3.08%, or 3.23% including accrued fees. The average spread over Euribor paid by the Group in 2015 was 208 basis points (236 basis points including fees). The interest rate on the Group's debt at 31 December was 2.27%, with the spread over Euribor of 166 basis points.

At 31 December 2015 and 2014, the interest accrued on bank borrowings amounted to 1,071 thousand and 4,425 thousand euros, respectively.

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 real estate sector need to make heavy upfront investments to ensure development of their projects and growth of their businesses through the purchase of rental properties and/or land. The Group's financial structure warrants diversification of its sources of financing by entity, product and maturity. Through the process of obtaining the IG Rating and the restructuring of the financial debt, carried out in the first half of 2015, together with the syndicated loan arranged in November 2015, the Parent reduced the finance costs of its debt, extending and diversifying its maturity, and also obtaining the financial capacity to undertake its projects, take on new projects and ensure sufficient investment capacity to bear significant growth costs over the coming years.

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.

The liability management transaction (bond issues and the partial repurchase of previous issues) carried out by the SFL subgroup forms part of the active management carried out by the Group in relation to its debt and has allowed the average maturity to be extended and the average future finance costs to be reduced. SLF 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 annual cash budgets 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.

15. Derivative financial instruments

Risk management policy objectives

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

– Interest rate risk: at 31 December 2015, 91% 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. The Group's policy is to arrange instruments that comply with the provisions of IAS 39 to be considered as effective hedge accounting, and therefore recognise their variations in value on the market directly in Colonial's "Equity".

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

– Liquidity risk: In June 2015, the Parent had carried out an issue of straight bonds for a nominal amount of 1,250,000 thousand euros split into two tranches: one of 750,000 thousand euros, (4-year bonds) and another of 500,000 thousand euros (8-year bonds), respectively. The funds obtained from said issue have been used to fully cancel the syndicated loan in the amount of 1,040,000 thousand euros taken out in April 2014. In November 2015 the Parent arranged a syndicated loan in the amount of 350,000 thousand euros. These transactions allowed the Company to strengthen its long-term financial structure, reduce the borrowing costs of its debt, diversify repayment debts and obtain additional liquidity to cover its investment plan. Accordingly, in November 2015 the SFL subgroup issued straight bonds for a nominal amount of 500,000 thousand euros which was allocated to partially repurchasing the aforementioned bonds and to cash needs and future investments. The SFL subgroup also has syndicated loans not yet drawn down as described in Note 14.

– 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 itemises the derivatives and states their fair values at 31 December 2015 and 2014:

					Thousands of euros	
Derivative financial instruments	**Company**	**Counterparty**	**Interest rate**	**Maturity**	**Notional value**	**Fair value – Asset / (Liability)**
Step-up swap	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	Marenostrum Tower	CaixaBank	2.80%	2024	25,174	(3,058)
Total at 31 December 2015					**865,292**	**(5,836)**

Derivative financial instruments	Company	Counterparty	Interest rate	Maturity	Thousands of euros Notional value	Fair value – Asset / (Liability)
Vanilla swap	Parhaus	Natixis	0.8825%	2017	24,525	(565)
Vanilla swap	Parchamps	Natixis	0.8825%	2017	9,065	(209)
Vanilla swap	Pargal	Natixis	0.8825%	2017	28,150	(648)
Vanilla swap	Parhaus	Nord/LB	0.8825%	2017	24,525	(565)
Vanilla swap	Parchamps	Nord/LB	0.8825%	2017	9,065	(209)
Vanilla swap	Pargal	Nord/LB	0.8825%	2017	28,150	(648)
Vanilla swap	Parhaus	Dekabank	0.8825%	2017	24,525	(565)
Vanilla swap	Parchamps	Dekabank	0.8825%	2017	9,065	(209)
Vanilla swap	Pargal	Dekabank	0.8825%	2017	28,150	(648)
Step-up swap	Colonial	BBVA	3.50%	2018	91,339	(5,852)
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	Marenostrum Tower	CaixaBank	2.80%	2024	27,093	(3,675)
Total at 31 December 2014					**1,083,652**	**(13,793)**

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 14). The premiums paid amounted to 8,580 thousand euros and were recognised as hedging expenses in the consolidated statement of comprehensive income for 2014 (Note 20). At 31 December 2015 and 2014, the associated CAPs were valued at 0 euros on the consolidated statement of financial position and under no circumstances can they result in losses or negative cash flows.

As a result of cancelling the Parent's previous syndicated loan in 2014, the amount recognised in the reserve relating to the hedging instruments associated with this loan was transferred to the accompanying income statement in the amount of 5,425 thousand euros (Note 13).

At 31 December 2015, 93% of the notional value of the Group's derivatives portfolio was in compliance with that provided in accounting legislation to be recognised as hedges; consequently, the mark-to-market (MtM) differences between periods are recognised directly in equity.

At 31 December 2015, the accumulated impact on equity of derivative hedge accounting was a debit of 2,504 thousand euros, net of the tax effect and consolidation adjustments (at 31 December 2014, a debit of 6,368 thousand euros).

In 2015, SFL carried out the early cancellation of nine interest rate swaps with a total nominal value of 185,220 thousand euros. As a result of the novation of the hedged liability, SFL transferred 2,014 thousand euros from the reserve for adjustments to equity for the valuation of said instruments to the consolidated statement of comprehensive income.

In 2013 and 2012 SFL also cancelled eight interest rate swaps early. The straight-line accrual of the finance cost on the early cancellation of these swaps had an impact of 5,708 thousand euros on the consolidated statement of comprehensive income at 31 December 2015, under "Finance costs".

The impact for 2015 and 2014 of accounting for derivatives qualifying for hedge accounting on the consolidated statement of comprehensive income was a net finance cost of 7,914 thousand and 9,500 thousand euros, respectively (Note 20-g), corresponding primarily to SFL.

The fair value of the derivatives was calculated by discounting estimated future cash flows based on forward interest and exchange rates and on assigned volatility at 31 December 2015, using the appropriate discount rates established by an independent expert.

At 31 December 2015, the net fair value of the derivatives gave rise to a financial liability of 5,836 thousand euros, including accrued interest payable of 178 thousand and a receivable of 206 thousand euros in credit risk (Note 14). The fair value of the derivatives at 31 December 2014 was 13,793 thousand euros.

At 31 December 2015, 98% of total debt in Spain was hedged or accrued interest at a fixed rate (90% in France).

The affected hedging ratio at year-end 2015 (floating rate hedges) was 80% in Spain, since virtually all of the Parent's debt accrues interest at fixed rates. In France, all hedges arranged were cancelled as a result of the novation at a fixed rate of the debt with which such hedges were associated.

16. 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 2015		31 December 2014	
	Current	**Non-current**	**Current**	**Non-current**
Trade and other payables	20,291	–	26,058	–
Advances	19,424	–	14,325	–
Payables for the purchase of properties and land	33,316	–	52,779	–
Guarantees and deposits received	2,651	27,853	1,515	24,311
Payable to Social Security	1,724	–	1,770	–
Deferred income	5,496	–	4,411	–
Other payables and current liabilities	2,740	165	3,444	580
Total	**85,642**	**28,018**	**104,302**	**24,891**

At 31 December 2015 and 2014, "Trade and other payables" included primarily the amounts payable by the Group for business-related purchases and related costs.

"Advances" primarily reflects amounts paid upfront by lessees on a bimonthly or quarterly basis.

At 31 December 2015, "Payables for the purchase of properties and land" included borrowings for refurbishment or renovation work on various properties carried out by SFL (Edouard VII and Le Vaisseau), in the amount of 11,842 thousand euros, and the amount outstanding on the Parent's acquisition of the Francisco Silvela property (Notes 9 and 14) of 21,367 thousand euros.

"Guarantees and deposits received" mainly includes deposits paid by lessees.

"Deferred income" includes the amount received by SFL for rights of entry, which relate to the amounts invoiced by 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.

	Days
	2015
Average supplier payment period	45
Ratio of payments made	46
Ratio of payments pending	42
	Thousands of Euros
Total payments made	**44,389**
Total payments pending	**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 supplier payment period is understood to be an expression of the time taken or delay incurred in the payment of the trade payable. The average supplier payment period is calculated as the ratio in which the numerator is the sum of the ratio of transactions paid multiplied by the total payments made plus the ratio of transactions pending payment multiplied by the total amount of payments pending at year end, and the denominator is the sum of the total amount of payments made and pending at year end.

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

Similarly, the ratio of transactions pending payment is calculated as the ratio in which the numerator is the sum of the amounts pending payment multiplied by the number of payment days (the difference between the number of calendar days that have elapsed from the end of the statutory payment period until payment is made) and the denominator is the total amount of payments pending at year end.

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

As regards payments made 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. In this regard, at the date on which these financial statements were authorised for issue, the Parent notified all suppliers with contracts in force, and whose payment conditions included in the contract were not in line with the maximum payment period of 60 days, that the contract conditions would be changed in order to bring them into line with Law 11/2013.

17. Provisions

The changes in “Current provisions” and “Non-current provisions” for 2015 and 2014 in the consolidated statement of financial position 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 2014	**1,233**	**12,378**	**6,179**
Additions	–	9	4,073
Decreases	(114)	–	(46)
Transfers	–	(987)	–
Balance at 31 December 2015	**1,119**	**11,400**	**10,206**

Non-current provisions

At 31 December 2015 and 2014, 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 10). The Parent has a restricted cash line of credit with BBVA to cover these items that may be drawn down when DUE provides evidence that the development work has been carried out. At 31 December 2015, 8,768 thousand euros were drawn down (7,935 thousand euros at 31 December 2014).

Lastly, the Parent reclassified 768 thousand euros in 2015 (1,624 thousand in 2014), that at 31 December 2014 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.

“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 5,737 thousand euros, reflecting an estimate of the Parent’s various future risks, which have increased in 2015 by 3,375 thousand euros.

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

18. Tax matters

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

In addition to the Parent, the consolidated tax group for 2015 and 2014 included Abix, 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 2015	31 December 2014	31 December 2015	31 December 2014
Tax refunds receivable	48	857	–	–
Income tax refunds receivable	23,768	–	–	–
VAT refundable	13,736	13,656	–	–
Deferred tax assets	–	–	865	1. 422
Total tax receivables	**37,552**	**14,513**	**865**	**1,422**

At 31 December 2015, "Income tax refunds receivable" included a balance in favour of the Parent of 23,368 thousand euros arising from income tax prepayments made during 2015. The amount of these prepayments corresponds to the minimum payment of 12% of the accounting result on the date of the prepayment, through the application of the temporary measures in effect for 2015.

Thousands of Euros

	Tax liabilities			
	Current		Non-current	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Income tax payable	3,098	6,463	–	–
Other taxes payable	774	2,927	–	–
Exit tax payable (SFL Group)	2,925	-	2,856	5,595
VAT payable	2,105	1,712	–	–
Tax deferrals payable	–	4,933	–	1,356
Deferred tax liabilities	–	–	244,124	196,799
Total taxes payable	**8,902**	**16,035**	**246,980**	**203,750**

Income tax

The breakdown of “Income tax expense” in the consolidated statement of comprehensive income for 2015 and 2014 is as follows:

Thousands of Euros

	2015	2014
Corporate income tax expense	(9,346)	(9,550)
Variation due to deferred and prepaid taxes, tax credits and tax relief	(43,451) (*)	(166,233) (*)
Income tax expense	**(52,797)**	**(175,783)**

(*) Of which 3,860 thousand and 23,119 thousand euros relate to the adjustments arising from the reduction in the tax rate introduced by Corporate Income Tax Law 27/2014, of 27 November, which entered into force on 1 January 2015 and established a standard tax rate of 25% for taxpayers liable for this tax. The tax rate is temporarily set at 28% for 2015.

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) / Income

2014

Thousands of Euros

	Amount	Tax effect – at the 30% national rate (*)
Profit/(loss) before tax	103,407	(31,022)
Effect of the adjustments to taxable profit for France (SIIC 4 effect and adjustments to the tax base)	(174,553)	52,365
Effect of the adjustments to taxable profit for Spanish companies and unrecognised tax credits generated in the year	192,518	(57,755)
Prior income tax expense (base)	**121,372**	**(36,412)**
Others	–	3,871
Derecognition of tax credits	–	(143,242)
Income tax expense	**–**	**(175,783)**

(*) (Expense) / Income

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

Thousands of Euros

	2015	2014
Accounting profit before tax (aggregate of individual expenses)	862,262	322,123
Permanent differences	(1,562,765)	(356,767)
Temporary differences	(829,676)	27,088
Aggregate tax loss before use of unused tax losses	**(1,530,179)**	**(7,556)**
Offset of tax losses	–	–
Aggregate tax loss	**(1,530,179)**	**(7,556)**
Recognised taxable profit	27,439	15,906
Unrecognised tax loss	(1,557,618)	(23,462)

At 31 December 2015, 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 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.

At 31 December 2014, 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 254,874 thousand euros, and a dividend received from this company by the Parent, giving rise to a permanent negative difference of 49,444 thousand euros. In addition, 49,977 thousand euros were recognised in 2014 for the capital increase costs recognised directly in the Group's equity (Note 13), which were included in the tax base as a negative permanent adjustment.

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 2014**	**Additions**	**Retirements**	**31 December 2015**
Fair value of financial instruments	978	–	(258)	720
Impairment of assets	444	–	(299)	145
	1,422	**–**	**(557)**	**865**

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

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

Prior years' tax loss carryforwards

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

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	90
2013	96,603	2,148
2014	13,559	853
2015	1,557,208	410
Total	**5,409,575**	**3,501**

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 2015, 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	**5,409,575**	**3,501**
Adjustments for transactions among companies that make up the consolidated tax group	(4)	–
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	**5,399,929**	**3,501**

Deferred tax asset for tax credit carryforwards

The nature and amount of unused tax credits at 31 December 2015 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	Amount Thousands of euros	Last year for use
Double taxation tax credit			
	2009	286	2016
	2010	274	2017
	2011	355	2018
	2012	202	2019
	2013	83	2020
	2014	162	2021
Tax credit for training			
	2008	1	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
		17,506	

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

	2016	2017	2018	2019
Reinvested by the Company	5,642	27,614	8,786	18,701
Associated profit	220	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 2014	Additions	Retirements	31 December 2015
Asset revaluations	190,272	47,544	–	237,816
Asset revaluations (Spain)	13,201	16,727	–	29,928
Asset revaluations (France)	177,071	30,817	–	207,888
Deferral for reinvestment	6,527	–	(219)	6,308
	196,799	**47,544**	**(219)**	**244,124**

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 IFRSs) and their tax cost (acquisition cost less depreciation).

"Asset revaluations (Spain)" includes the deferred taxes associated with the Group's investment property that would be accrued if these assets were transferred at the fair value for 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 7.5% (tax rate of 25% with a limit on tax loss carryforwards of 70%). Consequently, in calculating its deferred tax liabilities, the Group is considering applying the tax credit of 43,862 thousand euros (the difference between the 25% tax rate and the effective settlement rate applied of 7.5%).

Other non-current tax liabilities

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

Thousands of Euros

Description	31 December 2015	31 December 2014
Deferrals	–	1,356
Exit tax SFL	2,856	5,595
	2,856	**6,951**

Tax extensions

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

Other tax issues

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

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 has submitted amended 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.

19. 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

The Parent has brought the following corporate liability lawsuits against certain former directors:

– 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 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. The Parent's directors do not expect this ruling to have a significant impact on the consolidated financial statements, given that at 31 December 2015 the appropriate provision had been recognised to meet any possible costs (Note 17).

20. 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 231,185 thousand and 211,477 thousand euros, respectively, at 31 December 2015 and 2014. The breakdown by geographical segments is as follows:

Thousands of Euros

Rental business	**2015**	**2014**
Spain	62,391	59,969
France	168,794	151,508
	231,185	**211,477**

Revenue in 2015 and 2014 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 12). Revenue also includes the accrued amounts received in connection to rights of entry (Note 16). At 31 December 2015 and 2014, these accruals increased revenue during the year by 17,662 thousand and 10,230 thousand euros, respectively.

At 31 December 2015 and 2014, 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, was as follows:

Thousands of Euros

	Nominal amount	
Minimum operating lease payments	**31 December 2015**	**31 December 2014**
Within one year	**258,491**	**214,989**
Spain	64,570	58,389
France	193,921	156,600
Between one and five years	**651,641**	**527,593**
Spain	95,078	85,603
France	556,563	441,990
After five years	**309,393**	**187,265**
Spain	12,515	26,551
France	296,878	160,714
Total	**1,219,525**	**929,847**
Spain	**172,163**	**170,543**
International	**1,047,362**	**759,304**

b) Other operating income

This heading relates mainly to property services rendered, and amounted to 3,143 thousand and 2,606 thousand euros at 31 December 2015 and 2014, respectively.

c) Staff costs

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

Thousands of Euros

	2015	2014
Wages and salaries	14,018	14,058
Social security costs	6,462	5,019
Other employee benefit expenses	2,315	2,094
Extraordinary remuneration	–	4,247
Termination benefits	1,060	528
Internal reallocation	(559)	(514)
Total staff costs	**23,296**	**25,432**
Spain	**9,068**	**11,941**
International	**14,228**	**13,491**

“Other employee benefit expenses” includes 2,057 thousand euros corresponding to the cost accrued in 2015 under the Parent’s long-term bonus scheme and SFL’s share option plan detailed in Note 21.

“Extraordinary remuneration” includes mainly the extraordinary bonus and contingent remuneration associated with the restructuring of the Parent’s syndicated financial debt paid once the process of restructuring the financial debt and the capitalisation of the Parent was successfully completed in 2014 (Note 23).

Group headcount at 31 December 2015 and 2014, as well as the average headcount in 2015 and 2014, employed in continuing operations, broken down by job category and gender, was as follows:

Number of employees

	2015		2014		Average headcount, 2015		Average headcount, 2014	
	Men	**Women**	**Men**	**Women**	**Men**	**Women**	**Men**	**Women**
General and area managers	11	5	12	5	12	5	12	6
Technical graduates and middle managers	27	27	31	25	29	26	31	23
Clerical staff	14	53	13	57	13	55	13	58
Others	1	1	1	1	1	1	1	1
	53	**86**	**57**	**88**	**55**	**87**	**57**	**88**

d) Other operating expenses

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

Thousands of Euros

	2015	2014
External services and other expenses	15,522	13,870
Taxes other than income tax	20,959	40,463
Total	**36,481**	**54,333**

e) Net change in impairment of trade receivables

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

Thousands of Euros

	2015	2014
Opening balance	157,495	156,604
Net change	(67,402)	891
Closing balance	**90,093**	**157,495**

At 31 December 2014, of this total, 152,189 thousand euros relate to the impairment of receivables from Nozar, S.A. and N.Z. Patrimonio, S.L.U. (Note 12).

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 2015, of this total amount, 85,473 thousand euros relate 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

	2015	2014
Impairment of goodwill (Note 7)	–	(120,000)
Impairment of properties for own use (Note 8)	808	340
Derecognitions of replaced assets (Notes 8 and 9)	(3,282)	(4,919)
Impairment charges and net gains/(losses) on assets	**(2,474)**	**(124,579)**

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 9 and 24):

Thousands of Euros

	Sale price		Costs to sell		Net gain/(loss) on sales of assets	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Spain	–	93	–	120	–	(27)
France	–	–	–	–	–	–
Total	**–**	**93**	**–**	**120**	**–**	**(27)**

The breakdown of changes in the fair value of investment properties in 2015 and 2014 is as follows:

Thousands of euros

	2015	**2014**
Changes in value on statement of financial position		
Investment property (Note 9)	725,115	335,171
Non-current assets held for sale – Investment property (Note 24)	(5,133)	(3,218)
Changes in the fair value of investment properties recognised in the statement of comprehensive income	**719,982**	**331,953**
Spain	**206,328**	**104,411**
International	**513,654**	**227,542**

g) Finance income and costs

The breakdown of finance income and costs in 2015 and 2014 is as follows:

Thousands of Euros

	2015	2014
Finance income:		
Revenue from equity instruments (Note 10)	18	8,614
Other interest and similar income	1,288	817
Income from derivative financial instruments (Note 15)	3,111	2,498
Capitalised borrowing costs (Note 4-c)	6,049	7,473
Total finance income	**10,466**	**19,402**
Share of profit/(loss) of companies accounted for using the equity method (Note 10)	**–**	**(2,176)**
Finance costs:		
Interest and similar expense	(123,312)	(197,984)
Finance costs associated with the repurchase of bonds (Note 14)	(9,515)	(22,384)
Expenses on derivative financial instruments (Note 15)	(11,025)	(11,998)
Total finance costs	**(143,852)**	**(232,366)**
Impairment of financial assets	**2,267**	**(3,733)**
Total financial loss	**(131,119)**	**(218,873)**

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 14).

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

At 31 December 2014, “Revenue from equity instruments” included 8,485 thousand euros relating to the positive margin from the sale of the interest that SFL held in SIIC de Paris and that was transferred in 2014 (Note 10).

Lastly, “Finance costs associated with the repurchase of bonds” included, for both 2014 and 2015, the costs borne by SFL to repurchase the bonds amounting to 243,500 thousand and 300,000 thousand euros that it had issued (Note 14).

h) Related party transactions

The main related party transactions undertaken in 2015 and 2014 were as follows:

Thousands of Euros

	2015		2014	
	Interest income (cost)	**Building leases and other income**	**Interest income (cost)**	**Building leases and other income**
Gas Natural, SDG, S.A.	–	5,916	–	5,971
CaixaBank, S.A. (*)	–	–	(92)	–
Banco Popular Español, S.A. (*)	–	–	(4)	–
The Royal Bank of Scotland Group, PLC (*)	–	–	(78)	–
Crédit Agricole – CIB (**)	–	–	(10,547)	80
Coral Partners (Lux), S.A.R.L. (**)	–	–	(10,374)	–
Total	**–**	**5,916**	**(21,095)**	**6,051**

(*) Includes transactions with CaixaBank, S.A., Banco Popular Español, S.A. and Royal Bank of Scotland Group, PLC up until January 2014, when their shares were disposed of, as per notifications to the CNMV.
(**) Includes transactions with Crédit Agricole – CIB and Coral Partners (Lux), S.A.R.L. up until April 2014, when their shares were disposed of, as per notifications to the CNMV.

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	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Inmobiliaria Colonial, S.A.	142,645	392,553	–	–	142,645	392,553
SFL subgroup	545,124	240,229	(283,219)	(135,148)	261,905	105,081
Torre Marenostrum, S.L.	10,188	2,877	(4,513)	(1,222)	5,675	1,655
Danieltown Spain, S.L.U.	5,190	–	–	–	5,190	–
Colonial Invest, S.L.U.	(1)	(1)	–	–	(1)	(1)
Colonial Tramit, S.L.U.	(1)	(1)	–	–	(1)	(1)
Asentia subgroup (2-f)	–	(7,172)	–	(121)	–	(7,293)
Total	**703,145**	**628,485**	**(287,732)**	**(136,491)**	**415,413**	**491,994**

21. 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 2015 and 2014, the Parent recognised 1,205 thousand and 1,191 thousand euros, respectively, under "Staff costs - Other employee benefit expenses" in the consolidated statement of comprehensive income to cover the incentive plan (Note 20-c).

On 24 April 2015, the Board of Directors determined that the number of shares to be delivered to beneficiaries of the Plan in accordance with the level of fulfilment of indicators for 2014 would be 3,766,173 shares (Note 13). 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 2015, the breakdown of which is as follows:

	Plan 1		Plan 3
Meeting date	09/05/2011		22/04/2015
Board of Directors date	05/03/2013	04/03/2014	17/06/2015
Exercise date, starting on	31/12/2015	31/12/2016	31/12/2017
Initial target number	35,144	33,981	27,328
Initial expected %	70.83%	70.83%	70.83%
Initial expected number	24,892	24,069	19,356
Amount per share (euros)	31.65	31.48	36.08
Options cancelled	(10,866)	(16,012)	(1,602)
Expected % at year-end	150.00%	100.00%	100.00%
Estimated number at year-end	36,418	17,969	25,726

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.

At 31 December 2015, the expected percentage was revised from 150% for the March 2013 plan to 100% for the March 2014 and June 2015 plans.

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 2015, 852 thousand euros were recognised in the consolidated statement of comprehensive income relating to these bonus share plans (Note 20-c).

During the first half of 2015, 44,375 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 2012, thus fully settling this plan.

22. Year-end balances with related parties and associates

At 31 December 2015 and 2014, the Group did not have any balances outstanding with related parties or associates.

23. Director and senior management compensation and other benefits

Compensation of Board members

The breakdown of the remuneration accrued in 2015 by the members of the Parent's Board of Directors is as follows:

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 compensation:	**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 earned by 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 21.

Director compensation accrued at 31 December 2014 amounted to 5,235 thousand euros, corresponding to remuneration received by executive directors, attendance fees and fixed remuneration amounting to 3,711 thousand (which includes the 2,520 thousand euros received for extraordinary and contingent remuneration for restructuring), 644 thousand and 880 thousand euros, respectively.

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

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 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.

The Parent's Board of Directors was made up of ten men and one woman at 31 December 2015, and nine men and one woman at 31 December 2014.

Following the changes in the Parent's shareholder structure, the detail of the Board of Directors at 31 December 2015 was as follows:

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

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

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

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 2015 and 2014.

Compensation earned by senior management in 2015 and 2014 amounted to 886 thousand euros (not including the amount corresponding to the expenses accrued in relation to the long-term incentive plan described in Note 21) and 2,151 thousand euros, respectively, relating to wages and salaries, and in 2014, it included the extraordinary and contingent compensation for the restructuring performed amounting to 1,220 thousand euros.

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

Extraordinary and contingent compensation pursuant to ’Debt restructuring agreement’

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

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

24. Non-current assets held for sale and discontinued operations

The movements under this heading in 2015 and 2014 were as follows:

Thousands of euros

	Investment property	Assets of the Asentia subgroup	Total assets held for sale	Liabilities of the Asentia subgroup
Balance at 31 December 2013	**54,237**	**788,511**	**842,748**	**1,537,858**
Changes in the scope of consolidation (Note 2-f)	–	(788.511)	(788,511)	(1,537,858)
Transfers (Note 9)	(34,480)	–	(34,480)	–
Impairment (Note 20-f)	(3,218)	–	(3,218)	–
Balance at 31 December 2014	**16,539**	**–**	**16,539**	**–**
Additions	1,321	–	1,321	–
Impairment (Note 20-f)	(5,133)	–	(5,133)	–
Balance at 31 December 2015	**12,727**	**–**	**12,727**	**–**

Investment property (Note 9)

Changes in 2015

There were no significant changes in 2015.

Changes in 2014

After refinancing the Parent's debt in 2014, the Parent's sales plan was reviewed and a property located in Madrid was reclassified to "Investment property" in the consolidated statement of financial position, given that it is not expected to be sold in the short term. The amount of the transferred property was 34,480 thousand euros.

Assets and liabilities relating to assets held for sale in the group of companies headed by Asentia

As indicated in Note 4-s, the Group considered its investment in the Asentia subgroup to be a non-current asset held for sale, and the activity corresponding to the development and land segment to be a discontinued operation. Accordingly, the Group classified all assets and liabilities associated with the Asentia subgroup under "Non-current assets held for sale" and "Liabilities related to assets held for sale" in the consolidated statement of financial position. Following the exclusion from the scope of consolidation of the Asentia subgroup, the Group derecognised all assets and liabilities associated with this subgroup. The impact of this derecognition on the consolidated statement of comprehensive income is detailed in Note 2-f.

The breakdown of the amounts under "Non-current assets held for sale" and "Liabilities relating to assets held for sale" in the consolidated statement of financial position corresponding to the subgroup headed by Asentia is detailed in the consolidated financial statements for 2014.

25. Auditors' fees

Fees incurred for auditing services in 2015 and 2014 provided to the various companies composing the Colonial Group by the principal auditor and other auditors are set forth below:

Thousands of Euros

	2015		2014	
Description	**Principle auditor**	**Other auditors**	**Principle auditor**	**Other auditors**
Audit services	532	282	546	307
Other attest services	224	15	509	–
Total audit and related services	**756**	**297**	**1,055**	**307**
Tax advisory services	–	–	–	–
Other services	160	26	98	15
Total professional services	**160**	**26**	**98**	**15**

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.

26. Events after the reporting date

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

27. 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 2015 and 2014, fully consolidated subsidiaries and related information were as follows:

	% shareholding					
	Direct		Indirect			
	31/12/2015	31/12/2014	31/12/2015	31/12/2014	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%	–	–	–		Real estate
Société Foncière Lyonnaise, S.A. (SFL) 42, rue Washington 75008 Paris (France)	53.14%	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
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

	% shareholding					
	Direct		Indirect			
	31/12/2015	31/12/2014	31/12/2015	31/12/2014	Shareholder	Line of business
Segpim, S.A. 42, rue Washington 75008 Paris (France)	–	–	100%	100%	SFL	Sales of real estate and rendering of services
Locaparis, SAS 42, rue Washington 75008 Paris (France)	–	–	100%	100%	Segpim	Sales of real estate 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
Asentia Project, S.L.U Avda. Diagonal 532 08006 Barcelona (Spain)	–	3.79%	–	–		Real estate

At 31 December 2015 and 2014, 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 2015

1. Company situation

Macroeconomic environment

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

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

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

GDP growth in **France** is expected to accelerate. The GDP growth of 1.1% in 2015 is expected to increase to 1.4% in 2016, thanks to the growth of internal demand and the positive performance of non-EU expectations.

Source: Monthly "la Caixa" report

State of the rental market

Barcelona

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

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

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

Madrid

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

The average vacancy rate in Madrid has continued to drop since the beginning of 2014, reaching 10.6% in the fourth quarter of 2015. This trend will continue in the medium term, and will be even more pronounced in the case of quality properties.

In the CBD area, the vacancy rate dropped to 7%, with a clear shortage of Grade A quality product. The projections for generating new supply over the next three years continue to be very low in all areas, around 100,000sq m, and therefore there is great potential in the field of building refurbishment and repositioning. The lack of quality office space in the centre of Madrid is evident and was confirmed throughout 2015. At the end of the year only 38% of the space available was grade A or B+.

The scarcity of product continues to drive rent prices up mainly for prime rentals in the best areas. Rental prices in the CBD area therefore gradually increase to €27.25/sq m/month from the second quarter of 2014 to year-end 2015, which represents a year-on-year increase of 12%.

However, as expected, rent prices have even exceeded these levels for some of the best Grade A buildings in the CBD area. Maximum rent prices in secondary and peripheral areas, however, have risen more gradually to €15.8 and €13.5/sq m/month, respectively, while the satellite area has not changed and is holding steady at €10/sq m/month.

Paris

The take-up of offices in Paris during the fourth quarter of 2015 reached 708,800sq m, which represents an accumulated balance for this year of more than 2,200,000sq m, up 1% with regard to the same period last year.

In the centre of Paris (Paris Centre West), almost 600,000sq m were leased, which is above the average take-up of the last ten years.

There was a strong increase in the segment of transactions for less than 5,000sq m, exceeding 1,200 transactions and reaching the levels of 2007. The demand for such space was led by the IT sector.

The shortage of quality office space adapted to the growing technical and technological needs caused the vacancy rate in the CBD area to drop to 4.7% in the last quarter of the year, unlike the peripheral area, where vacancy rates exceed 10%. The rental market in Paris recorded a vacancy rate of around 6.9% (down 0.7% on the same period of the previous year).

Prime rents in the Paris CBD area maintained ranges that were similar to previous quarters. The average price in the last quarter stood at €724/m/year.

However, rent prices for high-quality properties were even greater, for example €780/sq m/month signed for the #Cloud property of the Colonial Group.

The projections made by the main brokers, which indicated that 2015 would be a year of necessary recovery for the French economy, awaiting consolidation in 2016, were confirmed.

According to leading consultants, incentives for the Paris CBD area are decreasing, which has resulted in an increase in lower rents.

Over the next few quarters, the cycle of growth in lower rents is expected to be completed through increases in face value rents.

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

Organisational structure and functioning

The Colonial Group is a leading real estate company in the quality offices market in the eurozone. It is one of the leading office operators on the Spanish and European real estate market. The Group has a property portfolio worth more than 6,900 million euros, with a clear 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 areas of the Paris, Madrid and Barcelona markets.

The Colonial Group’s strategy involves locking in a position as the leading player in the prime offices segment.

In particular, its strategy comprises:

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

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

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

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

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

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

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

2. Business performance and results

Introduction

Revenue totalled 231 million euros at 31 December 2015, and was generated by the Group's recurring business (property rentals).

Profit from operations amounted to 175 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 at 720 million euros in the year. This revaluation, reported both in France and in Spain, reflects a 15.7% increase in value in like-for-like terms on rental assets in operation with respect to December 2014 (15.9% in Spain and 15.7% in France).

The Group capitalised 6 million euros of borrowing costs related to developments in progress.

The net finance cost amounted to 137 million euros, including 6 million euros relating to the finance costs of developments in progress that were capitalised.

After subtracting profit attributable to non-controlling interests (-288 million euros), the profit after tax attributable to the Group amounted to 415 million euros.

Valuation of assets

The value of the Colonial Group's assets at the end of 2015 was appraised by Jones Lang LaSalle, CB Richard Ellis and BNP Paribas Real Estate at 6,913 million euros. The appraisal values are updated twice a year, in line with best market practices. This value represents an increase of +16% in like-for-like terms with respect to December 2014 (+8% in 6 months).

Asset values in Spain increased by 16% in like-for-like terms during the year, mainly due to a yield compression given the high level of interest in prime assets in Madrid and Barcelona. The Madrid portfolio was up by 17% in like-for-like terms, while the Barcelona portfolio gained 16% in like-for-like terms.

The France portfolio increased by 16% in like-for-like terms compared to previous year. The increase in value is the result of successfully carrying out prime projects, and the result of the positive effects on rents and yields in the entire portfolio, in a context of an investment market with considerable interest in prime office space in Paris.

New acquisitions and project portfolio

In 2015 the Colonial Group acquired office buildings for a volume of 234 million euros and invested more than 128 million euros in "Prime Factory" repositioning strategies for its current portfolio.

All investments were made in prime locations and with a selective strategy, fully complying with the Group's investment targets for 2015, both in terms of investment volume and required return.

New acquisitions

In 2015, the Group acquired four properties in the centre of Madrid (Estébanez Calderón 3-5, Príncipe de Vergara 112, Génova 17 and Santa Engracia 120) for a total of 166 million euros and one property located at 9, Av. Percier in the centre of Paris for 68 million euros.

Estébanez Calderón 3-5 and Príncipe de Vergara 112 are "Prime Factory" acquisitions that involve completely new projects, whereas Génova 17, Santa Engracia and 9 Av. Percier are "Core" assets that began generating income from the moment they were acquired.

The majority of the acquisitions were carried out as off-market transactions.

Project portfolio – Prime factory

In 2015 the Colonial Group successfully delivered two large projects in Paris (the #Cloud building and 90 Champs Elysées), and several repositioning projects involving buildings on José Abascal in Madrid, the Tilos building and the Travessera de Gracia/Amigó complex in Barcelona.

All assets delivered reported high pre-lease ratios, with top-tier tenants and significant increases in market rents, thereby offering very attractive returns. These transactions demonstrate the high capacity to generate value through value-added / Prime Factory strategies.

Rental business

The highlights of rental business are as follows:

Rental revenue amounted to 231 million euros, up 9% year-on-year.

In like-for-like terms, i.e. in due consideration of investment, disinvestment and changes to the projects and refurbishment portfolio and other extraordinary earnings, the Group's rental income increased by 6%.

In Paris, rental income rose by 6% in like-for-like terms. In Spain, rental income rose in like-for-like terms by 5%, mainly due to the Madrid portfolio, which rose by 7%. For the first time since the beginning of the crisis, in 2015 rental income in Barcelona recorded year-on-year growth of 2% in like-for-like terms.

The like-for-like increase in rental income was mostly accounted for by new contracts signed up for the Alfonso XII, Martínez Villergas, Miguel Ángel en Madrid, y Edouard VII, In&Out, 131 Wagram, Call•LDA, Cézanne Saint Honoré and Washington Plaza properties.

The EBITDA on property reached 209 million euros, up 7% in like-for-like terms, which an income spread of 90%.

Most of the Group's earnings, 81%, are concentrated in office buildings. The Group also maintained its high exposure to CBD markets (75%). In consolidated terms, 73% of rental income (169 million euros) comes from the Paris subsidiary, and 27% was generated by properties in Spain. In attributable terms, approximately 57% of rentals were accounted for by French assets, and the remainder by Spanish assets.

At the end of 2015, the Colonial Group had a GLA (gross leasable area) of 1,088,166sq m (711,313sq m above ground), mostly comprising office space. 89% of this portfolio was operational at 31 December 2015, and 11% relates to an attractive refurbishment and projects portfolio.

In 2015, the Group signed a total of 163,703sq m in new contracts. Of these, 46% (74,991sq m) relate to contracts signed in Barcelona and Madrid and 88,712sq m were signed in Paris.

Of the total commercial units, 75% (123,498sq m) was accounted for by new contracts. It should be noted that the take-up in the Paris office portfolio during the year tripled the volume of new contracts signed in Paris in 2014 (24,816 sq m). The rest of the surface area (40,205sq m) corresponds to contract renewals, in which the new rents associated with these contracts decreased by 10% with regard to previous rents, mainly due to the fact that the rents of several contracts still corresponded to the cycle of high rental prices.

In Spain, contracts were signed for almost 75,000sq m in 2015, of which almost 40,000sq m are in **Barcelona**. In particular, more than 13,000sq m were signed in the Sant Cugat building. There was also significant activity in the assets of Diagonal 682, Diagonal 609-615 (DAU) and Diagonal 409, buildings that are located in the CBD area and that reached occupancy ratios of almost 100%.

In **Madrid**, the signing of almost 7,800sq m in the Ortega y Gasset building, the refurbishment of almost 6,000sq m with Gamesa Corporación Tecnológica in the Ramírez Arellano building, and the 6,000sq m signed for the Recoletos building, among others, are noteworthy of mention.

In **Paris**, it should be noted that three companies signed office space in the #Cloud building before delivering the project (10,800sq m with Exane, 9,700sq m with BlaBlaCar and 3,600sq m with a leading company worldwide in e-economy). With these contracts, 90% of the building was pre-leased. The contracts also included a lease of the entire In&Out building to the Organisation for Economic Cooperation and Development (OECD). This was the largest rental transaction carried out in the first six months of 2015 in the entire Paris market.

The high volume of new take-up during the year gave rise to a significant increase in the occupancy rate. The EPRA[(1)] financial occupancy of the Colonial Group's office portfolio at the end of 2015 was 94% (+857 basis points vs. 2014), and the total EPRA financial occupancy, including all uses, was also 94% (+698 basis points vs. 2014).

The Madrid and Barcelona portfolios (including all uses) attained an EPRA financial occupancy of 96% and 90%, respectively.

In **Barcelona**, the EPRA financial occupancy of the office portfolio increased by 1169 basis points compared to the previous year (+208 basis points in the last quarter), reaching a ratio of 89%. This increase was mainly due to new business at the Sant Cugat, Avinguda Diagonal 609-615 (DAU), Travessera de Gràcia/Amigó, Avinguda Diagonal 682 and Berlín Numància properties, among others.

In **Madrid**, the financial occupancy of the office portfolio was 96%, +600 basis points above the previous year (+340 basis points in the last quarter). This increase was mainly due to new business at the Alfonso XII, José Abascal 56, Paseo de la Castellana 52 and López de Hoyos 35 properties, among others. It should be noted that the level of occupancy in the Génova 17 building reached a ratio of 100% at year-end 2015 (66% occupancy upon acquisition in July 2015).

In **Paris**, the financial occupancy of the office portfolio increased by 844 basis points compared to the previous year, reaching a ratio of 94%, and total occupancy of the portfolio stood at 95%.

At 2015 year-end, the Colonial Group had two large projects with an above ground surface area of more than 21,000sq m, which will become operational in 2017:

– Estébanez Calderón, 3-5, a property acquired in May 2015 located in the centre of Madrid. The current building will be demolished in order to build a new unique "Leed Gold" building, with an above ground surface area of approximately 10,500sq m, which will include the latest technology and innovation in materials and will have the most prestigious environmental and sustainability certificates. Colonial has already begun the demolition work on this building. The project, led by Estudio Lamela, is expected to be completed in the second half of 2017.

– Príncipe de Vergara, 112, a property that was acquired last July located in the centre of Madrid. The current building will be demolished in order to build a unique office building, which will offer a total above ground surface area of approximately 11,400sq m, distributed over several floors so as to allow the space to be efficiently used and the "Leed Gold" energy certificate to be obtained.

In addition to the portfolio of projects described above, the Colonial Group is currently carrying out substantial refurbishment projects with an above ground surface area of 50,256sq m, for the purpose of optimising the positioning of these assets on the market. Noteworthy refurbishments include the Louvre des Antiquaires, Le Vaisseau and Percier properties.

3. Liquidity and capital resources

See "Capital management: Policies and Objectives" under Note 14 to the consolidated financial statements for the year ended 31 December 2015.

(1) EPRA occupancy: Financial occupancy as per calculation recommended by EPRA (occupied spaces multiplied by market rent / spaces operated at market rent).

The average payment period of the Group's Spanish companies to its suppliers was around 45 days in 2015. As regards payments made after the legally established period, note that these are primarily payments relating to works contracted and property refurbishment, which are paid within the payment terms stipulated in the contracts signed with the various contractors. The Group has established two payment days per month to comply with the requirements set forth in Law 11/2014, 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

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

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

- **Risks associated with the current climate of the sector:** 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 real estate sector has become more dynamic as a result of the recovery and growth of the Spanish economy in 2015, and has reached very significant levels of investment. This situation, as well as the robust real estate market in Paris and the Spanish economy's growth forecast for 2016, will enable 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 real estate sector is a highly competitive industry. The strong reactivation of investment levels was led by international investment funds and by listed companies investing in the property market (SICIMIs). The Colonial Group has positioned itself as a benchmark in the European real estate sector, due to the high quality and value of its assets and its strategy of focusing mainly on office rental activities in central business district (CBD) areas, which was strengthened with the selective investment made in 2015 through the acquisition of new properties located in CBD areas.
- **Risks related to the value of its assets:** Every six months the Group carries out appraisals, through independent experts and by applying objective market criteria, on all of its property assets. Colonial allocates a significant portion of its resources to investing in and maintaining its property assets in order to enhance their value and position on the market, and to optimise income and returns.

Corporate risks

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

- **Reputational risks and risks concerning social commitment:** The purpose of the corporate social responsibility policy approved by the Board of Directors is to establish the principles and bases of the obligations that the Group has voluntarily assumed with its stakeholders. Management of these expectations forms part of the Group's objectives in terms of sustainability and creating value for these stakeholders.

– **Medium- and long-term business plans:** The lack of a business plan would increase uncertainty in terms of a company's viability and future. Colonial has a medium- and long-term business plan that is constantly being revised by its governing bodies and is continuously adjusted to take into account the economic, financial and social situation of the real estate market, which ensures the 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 purpose of risk management is to reduce interest rate volatility to limit and control the impact of interest rate fluctuations on profit and cash flows and to keep overall borrowing costs at reasonable levels. 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 obtaining a credit rating, issuing bonds, restructuring its financial debt and entering into a new syndicated loan, the borrowing costs of the Company's debt were reduced and its maturity dates were extended and diversified. 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. Following the process of restructuring the Company's financial debt, its liquidity rose and its ability to attract capital and obtain new financing increased.

Operational risks

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

– **Rental property management risks:** Sustainable management of daily operations increasingly forms a key part of an owner's obligations, and has a direct effect on occupancy levels. 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 damage and impairment of 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

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

– **Risks arising from failure to comply with contractual obligations**: In the course of its business activities, the Colonial Group is exposed to risks inherent in failing to comply with any of its contractual obligations with its 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 the appropriate corrective measures to be taken in order to mitigate these risks or, where applicable, any possible impact. The Company has also taken out insurance to cover any legal costs or possible damage against directors and executives.

– **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 real estate sector. Accordingly, Colonial has a tax policy, a tax strategy and a tax risk management system, approved by its governing bodies and within the framework of the ICRMS, establishing adequate measures to control and monitor the management of risks in this connection.

Reporting risks:

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

5. Events after the reporting date

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

6. Future outlook

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

Barcelona and Madrid

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

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

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

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

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

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

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 2015, the Company had 8,490,840 treasury shares with a nominal value of 2,123 thousand euros, which represents 0.27% of the Parent's share capital

9. Other relevant information

There is no other relevant information.

10. Annual Corporate Governance Report

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

3. Annual corporate governance report 2015

Inmobiliaria Colonial, S.A.
Annual corporate governance report
for listed companies

A. Ownership structure

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

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

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

No

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

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

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

Name or corporate name of shareholder	Number of direct voting rights	Indirect voting rights: Direct shareholder	Indirect voting rights: Number of voting rights	% of total voting rights
Aguila LTD.		SNI Luxembourg, S.A.R.L.	218,001,838	6.84
Deutsche Bank AG	29,235,244			0.92
Fidelity International Limited	62,484,713			1.96
Inmobiliaria Espacio, S.A.		Grupo Villar Mir, S.A.U. Espacio Activos Financieros, S.L.U.	464,512,350	14.57
Invesco Limited		Invesco Advisers, INC Invesco Global Asset Management, LTD Invesco Australia Invesco Canada	35,407,880	1.11
Joseph C. Lewis		Skyland Inc. Berkley Capital Management LTD.	162,167,654	5.08
Mora Banc Grup. S.A.		SICAV Amura Capital	223,064,422	7.00
Qatar Investment Authority		Qatar holding Luxembourg II, S.A.R.L.	415,933,672	13.04
Third Avenue Management, LLC		AIC Corporate Fund Inc. Third Avenue Real Estate Value Fund Third Avenue Real Estate Value Fund Ucits	97,030,111	3.04

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

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

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

Name or corporate name of director	Number of direct voting rights	Indirect voting rights: Direct shareholder	Indirect voting rights: Number of voting rights	% of total voting rights
Juan José Brugera Clavero	503,756			0.02%
Pedro Viñolas Serra	983,048			0.03%
Grupo Villar Mir, S.A.U.	315,093,625	Espacio Activos Financieros, S.L.U.	149,418,725	14.57%
Luis Maluquer Trepat	200,000	Marta Maluquer Domingo	25,000	0.01%
Javier Iglesias de Ussel Ordís	18,201			0.00%
Carlos Fernández-Lerga Garralda	23,610	Eur Consultores, S.L.	21,700	0.00%
Ana Sainz de Vicuña	15,000			0.00%

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

Complete the following tables on share options held by directors.

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

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

Related party name or corporate name	Type of relationship	Brief description

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

Related party name or corporate name	Type of relationship	Brief description

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

No

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

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

No

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

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

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

No

Name or corporate name

Remarks

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

At year-end:

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

(*) Through:

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

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

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

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

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

A.9 bis Estimated floating capital:

	%
Estimated floating capital	46.12%

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

No

Description of restrictions

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

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. General shareholders' meeting

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

No

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

Description of differences

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

No

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

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

Describe the differences

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

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

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

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

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

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

Yes

Number of shares required to attend the General Meetings	500

B.6 Repealed

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

Corporate website: **www.inmocolonial.com**

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

C. Company management structure

C.1 Board of Directors

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

Maximum number of directors	15
Minimum number of directors	5

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

Name or corporate name of director	Representative	Director category	Position on the board	Date of first appointment	Date of last appointment	Election procedure
Juan José Brugera Clavero		Executive	Chairman	19/06/2008	30/06/2014	General Shareholders' Meeting Resolution
Grupo Villar Mir, S.A.U.	Juan-Miguel Villar Mir	Proprietary	Deputy Chairman	13/05/2014	30/06/2014	General Shareholders' Meeting Resolution
Pedro Viñolas Serra		Executive	Chief Executive Officer	18/07/2008	30/06/2014	General Shareholders' Meeting Resolution
Juan Villar-Mir de Fuentes		Proprietary	Director	30/06/2014	30/06/2014	General Shareholders' Meeting Resolution
Juan Carlos García Cañizares		Proprietary	Director	30/06/2014	30/06/2014	General Shareholders' Meeting Resolution
Francesc Mora Sagués		Proprietary	Director	30/06/2014	30/06/2014	General Shareholders' Meeting Resolution
Ana Sainz de Vicuña Bemberg		Independent	Director	30/06/2014	30/06/2014	General Shareholders' Meeting Resolution
Carlos Fernández-Lerga Garralda		Independent	Lead Director	19/06/2008	30/06/2014	General Shareholders' Meeting Resolution
Javier Iglesias de Ussel Ordís		Independent	Director	19/06/2008	2014/06/30	General Shareholders' Meeting Resolution
Luis Maluquer Trepat		Other director	Director	31/07/2013	30/06/2014	General Shareholders' Meeting Resolution
Sheikh Ali Jassim M.J. Al-Thani		Proprietary	Director	12/11/2015	12/11/2015	Co-option

Total number of directors	11

Indicate any board members who left during this period.

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

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

EXECUTIVE DIRECTORS

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

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

EXTERNAL PROPRIETARY DIRECTORS

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

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

INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of director

Carlos Fernández-Lerga Garralda

Profile

Law graduate of the University of Navarra. He also holds a Masters in European Studies from the University of Leuven (Belgium) and a Doctorate in Law from the Complutense University of Madrid. He has also participated in post-graduate courses specialising in Commercial Law at the Bank of Spain's Training Centre. He completed his international law studies at The Hague Academy of International Law and his comparative law and international organisations studies in Strasbourg and at the Collège Universitaire d´Etudes Fédéralistes in Nice, Val d'Aosta.

He was an Advisory Member of the Ministry and Secretary of State for Relations with the European Communities between 1978 and 1983, during which time he participated in negotiations for Spain's accession to the EU. He was also General Manager of the EU Advisory Service within the Banco Hispano Americano Group between 1984 and 1986. He has also been a director at Abantia Corporación and Gamesa Corporación Tecnológica, S.A. (Lead Independent Director) as well as a General Board Member of La Caixa. He has also been a member of the International Secretariat of the World Federalist Youth movement (Amsterdam); Secretary of the Madrid branch of the European League for Economic Cooperation; Secretary of the Foundation for Progress and Democracy; a representative (treasurer) of the Governing Board of the Madrid Bar Association, a member of the Executive Committee of the Elcano Royal Institute and a trustee of the Spain/US Board and Spain/China Board Foundations. He has also lectured at the School of Political Science at the Complutense University and at the Institute of European Studies at the University of Alcalá de Henares, and has written numerous publications.

He is currently Chairman of Iberdrola Ingeniería y Construcción, S.A. and continues to practise law at his firm, Carlos Fernández-Lerga Abogados, mainly offering legal advice on civil and commercial law. He is currently a member of the Board of Directors of Société Foncière Lyonnaise ("SFL").

Name or corporate name of director

Javier Iglesias de Ussel Ordís

Profile

Javier Iglesias de Ussel y Ordis has had a long career in the financial world. In 1974 he joined Lloyds Bank International in London, where he held various positions of responsibility in corporate banking in Dubai, Sao Paulo, Asunción and Madrid over a period of 21 years. In 1995 he joined the Bank of New York and was appointed Country Manager for the Iberian Peninsula. In 2002 he moved to New York and was appointed General Manager for Latin America. He was head of the Representative Office of the Chilean bank Banco de Crédito e Inversiones from 2008 to December 2013. Mr. Iglesias de Ussel has been an independent director of Inmobiliaria Colonial since 2008 and has been an independent director of Aresbank since March 2015.

Mr. Iglesias de Ussel has a degree in modern history from the University of Barcelona and throughout his professional career he has taken numerous courses in business management and administration, marketing, risk analysis and money-laundering prevention. He has lived 22 years abroad and speaks English, French and Portuguese.

Name or corporate name of director

Ana Sainz de Vicuña Bemberg

Profile

Graduate of the University of Reading in the UK with a degree in Agricultural Economics. She was a participant in the Management Development Program at Harvard University.

She worked for Merrill Lynch in Spain for 18 years (1984-2003). She began her career in private banking, where she remained for 12 years. She then joined Sociedad de Valores y Bolsa, which was formed following the acquisition of FG and assisted in the merger. Later, she took charge of operations, systems, human resources and finance. Lastly, she was appointed General Manager of the Merrill Lynch International Bank branch in Spain.

Since 2004, she has been a member of the Board and the Executive Committee of Corporación Financiera Guadalmar (CFG), a family office with assets in Spain and Latin America, mainly in Argentina and Chile. She supervises the Financial Assets Committee which manages securities portfolios as well as the family's investments in Grupo Security, of which she is also a director, and in the Awasi and W Santiago hotel groups.

In May 2015 she was appointed director of Altamar Capital Partners, a financial services firm mainly dedicated to alternative management through international funds and managers. In July 2015 she was appointed director of Acciona, S.A. She forms part of the Foundation Board of the Foundation for Art Research Partnership and Education and the board of trustees of the Prójimo-Próximo Foundation.

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

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

No

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

Name or corporate name of director	Description of the relationship	Reasons

OTHER EXTERNAL DIRECTORS

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

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

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

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

There were none.

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

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

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

Explanation of measures

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

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

Explanation of measures

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

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

Explanation of the reasons

Pursuant to article 33 of the Bylaws and the Regulations of the Board of Directors mentioned above, the proposed candidate for director must have the competencies, knowledge and experience required to form part of the Board of Directors. The Nomination and Remuneration Committee also evaluates the abilities required by the candidates that should fill each vacancy and evaluates the time and dedication required to enable them to effectively carry out their duties.

In this regard, and with respect to the appointment of proprietary directors made during the year set forth in this Annual Corporate Governance Report, the Nomination and Remuneration Committee reported on the proposals for appointment.

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

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

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

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

In this regard, proprietary directors are considered to be:

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

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

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

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

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

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

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

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

There were none.

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

No

Name or corporate name of shareholder	Explanation

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

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

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

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

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

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

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

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

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

No

C.1.14 Repealed

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

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

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

Name or corporate name	Position(s)
Carmina Ganyet i Cirera	Corporate Managing Director
Alberto Alcober Teixido	Business Manager
Nuria Oferil Coll	Senior Manager of Legal Services
Carlos Escosa Farga	Internal Auditor

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

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

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

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

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

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

Yes

Description of amendments

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

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

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

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

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

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

Description of amendments

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

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

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

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

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

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

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

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

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

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

1. When they are subject to any of the cases of incompatibility or prohibition provided by law.
2. When they cease to hold the executive positions with which their appointment as director was associated or when the reasons for their appointment disappear. In particular, proprietary directors shall resign when the shareholder they represent transfers its entire ownership interest in Inmobiliaria Colonial or reduces it to a level that requires a reduction of the number of its proprietary directors.
3. The provisions of the previous paragraph notwithstanding, in the event that circumstances arise that the Board of Directors consider justify the director remaining on the Board, the Board shall take into consideration the effect of these new circumstances on the director's status.
4. When they are seriously admonished by the Nomination and Remuneration Committee as a result of breaching their obligations as directors.
5. When their continuing as a member of the Board might adversely affect the functioning of the Board or harm the Company's name or reputation for any reason.

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

C.1.22 Repealed

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

No

If applicable, describe the differences.

Description of differences

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

No

Description of requirements

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

Yes

Matters where the Chairman has the casting vote

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

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

No

Age limit for Chairman	Age limit for CEO	Age limit for directors

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

No

Maximum number of years in office	

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

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

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

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

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

Number of meetings	0

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

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

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

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

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

Yes

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

Name	Position
Àngels Arderiu Ibars	Chief Financial Officer

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

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

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

No

Complete if the secretary is not also a director:

Name or corporate name of secretary	Representative
Francisco Palá Laguna	–

C.1.34 Repealed

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

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

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

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

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

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

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

No

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

Yes

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

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

No

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

	Company	Group
Number of consecutive years	9	9

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

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

Yes

Procedures

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

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

Yes

Procedures

In accordance with article 19 of the Regulations of the Board of Directors, in carrying out their duties, directors have the right to request and obtain from the Company any information they need to discharge their board responsibilities. In this regard, directors shall have the broadest authority to obtain information on any aspect of the Company, to examine its books, records, documents and other logs of company transactions, and to inspect all facilities.

The exercise of the aforementioned right of information should be carried out through the Chairman, the Chief Executive Officer or the Secretary of the Board, who shall deal with requests from directors, providing them directly with information, offering them the appropriate points of contact or deciding on measures so they can carry out the examinations and inspections.

Accordingly, unless the Board of Directors has been convened or called for reasons of urgency, the Chairman of the Board of Directors, in collaboration with the Secretary, will ensure that, prior to the meeting and sufficiently in advance, directors have the information necessary to deliberate on and adopt resolutions on the matters at hand.

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

Yes

Details of rules

In accordance with article 11 of the Regulations of the Board of Directors, directors must place their post at the disposal of the Board and tender, if the Board deems this appropriate and following a report from the Nomination and Remuneration Committee, their resignation when their continuing as a member of the Board might adversely affect the functioning of the Board or harm the Company's name or reputation for any reason.

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

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

No

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

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

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

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

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

Description of resolutions

The Chairman of the Board and Chief Executive Officer signed with the Company, on 28 June 2012, agreements relating to their remuneration, in accordance with the resolutions adopted by the internal governing bodies of Inmobiliaria Colonial, S.A. the agreements include, among other aspects relating to remuneration, additional contingent remuneration for the Chairman and the Chief Executive Officer of the Company in the case of their termination or resignation due to a change of control in Inmobiliaria Colonial, S.A. or a significant change in the composition of the Board of Directors, among other cases the established file Board of Directors.

For the Chairman of the Board, this remuneration consists of an amount equal to three years of their annual fixed remuneration for carrying out their executive functions, with a minimum of 1,250,000 euros. For the Chief Executive Officer, this remuneration will consist of the equivalent of three years of total yearly remuneration (fixed remuneration and ordinary variable remuneration) for carrying out his executive functions, with a minimum of 1,500,000 euros. These amounts will be automatically updated each year in accordance with the Consumer Price Index. However, the events that would have accrued such remuneration for the Chairman and the Chief Executive Officer did not occur.

In the case of the Corporate Managing Director, a golden parachute clause triggered in the event of termination under certain circumstances or change of control gives rise to compensation on termination of the functions thereof for an amount equal to three years' salary.

There is also a long-term incentive plan approved by the shareholders at the General Shareholders' Meeting (last modified on 21 January 2014), which entails the delivery of ordinary shares contingent on the Company meeting certain targets each year. The beneficiaries of the plan are the Chairman of the Board, the Chief Executive Officer and all members of Colonial's Executive Committee, which includes the Corporate Managing Director. This plan stipulates that the Board of Directors shall wind up the plan early and deliver the maximum number of outstanding shares to each beneficiary if a "substantial liquidity event" occurs. A "substantial liquidity event" occurs if a takeover bid is authorised with the aim of acquiring all of Colonial's share capital, in the framework of which Colonial's creditors must waive any existing change of control clause, or if existing debt undergoes a significant refinancing. In the latter case, early settlement of the plan shall be subject to ratification by the Nomination and Remuneration Committee. If the aim of the bid is to remove Colonial shares from stock exchange listing, and no change of control occurs, no prior delivery of shares is carried out and an equivalent remuneration system must be established based on replacing the share distribution system with an equivalent distribution of cash. If, after the delisting of Colonial shares, a transaction occurs involving a change of control, as part of which Colonial's creditors must waive any existing change of control clause, or if existing debt undergoes a significant refinancing, the Board must wind up the plan early and pay out the maximum contemplated remuneration in cash, subject to the approval of the Nomination and Remuneration Committee. In the event that, during the term of this plan, the Chairman or the CEO were to be dismissed without just cause, the shareholders at the General Meeting were to not extend their term of office or they were removed from their posts without just cause, they will be entitled to early settlement of the plan and delivery would be made of the maximum number of undelivered shares during the years remaining until the end of the term of the plan, unless the unfair dismissal were to occur in 2014 or 2015, in which case they would be entitled to receive 50% of the maximum number of undelivered shares if the dismissal occurs in 2014 or 66% if the dismissal occurs in 2015. Beneficiaries will forfeit any entitlement to such shares in the event of fair dismissal, termination with just cause, or resignation on their own initiative, or in the event of contractual breach with regard to confidentiality, the prohibition to offer services or competition. In such cases, the beneficiaries will forfeit any entitlement to awarded shares.

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

	Board of Directors	Annual General Meeting
Body authorising the clauses	Yes	No
Is the General Shareholders' Meeting informed of such clauses?		X

C.2 Board committees

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

EXECUTIVE OR DELEGATE COMMITTEE

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

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

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

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

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

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

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

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

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

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

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

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

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

No

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

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

AUDIT COMMITTEE

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

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

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

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

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

– Acted as a communication channel between the Board of Directors and the auditor, assessing the audit results.

– Reported on the re-election of Deloitte, S.L. as the auditor for the individual and consolidated financial statements for the year ended 31/12/2015.

– Analysed possible impacts of the new Audit Law and, in particular, oversaw the process of replacing the auditor as a result of such law.

– Approved the external and internal audit plan for 2015.

– Monitored the effectiveness of the internal control, internal audit and risk management systems, including tax risks, and discussed with the auditor any significant weaknesses detected in the internal control system.

– Approved the risk management and control policy, corporate governance and treasury share reports to be submitted to the Board.

– Supervised compliance with corporate governance rules and the internal codes of conduct. Preparation of the corporate social responsibility policy. Drawing up and presenting the required financial information.

– Reported on the Annual Corporate Governance Report.

– Analysed the amendments to the Bylaws and the Regulations of the General Shareholders' Meeting, following the reform of the law, duly submitted for approval at the General Shareholders' Meeting.

– Reported on the amendments to the Regulations of the Board, following the reform of the law, submitted for approval by the Board.

– Analysed and monitored the Company's tax strategy and policy, and ensured it adhered to the Code of Best Tax Practices.

– Evaluated its own functioning.

– Proposed to the Board the appointment of the new head of the internal audit function.

– Coordinated with the Committee of Société Foncière Lyonnaise (SFL) for the purpose of unifying criteria and improving efficiency in the audit process of the two companies.

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

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

NOMINATION AND REMUNERATION COMMITTEE

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

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

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

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

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

– Ensured that the remuneration policy established by the Company was observed and, in particular, proposed to the Board the remuneration policy for directors and senior executives, the individual remuneration of the Chairman of the Board and the Chief Executive Officer and other conditions of their contracts in order to bring them into line with the new Spanish Limited Liability Companies Law, and reported to the Board on the remuneration proposed for senior executives.

– Proposed the number of shares that the beneficiaries of the share delivery plan approved at the General Shareholders' Meeting held on 21 January 2014 would receive.

– Began the analysis of the Company's remuneration policy for the next four years beginning in 2016, including a potential new remuneration system for the Chairman and the Chief Executive Officer.

– Proposed an annual maximum limit for the total amount of director remuneration.

– Examined and organised the succession of the Chairman of the Board and the Company's Chief Executive Officer.

– Reported to the Board on the evaluation of its own functioning and that the Board of Directors and of the performance of the Chairman and the Chief Executive Officer.

– Proposed to the Board the content of the Annual Directors' Remuneration Report.

– Analysed the amendments to the corporate governance texts that affect the Committee and its functions to bring them into line with the new law.

– Reported favourably on (i) the appointment by co-option of Sheikh Ali Jassim M. J. Al-Thani, at the proposal of its shareholder, Qatar Investment Authority, following the resignation tendered by Silvia Villar-Mir de Fuentes; and (ii) the appointment of Nuria Oferil Coll, director of the Company's legal services department and Deputy Secretary of the Board, as proprietary director of SFL as a representative of Colonial.

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

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

C.2.3 Repealed

C.2.4 Repealed

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

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

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

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

C.2.6 Repealed

D. Related-party and intragroup transactions

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

Procedures for approving related party transactions

Pursuant to article 17 of the Regulations of the Board of Directors, express authorisation is required from the Board of Directors, which cannot be delegated, following a favourable report from the Audit and Control Committee, in the following cases:

– Provision of professional services by a director to Inmobiliaria Colonial companies. The employment or any other type of relationship that executive directors have with the Company is exempt for these purposes.

– Sale, or transfer in any other way, for any manner of economic consideration, by a director, a significant shareholder or a shareholder represented on the Board, or parties related thereto, to Inmobiliaria Colonial or its Group companies of supplies, materials, goods or rights in general.

– Transfer by Group companies to a director, a significant shareholder or a shareholder represented on the Board, or parties related thereto, of supplies, materials, goods or rights, in general, which do not form part of the ordinary business of the transferring company.

– Provision of works, services or sale of materials by Inmobiliaria Colonial Group companies to a director, significant shareholder or a shareholder represented on the Board, or parties related thereto, and which, being part of their ordinary business, is carried out under economic conditions below market rates.

– Any other legal business with Group companies in which the director or persons related thereto has a direct or indirect interest.

The aforementioned approval by the Board of Directors will not be necessary when such transactions simultaneously meet the following three characteristics: 1. They are governed by standard form contracts applied on an across-the-board basis to a large number of clients; 2. They go through at market prices, generally set by the person supplying the goods or services; and 3. The amount does not exceed 1% of the Company's annual income.

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

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

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

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

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

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

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

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

There are none.

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

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

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

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

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

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

No

E. Risk control and management systems

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

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

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

Colonial's ICRMS is structured in the following phases:

i. Identification, analysis and assessment:

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

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

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

ii. Management and updating:

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

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

iii. Control:

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

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

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

– Annual self-assessments to check the effectiveness of risk management.

– Preparation and updating of risk records which basically include the impact of the risk on value creation, as well as key risk indicators and action plans rolled out or being developed to achieve Colonial's desired level of response.

– Preparation of a report on the Audit and Control Committee's monitoring activities for the Board of Directors.

– Preparation of public information associated with the financial statements and Annual Corporate Governance Report.

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

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

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

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

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

2. **Audit and Control Committee:**

   – Continuously monitors the ICRMS.

   – Reviews the CRM.

   – Ensures that the information regarding risk management submitted to the Board of Directors and shareholders is correct.

   – Reviews the risk management guidelines and risk events which exceed the predefined supervision limit.

3. **Internal Audit:**

   – Submits an annual review on the CRM and the progress made to the governing bodies.

   – Evaluates the effectiveness of those risk management processes and controls introduced to mitigate risks.

   – Reviews, advises and develops risk treatment plans.

   – Reviews and advises on initiatives to reduce excessive risk.

   – Advises on current risk management practices and those being developed, particularly for the European rental sector.

The ICRMS also specifically identifies the duties of senior management, operating departments and owners of the risks with regard to risk management. In this regard, Colonial has determined the level of risks that can be assumed and the risk tolerance for each risk area.

One of the functions of the ACC, as delegated by the Board of Directors, is to monitor and control risk in collaboration with the managers of the various operating units.

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

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

– To supervise the process of drawing up, the integrity of and the presentation of required public financial and non-financial information.

– To regularly review the internal control and risk management systems, so that the main risks can be identified, managed and reported appropriately.

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

In short, the Board is ultimately responsible for ensuring risks are correctly managed, delegating the duty of supervising risk management and the efficiency of the control systems to the ACC.

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

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

– Strategic Risks: risks arising from the implementation of the Company's strategy.

– Corporate Risks: risks arising from the organisational structure, corporate culture, corporate policies and key decision-making processes by the governing bodies.

– Operational Risks: risks arising from losses due to failures or to inadequate management of operations.

– Reporting Risks: risks in compiling relevant and complete information to generate internal and external reports.

– Compliance Risks: risks relating to regulatory compliance.

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

– Risks inherent to the environment since the real estate sector is a highly cyclical and competitive sector, as well as risks related to economic and/or political changes in the countries in which it operates and regulatory changes, especially those relating to real estate activities.

– Risks arising from the specific nature of the business in relation to the high concentration of office rental activities in the central business district areas of Barcelona, Madrid and Paris, the appraisal of its property assets and the concentration of customers.

– Risks of a financial nature relating to restrictions in capital markets and in financial debt markets, the debt level, the drop in credit rating and interest rate fluctuations.

– Tax risks relating to the limit on tax loss carryforwards, the loss by its French subsidiary, Société Foncière Lyonnaise, of its status as a listed real-estate investment company (SIIC) and changes in its favourable tax regime.

– Corporate risks arising from the management of its corporate reputation and image and from carrying out its activities through subsidiaries.

– Operating risks arising from the management of and damage to its property assets, the maintenance and repair thereof, its liability for the actions of its contractors and subcontractors, and from court and out-of-court claims.

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

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

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

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

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

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

i. Financing of property assets. Financial structure and debt level

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

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

ii. Increase of competition in the real estate sector

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

Control systems: Colonial diversifies its investments in Barcelona, Madrid and Paris, selecting high-quality properties located in central business district (CBD) areas. Colonial's strategy is to have the best portfolio of offices for rent. In 2015 the Colonial Group continued with this selective investment strategy in CBD areas, making new acquisitions in the amount of 234 million euros.

Iii. Impairment of property assets

Circumstances: The holding and acquisition of properties implies certain risk factors, including the possibility that returns on investment will be lower than estimated or that estimates and valuations performed could prove inaccurate or wrong. In addition, the market value of the assets may decline or be negatively affected in certain cases.

Control systems: To mitigate this risk factor, Colonial engages independent experts to appraise all of its assets on a six-monthly basis. The Group allocates a significant portion of its resources to investing in and maintaining its property assets in order to enhance their value and position on the market and the income obtained from these assets. In this regard, Colonial invested 128 million euros in 2015 in projects to improve and renovate its property assets.

iv. Concentration of the group's activities in Spain and France

Circumstances: Colonial focuses its business activities solely on the rental business of properties in Barcelona, Madrid and Paris.

Control systems: The level of the Group's rental income comes from property rentals located in CBD areas of such cities. The new investments made in 2015 reinforced this business strategy with the acquisition of five properties located in these CBD areas in the amount of 234 million euros. This strategy of focusing its rental business in CBD areas and its high quality standards have positioned the Group as a reference in the real estate sector.

E.6 Explain the response and monitoring plans for the main risks the entity is exposed to, including fiscal.

Risks are classified into four levels according to their impact and probability (ranging from the most to the least serious), and are then placed into one of the following categories according to the Company's response to each:

Avoidance: This entails abandoning activities which generate risks where no response has been identified which could reduce its impact and/or likelihood to a level deemed as acceptable.

Reduction: This entails carrying out actions to reduce the likelihood and/or impact of the risk, thereby reducing the residual risk so that it is in line with the Company's risk tolerance level.

Sharing: The likelihood or impact of a risk is reduced by transferring or sharing part of the risk to reduce the residual risk so that it is in line with the Company's risk tolerance level.

Acceptance: No action is taken which may affect the likelihood or impact of the risk as the residual risk is already within the Company's risk tolerance level.

The internal audit function is responsible for monitoring the risk reaction plans of the owners of the risks.

F. Internal control over financial reporting (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the entity.

F.1 The entity's control environment

Specify at least the following components with a description of their main characteristics:

F.1.1 The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

The Board of Directors, as stipulated in the Regulations of the Board, is responsible for the existence and updating of a suitable and effective ICFR system.

Specifically, article 5 of the Regulations of the Board of Directors ("General Functions and Competences") stipulates, among others, the following functions:

1. Determining the Company's general policies and strategies, approving the investment and financing policy, the strategic or business plan, the annual management targets and annual budgets, and the treasury share policy, determining the corporate governance policy of the Company and the Group and approving the corporate social responsibility policy and the dividend policy. The Board of Directors will also determine the Company's risk management and control policy, including tax risks, identifying its main risks, and implementing and supervising the internal information and control systems in order to ensure the future viability and competitiveness of the Company, adopting the decisions having greatest relevance to its better development.

   To this end, Colonial has published an Internal Control and Risk Management Manual for its ICFR system approved by the Audit and Control Committee, detailing the methodology for establishing the materiality of risks, as well as methodologies for documenting, classifying and assessing risks and associated control activities.

2. Approving the financial information that all listed companies must periodically disclose.

   To this end, Colonial has published a manual for disclosure of statutory information which covers the aspects mentioned in this section and which has been approved by the Audit and Control Committee.

3. Supervising the effective operation of the committees that the Board has formed and the actions of the delegated bodies and the executives appointed.

4. Approving and amending the Regulations of the Board of Directors.

In this regard, the Board is ultimately responsible for the existence of an effective ICFR system at Colonial.

This ICFR Organisational and Monitoring Model, approved by the Audit and Control Committee, establishes the mechanism which the Board, and by delegation the Audit and Control Committee, deems effective and sufficient to guarantee the completeness, reliability, correct presentation and validity of Colonial's financial information.

Without prejudice to the other functions attributed by law, article 32 of the Regulations of the Board of Directors states that at least the following functions must be performed by the Audit and Control Committee.

In particular, the Audit and Control Committee is entrusted with the following functions, among others, regarding the ICFR system organisational model:

1. Submit to the Board, for approval, a report on the risk management and control policy which identifies at least: (i) the different types of financial and non-financial risks facing the Company; (ii) the determination of the risk level the Company sees as acceptable; (iii) the measures in place to mitigate the impact of risk events should they occur; and (iv) the internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

2. Supervise the process of drawing up and presenting the required financial information.

3. With respect to internal control and reporting systems: (i) monitor the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the Group, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles; (ii) monitor the independence and effectiveness of the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the Company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports; and (iii) establish and supervise a mechanism whereby employees can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the Company.

4. Act as a communication channel between the Board of Directors and the external auditor, assessing the results of each audit, and having responsibilities in respect of the external auditor: (ii) to receive information on a regular basis from the external auditor on the audit plan and its implementation;

5. Inform the Board of Directors of all matters established by law, the Bylaws and the Regulations of the Board of Directors and, in particular:

   a) The financial information that the Company must periodically disclose.

6. Minutes will be taken of all Committee meetings and will be available to all Board members.

In this regard, the Committee is responsible for preparing and updating the internal audit regulations as well as defining and structuring the function, including establishing its objectives, methodology, systems and reporting model.

The internal audit function is responsible for drawing up the annual Internal Audit Plan and submitting it to the Audit and Control Committee. It includes the necessary tests to verify compliance with ICFR manuals, procedures and policies.

The internal auditor shall carry out these tests and report on the conclusions to the Audit and Control Committee, including any internal control weaknesses identified, recommendations for improvement and the general conclusions of the annual audit plan which specifically includes, among others, those related to the ICFR system.

F.1.2 The existence or otherwise of the following components, especially in connection with the financial reporting process:

- **The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the entity.**

The internal audit function and the Operations-Finance Department are responsible for designing the ICFR organisational structure at Colonial and are the two departments which are most involved in the preparation and subsequent monitoring of the financial information to be disclosed.

Nevertheless, all departments involved to a lesser or greater degree in preparing the financial information must take responsibility for correctly carrying out the tasks, processes and controls in which they are involved.

The organisational structure of Colonial's ICFR system is based on two differentiated areas:

a) The general control environment, where the main ICFR guidelines, as well as the roles and responsibilities of senior management, are developed.

b) Specific ICFR controls, where the related operating procedures for the preparation of financial information are developed.

Colonial's ICFR system is structured as follows:

a) Establishment of a general atmosphere of appropriate control.

b) Identification of the relevant risks which may materially affect financial information. These risks are cross-referenced against Colonial's key business processes, to obtain a list of business processes to be monitored.

c) For those risks identified in the relevant processes, mitigating controls are implemented to reduce these risks to acceptable levels. Key documentation regarding the identified processes, risks and controls is drawn up. The affected departments are responsible for adequately implementing these procedures.

d) The internal audit function and the Audit and Control Committee are responsible for monitoring the ICFR system to guarantee it functions effectively.

Finally, the Operations-Finance Department is responsible for maintaining and keeping Colonial's accounting policies and manuals up to date and ensuring that there are suitable controls in place for the Company's IT systems.

- **Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

Colonial's Board of Directors approved its Code of Ethics on 28 September 2011.

This Code of Ethics reiterates Colonial's commitment to the principles of corporate ethics and transparency, and establishes a series of basic principles to which all Colonial personnel, partners and suppliers must adhere at all times, as their behaviour may affect Colonial's reputation.

Specifically, and with regard to financial information, article 6.5 of the Code establishes the following:

"Colonial assumes as a guiding principle for its corporate behaviour with its shareholders, investors, analysts and the market in general, to disclose true, complete information which expresses the true and fair view of the Company and the Group, its corporate activities and its business strategies.

This information shall always be disclosed according to the regulations and within the timeframes established by prevailing legislation. The corporate actions and the strategic decisions of Colonial are focused on creating value for its shareholders, transparency in its management, the adoption of best corporate governance practices in its companies and the strict observance of prevailing regulations in this matter."

Colonial's Regulatory Compliance Unit, which reports to the Audit and Control Committee, is responsible for disseminating, both internally and externally, the Code of Ethics.

The Code has been distributed to all employees.

The Audit and Control Committee is responsible for assessing the degree of compliance with the Code and preparing an annual report based on its findings.

The Regulatory Compliance Unit is responsible for compiling any irregularities or breaches of the Code, and corrective or disciplinary actions must be taken in accordance with the fines and sanctions detailed in the collective bargaining agreement or applicable labour legislation.

The Board is responsible for reviewing and updating the Code of Ethics based on the report drawn up by the Audit and Control Committee.

- **'Whistle-blowing' channel, for the reporting to the Audit Committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.**

Colonial's Regulations of the Board of Directors, and, specifically the section of article 32 of these Regulations regarding the responsibilities of the Audit and Control Committee, stipulate that these responsibilities include, among others:

"With respect to internal control and reporting systems: ... (iv) establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities."

As we have noted in the previous point, the Regulatory Compliance Unit, which reports to the Audit and Control Committee, is responsible for managing any irregularities or breaches of the regulations, and specifically, of Colonial's Code of Ethics.

To this end, Colonial has set up a whistle-blowing channel on its intranet where employees can report any irregularities and breaches identified in the Company.

This channel is managed by the Regulatory Compliance Unit, and is regularly reviewed to guarantee its confidentiality and compliance with regulatory requirements.

- **Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating the ICFR, which address, at least, accounting rules, auditing, internal control and risk management.**

Colonial has a corporate training plan which covers all business areas according to the specific needs of each one.

However, the functional business areas themselves, under the coordination and supervision of the human resources department, are responsible for designing and suggesting specific training plans for their areas.

For staff involved in preparing and reviewing financial information, training is structured around attending events about regulatory updates, on financial, accounting and tax regulations, as well as receiving, distributing and analysing documentation from external advisors regarding regulatory updates.

In addition, the Regulatory Compliance Unit, together with the functional areas, is responsible for identifying and distributing regulatory updates which affect Colonial, so that these can be analysed and implemented.

In the event of any regulatory changes of special relevance to the Company's financial, accounting or tax departments, the Operations-Finance Department proposes the need for specific training.

Likewise, personnel from the internal audit function attended thematic courses and forums outside the Company related to the evaluation of certain internal control aspects.

F.2 Risk assessment in financial reporting

Report at least:

F.2.1 The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

• The process exists and is documented.

One of the basic functions of the Audit and Control Committee, as delegated expressly by the Board of Directors, is to monitor and control risk. To this end the managers of the various operating units collaborate in identifying and correcting risk by applying Colonial's internal control and risk management system (ICRMS).

The Audit and Control Committee has the following functions, among others:

a) Submit to the Board, for approval, a report on the risk management and control policy which identifies at least:

   1) The different types of risk the Company is exposed to;

   2) The determination of the risk level the Company sees as acceptable;

   3) The measures in place to mitigate the impact of risk events should they occur;

   4) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

b) Supervise the process of drawing up and presenting the required financial information.

c) Monitor the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the Group, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles.

d) Review internal control and risk management systems on a regular basis, so the main risks are properly identified, managed and disclosed.

Colonial's ICFR organisational and monitoring structure, as well as its Internal Control and Risk Management Manual, are aligned with and form part of Colonial's general risk policy, and have been approved by the Audit and Control Committee.

The objective of the Internal Control and Risk Management Manual, as part of the Company's risk and internal control policy, is to guarantee the preparation and dissemination of reliable financial information.

- **The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.**

The Internal Control and Risk Management Manual covers the following seven types of risk:

1) Completeness: Transactions, events, assets, liabilities or equity interests that are not identified and, consequently, are not included in the Company's accounts. Data entries not captured in the ledgers or data entries which have been rejected. Disclosures not identified and, consequently, not included in the notes to the financial statements or deliberately omitted.
2) Existence: Unauthorised transactions which are entered into the Company's accounting application. Duplicate transactions. Erroneous adjustments carried out in the ledgers.
3) Disclosure and comparability: Disclosures not identified and, consequently, not included in the notes to the financial statements or deliberately omitted. Transactions that have not been recorded consistently over time.
4) Rights and obligations: Incorrect determination of the ability to control the rights arising from an asset or a contract/agreement. Correct determination of the obligations derived from a liability or from a contract/agreement.
5) Valuation: Incorrect determination of the value of an asset, liability, revenue or expense, and which could generate the recording of adjustments in determining market values, amortised costs, value in use or due to an error in the depreciation as well as adjustments carried out and which are not duly justified.
6) Presentation: Incorrect presentation of financial transactions in the financial statements (assets vs. liabilities, income vs. expense, long-term vs. short-term, etc.).
7) Transaction cut-off: Incorrect recording of transactions in the corresponding accounting period.

Colonial's Internal Control and Risk Management Manual is revised and periodically updated by Internal Audit and the Legal Advisory and Operations-Finance Departments, at the proposal of any of these, also taking into account the suggestions and proposals of Internal Audit resulting from its reviews of operations. The Audit and Control Committee must approve any amendments to the Manual, while Internal Audit and the Operations-Finance Department must be notified in advance of any reviews or updates.

- **A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies, etc.**

Colonial's Regulations for the Board of Directors, and, specifically the section regarding the responsibilities of the Audit and Control Committee, stipulate that these responsibilities include, among others:

"With respect to internal control and reporting systems: (i) monitor the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the Group, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles...".

In this regard, Colonial has a consolidation process which stipulates, as a basic procedure, the determination of the Group's scope of consolidation at every accounting close.

This procedure is implemented by the Accounting, Consolidation and Tax Department which reports to the Operations-Finance Department. The Audit and Control Committee is notified when the scope of consolidation is amended.

- **The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.**

As noted above, one of the basic functions of the Audit and Control Committee, as delegated expressly by the Board of Directors, is to monitor and control risk. To this end, the managers of the various operating units collaborate in identifying and correcting risk.

Colonial's ICFR organisational and monitoring structure, as well as its Internal Control and Risk Management Manual, are aligned with and form part of Colonial's general risk policy (see section E above), and have been approved by the Audit and Control Committee.

In the process of identifying risks to the financial information within the ICFR system, all the areas of risk identified in Colonial's risk map have been considered.

- **Finally, which of the entity's governing bodies is responsible for overseeing the process.**

Colonial's Regulations of the Board of Directors, and, specifically the section regarding the responsibilities of the Audit and Control Committee, stipulate that these responsibilities include, among others:

"With respect to internal control and reporting systems: ... (ii) review internal control and risk management systems on a regular basis, so the main risks are properly identified, managed and disclosed."

In this regard, the Audit and Control Committee is responsible for approving the Internal Control and Risk Management Manual of Colonial's ICFR system.

F.3 Control activities

Indicate the existence of at least the following components, and specify their main characteristics:

F.3.1 Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

As mentioned above, the Audit and Control Committee is responsible for supervising the preparation and disclosure of reliable financial information to the market. In this regard, the Committee has approved a manual for disclosure of statutory information which regulates the procedure for preparing and approving this information.

Colonial's Internal Control and Risk Management Manual establishes the criteria for identifying the relevant public financial information as follows:

a) Periodic Public Information (PPI) obligations:

   1) Quarterly Financial Report.

   2) Interim Financial Report.

   3) Annual Financial Report and Annual Corporate Governance Report (ACGR).

b) Annual Report on Directors' Remuneration (ARDR).

c) Registration document.

d) Significant events.

There are preparation and review procedures in place for all relevant statutory financial reporting to the market. These include an internal control questionnaire that must be completed involving the Operations-Finance Department, the Corporate Development and Management Control Department, both of which report to the General-Corporate Department, through the Legal Advisory Department and, depending on the type of information, the CEO, Board of Directors or the General Shareholders' Meeting itself.

Monitoring of the manual for disclosure of statutory information as well as the completion of the specific internal control questionnaires are mandatory and subject to review by Colonial's Internal Audit function.

In terms of the documentation of activity flows and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, Colonial has an ICFR organisational and monitoring structure which has been approved by the Audit and Control Committee. This provides specific internal control mechanisms that have been deployed to maintain an internal control environment conducive to comprehensive, reliable and timely financial reporting and which provides for the possible existence of irregularities and the means to detect and correct these.

The organisational structure of Colonial's ICFR system is based on two differentiated areas:

a) The general control environment, where the main ICFR guidelines, as well as the roles and responsibilities of senior management, are developed.

b) Specific ICFR controls, where the related operating procedures for the preparation of financial information are developed.

In addition, Colonial has an Internal Control and Risk Management Manual for its ICFR system which sets out the specific controls and formal documentation for mitigating financial reporting risks. The organisation model details the high-level controls and mechanisms.

Colonial has determined that errors or inaccuracies in the financial statements and other public information could severely affect its reputation, image and share price and these are therefore included in the ICFR system for monitoring.

Once the relevant financial information has been determined, the cycles and business processes, both in the preparation as well as in the disclosure of financial reporting that could have a material impact on the abovementioned information, are identified.

Once the processes have been identified, the relevant functional areas and Internal Audit then identify the implicit risks in the processes and the corresponding controls.

These processes, risks and controls are formally documented so they can be correctly carried out and monitored.

The Company guarantees that the identified risks are consistent with the corporate risk model.

The scope of the processes selected ensures that, by complying with the same, complete and reliable financial information is obtained.

The Operations-Finance Department and Internal Audit are responsible for identifying the ICFR processes, risks and relevant controls which are then approved by the Audit and Control Committee. In this process, the Company has specifically considered the possible risk of fraud and has in place control activities to prevent this risk. At present, there is no formal corporate anti-fraud policy.

The processes identified at Colonial relating to the ICFR system are:

a) Closing of accounts, and a review of critical judgements, estimates, valuations and projections.

b) Consolidation and reporting at subsidiaries.

c) Recognition of revenue.

d) Asset valuation (determination of the fair value of Colonial's property investments and the net realisable value of inventories).

e) Treasury, debt and derivatives.

f) Manual for disclosure of statutory information.

g) Procedure for maintaining accounting policies, Group accounting policies manual.

h) Taxes.

i) IT systems, including the capture and preparation mechanisms for supporting financial information.

j) Investments and asset acquisitions.

k) Purchases of goods and services.

l) Human resources.

All of Colonial's key processes are documented and working, and are updated annually to include any potential amendments.

The key processes at Colonial which affect the preparation of financial information are documented through the following:

a) Flow charts of the activities in the procedure.

b) Descriptions of the processes, their risks and the controls in place.

c) Risk and control matrices.

The ICFR Internal Control and Risk Management Manual is an internal regulation which must be adhered to. Therefore, it is essential that all the functions/departments involved monitor the processes established, as well as the controls in place, to guarantee security when preparing financial information at Colonial.

The most senior-ranking employee in each of the departments involved in the procedures documented in the internal control model shall be responsible for ensuring that the processes and controls are correctly applied and documented for each accounting period.

In this regard, a checklist has been provided to verify that the processes are documented for each accounting period and are subject to review by Internal Audit.

Any transactions with a relevant weight of critical judgments, estimates, evaluations and projections are specifically monitored, as is the case with real estate asset valuations, the preparation of impairment tests and the preparation of efficiency tests for derivative financial instruments.

F.3.2 Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

The IT systems area is responsible for Colonial's corporate IT systems. This department reports to the Operations-Finance Department which in turn reports to the General-Corporate Department.

At present, the operation and maintenance of Colonial's corporate IT systems are outsourced. Therefore, the head of IT coordinates the main aspects concerning the physical security, continuity and operation of the systems with the external supplier.

Furthermore, the head of IT systems at Colonial is responsible for establishing the IT internal control model regarding secure access, segregation of duties (in coordination with the operating business and support areas) and control of changes, as well as carrying out risk monitoring and control activities arising out of the outsourcing of the IT systems.

All Spanish Colonial Group companies use the same SAP operating system. The information systems of the French Group SFL are not fully integrated with Colonial, and therefore information is exchanged by exporting data to secure files.

Colonial's IT internal control model includes, among others, the following key processes:

a) Physical safety of the equipment and the data processing centres (in coordination with the external supplier).

b) Logical security of the applications (in coordination with the external supplier).

c) Monitoring of the Service Level Agreement (SLAs) and the Service Level Objectives (SLOs) with the external suppliers.

d) Project management, rollouts, developments and upgrades of current systems.

e) Operations management.

f) Infrastructure and communications management.

g) Management of the back-up and recovery systems (in coordination with the external supplier).

h) Management of users, profiles and accesses.

i) Management of the audits of the reporting and regulatory compliance systems.

F.3.3 Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

As mentioned in section F.3.1, Colonial has identified the key processes which may materially affect its financial information. Among the criteria used to identify these processes, the Company has considered criteria for activities with a high level of third-party involvement and also those which are fully outsourced.

In this regard, the relevant processes involving significant third-party participation are as follows:

a) Valuation of property assets: determination of fair value.

b) Financial hedging instruments: efficiency tests and resulting fair value.

c) IT systems: maintenance and operation.

All procedures involving third parties have been documented, identifying all the risks and the controls introduced. The functional areas involved in the different processes are responsible for monitoring them and for introducing the appropriate controls.

The Internal Audit function's annual plan includes the monitoring activities needed to ensure the processes described are correctly executed.

F.4 Information and communication

Indicate the existence of at least the following components, and specify their main characteristics:

F.4.1 A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the entity's operating units.

The ICFR organisational and monitoring structure, which has been approved by the Audit and Control Committee, establishes that the Operations-Finance Department is responsible for maintaining Colonial's accounting policies and the group accounting policies manual, as well as settling doubts or disputes over their application.

Colonial has a group accounting policies manual, which has been approved by the Audit and Control Committee, and which must be adhered to by all companies.

The Operations-Finance Department is responsible for preparing and updating this manual.

F.4.2 Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

Colonial has implemented a tool to assist in the reporting of financial information and financial and operational budgetary planning for the Group. This guarantees greater control and security in the process of capturing and preparing financial information.

The Group accounting policies manual establishes an accounting plan and model financial statements which all Group companies must follow and which are set up in the tool thereby guaranteeing the uniformity of the financial information.

The preparation of statutory financial information, as well as the individual financial statements for Colonial's Spanish companies, is coordinated centrally by the Operations-Finance Department and the Corporate Development and Management Control Department, thereby guaranteeing uniformity.

A significant portion of the data required to prepare this financial information is obtained directly from the IT tool as it has been customised to do so. For those cases where information must be prepared without this tool, Colonial has control mechanisms in place to ensure its completeness and reliability as well as a physical archive of the information in an internal repository with access limited to the staff involved in preparing the financial information.

Colonial has a specific tool for managing the ICFR system.

F.5 Monitoring

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1 The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the entity has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

The main activities carried out by the Audit and Control Committee in relation to the ICFR system in 2015 consisted of supervising the development process implemented by the internal audit function to supervise the implementation and effectiveness of the ICFR.

The Committee also met with the Company's auditors to assess the internal control weaknesses encountered during the course of their work, as well as any relevant aspects or incidents.

Finally, the Audit and Control Committee has reviewed all the financial information disclosed by Colonial.

The Audit and Control Committee has already approved the 2016 action and audit plans, including the necessary actions to guarantee the correct monitoring and evaluation of the model throughout the year. Any incidents detected and the necessary corrective measures shall be reported on a regular basis, as well as their potential impact on the financial information, once these have been confirmed with the audited areas.

Colonial's Regulations of the Board of Directors, and specifically the section corresponding to the duties of the Audit and Control Committee, state that the Committee's responsibilities with regard to the internal audit function are, among others:

"With respect to internal control and reporting systems:

(iii) To safeguard the independence and effectiveness of the internal audit function; propose the selection, appointment, reappointment and removal of the head of Internal Audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports."

In July 2009, the Audit and Control Committee approved Colonial's internal audit regulations.

The main responsibilities of this function include:

1. Periodically verifying the degree of application of the approved policies and procedures which comprise the internal control system and offering suggestions for improvement, and as a result of this verification, offering suggestions to improve the risk management system.

2. Complying with any other precise requirement of the Audit and Control Committee or of the Executive Committee.

The internal control procedures include those relating to the ICFR system, which are included in the 2016 audit plan, which in turn includes the specific tasks to be carried out to verify that Colonial's ICFR system functions effectively.

The following activities relating to financial information were included in the 2015 audit plan:

1. Review of the financial information publicly disclosed.
2. Analysis of the consistency of the accounting policies used as well as an analysis of the observations and recommendations received from the external auditors.
3. Review of the management report.
4. Review of the information contained in the annual financial statements and interim financial statements concerning related-party transactions.
5. Monitoring of the effectiveness of the processes, risks and relevant controls related to the ICFR system.

F.5.2 A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Audit Committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

Article 8 of the Regulations of the Board of Directors states that:

"The relationship between the Board of Directors and the external auditor shall be channelled through the Audit and Control Committee."

In this regard, article 32 of the Regulations of the Board of Directors regulates the functions of the Audit and Control Committee, and among other aspects, establishes the following:

1. Act as a communication channel between the Board of Directors and the external auditor, assessing the results of each audit, and having responsibilities in respect of the external auditor:

   (ii) to receive information on a regular basis from the external auditor on the audit plan and its implementation;

2. Establish the appropriate relationships with the external auditor to receive information on any issues which may jeopardise its independence and which will be studied by the Committee, and any other information relating to the auditing procedure, as well as any other communications provided for in the legislation relating to auditing and the technical rules thereof.

Likewise, and in relation to the internal audit function, the functions of the Audit and Control Committee include:

1. Monitor the effectiveness of the Company's internal control, internal audit and risk management systems, including tax risks, and discuss with the external auditors any significant weaknesses detected in the internal control system during the course of the audit.

All monitoring activities are carried out by the Company's Board of Directors and the Audit and Control Committee throughout the year and included in the agenda of the various meetings held during the year.

F.6 Other relevant information

No other aspects have been identified.

F.7 External auditor's report

State whether:

F.7.1 The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The Audit and Control Committee and the internal audit function are responsible for the supervision of the ICFR system, complemented by the activities of the external auditor in identifying any internal control weaknesses identified during the course of the audit.

These supervision activities are considered adequate and sufficient, and it is therefore not considered necessary to submit the ICFR information to an additional external review.

G. Degree of compliance with corporate governance recommendations

Indicate the degree of the Company's compliance with Corporate Governance recommendations.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

1. The Bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

Compliant

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

a) The activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies.

b) The mechanisms in place to resolve possible conflicts of interest.

Compliant

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.

Explain

The Company expects to comply with this recommendation at the General Shareholders' Meetings to be held in 2016.

4. Que la sociedad defina y promueva una política de comunicación y contactos con accionistas, inversores institucionales y asesores de voto que sea plenamente respetuosa con las normas contra el abuso de mercado y dé un trato semejante a los accionistas que se encuentren en la misma posición.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Partially compliant

Although not published on the Company's website, both the Bylaws and Colonial's Code of Ethics include the action principles for Inmobiliaria Colonial, S.A.'s relationship with its various stakeholders, including its shareholders, institutional investors and proxy advisors. These principles fully comply with market abuse regulations and accords equitable treatment to shareholders in the same position.

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

a) Report on auditor independence.

b) Reviews of the operation of the audit committee and the nomination and remuneration committee.

c) Audit committee report on third-party transactions.

d) Report on corporate social responsibility policy.

Partially compliant

The report on the independence of the auditor, and on the functioning of the Audit Committee, are published on the corporate website well in advance of the Annual General Meeting. It should also be noted that the Audit Committee's report on third-party transactions was not drawn up because no third-party transactions were carried out in 2015.

7. The company should broadcast its general meetings live on the corporate website.

Explain

Although the General Meeting was not broadcast live, this possibility is included in article 15 of the Regulations of the General Shareholders' Meeting.

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Compliant

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Compliant

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

a) Immediately circulate the supplementary items and new proposals.

b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.

c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.

d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Compliant

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Not applicable

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Compliant

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Compliant

14. The board of directors should approve a director selection policy that:

a) Is concrete and verifiable.

b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs.

c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Partially compliant

The Board of Directors has a director selection policy that conforms with article 4 of the Regulations of the Board of Directors, with the objective of ensuring that (i) proposals for appointment or re-election are based on a prior analysis of the Board's needs; (ii) the procedures for selecting its members favour diversity of gender, experience and knowledge, and are free from any implied bias entailing any kind of discrimination and (iii) in particular, that such procedures facilitate the selection of female directors. However, the explanatory report of the Nomination and Remuneration Committee is not being published in connection with the call for the General Meeting.

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Compliant

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Explain

The number of proprietary directors (5) out of non-executive directors (9) currently exceeds the proportion between Colonial's share capital represented by these directors and the remainder of the Company's capital. However, Inmobiliaria Colonial, S.A. does have several shareholders represented on the Board of Directors that are not otherwise related and, therefore, this criterion can be relaxed.

17. Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.

Explain

First of all, Colonial cannot be considered to have a large market capitalisation. Second, the Company's Board of Directors currently has three independent directors and one member classified under the category of “other external director”, as well as five proprietary directors and two executive directors. In this regard, although the number of independent directors does not exactly represent one-third of all directors and, therefore, does not literally comply with the aforementioned good governance recommendation, we believe that the Company complies with the philosophy and spirit of the good governance principles and recommendations applicable to listed companies, as the Board of Directors is mainly composed of proprietary and independent directors, and the number of executive directors is the minimum necessary.

18. Companies should post the following director particulars on their websites, and keep them permanently updated:

a) Background and professional experience.

b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.

d) Dates of their first appointment as a board member and subsequent re-elections.

e) Shares held in the company, and any options on the same.

Compliant

19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Not applicable

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latters' number should be reduced accordingly.

Compliant

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Compliant

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Compliant

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation. The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Compliant

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Compliant

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations should lay down the maximum number of company boards on which directors can serve.

Partially compliant

Although the Regulations of the Board of Directors do not establish a maximum number of company boards on which directors can serve, the Nomination and Remuneration Committee ensures that non-executive directors have sufficient time available to properly discharge their duties.

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Compliant

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

Compliant

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Compliant

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Compliant

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Compliant

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Compliant

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Compliant

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Compliant

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

Compliant

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Compliant

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

a) The quality and efficiency of the board's operation.

b) The performance and membership of its committees.

c) The diversity of board membership and competences.

d) The performance of the chairman of the board of directors and the company's chief executive.

e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Compliant

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

Compliant

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

Compliant

39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

Compliant

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Compliant

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Compliant

42. The audit committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

   a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

   b) Ensure the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

   c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

   a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

   b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

   c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

   d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.

   e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Compliant

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Compliant

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Compliant

45. Risk control and management policy should identify at least:

a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off- balance-sheet risks.

b) The determination of the risk level the company sees as acceptable.

c) The measures in place to mitigate the impact of identified risk events should they occur.

d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Compliant

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Compliant

47. Appointees to the nomination and remuneration committee - or of the nomination committee and remuneration committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Compliant

48. Large cap companies should operate separately constituted nomination and remuneration committees.

Not applicable

49. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the nomination committee to propose candidates that it might consider suitable.

Compliant

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

a) Propose to the board the standard conditions for senior officer contracts.

b) Monitor compliance with the remuneration policy set by the company.

c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.

d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.

e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Compliant

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Compliant

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

a) Committees should be formed exclusively by non-executive directors, with a majority of independents.

b) They should be chaired by independent directors.

c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.

d) They may engage external advice, when they feel it necessary for the discharge of their functions.

e) Meeting proceedings should be minuted and a copy made available to all board members.

Not applicable

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.

b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.

c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.

e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.

f) Monitor and evaluate the company's interaction with its stakeholder groups.

g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Compliant

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.

d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Compliant

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Compliant

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Compliant

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Compliant

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Compliant

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Explain

No further provisions in this regard are envisaged, beyond those set out in applicable company law.

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Partially compliant

Compliant with respect to the Chairman of the Board of Directors.

H. Other information of interest

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

2. You may include in this section any other information, clarification or observation related to the above sections of this report.

   Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different from that required by this report.

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable, identify the Code and date of adoption. In particular, indicate whether the company adheres to the Code of Best Tax Practices of 20 June 2010.

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

   – The figure contained in section C.1.15 of this report includes (i) the settlement of the share delivery plan, (ii) compensation of executive directors and (iii) the cost of directors for their membership on the Board of Directors of group companies.

This annual corporate governance report was adopted by the Company's Board of Directors at its meeting held on 19 February 2016.

List whether any directors voted against or abstained from voting on the approval of this Report.

Yes

Name or corporate name of director who voted against the approval of this report	Reasons (voted against, abstained, non-attendance)	Explain the reasons
Sheikh Ali Jassim M.J. Al-Thani	Non-attendance	Non-attendance

Glossary

Earnings per share (EPS)	Profit from the year attributable to the shareholders divided by the 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.
Asentia deconsolidation	Exit from the consolidation perimeter of the Colonial Group.
EBITDA	Operative results 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 53.1% 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 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.
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 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.
EPRA 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).
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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Maps: BC Maps