ANNUAL ACCOUNTS 2012

Colonial

Inmobiliaria Colonial, S.A. and subsidiaries

2012

Consolidated Financial Statements for the year ended 31 December 2012, prepared in accordance with International Financial Reporting Standards, and Consolidated Management Report, together with the Audit Report

Colonial

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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 (see notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

1. We have audited the consolidated financial statements of Inmobiliaria Colonial, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the consolidated statement of financial position at 31 December 2012 and the related 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. As indicated in Note 2-a to the accompanying consolidated financial statements, the Parent's directors are responsible for the preparation of the Group's consolidated financial statements 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. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with the audit regulations in force in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of whether their presentation, the accounting principles and policies applied and the estimates made comply with the applicable regulatory financial reporting framework.

2. In our opinion, the accompanying consolidated financial statements for 2012 present fairly, in all material respects, the consolidated equity and consolidated financial position of Inmobiliaria Colonial, S.A. and Subsidiaries at 31 December 2012, and the consolidated results of their operations and their consolidated cash flows for the year then ended, in conformity 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.

3. Without qualifying our audit opinion, we draw attention to Notes 19 and 25 to the accompanying consolidated financial statements, which indicate that at 31 December 2011 the Group had recognised deferred tax assets and liabilities amounting to EUR 785 million and EUR 189 million, respectively. The recovery of these amounts was based on the Group's business plan, which envisaged the rotation of certain assets and the realisation of certain investments in the future. At 31 December 2012, the directors updated the business plan on the basis of the performance of the real estate market in 2012 and, for the purpose of assessing the recoverability of the deferred tax assets, considered only the results from ordinary activities relating to the current property portfolio. As a result of this re-assessment, the Group derecognised deferred tax assets amounting to EUR 565 million and, accordingly, at 31 December 2012 the balance of the deferred tax assets and liabilities recognised amounted to EUR 217 million and EUR 83 million, respectively.

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

4. The accompanying consolidated directors' report for 2012 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 2012. 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

Rafael Abella

28 February 2013

COL·LEGI
DE CENSORS JURATS
DE COMPTES
DE CATALUNYA

Membre exercent:

DELOITTE, S.L.

Any 2013 Núm. 20/13/00420
CÒPIA GRATUÏTA

Informe subjecte a la taxa establerta a l'article 44 del text refós de la Llei d'auditoria de comptes, aprovat per Reial decret legislatiu 1/2011, d'1 de juliol.

INMOBILIARIA COLONIAL, S.A. AND SUBSIDIARIES (COLONIAL GROUP)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2012 (thousands of euros)

ASSETS	Note	31 December 2012	31 December 2011
Goodwill	7	120,000	177,972
Intangible assets	-	1,498	997
Property, plant and equipment	8	34,269	37,170
Investment property	9	4,782,137	4,618,113
Financial assets	10	294,914	282,889
- Investments in associates		286,560	266,106
- Other financial assets		8,354	16,783
Deferred tax assets	19	216,564	738,150
Other non-current assets	11	30,663	61,041
NON-CURRENT ASSETS		**5,480,045**	**5,916,332**
Trade and other receivables	12	48,607	46,904
Financial assets	13	13,168	25,923
Tax receivables	19	18,817	16,691
Cash and cash equivalents	15	69,017	65,926
Non-current assets held for sale	25	1,623,806	1,865,185
CURRENT ASSETS		**1,773,415**	**2,020,629**
TOTAL ASSETS		**7,253,460**	**7,936,961**

Notes 1 to 27 and Appendices I and II of the accompanying notes to the consolidated financial statements are an integral part of the consolidated statement of financial position at 31 December 2012.

INMOBILIARIA COLONIAL, S.A. AND SUBSIDIARIES
(COLONIAL GROUP)
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2012 (thousands of euros)

EQUITY AND LIABILITIES	Note	31 December 2012	31 December 2011
Share capital		225,918	225,918
Share premium		102	93
Reserves		1,132,413	1,114,877
Valuation adjustments recognised in equity - financial instruments		(1,008)	2,467
Gains/(losses) on available-for-sale financial assets		-	(7,909)
Other equity instruments		3,955	2,445
Treasury shares		(60,047)	(59,543)
Profit/(loss) for the year		(1,129,005)	14,914
Equity attributable to owners of the Parent Company		**172,328**	**1,293,262**
Non-controlling interests		**1,219,637**	**1,037,761**
EQUITY	**14**	**1,391,965**	**2,331,023**
Bank borrowings and other financial liabilities	15 & 16	2,587,495	2,563,324
Bonds and similar issued securities	15	993,574	496,680
Deferred tax liabilities	19	237,164	203,432
Provisions	18	2,038	10,378
Other non-current liabilities	17	22,846	22,029
NON-CURRENT LIABILITIES		**3,843,117**	**3,295,843**
Bank borrowings and other financial liabilities	15 & 16	208,048	468,948
Bonds and similar issued securities	15	13,619	13,224
Trade payables	17	106,536	81,455
Taxes payable	19	34,068	39,982
Provisions	18	316	111
Liabilities relating to assets held for sale	25	1,655,791	1,706,375
CURRENT LIABILITIES		**2,018,378**	**2,310,095**
TOTAL EQUITY AND LIABILITIES		**7,253,460**	**7,936,961**

Notes 1 to 27 and Appendices I and II of the accompanying notes to the consolidated financial statements are an integral part of the consolidated statement of financial position at 31 December 2012.

INMOBILIARIA COLONIAL, S.A. AND SUBSIDIARIES (COLONIAL GROUP)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012
(thousands of euros)

Consolidated statement of comprehensive income	**Note**	**2012**	**2011**
Revenue	21	225,293	229,206
Other income	21	5,039	3,419
Employee benefits expense	21	(21,137)	(21,383)
Other operating expenses	21	(34,630)	(30,787)
Depreciation and amortisation expense		(1,331)	(1,269)
Net change in provisions	21	(26,088)	2,833
Net gain/(loss) on sales of assets	21	(3,766)	8,709
Operating profit		**143,380**	**190,728**
Change in fair value of investment property	21	19,093	92,561
Impairment charges and net gains/(losses) on assets	21	(59,923)	(118,586)
Finance income	21	26,695	33,043
Share of profit/(loss) of associates	10 & 21	20,967	18,703
Finance cost	21	(176,055)	(170,616)
Impairment of financial assets	21	(20,621)	(119)
Profit/(loss) before tax		**(46,464)**	**45,714**
Income tax receipt (expense)	19	(528,778)	64,601
Consolidated net profit/(loss) from continuing operations		**(575,242)**	**110,315**
Loss from discontinued operations	25	(419,170)	(533)
Consolidated net profit/(loss)		**(994,412)**	**109,782**
Profit/(loss) for the year attributable to equity holders of the Parent Company	21	(1,129,005)	14,914
Profit/(loss) attributable to non-controlling interests	21	134,593	94,868
Basic earnings per share (€)	5	(5.019)	0.066
Diluted earnings per share (€)	5	(5.019)	0.066
Other comprehensive income			
Consolidated net profit/(loss)		**(994,412)**	**109,782**
Other components of comprehensive income recognised directly in equity		**(22,722)**	**(22,296)**
Net gain/(loss) on hedging instruments	16	(9,837)	(32,805)
Net gain/(loss) on available-for-sale financial assets	13	(12,595)	1,005
Other gains/(losses)		4,160	234
Income tax relating to components of other comprehensive income		(4,450)	9,270
Other components of comprehensive income recycled to the statement of comprehensive income		**30,148**	**-**
Net gain/(loss) on hedging instruments	16	9,644	-
Net gain/(loss) on available-for-sale financial assets	13	20,504	-
Consolidated comprehensive income/(loss)		**(986,986)**	**87,486**
Total comprehensive income/(loss) for the year attributable to owners of the Parent Company		(1,121,697)	(6,668)
Total comprehensive income/(loss) attributable to non-controlling interests		134,711	94,154
Basic comprehensive income/(loss) per share (€)		**(4.986)**	**(0.032)**
Diluted comprehensive income/(loss) per share (€)		**(4.986)**	**(0.032)**

Notes 1 to 27 and Appendices I and II of the accompanying notes to the consolidated financial statements are an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2012.

INMOBILIARIA COLONIAL, S.A. AND SUBSIDIARIES (COLONIAL GROUP)
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2012
(thousands of euros)

	Note	Share capital	Share premium	Parent Company reserves	Reserves in consolidated companies	Valuation adjustments recognised in equity - financial instruments	Gains/ (losses) on available-for-sale financial assets	Treas-ury shares	Other equity instruments	Profit/(loss)	Non-controlling interests	Total
Balance at 31 December 2010	**14**	**2,710,966**	**4,217,294**	**(4,925,095)**	**75,114**	**27,274**	**(8,914)**	**(58,986)**	**1,832**	**(739,262)**	**992,977**	**2,293,200**
Total recognised income and expense for the year		-	-	-	2,220	(24,807)	1,005	-	-	14,914	94,154	87,486
Rights issue		11	93	(676)	-	-	-	-	(104)	-	-	(676)
Reduction in share capital		(1,452,628)	(4,217,294)	5,669,922	-	-	-	-	-	-	-	-
Reduction in nominal value of shares		(1,032,431)	-	1,032,431	-	-	-	-	-	-	-	-
Allocation of 2010 profit		-	-	(711,026)	(28,236)	-	-	-	-	739,262	(48,637)	(48,637)
Issuance of other equity instruments		-	-	(100)	-	-	-	-	100	-	-	-
Treasury share portfolio		-	-	-	(18)	-	-	(557)	-	-	(432)	(1,007)
Share-based payment transactions		-	-	-	-	-	-	-	617	-	-	617
Changes in scope of consolidation and other changes		-	-	-	341	-	-	-	-	-	(301)	40
Balance at 31 December 2011	**14**	**225,918**	**93**	**1,065,456**	**49,421**	**2,467**	**(7,909)**	**(59,543)**	**2,445**	**14,914**	**1,037,761**	**2,331,023**
Total recognised income and expense for the year		-	-	-	2,874	(3,475)	7,909	-	-	(1,129,005)	134,711	(986,986)
Rights issue		-	9	(42)	-	-	-	-	(9)	-	-	(42)
Allocation of 2011 profit		-	-	18,287	(3,373)	-	-	-	-	(14,914)	(47,645)	(47,645)
Issuance of other equity instruments		-	-	(110)	-	-	-	-	110	-	-	-
Treasury share portfolio		-	-	-	(100)	-	-	(504)	-	-	775	171
Share-based payment transactions		-	-	-	-	-	-	-	1,409	-	-	1,409
Changes in scope of consolidation and other changes		-	-	-	-	-	-	-	-	-	94,035	94,035
Balance at 31 December 2012	**14**	**225,918**	**102**	**1,083,591**	**48,822**	**(1,008)**	**-**	**(60,047)**	**3,955**	**(1,129,005)**	**1,219,637**	**1,391,965**

Notes 1 to 27 and Appendices I and II of the accompanying notes to the consolidated financial statements are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2012

INMOBILIARIA COLONIAL, S.A. AND SUBSIDIARIES (COLONIAL GROUP)
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012
(thousands of euros)

(thousands of euros)	Note	2012	2011
CASH FLOWS FROM CONTINUING OPERATIONS			
1. CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		143,380	190,728
Adjustments to profit			
Depreciation and amortisation (+)		1,331	1,269
Net changes in provisions (+/-)	21	26,088	(2,833)
Other	21	3,316	6,003
Gains/(losses) on disposal of investment properties (+/-)	21	3,766	(8,709)
Adjusted profit		177,881	181,072
Taxes paid (-)		(16,061)	(8,040)
Increase/(decrease) in current assets and liabilities			
Increase/(decrease) in receivables (+/-)		(20,126)	(22,196)
Increase/(decrease) in payables (+/-)		43,511	12,333
Net cash generated by operating activities		**185,205**	**163,169**
2. CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in (-)			
Intangible assets		(766)	(423)
Property, plant and equipment		(27)	(295)
Investment property	9	(137,540)	(88,651)
Financial assets		(663)	-
		(138,996)	(89,369)
Disposals of (-)			
Property, plant and equipment		27	265
Investment property	9	19,064	75,080
Equity investments, financial assets and other	10	-	1,442
		19,091	81,480
Other proceeds/(payments) for investment transactions			
Dividends received from associates (+)		3,065	4,693
		3,065	4,693
Net cash generated used in investing activities		**(116,840)**	**(7,889)**
3. CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid (-)	14	(47,645)	(48,637)
Repayment of borrowings (-)		(373,121)	(476,960)
Interest paid (-)		(129,845)	(155,129)
Cancellation of financial derivative instruments		(47,469)	-
Trading in treasury shares (+/-)		171	(1,007)
		(597,909)	(676,347)
Proceeds from bank funding (+)		523,841	509,499
Proceeds from other non-current financing (+)			
- Expenses associated with rights issues		(42)	(676)
Other proceeds/(payments) for current financial assets and other (+/-)		(95)	735
		523,704	509,558
Net cash used in financing activities		(74,205)	(166,789)
4. NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS			
Net cash flows for the year used in continuing activities		**(5,840)**	**(11,509)**
Cash and cash equivalents at the beginning of the year		**65,926**	**77,435**
Cash and cash equivalents - changes in scope	2,f,	8,931	-
Cash and cash equivalents at the end of the year		**69,017**	**65,926**
CASH FLOWS FROM DISCONTINUED OPERATIONS			
2. Net cash used in operating activities		(9,751)	2,433
3. Net cash (used in)/generated by investing activities		(259)	36,658
4. Net cash used in financing activities		(8,199)	(77,241)
CASH FLOWS USED IN DISCONTINUED OPERATIONS	**25**	**(18,209)**	**(38,150)**

Notes 1 to 27 and Appendices I and II of the accompanying notes to the consolidated financial statements form an integral part of consolidated statement of cash flows for the year ended 31 December 2012.

1. Colonial Group business activity

Group Activity

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

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

Inmobiliaria Colonial, S.A. and subsidiaries (the "Group" or the "Colonial Group") are engaged in the lease and sale of movable property and real estate, as well as the development and construction of all types of buildings, the urban development and division of land into plots for use, the tendering and contracting for all kinds of construction work, studies and projects and the development and management of shopping centres.

The Group leases office space in Spain (mainly in Barcelona and Madrid) and in Paris through the group headed up by Société Foncière Lyonnaise S.A. ("SFL subgroup" or "SFL"). In addition, the Group develops land and housing in Spain through subsidiaries Asentia Project, S.L.U. and Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U., while the shopping centre and business park development and management business is carried out in Spain, Bulgaria and Romania through the group headed up by Riofisa, S.A.U. ("Riofisa subgroup" or "Riofisa").

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

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

All the aforementioned transactions were filed under the tax regime provided for in Title VII, Chapter VIII, of the Spanish Corporate Tax Act. In accordance with legal requirements, all relevant information regarding these transactions is detailed in the separate financial statements of the Parent in the years concerned.

Inmobiliaria Colonial, S.A.'s shares trade on the Madrid, Barcelona, Valencia and Bilbao stock exchanges.

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 and maintenance and the preservation of its property portfolio.

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

The 2012 consolidated financial statements of Inmobiliaria Colonial, S.A. and subsidiaries were authorised by the Parent's Directors for issue at a board meeting on 28 February 2013, and were prepared on the basis of the accounting records kept by the Parent and by the other companies that make up the Colonial Group.

These consolidated financial statements have been prepared in accordance with the applicable financial reporting framework set out in International Financial Reporting Standards (IFRS) as adopted by the European Union, applying all mandatory accounting principles, standards and measurement criteria, in keeping with the Spanish Code of Commerce, the Spanish Corporate Enterprises Act, the Spanish Securities Markets Act and other applicable company and securities market law, to present a true and fair view of the Colonial Group's consolidated equity and financial position at 31 December 2012 and of the comprehensive income from its operations and changes in consolidated equity and cash flows for the year then ended.

However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2012 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 IFRS.

In order to present the different items that make up the consolidated annual financial statements based on the same standards, the accounting policies and measurement bases used by the Parent have been applied to all the companies included in the scope of consolidation.

The Group's 2011 consolidated financial statements were approved by the shareholders of the Parent in general meeting on 28 June 2012.

b) Adoption of International Financial Reporting Standards

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

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

Standards and interpretations effective in 2012

New accounting standards became effective in 2012 and were accordingly applied in preparing the accompanying consolidated financial statements. The new standards are as follows:

Approved for use in the European Union		Mandatory application in annual periods beginning on or after
Amendments to IAS 1 – Presentation of Other Comprehensive Income (published in June 2011)	Minor amendment with respect to the presentation of Other Comprehensive Income	Annual periods beginning on or after 1 July 2012
Amendments to IAS 19 – Employee Benefits (published in June 2011)	The amendments mainly affect defined benefit plans, as one of the fundamental changes is the elimination of the "corridor approach"	Annual periods beginning on or after 1 January 2013

Adoption of these standards did not have a material effect on the Group's consolidated financial statements.

Standards and interpretations in issue but not yet effective

At the date of the authorisation of the accompanying consolidated financial statements for issue, the following standards and interpretations had been published 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 not yet been endorsed by the European Union:

New standards, amendments and interpretations		Mandatory application in annual periods beginning on or after
IFRS 9 - Financial instruments: Classification and Measurement (published in November 2009 and October 2010) and subsequent amendments of IFRS 9 and IFRS 7 on effective date and transition disclosures (published in December 2011)	Replaces the rules for the classification and measurement of financial assets and liabilities and for derecognition established in IAS 39	Annual reporting periods beginning on or after 1 January 2015
IFRS 10 – Consolidated Financial Statements (published in May 2011)	Replaces the parts of IAS 27 that deal with consolidated financial statements	Annual periods beginning on or after 1 January 2013 (1)
IFRS 11 – Joint Arrangements (published in May 2011)	Replaces IAS 31 Interests in Joint Ventures	Annual periods beginning on or after 1 January 2013 (1)
IFRS 12 – Disclosure of Interests in Other Entities (published in May 2011)	Single disclosure standard applicable to entities that have interests in subsidiaries, associates, joint arrangements and associates and/or unconsolidated structured entities	Annual reporting periods beginning on or after 1 January 2013 (1)
IFRS 13 – Fair Value Measurement (published in May 2011)	Establishes a single source of guidance for fair value measurements and disclosures	Periodos anuales iniciados a partir del 1 de enero de 2013
IAS 27 (as revised) – Separate Financial Statements (published in May 2011)	The revision to this standard was warranted by the issuance of IFRS 10, which means that IAS 27 will only apply to an entity's separate financial statements going forward	Annual periods beginning on or after 1 January 2013 (1)
IAS 28 (as revised) – Investments in Associates and Joint Ventures (published in May 2011)	This revision is parallel to the issuance of IFRS 11 - Joint Arrangements.	Annual periods beginning on or after 1 January 2013 (1)
Amendments to IAS 32 – Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (published in December 2011)	Additional clarification on the IAS 32 rules for offsetting financial assets and liabilities and introduction of new disclosure requirements under IFRS 7	Annual periods beginning on or after 1 January 2014
Amendments to IFRS 7 – Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (published in December 2011)		Periodos anuales iniciados a partir del 1 de enero de 2013
Improvements to IFRS, 2009-2011 Cycle (published in May 2012)	Minor amendments to a series of standards	Annual periods beginning on or after 1 January 2013
Transition rules: Amendment to IFRS 10, 11 and 12 (published in June 2012)	Clarification on the transition rules applying to these standards	Annual periods beginning on or after 1 January 2013

New standards, amendments and interpretations		Mandatory application in annual periods beginning on or after
Investment entities: Amendment to IFRS 10, IFRS 12 and IAS 27 (published in October 2012)	Provides an exemption from consolidation for parent companies meeting the definition of investment entity	Annual periods beginning on or after 1 January 2014
IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine (published in October 2011)	The IFRS Interpretation Committee addresses how and when to account for stripping costs (the process of removing waste from a surface mine)	Annual periods beginning on or after 1 January 2013

(1) On 1 June 2012 the Accounting Regulatory Committee of the European Union approved delaying the mandatory effective date of IFRS 10, 11 and 12 and of the new IAS 27 and IAS 28 to the annual periods beginning on or after 1 January 2014. Early adoption is permitted once the standards are approved for use in the European Union.
(2) Update approval status by the European Union for the preparation of the financial statements.

The Parent's Directors have assessed the potential impacts of the future application of these standards and consider that they will not have a material effect on the Group's consolidated financial statements, except as detailed below.

Application of IFRS 11 will imply the need to use the equity method of accounting for certain interests currently consolidated using proportionate consolidation (Note 2.e). This will entail reclassifying all the assets and liabilities of each of the consolidated entities formerly accounted for using the proportionate method of consolidation within a single investment heading under "Non-current financial assets – Investments in associates" in the consolidated statement of financial position.

The subsidiaries that will be affected by IFRS 11 are the Romanian companies Goldale Real Estate S.R.L. and Masterange Imobiliare S.R.L., both of which are classified as assets held for sale. The accounting change will reduce "Non-current assets held for sale" by 8,709 thousand euros "Liabilities relating to assets held for sale" by 40 thousand euros.

The application of the amendment to IAS 12 did not have a material effect on the accompanying 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. Estimates based on objective data provided by management were made to quantify certain assets, liabilities, revenues, expenses and commitments recognised in the financial statements. These estimates and criteria related to the following:

– Going concern principle (Note 2.h).

– The recoverability of tax credits in respect of tax loss carryforwards and deferred tax assets recognised in the consolidated statement of financial position (Notes 4.m and 19).

– Goodwill impairment testing (Notes 4.a and 7).

– The market value of investment property (Note 4.c).

– Impairment losses on certain inventories as a result of lower property appraisals by independent experts vis-à-vis the carrying amounts of these assets (Note 4.s).

– Provisions relating to the defined-benefit pension plans at SFL Group. At the end of each reporting period, the Group calculates the required provision for the SFL Group pension plans on the basis of calculations prepared by independent actuaries.

Although these estimates were made on the basis of the best available information at the date of authorising these consolidated financial statements for issue, it is feasible that future events could oblige the Group to modify these amounts (upwards or downwards), which would mean, except for goodwill impairment charges, which cannot be reversed in the future (Note 4.a), prospectively recognising the effects of said changes in the corresponding consolidated statement of comprehensive income, pursuant to IAS 8.

e) Basis of consolidation

The main consolidation principles applied by the Parent's management 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 subsidiaries acquired or sold during the financial year are included within consolidated earnings from the effective acquisition date, or discontinued as of the disposal date, as appropriate.

3. All accounts receivable and payable and other transactions between the consolidated companies have been eliminated on consolidation.

4. When necessary, the consolidated subsidiaries' financial statements 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 value of identifiable assets and liabilities recognised. Recognition of non-controlling interests is as follows:

   a. Interest in investees' equity is presented under "Non-controlling interests" within equity in the consolidated statement of financial position.

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

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

Full consolidation:

– Subsidiaries are fully consolidated. Subsidiaries are those companies in which the Group has the power to influence financial and operating policy; this is generally accompanied by a majority interest in the entity's voting rights. When evaluating whether the Group can exercise control over an entity, management takes into consideration the existence and impact of any potential voting rights as a result of options that can be exercised or converted by year-end.

– The purchase method is used to consolidate subsidiaries acquired in business combinations. 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 stake held by non-controlling shareholders. When the acquisition cost is higher than the fair value of the interest in the identifiable net assets acquired by the Group, the difference is recognised as goodwill. If the acquisition cost is lower than the fair value of the net assets of the acquiree, the difference is recognised directly in the consolidated statement of comprehensive income.

Proportionate consolidation:

– Interests in companies held by the Group through joint ventures are accounted for using the proportionate method.

– The Colonial Group's proportionate share of each line item of assets, liabilities, income and expense and cash flow is included in the corresponding line items for the Parent and its subsidiaries. The gains or losses recognised in the consolidated financial statements on asset sales by the Group to jointly controlled entities are eliminated to the extent of the venturer's interest (Appendix II contains financial information on companies with joint ventures).

The equity method:

– The Group accounts for associates using the equity method of consolidation. Investment in an associate is initially recognised at 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. Subsequent measurement: the initial investment is increased or decreased to recognise the accumulated aforementioned changes. The Group records its share of its associates' losses until the carrying amount of its investment is reduced to nil. No further losses are recorded by the Colonial Group unless it has an obligation, legal or constructive, or has made payments, to satisfy the associate's liabilities.

– 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.

8. The assets and liabilities of foreign operations (interests held by the Riofisa subgroup in Bulgaria and Romania) are translated using the exchange rates prevailing at the end of each reporting period. Income and expenses are translated at the average exchanges rates for the period, while other equity items are translated at the historical exchange rate. Any differences arising are classified as equity. Translation differences are recognised in profit or loss in the period in which the investment is realised or disposed of.

f) Changes in the scope of consolidation

The changes in the scope of consolidation in 2012 were as follows:

– On 1 June 2012, the boards of directors of SIIC de Paris, a company 29.99% owned by subsidiary SFL, and SIIC de Paris 8ème, an investee of SIIC de Paris, approved the merger and takeover of SIIC de Paris 8ème (target), through the issue of 531,858 new shares of SIIC de Paris fully subscribed by the shareholders of the target, except SIIC de Paris. Following this merger, SFL's interest in SIIC de Paris was reduced to 29.63%.

– On 14 December 2012, the subsidiary SC Parchar was taken over by Parchamps, with retrospective effecdt from 1 January 2012.

– On 26 December 2012, subsidiary SFL took over SAS Parholding, SC Parchamps, SC Pargal and SC Parhaus, over which until then it held joint control with Prédica. These companies were taken over as a consequence of the shareholders' agreement signed with Prédica, by which SFL came to control their financial and operating policies. The agreement has been in effect since 31 December 2012. Consequently, at 31 December 2012, the companies were consolidated using the full consolidation method, whereas at 31 December 2011 they were proportionately consolidated.

The impact of the change in the scope of consolidation on the main items of the consolidated statement of financial position is as follows:

ASSETS	Thousands of euros	EQUITY AND LIABILITIES	Thousands of euros
NON-CURRENT ASSETS:		**EQUITY:**	
		Non-controlling interests (Note 14)	94,062
Investment property (Note 9)	258,607	**LIABILITIES:**	
Other non-current assets	4,238	Deferred tax liabilities (Note 19)	39,269
		Current and non-current bank borrowings	116,460
CURRENT ASSETS:		Other current and non-current liabilities	21,985
Cash and cash equivalents	8,931		
Total assets	**271,776**	**Total equity and liabilities**	**271,776**

In 2011, there were no changes in the consolidation scope.

At 31 December 2011 and 2012, the subsidiaries Asentia Invest, S.L.U., Asentia Gestión, S.L.U., MAUD SAS (formerly SB1 SAS), SB2 SAS, SB3 SAS and SCI SB3 were dormant. At both year-ends, Live in Spain, S.L. and Ariete, S.A. were in liquidation.

g) Comparative information

The information included in the consolidated financial statements at 31 December 2012 is presented, for comparison purposes, with the information relating to 2011. As indicated in Note 6, various operating segments of the Colonial Group's property rental business were defined in 2012. Consequently, the segment information corresponding to 2011 was restated, in order to present it on a consistent basis with the information for 2012.

h) Going concern principle

During the year, the Group and the Parent incurred significant losses, mainly as a result of the write-off of tax credits capitalised in previous years and the impairment of real estate assets stemming from the poor performance of the real estate market in Spain.

In addition, at 31 December 2012, the Parent's current assets, without taking into account "Non-current assets held for sale", the realisation of which in the short term depends largely on the materialisation of certain disposals of property or assets, less current liabilities is negative in the amount of 59,583 thousand euros.

The Parent's cash flow budget for 2013 envisions the generation of sufficient resources, stemming both from the resources of the Parent's business itself and from the utilisation of the syndicated loan facility that was undrawn at 31 December 2012, to meet all of the Company's short-term payments (Note 15).

3. Distribution of the Parent's losses

In light of the loss in the Parent's 2012 income statement, there was no proposal to distribute results.

4. Significant accounting policies

The main accounting policies used to prepare the consolidated financial statements in accordance with IFRS and the prevailing interpretations at the time of the preparation of these statements are as follows:

a) Business combinations and goodwill (Note 7)

Business combinations are accounted for by applying the acquisition method. Accordingly, acquisition cost is measured at the fair value, at the acquisition date, of the assets delivered, liabilities incurred or assumed and the equity instruments issued by the acquirer in exchange for control over the acquiree.

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 meeting the criteria for recognition under IFRS 3 at fair value. The excess of the fair value of the cost of the business combination over of the acquirer's interest in the acquiree's identifiable net assets 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 acquirer's interest in the fair values of the net assets acquired, the difference is recognised immediately in the statement of comprehensive income.

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 goodwill are not considered impaired. Otherwise, the Group recognises an impairment loss using the following criteria:

– First the goodwill allocated to the CGU is written down, if the impairment loss is greater than this amount;

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

Goodwill impairment losses may not be reversed subsequently.

b) Property, plant and equipment (Notes 8 and 25)

Properties for own use

Properties for own use, including office furniture and equipment, are recognised at acquisition cost less any accumulated depreciation and any impairment.

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

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 P,P&E

The assets included under "Other P,P&E" are measured at acquisition cost less accumulated depreciation and impairment, revalued pursuant to the applicable enabling legislation. Subsequent additions are measured at cost.

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

Group companies depreciate their property, plant and equipment for own use and other items of property, plant and equipment by the straight-line method at annual rates based on the years of estimated useful life. The years of estimated useful life for properties 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	5 to 20	10 to 50
Other P,P&E	3 to 10	5 to 40

Gains or losses recognised on the sale or retirement of an asset recognised under this heading are stated at the difference between net carrying amount and the sale price, and are taken to the consolidated statement of comprehensive income under “Net gain/(loss) on sales of assets” (Note 21.f).

c) Investment property (Notes 9 and 25)

Investment property is carried at fair value at the reporting date and is not depreciated. Investment property comprises land, buildings or other constructions held to earn rents or for capital appreciation upon disposal due to future increases in their respective market prices.

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. 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.

Investment property in progress is transferred from inventories to investment property when the assets are ready to be put in 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 in “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 Atis Real in France, in both 2011 and 2012) 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 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 methodology used to determine the market value of the Group’s investment property in 2011 and 2012 is the income capitalisation method, which consists of capitalising the net estimated income generated by each property over the rental period and on reversion. This involves the capitalisation of the actual income throughout the period, together with a valuation of estimated future rents after updating the rents or formalising new lease agreements in each period, based on current values in each case. The yield applied to each category of income reflects all the forecasts and risks associated with the cash flows and the investment.

The properties were assessed individually, considering each of the lease agreements in force at year end. 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 determined by the type, age and location of the properties.

The yields and other assumptions used in determining future cash flows for the years ended 31 December 2012 and 2011 are set out in the tables below:

Yields (%) - Offices	**31 December 2012**	**31 December 2011**
Barcelona – Prime Yield:		
Leased out	6.36	6.08
Total portfolio	6.36	6.09
Madrid – Prime Yield:		
Leased out	6.31	6.00
Total portfolio	6.27	5.98
Paris – Prime Yield:		
Leased out	5.04	5.30
Total portfolio	**5.05**	**5.35**

Assumptions made at 31 December 2012				
Rental increases (%) - offices	**Year 1**	**Year 2**	**Year 3**	**Year 4**
Barcelona:				
Leased out	2.5	2.5	2.5	2.5
Total portfolio	2.5	2.5	2.5	2.5
Madrid:				
Leased out	2.5	2.5	2.5	2.5
Total portfolio	2.5	2.5	2.5	2.5
Paris:				
Leased out	-	1.7	0.8	1.2
Total portfolio	**-**	**1.7**	**0.8**	**1.2**

Assumptions made at 31 December 2011				
Rental increases (%) - offices	**Year 1**	**Year 2**	**Year 3**	**Year 4**
Barcelona:				
Leased out	(2)	3.7	4.5	3.5
Total portfolio	(2)	3.7	4.5	3.5
Madrid:				
Leased out	(2)	4	7.7	2.9
Total portfolio	(2)	4	7.7	2.9
Paris:				
Leased out	2.2	1.3	2.5	1.2
Total portfolio	**2.2**	**1.3**	**2.5**	**1.2**

A change of one-quarter of one point in yields would have the following impact on the valuations used by the Group at year-end 2012 and 2011 to determine the value of its investment property:

Sensitivity of valuations to changes of one-quarter of one point in the yield	Thousands of euros		
	Valuation	Decrease of one-quarter of one point	Increase of one-quarter of one point
December 2012	5,243,469	+284,411	-255,472
December 2011	4,830,817	+241,299	-219,552

Note: the effect detailed in the above table refers to the assets of the Group's property rental segment. It does not include the sensitivity of valuations of assets classified as discontinued operations (Note 25) to yield changes.

The following table details the borrowing costs capitalised (Note 21.g) in the years ended 31 December 2011 and 2012:

	Thousands of euros	
	Amount capitalised during the year	Average interest rate
2011:		
Inmobiliaria Colonial, S.A.	493	3.25%
SFL subgroup	8,755	3.88%
Total 2011:	**9,248**	-
2012:		
Inmobiliaria Colonial, S.A.	457	3.47%
SFL subgroup	12,014	4.61%
Total 2012:	**12,471**	-

The rental income earned in 2011 and 2012 from the lease of these investment properties amounted to 229,206 thousand and 225,293 thousand euros, respectively (Note 21.a), and is recognised under "Revenue" in the accompanying consolidated statement of comprehensive income.

In addition, the bulk of repair and maintenance expenses incurred by the Colonial Group in connection with the operation of its investment properties is passed on to the respective tenants (Note 4.q).

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 2011 and 2012, all these rights relate to investment property and are therefore measured at market value and are not depreciated.

"Bank borrowings and other financial liabilities" (Note 15), both current and non-current, in the consolidated statement of financial position include the total liability from lease payments 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 (Notes 10, 13 and 25)

Initial measurement

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

Classification and subsequent measurement

The financial assets held by the Group are classified into the following categories:

– Investments consolidated 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.

– Available-for-sale financial assets: this heading includes investments where the Group does not exercise significant influence or control. They are measured at fair value, using either market value or other valuation methods such as discounted cash flow analysis. When it is not possible to determine fair value, they are measured at amortised cost.

Available-for-sale financial assets are measured at fair value. Fair value gains and losses are recognised in equity until the asset is disposed of or is determined to be impaired (on a prolonged or permanent basis), at which point the cumulative gains or losses are reclassified to the consolidated statement of comprehensive income.

– Loans and receivables: this heading includes loans granted to third parties and associates. They are measured at face value and classified according to maturity. This heading also includes non-current deposits and guarantees granted, primarily in relation to deposits made with official entities in connection with security deposits collected from tenants, in accordance with prevailing legislation.

– Non-derivative financial assets: this heading includes held-to-maturity current and non-current fixed income investments, which are measured at amortised cost. Short-term fixed income investments are recorded as financial assets within current assets. Interest income is accrued in income currently, following financial criteria.

Financial liabilities (Notes 15 and 25)

Financial liabilities consist primarily of loans from banks.

Debts and payables 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 conditions of the financial liabilities are substantially different if the present value of discounted cash flows under the new conditions, including net fees 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 (Notes 12 and 25)

Receivables are carried at recoverable value, i.e., net of provisions, if appropriate, for past-due balances where circumstances warrant their consideration as bad debts.

At 31 December 2011 and 2012, the Group had no receivables past due but not impaired.

g) Cash and cash equivalents (Notes 15 and 25)

This heading includes bank deposits and short-term, highly liquid investments which are subject to an insignificant risk of changes in value, carried at the lower of cost or market value.

h) Own equity instruments (Note 14)

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

The equity instruments issued by the Parent are recorded under equity at the amount received net of the costs of the issue.

Any Parent Company 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

In preparing the consolidated financial statements, the Directors of the Parent distinguish between:

– Provisions: payables recorded to cover obligations arising as a consequence of past events which could give rise to liabilities at the Group companies, the nature of which is certain but the amount and timing of which cannot be determined, and

– Contingent liabilities: potential liabilities arising as a consequence of past events, 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 more likely than not that the obligation will have to be settled (Notes 18 and 25). Contingent liabilities are not recognised, but are disclosed in Note 20.

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 totally or partially reversed if and when said risks disappear or diminish.

j) Employee benefits

Termination benefits

Under current legislation, the Group is required to pay severance to employees terminated under certain conditions. Severance payments which can be reasonably quantified are recorded as a cost in the financial year in which the decision to terminate the contract is taken and a reasonable expectation regarding termination is transmitted to third parties. No provision was recognised in this connection either at year-end 2012 or at year-end 2011.

Pension obligations

At 31 December 2012, the SFL subgroup had several defined-benefit pension plans. Defined-benefit commitments 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. At 31 December 2012, the amount recognised in the accompanying consolidated statement of financial position in this connection was 893 thousand euros (non-current) and 150 thousand euros (current). At 31 December 2011, the non-current liability was 845 thousand euros.

Share-based payment transactions

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.

The Parent has a long-term payment scheme which can be settled only with shares of Inmobiliaria Colonial, S.A. (Note 22). Services received are measured at the fair value (quoted price) of the shares of Inmobiliaria Colonial, S.A. when the payment scheme was approved.

k) Derivative financial instruments (Note 16 and 25)

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 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 derivatives 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.

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

The Group's use of financial derivative products is governed by a set of written policies and principles which has been approved by the Parent's Board of Directors.

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.

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 19)

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.

Tax expense is the sum of 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 income for the year, which differs from profit before tax presented in the consolidated statement of comprehensive income, inasmuch as the latter 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 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 85% of profit from that activity and 50% of the capital gains obtained on property sales 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 general French corporate tax 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 has complied with the aforementioned requirement since 2009.

At 31 December 2007, the Parent notified its subsidiary 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.

The Colonial Group recognises a deferred tax in connection with the asset revaluations under the SIIC regime, calculated as the minimum stipulated dividend under the regime, in the event that all capital gains on the investment properties recognised by the SFL Group are realised. The capital gains generated are capitalised at an annual rate of 3% over a 10-year period and discounted at a rate of 4.1% (5.2% in 2010). The effective tax rate used to calculate the deferred tax was 11.15%.

In this connection, deferred tax of 20,896 thousand euros was recognised in the consolidated statements of financial position both at 31 December 2011 and at 31 December 2012.

Deferred tax liabilities related to business combination restatements to fair value of properties held under concession and investment property

Deferred taxes (assets or liabilities) are taxes expected to be paid or recovered using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The deferred tax recognised in connection with the aforementioned business combination as a result of the purchase price allocation to investment properties and properties in progress at subsidiaries Inmobiliaria Colonial, S.A., Subirats-Coslada-Logística, S.L.U. (absorbed companies), and Torre Marenostrum, S.L. (Note 1) was calculated applying a tax rate of 30%, net of the monetary correction allocable to each asset item, to 31.422% of the total purchase price allocated thereto.

The remaining deferred taxes, assets and liabilities, associated with properties located in Spain, as a result of the use of IAS 40 fair value criteria, were calculated by applying a rate of 30% net of the change in the assets' monetary correction.

The calculation of deferred tax assets and liabilities, however, does not take into consideration the reinvestment tax credits provided for in Article 42.7 of the Spanish Corporate Tax Act or deductions that may be prevailing in the future which would reduce the effective applicable tax rate.

Deferred tax assets for tax loss carryforwards

The Parent has recorded significant losses during recent years, directly as a result of the fall in value of its property assets, estimated on the basis of independent expert appraisals, and the goodwill impairment losses on its equity investments in Riofisa and FCC recorded in the accompanying consolidated statement of financial position.

The accompanying consolidated statement of financial position recognises those tax credits which it is estimated will probably be recovered within a reasonable timeframe, either due to the performance of the property market itself, which could lead to the reversal of impairment losses on its investment properties, or through taxable profits generated by the activities carried out by the Parent's management.

n) Recognition of revenue and expenses (Notes 21 and 25)

Revenues and expenses are recognised when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

As a result of the application of IFRS, the Group recognises all accrued revenues and associated expenses. Revenues from goods sold are recognised when the goods have been delivered and ownership transferred.

Income from dividends on financial investments is recognised once the shareholders' right to receive the dividend is established.

Operating leases

Leases are classified as finance leases whenever their terms imply that substantially all the risks and rewards incidental to ownership of the leased asset have been transferred. All other leases are classified as operating leases. At 31 December 2012 and 2011, all of the Group's leases qualified as operating leases, except for the finance lease detailed above.

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

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

o) Borrowing costs

Borrowing costs directly allocable to the acquisition, construction or production of qualifying investment property or real estate developments (Notes 4.c and 4.s, respectively), 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 (Notes 9 and 25).

p) Consolidated statement of cash flows (indirect method)

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

- Cash flows: inflows and outflows of cash and cash equivalents. Cash equivalents are highly liquid short-term investments subject to insignificant risk of changes in value (Note 4.g)

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

– Investing activities: the acquisition and 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 tenants

In accordance with IFRS, the Group does not consider costs passed on to lessees of its investment property as revenue. In 2011 and 2012, the Group invoiced 40,135 thousand and 40,904 thousand euros, respectively, in connection with costs passed on to tenants, 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 2011 and 2012, included under "Operating profit" in the accompanying consolidated statements of comprehensive income, amounted to 62,871 thousand and 64,324 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 materialise in a material liability in the future.

s) Non-current assets held for sale and discontinued operations (Note 25)

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 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 the 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 significant line of business or a geographical area that can be considered to be separate from the rest,

– forms part of an individual and coordinated plan to dispose of a significant line of business or a geographical area that can be considered to be separate from the rest, or

– is a subsidiary acquired exclusively to be resold.

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 2011 and 2012, the Parent carried its interest in Asentia Project, S.L.U. as a non-current asset held for sale and the activity of its land and development business segment as a discontinued operation.

The specific measurement bases corresponding to assets and liabilities that affect only discontinued operations are detailed below. For the remaining items discontinued operations in of the statement of financial position and the statement of comprehensive income which are detailed in Note 25, the general measurement bases of the Colonial Group described in this Note have been used.

Property, plant and equipment held under concession

Group subsidiary Necsa, S.A., which is part of the Riofisa subgroup, operates several properties under service concession arrangements or long-term lease agreements. The use given to these assets is the same as that of investment property, the sole difference being that the construction is erected on land that is not owned by the Group and for which a specific concession has been obtained for a finite construction and operating period.

The value of concessions includes the capitalisation of the discounted fixed fees that will be paid over the full concession period, generating a payable as an offsetting item.

Licenses or lease agreements grant authorisation for the construction and operation for a renewable period of between 30 and 50 years. At the end of the concession period all the buildings and installations revert to the public entity granting the concession and no consideration is received.

The Parent's management measures properties operated under concession at cost in accordance with IFRIC 12, plus revaluations recognised in connection with a business combination, which may in no event exceed the fair value of the underlying concessions, as determined by the Group's third-party independent appraisers (Jones Lang Lasalle).

The methodology used to determine the market value of the property held by the Group under concessions in 2011 and 2012 is the income capitalisation method, which consists of capitalising the net estimated income generated by each property over the rental period and on reversion. This involves the capitalisation of the actual income throughout the period, together with a valuation of estimated future rents after updating the rents or formalising new lease agreements in each period, based on current values in each case. The yield applied to each category of income reflects all the forecasts and risks associated with the cash flows and the investment.

The Group begins to depreciate concession assets when they are ready for use, i.e., when they are in the condition necessary for the exploitation envisaged by the Parent's management. The Group depreciates these assets on a straight-line basis based over the shorter of the term of the concession arrangement or the asset's useful life.

In addition, in accordance with IAS 37, Group subsidiary Necsa has capitalised the present value of the estimated future cost of delivering the various concessions in suitable repair at the end of the concession term. This present value amounted to 8,763 thousand euros.

Inventories

Inventories consisting of land and developments under construction and finished development are valued at acquisition cost, at contribution value or at execution cost including restatements to fair value under purchase price allocations in connection with the business combinations detailed in Note 1.

Execution cost includes direct and indirect construction costs in addition to the expenses incurred in financing the construction work while in progress, as long as the construction work takes longer than one year.

Prepayments made in connection with call options on properties are recognised as inventory prepayments and it is assumed that expectations regarding the conditions enabling their exercise will be met.

The Group records inventory impairment provisions, as appropriate, when market value is lower than carrying amount.

The corresponding valuation was carried out based on appraisals performed by independent experts (Jones Lang LaSalle) in accordance with the Appraisal and Valuation Standards issued by the Royal Institute of Chartered Surveyors (RICS) of the United Kingdom, and the International Valuation Standards (IVS) issued by the International Valuation Standards Committee (IVSC).

The land portfolio was valued using the residual method, which was deemed the best approach. This approach was complemented by the use of the comparable sales method in order to verify the consistency of the resulting unit valuations.

The residual method begins with an estimate of the income yielded by the developed and fully finished 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 land in its current undeveloped state.

Accordingly, this method is used to analyse the attitude of an investor/developer to plots of these characteristics. The valuation takes into consideration, therefore, the most profitable development likely based on market demand projections and urban planning regulations, modelling the highest market rents given the location and its limitations. As detailed above, this method gives rise to the price which a developer/investor would be willing to pay for the land in its current state.

The table below details the borrowing costs capitalised during the years ended 31 December 2011 and 2012:

	Thousands of euros	
	Amount capitalised during the year	Average interest rate
2011:		
Desarrollos Urbanísticos Entrenúcleos, S.L.U.	4,909	3.80%
Total 2011	**4,909**	-
2012:		
Desarrollos Urbanísticos Entrenúcleos, S.L.U.	6,417	4.44%
Total 2012	**6,417**	-

Current / non-current

Assets and liabilities maturing in one year or less are classified as current and those maturing thereafter as non-current, with the exception of "Inventories," which are classified as current assets given that they must be realised within the land and development subgroup's normal operating cycle, and the liabilities directly associated with these assets, which are classified as non-current irrespective of whether they mature in the short or long term. In addition, bank borrowings are classified as non-current if the Asentia Project subgroup has the irrevocable right to make payments after twelve months from the end of the reporting period; however, the portion related to secured developer loans, which according to scheduled deliveries will be repaid within 12 months, has been classified as current.

5. Earnings per share

Basic earnings per share are calculated by dividing earnings for the year attributable to owners of the Parent (after tax and non-controlling interests) by the weighted average number of ordinary 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 (Note 14).

On 28 July 2010 and 25 January 2011, the Parent raised to public deed the issuance of warrants in connection with the financings of Asentia Project, S.L.U. and Abix, S.L.U. (Note 15), in the amounts of 275,000 thousand euros and

23,333 thousand euros, respectively. At 31 December 2012, none of the conditions under which the holders may exercise their warrants was met; accordingly their dilutive effect has not been taken into consideration.

	Thousands of euros	
	31 December 2012	31 December 2011
Consolidated profit/(loss) for the year attributable to owners of the Parent	(1,129,005)	14,914
- from continuing operations	(721,691)	14,914
- from discontinued operations (Note 25)	(407,314)	-
	No. of shares	**No. of shares**
Weighted average number of ordinary shares ('000)	224,956	225,630
Number of potential ordinary shares resulting from conversion of him bonds ('000) (Note 14)	77	73
Weighted average number of ordinary shares - diluted ('000)	224,956	225,668
	Euros	**Euros**
Basic earnings per share	**(5.019)**	**0.066**
- from continuing operations	(3.208)	0.066
- from discontinued operations (Note 25)	(1.811)	-
Diluted earnings per share	**(5.019)**	**0.066**
- from continuing operations	(3.208)	0.066
- from discontinued operations (Note 25)	(1.811)	-

For information purposes, the conversion of the warrants outstanding on 31 December 2012, assuming an exercise price of 12 euros per share, would give rise to the issuance of 24,861 thousand shares. The weighted average number of ordinary shares diluted including the impact of the conversion of the warrants since 1 January 2012 would be 249,817 thousand shares, leaving a diluted loss per share of 4.519 euros (diluted earnings per share of 0.060 euros in 2011).

6. Segment reporting

Segmentation criteria

The information by segments is organised, firstly, on the basis of the business segments of the Group, and, secondly, following the geographical segment format.

The business segments described below have been defined in line with the Colonial Group's organisational structure at 31 December 2012, which has been used by the Group's management to analyse the financial performance of the various operating segments.

The Group is organised along the following main business segments, which form the basis of its primary segment reporting format:

– 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 organizational structure of the Colonial Group.

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

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

The Group's businesses are conducted in Spain, the home market segment, and in France, Bulgaria and Rumania, which compose the international segment.

Basis and methodology for segment reporting

The segment information below is based on monthly reports prepared by Group management, generated using the same computer application that prepares all of the Group's accounting data.

Segment revenue comprises revenue directly attributable to each segment, as well as gains from the sale of investment properties. Segment revenue excludes both interest and dividend income. 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 does 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 of these businesses is as follows.

2012 segment reporting

	Thousands of euros							
	Rentals					Devel-opment & Land	Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total Rentals			
Revenue	31,251	44,681	152,837	-	230,332	-	-	230,332
Revenue (Note 21.a)	31,003	44,088	150,202	-	225,293	-	-	225,293
Other income (Note 21.b)	248	773	4,018	-	5,039	-	-	5,039
Net gain/(loss) on sales of assets (Notes 21.f)	-	(3,763)	-	-	(3,763)	-	(3)	(3,766)
Operating profit/(loss)	26,878	34,426	136,810	(159)	197,955	-	(54,576)	143,380
Change in fair value of investment property (Note 21.f)	(87,631)	(125,249)	236,260	(4,557)	19,093	-	-	19,093
Net impairment charges (Note 21.e)	-	-	-	-	-	-	(59,923)	(59,923)
Net finance cost (Note 21.g)	-	-	-	-	-	-	(149,014)	(149,014)
Profit/(loss) before tax	-	-	-	-	-	-	(46,465)	(46,464)
Consolidated net profit/(loss) from continuing operations	-	-	-	-	-	-	(575,243)	(575,242)
Loss from discontinued operations (Note 25)	-	-	-	-	-	-	(419,170)	(419,170)
Consolidated net profit/(loss)	-	-	-	-	-	-	(994,412)	(994,412)
Profit/(loss) attributable to non-controlling interests (Notes 21.i)	-	-	-	-	-	-	134,593	134,593
Profit/(loss) attributable to owners of the Parent (Note 5)	-	-	-	-	-	-	(1,129,005)	(1,129,005)

There were no significant inter-segment transactions in 2012.

None of the Group's customers represented more than 10% of revenue from ordinary activities.

	Thousands of euros							
	Rentals					Development & Land	Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total Rentals			
Assets								
Goodwill (Note 7)	-	-	120,000	-	120,000	-	-	120,000
Intangible assets, property, plant and equipment and investment property (Notes 8 and 9)	567,800	680,640	3,534,051	-	4,782,491	-	35,413	4,817,904
Financial assets	8,790	(874)	777	-	8,693	-	81,846	90,539
Investments in associates (Note 10)	-	-	286,560	-	286,560	-	-	286,560
Other non-current assets	2,659	1,146	163	-	3,968	-	243,259	247,227
Trade receivables and other current assets	-	-	-	-	-	-	67,424	67,424
Non-current assets held for sale (Note 25)	36,181	52,973	286,777	10,933	386,864	1,236,942	-	1,623,806
Total	**615,430**	**733,885**	**4,228,328**	**10,933**	**5,588,576**	**1,236,942**	**427,943**	**7,253,460**

	Thousands of euros							
	Rentals					Develop-ment & Land	Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total Rentals			
Liabilities								
Bank borrowings and other financial liabilities (Note 15)	-	-	-	-	-	-	2,795,543	2,795,543
Trade liabilities (suppliers and payables)	-	-	-	-	-	-	106,536	106,536
Other disclosures								
Investments in intangible assets, property, plant and equipment and investment property	3,808	2,879	143,484	34	150,205	-	259	150,464

	Thousands of euros							
	Rentals					Development & Land	Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total Rentals			
Other disclosures								
Depreciation and amortisation expense	(10)	-	(434)	-	(444)	-	(887)	(1,331)
Expenses that do not entail outflows of cash other than the depreciation and amortisation charge for the year:								
Changes in provisions	(36)	(2,479)	(47)	-	(2,561)	-	(23,527)	(26,088)
Change in fair value of investment property (Note 21.f)	(87,361)	(125,249)	(236,260)	(4,557)	19,093	-	-	19,093
Impairment charges and net gains/(losses) on assets (Note 21.e)	-	-	(57,972)	-	(57,972)	-	(1,951)	(59,923)

2011 segment reporting

	Thousands of euros							
	Rentals					Development & Land	Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total Rentals			
Revenue	32,205	45,418	155,002	-	232,625	-	-	232,625
Revenue (Note 21.a)	32,205	45,402	151,599	-	229,206	-	-	229,206
Other income (Note 21.b)	-	16	3,403	-	3,419	-	-	3,419
Net gain/(loss) on sales of assets (Notes 21.f)	-	981	7,669	59	8,709	-	-	8,709
Operating profit/(loss)	30,957	41,192	154,340	(107)	226,382	-	(35,654)	190,728
Change in fair value of investment property (Note 21.f)	(14,345)	9,791	98,094	(979)	92,561	-	-	92,561
Net impairment charges (Note 21.e)	(11,938)	(29,387)	-	-	(41,325)	-	(77,261)	(118,586)
Net finance cost (Note 21.g)	-	-	-	-	-	-	(118,989)	(118,989)
Profit/(loss) before tax	-	-	-	-	-	-	45,714	45,714
Consolidated net profit/(loss) from continuing operations	-	-	-	-	-	-	110,315	110,315
Loss from discontinued operations (Note 25)	-	-	-	-	-	-	(533)	(533)
Consolidated net profit/(loss)	-	-	-	-	-	-	109,782	109,782
Profit/(loss) attributable to non-controlling interests (Notes 21.i)	-	-	-	-	-	-	94,868	94,868
Profit/(loss) attributable to owners of the Parent (Note 5)	-	-	-	-	-	-	14,914	14,914

	Thousands of euros							
	Rentals					Development & Land	Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total Rentals			
Assets								
Goodwill (Note 7)	-	-	177,972	-	177,972	-	-	177,972
Intangible assets, property, plant and equipment and investment property (Note 8 and Note 9)	647,178	788,454	3,182,480	-	4,618,112	-	38,168	4,656,280
Financial assets	8,030	(643)	6,596	(415)	13,568	-	95,064	108,632
Investments in associates (Note 10)	-	-	266,106	-	266,106	-	-	266,106
Other non-current assets	2,803	1,146	335	-	4,284	-	794,907	799,191
Trade receivables and other current assets	-	-	-	-	-	-	63,595	63,595
Non-current assets held for sale (Note 25)	39,781	89,645	360	15,456	145,242	1,719,943	-	1,865,185
Total	**697,792**	**878,602**	**3,633,849**	**15,041**	**5,225,284**	**1,719,943**	**991,734**	**7,936,961**

	Thousands of euros							
	Rentals					Development & Land	Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total Rentals			
Liabilities								
Bank borrowings and other financial liabilities (Note 15)	-	-	-	-	-	-	3,032,272	3,032,272
Trade liabilities (suppliers and payables)	-	-	-	-	-	-	81,455	81,455
Other disclosures								
Investments in intangible assets, property, plant and equipment and investment property	8,806	15,942	72,677	14	97,439	-	225	97,664

	Thousands of euros							
	Rentals					Development & Land	Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total Rentals			
Other disclosures								
Depreciation and amortisation expense	(16)	-	(346)	-	(362)	-	(907)	(1,269)
Expenses that do not entail outflows of cash other than the depreciation and amortisation charge for the year:								
Changes in provisions	3,574	(1,216)	475	-	2,833	-	-	2,833
Change in fair value of investment property (Note 21.f)	(14,345)	9,791	98,094	(979)	92,561	-	-	92,561
Impairment charges and net gains/(losses) on assets (Note 21.e)	(11,938)	(29,387)	(69,079)	-	(110,404)	-	(8,182)	(118,586)

7. Goodwill

An analysis of movement on goodwill in the years ended 31 December 2011 and 2012 is as follows:

	Thousands of euros		
	Inmobiliaria Colonial, S.A.	Other	Total
Balance at 31 December 2010	**246,683**	**368**	**247,051**
Impairment (Note 21.e)	(69,079)	-	(69,079)
Balance at 31 December 2011	**177,604**	**368**	**177,972**
Impairment (Note 21.e)	(57,604)	(368)	(57,972)
Balance at 31 December 2012	**120,000**	**-**	**120,000**

The goodwill shown in the "Inmobiliaria Colonial, S.A." column includes the goodwill arising from the business combination between Inmobiliaria Colonial, S.A. (formerly, Inmocaral Servicios, S.A.) and Inmobiliaria Colonial, S.A. (absorbed company), described in Note 1.

To test the goodwill allocated to the rental business CGU for impairment, the Parent's management relied, up to 31 December 2011, 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.

At 31 December 2011, this analysis evidenced that the rentals CGU and the associated goodwill were impaired, giving rise to a charge of 69,079 thousand euros. Following the impairment charge, the entire goodwill is allocated to the French rentals business. Consequently, the impairment testing of goodwill carried out at year-and 2012 relied only on the cash flows of the Group's rentals business in France.

At year-end 2012, operations in France had performed favourably and in line with the projections in the business plan. Nevertheless, the Parent's directors, in light of uncertainty in the markets, chose to consider a more prudent scenario regarding both rental income in coming years, as well as the discount rates applied to the cash flows. Therefore, it recognised an impairment of 57,972 thousand euros in the consolidated statement of comprehensive income.

The basic assumptions used for the impairment test in 2012 and 2011 are shown in the next table:

	2012	2011
Projection period (years)	10	10
Asset rotation rate, %	5% annual	10% annual
Spain -		
Discount rate	-	7.34%
Nominal growth rate ("g")	-	1.50%
Yield on reinvestment, % (Note 4.c)	-	6.50%
France -		
Discount rate	6.00%	5.80%
Nominal growth rate ("g")	1.50%	1.50%
Yield on reinvestment, % (Note 4.c)	6.00%	6.00%

The financial projections cover a period greater than five years, as the Parent's management considers that management of a rental property portfolio in the normal course of business should be based on a business cycle of at least 10 years in order to adequately manage the properties in terms of asset rotation and the reinvestment of the cash flows generated in assets of a similar nature with yields at market rates.

The Parent's management also considers that both the asset rotation rate and the nominal rental income growth in perpetuity rate (g) used adequately reflect trends in the office rentals markets in France in recent years. The Colonial Group actively manages its property portfolio and therefore considers that the asset rotation assumptions applied are reasonable for the period under consideration.

The aforementioned cash flows were discounted at a rate that takes into account the risks associated with the rentals business in France in 2012, and in Spain and France in 2011, as well as the quality of the Colonial Group's asset portfolio.

The discount rate for each market is determined based on a risk-free rate plus a risk premium which reflects all the risks inherent to the business and to the market in which the Colonial Group operates.

The sensitivity of the goodwill impairment charge to changes in the discount rate (by +10bp), as well as to the yield generated by reinvesting and the asset rotation rate, does not represent any impairment of the goodwill recognised, as shown in the following table:

	Millions of euros
Sensitivity to discount rate (+10bp)	(47)
Sensitivity to asset rotation rate (-1%)	(7)
Sensitivity to yield on reinvestment (-10bp)	(6)

8. Property, plant and equipment

The movement in property, plant and equipment in 2011 and 2012 was as follows:

	Properties for own use			Other P,P&E		Total			
									Thousands of euros
	Cost	Accumulated depreciation	Impair-ment	Cost	Accumulated depreciation	Cost	Accumulated depreciation	Impair-ment	Total
Balance at 31 December 2010	**48,064**	**(8,846)**	**(3,275)**	**7,554**	**(4,699)**	**55,618**	**(13,545)**	**(3,275)**	**38,798**
Additions or charges	69	(417)	(8,182)	226	(609)	295	(1,026)	(8,182)	(8,913)
Decreases or derecognitions	-	-	-	(396)	131	(396)	131	-	(265)
Transfers	(5,038)	2,892	5,109	2,991	1,596	(2,047)	4,488	5,109	7,550
Balance at 31 December 2011	**43,095**	**(6,371)**	**(6,348)**	**10,375**	**(3,581)**	**53,470**	**(9,952)**	**(6,348)**	**37,170**
Additions or charges	-	(326)	(1,951)	27	(764)	27	(1,090)	(1,951)	(3,014)
Decreases or derecognitions	-	-	-	(19)	15	(19)	15	-	(4)
Transfers	-	-	-	117	-	117	-	-	117
Balance at 31 December 2012	**43,095**	**(6,697)**	**(8,299)**	**10,500**	**(4,330)**	**53,595**	**(11,027)**	**(8,299)**	**34,269**

At 31 December 2012, 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 40 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 "Properties for own use".

At 31 December 2012, the need to recognise an asset impairment charge in the amount of 1,951 thousand euros (Note 21.e) was evidenced by the appraisals performed by independent experts. In 2011, an impairment loss of 8,182 thousand euros was recognised.

9. Investment property

The movements under this heading in the years ended 31 December 2011 and 2012 were as follows:

				Thousands of euros
	Investment property	Work in progress	Prepayments	Total
Balance at 31 December 2010	**3,946,499**	**556,897**	**1,892**	**4,505,288**
Additions	9,897	87,049	-	**96,946**
Decreases or derecognitions	(46,760)	(32,751)	(1,038)	**(80,549)**
Transfers	303,175	(311,837)	-	**(8,662)**
Change in fair value (Note 21.f)	83,989	21,101	-	**105,090**
Balance at 31 December 2011	**4,296,800**	**320,459**	**854**	**4,618,113**
Additions	5,037	140,745	3,892	**149,674**
Decreases or derecognitions	-	(4)	-	**(4)**
Transfers	(176,217)	(68,329)	-	**(244,546)**
Changes in the scope of consolidation (Note 2.f)	257,043	1,564	-	**258,607**
Change in fair value (Note 21.f)	8,609	(8,316)	-	**293**
Balance at 31 December 2012	**4,391,272**	**386,119**	**4,746**	**4,782,137**

Changes in 2012

Additions in 2012 primarily relate to development and renovation projects, mainly in properties of the SFL subgroup, in the amount of 139,058 thousand euros. The Parent made investments totalling approximately 1,687 thousand euros.

Transfers in 2012 correspond primarily to the reclassification of the property of the subsidiary SFL to assets held for sale, in the amount of 244,575 thousand euros. In addition, three properties were transferred from "Work in progress" to "Investment property" upon completion of the corresponding refurbishment work, for a total of 187,416 thousand euros. Also, one property was transferred from "Investment property" to "Work in progress", for the amount of 110,287 thousand euros.

"Change in fair value of investment property" in the consolidated statement of comprehensive income includes losses and gains from the revaluation of the investment property at December 2011 and 2012, in the amount of 105,090 thousand and 293 thousand euros (Note 21.f), respectively. These changes reflect the changes in the fair value of the Group's investment properties evidenced by the independent property appraisals dated 31 December 2011 and 2012 (Note 4.c).

Changes in 2011

Additions in 2011 relate primarily to various development and renovation projects, mainly properties of the SFL subgroup, in the amount of 74,875 thousand euros. The Parent made investments totalling approximately 22,071 thousand euros.

The main decreases in 2011 relate to the sale of an SFL property, triggering the derecognition of 42,122 thousand euros and recognition of an associated gain of 7,669 thousand euros, as well as the derecognition of certain assets replaced that were included in partially or fully refurbished properties for an aggregate of 37,389 thousand euros.

Transfers in 2011 relate mainly to the transfer of several properties from "Work in progress" to "Investment property" upon completion of the corresponding refurbishment work, as well as to the relocation of SFL's head office, triggering a net transfer of 5,750 thousand euros from "Investment property" to "Properties for own use" within "Property, plant and equipment" in the consolidated statement of financial position.

Other disclosures

The total surface area (above and under-ground) of investment property and projects under development at 31 December 2012 and 2011 is as follows:

	Total surface area (m²) (**)					
	For rental		**Projects under development**		**Total**	
	31 December 2012	**31 December 2011**	**31 December 2012**	**31 December 2011**	**31 December 2012**	**31 December 2011**
Barcelona	260,773	252,868	30,024	59,778	290,797	312,646
Madrid	236,945	200,549	8,440	39,510	245,385	240,059
Rest of Spain	458	78	-	-	458	78
Paris (*)	295,940	345,860	132,659	57,853	428,599	403,713
	794,116	**799,355**	**171,123**	**157,141**	**965,240**	**956,496**

(*) Including 100% of the floor space of Washington Plaza (a property owned by SCI Washington, a company 66%-owned by SFL).

(**) Not including the surface areas corresponding to the assets of the Riofisa subgroup as these are classified in the consolidated statement of financial position under "Non-current assets held for sale" (Note 4.s).

At 31 December 2012, the Group had taken out mortgages in an aggregate amount of 643,960 thousand euros against properties with a net carrying amount at year-end of 1,248,728 thousand euros (Note 15). At 31 December 2011, the corresponding balances were 549,861 thousand euros and 1,034,774 thousand euros, respectively.

In addition, the Parent's syndicated loan was secured by a mortgage (Note 15) of 1,414,540 thousand euros at 31 December 2012 on certain assets of Inmobiliaria Colonial, S.A. (mortgage of 1,431,528 thousand euros at year-end 2011).

In addition, to secure the commitments assumed by the Parent with respect to borrowings provided by a bank to subsidiary Abix Service S.L.U. (Note 1), the rent on two of the Parent's properties has been pledged to the bank in the event that certain loan covenants are breached (Note 15). In 2012, these rents totalled 1,235 thousand euros.

Group subsidiary Torre Marenostrum S.A. has granted a bank a pledge on the pecuniary rights deriving from the rental lease on its property. At 31 December 2012, these rents totalled 5,789 thousand euros.

The Group's main finance leases at 31 December 2011 and 2012 are as follows:

Description	Average term (years)	Average years transpired	Thousands of euros		
			Asset's net carrying amount	Instalments outstanding	
				Non-current	Current
Rives de Seine	12	10.2	65,021	53,668	11,353
Prony-Wagram	7	2.5	38,431	35,640	2,790
Finance lease assets at 31 December 2011 (Note 15)			**103,452**	**89,308**	**14,143**

Description	Average term (years)	Average years transpired	Thousands of euros		
			Asset's net carrying amount	Instalments outstanding	
				Non-current	Current
Rives de Seine	12	11.2	53,668	-	53,668
Prony-Wagram	7	3.5	35,641	32,851	2,790
Finance lease assets at 31 December 2012 (Note 15)			**89,309**	**32,851**	**56,458**

10. Financial assets (non-current)

The movements under this heading in the years ended 31 December 2011 and 2012 were as follows:

	Thousands of euros			
	Balance at 31 December 2010	Acquisitions and charges	Disposals or decreases	Balance at 31 December 2011
Investments in associates (Note 2.e)	252,096	18,703	(4,693)	266,106
Investments in unconsolidated companies	1,071	-	-	1,071
Prepayments on investments (Note 20)	80,000	-	-	80,000
Other loans	872	-	(872)	-
Financial instruments (Note 16)	12,771	7,055	(10,650)	9,176
Deposits and guarantees extended	8,177	445	(1,015)	7,607
Impairment (Note 20)	(81,071)	-	-	(81,071)
Total	**273,916**	**26,203**	**(17,230)**	**282,889**

	Thousands of euros			
	Balance at 31 December 2011	Acquisitions and charges	Disposals or decreases	Balance at 31 December 2012
Investments in associates (Note 2.e)	266,106	22,637	(3,065)	286,560
Investments in unconsolidated companies	1,071	-	-	1,071
Prepayments on investments (Note 20)	80,000	-	-	80,000
Other loans	-	-	-	-
Financial instruments (Note 16)	9,176	2,293	(11,385)	84
Deposits and guarantees extended	7,607	945	(282)	8,270
Impairment (Note 20)	(81,071)	-	-	(81,071)
Total	**282,889**	**26,757**	**(14,732)**	**294,914**

Investments in associates

The movement in “Investments in associates” in 2012 and 2011 is as follows:

	Thousands of euros SIIC de Paris, S.A.
Balance at 31 December 2010	**252,096**
Acquisitions or share of profit (Note 21.g)	18,703
Disposals or dividends received	(4,693)
Balance at 31 December 2011	**266,106**
Acquisitions or share of profit (Note 21.g)	22,637
Changes in the scope of consolidation (Note 2.f)	882
Dividends received	(3,065)
Balance at 31 December 2012	**286,560**

At 31 December 2012, the carrying amount of the investment in SIIC de Paris increased by 22,634 thousand euros, which is Group subsidiary SFL's share of that company's profit, of which 2,552 thousand euros was recognised directly in equity. In addition, it was decreased by 3,065 thousand euros, which is the dividend received by SFL from SIIC de Paris.

Investment in SIIC de Paris, S.A.

At 31 December 2011, SFL held 12,769,538 shares in SIIC de Paris, representing 29.99% of the latter's share capital. Following the merger between SIIC de Paris and SIIC de Paris 8ème (Note 2.f), this holding was reduced to 29.63%.

The table below includes the main financial indicators for SIIC de Paris as of 30 June 2012, based on the latest information publicly disclosed by the Group investee:

	Thousands of euros	
	30 June 2012	31 December 2011
Total assets	1,283,523	1,256,922
Total equity	702,376	683,852
Total liabilities	581,147	573,070
Revenue	36,326	73,927
Profit for the year	**22,435**	**42,904**

Deposits and guarantees extended

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

11. Other non-current assets

"Other non-current financial assets" in the accompanying consolidated statement of financial position includes the receivable from the previous shareholders of the Parent relating to the tax effect of the difference between the tax and accounting bases of the assets contributed in the equity issue dated 29 June 2006 described in Note 1 and subscribed through the non-monetary contribution of certain assets. This receivable, in the amount of 61,001 thousand euros, will be assumed by the previous shareholders when the income tax accrues. These receivables are secured by a first demand guarantee issued by Banco Popular.

The guarantees on the aforementioned amounts are not time-limited, as they will be executed or cancelled when the assets are transferred to a third party or when the shareholders who contributed assets transfer their shares in the Parent, whichever occurs first.

At 31 December 2012, the Company had recorded an impairment of 30,501 thousand euros in "Net change in provisions" of the accompanying consolidated statement of comprehensive income.

12. Trade and other receivables

The breakdown of this current asset heading in the accompanying consolidated statement of financial position at 31 December 2011 and 2012 is as follows:

	Thousands of euros	
	31 December 2012	**31 December 2011**
Trade receivables from sales and services	53,859	48,567
Other receivables	154,972	155,794
Impairment of trade receivables (Note 21.e)	(160,674)	(158,288)
Other current assets	450	831
Total trade and other receivables	**48,607**	**46,904**

Trade receivables from sales and services

"Trade receivables from sales and services" in the table above includes the sums receivable from customers, primarily from the Group's rentals business in France, that are billed quarterly or half-yearly. No material sums were past due at either year-end.

Other receivables

The amounts owed by Nozar, S.A. and NZ Patrimonio, S.L.U., resulting from the cancellation of purchase contracts signed in July 2007 due to breach of compliance with the suspensive clauses, are recognised under "Other receivables", and totalled 152,189 thousand euros, including accrued interest.

Nozar, S.A. and NZ Patrimonio, S.L.U. are currently in bankruptcy proceedings; consequently, at 31 December 2011 and 2012, the accompanying consolidated statement of financial position includes an impairment for the entire amount of these companies' trade receivables.

13. Financial assets (current)

The breakdown of current financial assets in the accompanying consolidated statements of financial position at 31 December 2011 and 2012 is as follows:

	Thousands of euros	
	31 December 2012	**31 December 2011**
Short-term deposits and guarantees	-	2,000
Available-for-sale financial assets	13,168	23,785
Derivative financial instruments (Note 16)	-	138
Total	**13,168**	**25,923**

Deposits and guarantees extended

Short-term deposits and guarantees mainly correspond to deposits made with official bodies.

Available-for-sale financial assets (Note 4.e)

"Current financial assets" includes the Parent's financial investment in Fomento de Construcciones y Contratas, S.A. (FCC), and represents 0.99% of the latter's share capital. This investment is considered an available-for-sale financial asset.

At 31 December 2011, the amount recognised directly in equity as a result of changes in the fair value of the shares held in FCC was a negative 7,909 thousand euros. In 2012, the value of the investment held in FCC declined by an additional 12,595 thousand euros in accordance with this company's quoted stock price. Consequently, at 31 December 2012, the Parent recognised the accumulated impairment of this investment, in the amount of 20,504 thousand euros, under "Impairment of financial assets" of the accompanying consolidated statement of comprehensive income, given that it considered the impairment to be permanent (Note 21.g).

At 31 December 2011 and 2012, the shares in FCC were pledged as guarantees in respect of the syndicated loan (Note 15).

14. Equity

Share capital

The Parent's share capital at 31 December 2010 comprised 22,591,384,625 fully subscribed and paid-in shares with a par value of 0.12 euros each, represented by book entries.

In 2011, prior to the capital reduction to offset losses and subsequent aggregation of shares, the Parent's Board of Directors ratified two equity issues to service bondholders' applications to convert their bonds into shares. As a result, 51 convertible bonds were cancelled and share capital was increased by 3 thousand euros, plus a share premium of 4 thousand euros, by means of the issuance of 23,085 new shares (at a par value of 0.12 euros per share plus a share premium of 0.13 euros per share). These shares are fully paid-in.

In addition, in an extraordinary general meeting in 2011 the Parent's shareholders approved the following transactions affecting the Parent's share capital:

– A 1,452,628 thousand euro capital decrease, reducing the par value of all shares outstanding from 0.12 euros per share to 0.0557 euros per share and cancelling 10 shares held as treasury shares, all with the purpose of restoring a balanced capital structure, having used the share premium and voluntary reserves to offset prior-year losses.

– The aggregation of shares in the ratio of one new share for every 100 existing shares, each of the new issue shares having a par value of 5.57 euros.

– A reduction in share capital to endow restricted reserves and voluntary reserves by 15,982 thousand and 1,016,449 thousand euros, respectively, by reducing the par value of all shares from 5.57 euros per share to 1 euro.

Following the transactions undertaken to reduce capital and aggregate the shares, as outlined above, the Parent's Board of Directors ratified two further equity issues to service bondholders' applications to convert their bonds into shares. As a result, 840 convertible bonds were cancelled and share capital was increased by 8 thousand euros, while the share premium was increased by 89 thousand euros, by means of the issuance of 3,932 new shares. These shares are fully paid-in.

As a result, the Parent's share capital at 31 December 2011 was represented by 225,918,009 fully subscribed and paid up shares with a par value of 1 euro each, all represented by book entries.

In January 2012, additional equity was issued in response to the request to convert convertible bonds into shares. As a result, 79 convertible bonds were cancelled and share capital and the share premium were increased by 9 thousand euros, by means of the issue of 374 new shares, at a par value of 1 euro per share plus a share premium of 24 euros per share. This capital increase has been fully paid in.

As a result, the Parent's share capital at 31 December 2012 was represented by 225,918,383 fully subscribed and paid up shares with a par value of 1 euro each, all represented by book entries.

Based on the pertinent filings with the CNMV, the shareholders owning significant direct or indirect interests of 3% or more in the Parent at 31 December 2011 and 2012 are as follows:

31 December 2012

	% shareholding (*)		
	Direct	**Indirect**	**Total**
Name or corporate name of the shareholder:			
Commerzbank, A.G.	0.007%	19.977%	19.984%
HM Treasury(**)	-	19.992%	19.992%
Crédit Agricole, S.A.	-	19.683%	19.683%
Coral Partners (Lux) S.A.R.L.	14.733%	-	14.733%
Caja de Ahorros y Pensiones de Barcelona	-	5.787%	5.787%
The Goldman Sachs Group, Inc.	-	4.944%	4.944%
Banco Popular Español, S.A.	4.669%	-	4.669%

(*) Information dated 31 December 2012.

(**) Investment held through The Royal Bank of Scotland Group, PLC.

31 December 2011

	% shareholding (*)		
	Direct	**Indirect**	**Total**
Name or corporate name of the shareholder:			
Commerzbank, A.G.	0.007%	19.977%	19.984%
HM Treasury(**)	-	19.992%	19.992%
Crédit Agricole, S.A.	-	19.683%	19.683%
Coral Partners (Lux) S.A.R.L.	14.734%	-	14.734%
Caja de Ahorros y Pensiones de Barcelona	5.787%	-	5.787%
The Goldman Sachs Group, Inc.	-	4.944%	4.944%
Banco Popular Español, S.A.	4.599%	-	4.599%

(*) Information dated 31 December 2011.

The Parent has no knowledge of other holdings of 3% or more in the Parent's share capital or voting rights, or of smaller stakes that would allow holders to exercise significant influence over the Parent.

On 21 June 2011, authorisation was given at the Parent's general shareholders' meeting for the Board of Directors to increase share capital 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.

As disclosed in Note 5, the Parent has issued warrants convertible into shares of Inmobiliaria Colonial, S.A. in the amount of 298,333 thousand euros to guarantee bank borrowings taken on by Asentia Project, S.L.U. and Abix Service S.L.U.

Legal reserve

Under the Capital Enterprises Act, 10% of profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of 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 be used only to offset losses, and it may be used for this purpose only if no other sufficient reserves are available.

Goodwill reserve

Under the Capital Enterprises Act, an annual amount equal to 5% of the value of goodwill must be allocated from income to a restricted reserve equivalent to the goodwill recognised in the consolidated statement of financial position. If no profit is reported or if profits are insufficient, the allocation to this reserve will be taken from unrestricted reserves.

Furthermore, prevailing tax law stipulates that the Company endow a restricted reserve in the amount of goodwill amortisation if goodwill amortisation charges are to be deductible. In prior years, 47,949 thousand euros were deducted in connection with this item, with the Parent endowing a restricted reserve in this amount.

Valuation adjustments recognised in equity - financial instruments

This heading of the consolidated statement of financial position includes the sum of gains and losses arising from changes in the fair value of derivative financial instruments classified as cash flow hedges (Note 16).

The changes in this heading are as follows:

	31 December 2012	31 December 2011
Opening balance	2,467	27,274
Changes in the fair value of hedges in the period	(3,475)	(24,807)
Closing balance (Note 16)	**(1,008)**	**2,467**

Parent treasury shares

Treasury shares held by the Parent at year-end were as follows:

	31 December 2012	31 December 2011
No. of shares	1,710,000	299,236
Carrying amount (€ ‘000)	38,280	36,786
% of equity	0.757%	0.132%

In 2012, the Parent acquired 1,410,764 shares, for a total amount of 1,494 thousand euros.

All of the shares are held in order to cover the remuneration described in Note 22, should the case arise.

SFL shares

The Colonial Group held the following shares in subsidiary SFL at year-end 2012 and 2011 (held as treasury shares):

	31 December 2012	31 December 2011
No. of shares	441,250	498,482
Carrying amount (€ '000)	21,767	22,757
% of equity	0.95%	1.07%

In 2012, subsidiary SFL acquired 87,202 shares for a total amount of 1,582 thousand euros and sold 144,434 shares at a cost of 2,572 thousand euros, recognising a loss of 100 thousand euros.

Some of SFL's shares are held to cover three stock option plans with different maturity dates and strike prices (Note 22).

Non-controlling interests

The non-controlling interests heading within Group equity reflects the value of minority shareholdings in fully consolidated Group companies. "Profit/(loss) attributable to non-controlling interests" in the accompanying consolidated statement of comprehensive income represents the minority shareholders' share of these companies' earnings for the year.

The movement in this item 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 2010	**20,130**	**951,546**	**21,301**	**992,977**
Profit/(loss) for the year	1,331	94,069	(532)	**94,868**
Dividends and other	(353)	(48,761)	(256)	**(49,370)**
Financial instruments	(67)	(647)	-	**(714)**
Balance at 31 December 2011	**21,041**	**996,207**	**20,513**	**1,037,761**
Profit/(loss) for the year	(1,637)	148,085	(11,855)	**134,593**
Dividends and other	(1,205)	(47,672)	(26)	**(48,903)**
Changes in the scope of consolidation (Note 2.f)	-	94,062	-	**94,062**
Financial instruments	18	876	-	**894**
Balance at 31 December 2012	**18,217**	**1,191,558**	**8,632**	**1,219,637**

The detail of the items included in “Dividends and other” at 31 December 2012 and 2011 is as follows:

	Thousands of euros	
	31 December 2011	31 December 2012
Dividend paid by the SFL subgroup to non-controlling interests	(44,466)	(45,029)
Dividend paid by the Washington Plaza to non-controlling interests	(2,284)	(1,411)
Dividend paid by the Torre Marenostrum to non-controlling interests	(304)	(1,205)
Other	(2,316)	(27)
Total	**(49,370)**	**(48,903)**

Other equity instruments: Convertible bonds

As part of the 14 September 2008 debt restructuring agreement, the Parent issued bonds convertible into Parent shares totalling 1,310,797 thousand euros and corresponding to 13,107,965 convertible bonds maturing five years and six months from the issue date. At 31 December 2012, following the conversions detailed in the section titled “Share capital” of this Note, 15,245 bonds had yet to be converted.

The breakdown of bonds pending conversion and interest accrued to 31 December 2012 and 2011 is detailed below:

Free conversion tranche	Number of bonds pending conversion	Value of bonds	Accrued interest
		(thousands of euros)	(thousands of euros)
31 December 2011	15,324	1,827	1
31 December 2012	15,245	1,928	1

Conversion of all outstanding bonds would result in the issuance of 77,165 new Parent shares.

On 28 December 2012, the Parent ratified in a public deed the increase in the par value of the bonds as a result of the capitalisation of interest accrued during the last interest period, which began on 30 December 2011 and ended on 30 December 2012. The increase amounted to 7.24 euros per share, bringing the par value per bond to 126.51 euros.

On 17 January 2013, the Parent cancelled 61 bonds, giving rise to the issue of 307 new shares with a par value of 1 euro each plus a share premium of 24 euros per share.

15. Bank borrowings and other financial liabilities

The maturity schedule of "Bank borrowings and other financial liabilities" at year-end 2011 and 2012 is as follows:

	Thousands of euros							
	Current	Non-current						Total
31 December 2012	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	
Bank borrowings:								
Lines of credit	41,277	-	-	-	-	-	-	41,277
- Third parties	23,624	-	-	-	-	-	-	23,624
- Related parties (Note 23)	17,653	-	-	-	-	-	-	17,653
Loans	81,355	230,508	49,389	33,200	312,618	54,721	680,436	761,791
- Third parties	37,957	227,733	46,437	30,071	309,489	22,250	635,980	673,937
- Related parties (Note 23)	43,398	2,775	2,952	3,129	3,129	32,471	44,456	87,854
Subordinated debt	-	-	-	-	40,593	-	40,593	40,593
- Third parties	-	-	-	-	40,593	-	40,593	40,593
Syndicated loans	-	1,714,163	45,000	-	-	-	1,759,163	1,759,163
- Third parties	-	295,170	36,643	-	-	-	331,813	331,813
- Related parties (Note 23)	-	1,418,993	8,357	-	-	-	1,427,350	1,427,350
Finance lease assets (Note 9)	56,458	2,790	2,790	27,271	-	-	32,851	89,309
- Third parties	43,041	2,790	2,790	27,271	-	-	32,851	75,892
- Related parties (Note 23)	13,417	-	-	-	-	-	-	13,417
Interest	19,951				5		5	19,956
- Third parties	4,469	-	-	-	5	-	5	4,474
- Related parties (Note 23)	15,482	-	-	-	-	-	-	15,482
Debt arrangement expenses	(10,170)	(9,788)	(1,860)	(1,063)	(679)	(272)	(13,662)	(23,832)
- Third parties	(10,170)	(9,788)	(1,860)	(1,063)	(679)	(272)	(13,662)	(23,832)
Total bank borrowings	**188,871**	**1,937,673**	**95,319**	**59,408**	**352,537**	**54,449**	**2,499,386**	**2,688,257**
- Third parties	**98,921**	**515,905**	**84,010**	**56,279**	**349,408**	**21,978**	**1,027,580**	**1,126,501**
- Related parties	**89,950**	**1,421,768**	**11,309**	**3,129**	**3,129**	**32,471**	**1,471,806**	**1,561,756**
Other financial liabilities:								
Checking account with SCI Washington Plaza	1,398	68,888	-	-	-	-	68,888	70,286
Market value of financial instruments (Note 16)	17,399	-	1,097	9,758	8,366	-	19,221	36,620
Other financial liabilities	380	-	-	-	-	-	-	380
Total other financial liabilities:	**19,177**	**68,888**	**1,097**	**9,758**	**8,366**	**-**	**88,109**	**107,286**
Total bank borrowings and other financial liabilities	**208,048**	**2,006,561**	**96,416**	**69,166**	**360,903**	**54,449**	**2,587,495**	**2,795,543**
Bonds and similar securities issued:								
SFL bond issuance	-	-	-	500,000	500,000	-	1,000,000	1,000,000
Interest	15,632	-	-	-	-	-	-	15,632
Arrangement expenses	(2,013)	(2,013)	(2,013)	(1,446)	(954)	-	(6,426)	(8,439)
Total bonds and similar securities issued	**13,619**	**(2,013)**	**(2,013)**	**498,554**	**499,046**	**-**	**993,574**	**1,007,193**
Total at 31 December 2012	**221,667**	**2,004,548**	**94,403**	**567,720**	**859,949**	**54,449**	**3,581,069**	**3,802,736**

31 December 2011	Thousands of euros							
	Current	Non-current						Total
	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	
Bank borrowings:								
Lines of credit	44,464	-	-	-	-	-	-	44,464
- Third parties	26,347	-	-	-	-	-	-	26,347
- Related parties (Note 23)	18,117	-	-	-	-	-	-	18,117
Loans	206,375	76,801	228,465	47,081	30,115	171,608	554,070	760,445
- Third parties	188,733	33,403	225,690	44,129	26,986	136,008	466,216	654,949
- Related parties (Note 23)	17,642	43,398	2,775	2,952	3,129	35,600	87,854	105,496
Subordinated debt	-	-	-	-	-	38,682	38,682	38,682
- Third parties	-	-	-	-	-	38,682	38,682	38,682
Syndicated loans	200,000	-	1,737,912	40,000	-	-	1,777,912	1,977,912
- Third parties	128,000	-	298,139	32,572	-	-	330,711	458,711
- Related parties (Note 23)	72,000	-	1,439,773	7,428	-	-	1,447,201	1,519,201
Finance lease assets (Note 9)	14,143	56,458	2,790	2,790	27,271	-	89,308	103,451
- Third parties	11,305	43,041	2,790	2,790	27,271	-	75,891	87,196
- Related parties (Note 23)	2,838	13,417	-	-	-	-	13,417	16,255
Interest	1,780	-	-	-	-	-	-	1,780
- Third parties	1,084	-	-	-	-	-	-	1,084
- Related parties (Note 23)	696	-	-	-	-	-	-	696
Debt arrangement expenses	(9,589)	(8,691)	(8,600)	(2,402)	(391)	(456)	(20,540)	(30,129)
- Third parties	(9,589)	(8,691)	(8,600)	(2,402)	(391)	(456)	(20,540)	(30,129)
Total bank borrowings	**457,173**	**124,568**	**1,960,567**	**87,469**	**56,995**	**209,834**	**2,439,432**	**2,896,605**
- Third parties	**345,880**	**67,753**	**518,019**	**77,089**	**53,866**	**174,234**	**890,960**	**1,236,840**
- Related parties	**111,293**	**56,815**	**1,442,548**	**10,380**	**3,129**	**35,600**	**1,548,472**	**1,659,765**
Other financial liabilities:								
Checking account with SCI Washington Plaza	322	57,557	-	-	-	-	57,557	57,879
Market value of financial instruments	11,076	16,182	29,162	15,016	-	5,975	66,335	77,411
Other financial liabilities	377	-	-	-	-	-	-	377
Total other financial liabilities:	**11,775**	**73,739**	**29,162**	**15,016**	**-**	**5,975**	**123,892**	**135,667**
Total bank borrowings and other financial liabilities	**468,948**	**198,307**	**1,989,729**	**102,485**	**56,995**	**215,809**	**2,563,324**	**3,032,272**
Bonds and similar securities issued:								
SFL bond issuance	-	-	-	-	500,000	-	500,000	500,000
Interest	14,196	-	-	-	-	-	-	14,196
Arrangement expenses	(972)	(730)	(730)	(730)	(730)	(400)	(3,320)	(4,292)
Total bonds and similar securities issued	**13,224**	**(730)**	**(730)**	**(730)**	**499,270**	**(400)**	**496,680**	**509,904**
Total at 31 December 2011	**482,172**	**197,577**	**1,988,999**	**101,755**	**556,265**	**215,409**	**3,060,004**	**3,542,176**

The bank borrowings taken out by the Colonial Group were arranged at arm's length so that their carrying amount substantially approximates their fair value. The bonds issued by SFL, which are traded on the Euronext Paris exchange, have a market value of 1,053,450 thousand euros.

Syndicated loans

The breakdown of the Group's syndicated loans by subsidiary at 31 December 2011 and 2012 is as follows:

		31 December 2011		31 December 2012	
Thousands of euros	**Maturity**	**Limit**	**Nominal amount drawn down**	**Limit**	**Nominal amount drawn down**
Colonial Syndicated Loan -					
Facility A – Tranche 1	December 2014	1,650,012	1,650,012	1,626,710	1,626,710
Facility A – Tranche 2	December 2014	87,900	87,900	87,900	87,900
Facility A – Tranche 3 Revolving Facility (*)	December 2014	62,966	-	48,384	(447)
Total Colonial Syndicated Loan		**1,800,878**	**1,737,912**	**1,762,994**	**1,714,163**
SFL Syndicated Loan -					
Natixis 2005 revolving loan facility	January 2012	200,000	200,000	-	-
BNP Paribas revolving loan facility	October 2014	300,000	-	300,000	-
Natixis 2010 revolving loan facility	December 2015	350,000	40,000	350,000	45,000
Total SFL Syndicated Loan		**850,000**	**240,000**	**650,000**	**45,000**
Total		**2,650,878**	**1,977,912**	**2,412,994**	**1,759,163**

(*) For the purpose of calculating the nominal value drawn down, the Parent presents the amount drawn down under Tranche 3, the revolving portion of Facility A, less the amount on deposit in a restricted current account (31,202 thousand and 40,232 thousand euros, respectively, at 31 December 2012 and 2011). The remainder at 31 December 2012, 447 thousand euros, relates to interest generated by the current account, which the Parent has classified as a decrease in bank borrowings, given that the account was a restricted account at that time.

Parent syndicated loan

This is a long-term financing arrangement, due 31 December 2014, for a total initial amount of 1,800,878 thousand euros, divided into three sub-tranches.

1. Tranche A1: Senior debt in the amount of 1,650,012 thousand euros, secured by: (i) a mortgage on certain properties located in Spain (Note 9); (ii) a share pledge consisting of 51% of the shares of SFL owned by the Parent Company; (iii) guarantees on deposits held by the Parent as a result of the sale of assets; and (iv) a share pledge consisting of the shares held by the Parent in subsidiary Torre Marenostrum S.L. At 31 December 2012, the outstanding balance of this tranche stood at 1,626,710 thousand euros after Colonial's partial repayment in 2012 (23,302 thousand euros).

2. Tranche A2: 87,900 thousand euros of debt secured by a first-lien guarantee on the Parent's 2.4% and 0.99% equity interests in SFL and FCC (Note 13), respectively.

3. Tranche A3: Revolving Tranche, with an initial limit of 62,966 thousand euros. At 31 December 2012, the limit on this tranche stood at 48,384 thousand euros after the amount repaid by the Parent in the first half of 2012 (14,582 thousand euros). At 31 December 2012, 30,755 thousand euros had been drawn down and had been deposited as a guarantee in respect of the syndicated loan.

Tranche A accrues interest at Euribor plus 175 basis points.

As set forth in the loan agreement, starting at 31 December 2011, if the Parent's loan-to-value (LTV) ratio rises above 50%, and barring early repayment of 10%, 18% and 25% of the accumulated principal of Tranche A at 31 December 2011, 2012 and 2013, respectively, the spread over Euribor payable on the total amounts drawn down under Tranches A1 and A3 increases by 300, 375 and 450 basis points, respectively. The potential interest spread increase would be capitalised and would not entail any cash outlay whatsoever.

On 29 March 2012, the Company obtained a waiver from the lenders on the accrual of the additional spreads referred to above, on the following premises:

– Amendment of the additional spreads to be accrued at 31 December 2012 and 2013 in the event of a new breach, to 450 and 686 basis points over the total amounts drawn down under tranches A1 and A3 if the Company does not make an early repayment of an accumulated amount equivalent to 18% and 25%, respectively.

– Repayment of 23,743 thousand euros, 23,302 thousand euros of Tranche A1 and 441 thousand euros of Tranche A3, through the use of the cash pledged in favour of the banks participating in the syndicated loan and from the sale of a property in 2010.

Subsequent to year end, the Parent reached an agreement with the lenders by which this clause of the syndicated loan was amended and the following conditions were set as of 1 January 2013 for the A1 and A3 tranches that had been drawn down:

– If by 30 June 2013, the Parent has not made early repayment of an accumulated amount equivalent to 18%, the additional spread to be applied on the total amounts drawn down under tranches A1 and A3 will be 450 basis points, accruing as of 1 January 2013.

– If by 31 December 2013, the Parent has not made early repayment of an accumulated amount equivalent to 25%, the additional spread to be applied on the total amounts drawn down under tranches A1 and A3 will be 686 basis points, accruing as of 1 January 2013.

At the date of the authorisation for issue of these consolidated financial statements, the Parent plans to initiate conversations with its main lenders in order to revise the terms of its borrowings, the bulk of which mature in December 2014.

Other commitments and restrictions pertaining to Colonial's syndicated loan

The Parent Company has also assumed the following commitments and restrictions, subject to the waivers provided for in the Framework Refinancing Agreement:

– The Parent may not approve or pay dividends, charges or other payouts, distribute any amounts against the share premium or pay any management, advisory or other fees to shareholders so long as its LTV remains above 50%.

– The Parent may not assume additional borrowings.

– The Parent undertakes not to allow a change of control at SFL.

– The Parent may not dispose of its assets, nor may it allow any form of additional encumbrance thereon, with the exception of those specified in the Refinancing Agreement.

The syndicated loan can be called in before maturity in the event of a change of control at the Parent.

In addition, the syndicated loan is secured by mortgages on assets in the amount of 1,414,540 and 1,431,528 thousand euros at 31 December 2012 and 2011, respectively.

Compliance with covenants

The Group's syndicated loans are required to comply with the following covenants, on a quarterly basis for the Parent and on a six-month basis for the subsidiary SFL:

	Ratios
Colonial syndicated loan	LtV ratio <=85%, understood as net debt / Property assets of the Parent plus the net asset value of the investments it holds for the rentals business
	DSCR (debt service coverage ratio)> 1, understood as recurring operating cash flow / debt service charge of the Parent
Natixis 2010 syndicated loan	LTV ratio <= 50%
	Interest coverage ratio >= 2
	Secured debt/equity value <=20%
	Appraisal value of unmortgaged properties >=€2bn
BNP-Paribas syndicated loan	LTV ratio <= 50%
	Interest coverage ratio >= 2
	Secured debt/equity value <=20%
	Appraisal value of unmortgaged properties >=€2bn

Note: €bn refers to billions of euros.

The Parent's syndicated loan requires compliance with two financial covenants at 31 December at 30 June of each year during the term of the loan contract. As at 31 December 2012, the Parent has complied with all the covenants. At present, the Parent does not expect that it will fail to comply with any of the financial covenants in 2013. If it breaches the covenants, it would be handled within the framework of the conversations that the Parent plans to initiate with its lenders.

At 31 December 2012, all financial covenants of the syndicated loans held by SFL were being fulfilled.

Loans

At 31 December 2011 and 2012, in addition to the syndicated loan, the Group had the following mortgage loans, secured by its investment properties and non-current assets held for sale associated with its rentals business:

	Thousands of euros			
	31 December 2011		31 December 2012	
	Mortgage debt	Market value of collateral	Mortgage debt	Market value of collateral
Investment property - rentals (Note 9)	549,861	1,156,511	643,960	1,256,511
Non-current assets held for sale (Note 25)	11,567	29,819	8,006	26,792
	561,428	**1,186,330**	**651,966**	**1,283,303**

The Parent has loans for a total amount of 267,023 thousand euros, of which, at 31 December 2012, 35,893 thousand euros is recognised under current borrowings. At the date of the authorisation of these financial statements for issue, the Parent is holding conversations with the financial entities with which it has bilateral loans, in order to define a new payment schedule for the payments falling due in 2013 and to adjust those maturities to the Parent's available cash flows. The cash flow budget for 2013 prepared by the Parent's management envisions covering these maturities by using the credit facilities available to Inmobiliaria Colonial, S.A.

Compliance with covenants

At 31 December 2012, the Colonial Group had taken out five loans, for a total amount of 337,009 thousand euros (468,219 thousand euros at year-end 2011), subject to compliance with certain financial covenants. At year-end, the Group was not in breach of any of the covenants stipulated in these loans, except as disclosed below.

Group subsidiary Abix Service S.L.U.'s loan agreement requires it to keep its LTV ratio ≤ 85% from 31 December 2011, on a six-month basis. The ratio was higher than the 85% threshold at 31 December 2012. As a result, under the terms of the loan agreement, the company has to repay part of the amount of the loan needed to bring this ratio to below the required level within a maximum period of 24 months. Abix Service S.L.U. has made the payments on this loan, as well as with the debt service charge, by using the rents generated by two properties of the Parent that were delivered to it, in accordance with the terms of the loan agreement. The loan agreement also requires compliance with the financial covenant calculated by dividing the rental income from the Parent's property by the finance charges of the loan, plus the amounts of the principal paid during the period, which must be equal to or greater than 1, starting at 31 December 2012. At 27 December 2012, the subsidiary Abix Service S.L.U. signed a letter with the creditor relieving it of the obligation to comply with this financial ratio so long as the Parent continues to provide funds to pay the interest and comply with the partial repayments. Consequently, at 31 December 2012, breach of this covenant did not trigger the early repayment of the loan.

Guarantees given

The Parent has given the following guarantees:

– As indicated in Note 25, as a result of the commitments stemming from the Framework Refinancing Agreement of 19 February 2010, the Parent is required to make contributions of funds to meet cash needs that may arise in the event that the business plan agreed with BBVA for the development of a property project in Dos Hermanas (Seville) is not fulfilled. On 20 December 2012, the subsidiary Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. and the Council of Dos Hermanas (Seville) signed a new urban planning and management agreement to reschedule the execution of the UE2 urban development work and to define a new stage plan in line with the current circumstances and needs of the municipal government. At the date of authorisation for issue of these consolidated financial statements, the agreement was in the process of receiving final approval from the city council.

– The Parent guarantees, with a second-lien guarantee on an asset in Madrid, for up to a limit of 40,000 thousand euros, debts of the Asentia Project, S.L.U. subgroup in the amount of 55,000 thousand euros (Notes 25), plus outstanding interest accrued and not settled of 6,695 thousand euros.

– The subsidiaries Asentia Project, S.L.U. and Abix Service, S.L.U. have bank borrowings secured by warrants convertible into shares of Inmobiliaria Colonial, S.A. up to a maximum of 275,000 thousand and 23,333 thousand euros, respectively, under certain conditions Note 25).

Shares of Group subsidiary Parholding (part of the SFL subgroup) carried at 6,070 thousand euros were pledged.

Debt issuance (non-convertible bonds)

On 17 May 2011, SFL issued 500,000 thousand euros of non-convertible bonds (each with a par value of 100 thousand euros). The bonds, with initial maturity of five years, carried a fixed coupon of 4.625%, payable annually, with a final maturity of 25 May 2016.

In addition, on 28 November 2012, SFL issued 500,000 thousand euros of non-convertible bonds (each with a par value of 100 thousand euros). The bonds, with initial maturity of five years, carried a fixed coupon of 3.50%, payable annually, with a final maturity of 28 November 2017.

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

The amount of interest accrued and outstanding on these bonds, recognised under “Finance cost” in the accompanying consolidated statements of comprehensive income for the years ended 31 December 2012 and 2011, amounted to 15,632 thousand and 14,196 thousand euros, respectively.

Finance leases

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

Lines of credit

The Group has lines of credit of up to 41,277 thousand euros, which at year-end 2012 were fully drawn down. These credit facilities mature in the short term. At 31 December 2011, the balance of fully drawn-down lines of credit held by the Group totalled 44,464 thousand euros.

At 31 December 2012, the Group had a current checking account, with an expiry of 31 December 2013, that is a facility extended by Group subsidiary SCI Washington which accrues interest at Euribor plus 60 basis points. The balance at year-end 2012 was 70,286 thousand euros (57,879 thousand euros at year-end 2011).

Cash and cash equivalents

At 31 December 2011 and 2012, amounts of 65,926 thousand and 69,017 thousand euros, respectively, were recognised under “Cash and cash equivalents”, of which 26,350 thousand and 2,500 thousand euros, respectively, were pledged. The reduction relates primarily to the repayment of the Parent’s syndicated loan.

Syndicated loan arrangement costs and fees

At 31 December 2011 and 2012, the amounts recognised in the consolidated statement of comprehensive income in this connection totalled 8,300 thousand and 8,534 thousand euros, respectively.

Interest rate on borrowings

The average interest rate paid by the Group in 2012 on borrowings allocated to continuing operations was 3.78%, or 3.88% including accrued fees. The average spread over Euribor paid by the Group (including fees) in 2012 was 190 basis points.

At 31 December 2011 and 2012, accrued and unpaid interest amounted to 15,976 thousand and 35,588 thousand euros, respectively.

Bank borrowings classified as liabilities relating to assets held for sale (Note 25)

At 31 December 2012, all the bank borrowings associated with the group headed up by Asentia Project S.L.U., totalling 1,506,192 thousand euros, had been recognised in "Liabilities relating to assets held for sale" in the consolidated statement of financial position (Note 4.s). At 31 December 2011, these borrowings amounted to 1,451,124 euros.

As a result, at 31 December 2012, the total balance of the Group's bank borrowings and other financial liabilities, including debts with lending institutions, non-convertible bonds, debt arrangement expenses, and capitalised interest, stood at 5,201,642 thousand euros (4,857,633 thousand euros at 31 December 2011).

Capital management: policy and targets

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 and with a view to maximising shareholder value.

The Group's overall strategy is to focus on markets and products that add value.

The Group's capital structure includes debt (loans and credit facilities), cash and cash equivalents, as disclosed in this note and equity (capital and reserves, Note 14).

The Corporate Unit is responsible for managing financial risk and reviews the Group's capital structure, its leverage (net debt/equity) and LTV ratios on a regular basis.

16. Derivative financial instruments

Risk management policy objectives

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

– Interest rate risk: the Group has taken out most of its debt at floating rates, except for the 1,000,000 thousand euros of bonds issued by subsidiary SFL (Note 15). Therefore, 70% of its debt is exposed to trends in market interest rates. 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 financial costs.

A sensitivity analysis to interest rate risk is presented below. Increases and decreases have been applied to the interest rate on the Group's debt structure at 31 December 2012 and 2011, including financial instruments, on comprehensive income before allocation to non-controlling interests and the related tax effect and on Group equity.

31 December 2012

	Thousands of euros		
	Increase / (decrease)	Revenue / (expense)	
+/- basis point change in interest rate	**Impact on equity**	**Impact on comprehensive income**	**% change in recognised expense**
-50bp	(10,212)	5,526	4.06%
-25bp	(5,123)	3,271	2.40%
+25bp	5,412	(3,484)	2.56%
+50bp	11,225	(7,104)	5.22%
+75bp	17,457	(10,795)	7.93%
+100bp	24,091	(14,637)	10.76%

For 2012, sensitivity to negative 75 and 100 basis point changes is not shown, given that the resulting interest rates are negative.

31 December 2011

	Thousands of euros		
	Increase / (decrease)	Revenue / (expense)	
+/- basis point change in interest rate	**Impact on equity**	**Impact on comprehensive income**	**% change in recognised expense**
-100bp	(27,238)	(2,435)	2.05%
-75bp	(22,425)	(157)	0.13%
-50bp	(15,353)	148	0.12%
-25bp	(7,931)	321	0.27%
+25bp	8,301	(1,053)	0.88%
+50bp	17,409	(3,302)	2.77%
+75bp	27,272	(6,871)	5.77%
+100bp	37,743	(10,365)	8.94%

– Refinancing risk: the Group's financial structure warrants diversification of its sources of financing by entity, product and maturity. Consequently, the Parent plans to initiate conversations with its main lenders in order to revise the terms of its borrowings, primarily those which mature in December 2014.

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

– Liquidity risk: in 2010, the Parent successfully refinanced its debt. The purpose of this agreement is to recapitalise the Parent, strengthen its long-term financial structure, ensure that it can service its debt and reduce its indebtedness. The refinancing agreement includes a cash flow budget, which is monitored regularly, enabling the Parent Company to service its debt and meet the expenses inherent to its ordinary business activities (see Note 15 for quantitative information).

– 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 (see Note 12 for quantitative information).

Derivative financial instruments

The Group has arranged a series of interest rate hedging derivatives. The following table itemises these derivatives and states their fair values at year-end 2012 and 2011:

Derivative financial instrument	Company	Counterparty	Interest rate	Maturity	Notional value (thousands of euros)	Fair value – Asset / (Liability)
Vanilla swap	Parhaus	Natixis	0.8825%	2017	24,525	(394)
Vanilla swap	Parchamps	Natixis	0.8825%	2017	9,065	(146)
Vanilla swap	Pargal	Natixis	0.8825%	2017	28,150	(453)
Vanilla swap	Parhaus	Nord/LB	0.8825%	2017	24,525	(394)
Vanilla swap	Parchamps	Nord/LB	0.8825%	2017	9,065	(146)
Vanilla swap	Pargal	Nord/LB	0.8825%	2017	28,150	(453)
Vanilla swap	Parhaus	Dekabank	0.8825%	2017	24,525	(394)
Vanilla swap	Parchamps	Dekabank	0.8825%	2017	9,065	(146)
Vanilla swap	Pargal	Dekabank	0.8825%	2017	28,150	(453)
Vanilla swap	SFL	RBS	3.89%	2013	28,600	(896)
Vanilla swap	SFL	RBS	3.89%	2013	12,200	(382)
Vanilla swap	SFL	HSBC	2.172%	2016	50,000	(2,985)
Vanilla swap	SFL	HSBC	2.305%	2016	100,000	(6,781)
Vanilla swap	SFL	CM-CIC Marches	1.846%	2017	100,000	(6,017)
Collar	Colonial	Deutsche Bank	Floor (3.85%) Cap (4.45%)	2013	25,000	(461)
Vanilla swap	Colonial	Deutsche Bank	3.715%	2013	400,000	(13,673)
CAP	Colonial	Banco Popular	3.25%	2014	30,000	1
CAP	Colonial	CA-CIB	3.25%	2014	140,000	5
CAP	Colonial	CA-CIB	1.875%	2014	150,000	17
CAP	Colonial	Eurohypo	2.50%	2014	150,000	9
CAP	Colonial	RBS	1.875%	2014	150,000	17
CAP	Colonial	RBS	2.50%	2014	250,000	15
CAP	Colonial	RBS	3.25%	2014	140,000	5
CAP	Colonial	Caixabank	2.50%	2014	100,000	6
CAP	Colonial	Caixabank	3.25%	2014	140,000	5
CAP	Colonial	Caixabank	3.25%	2014	50,000	2
CAP	Abix	Caixabank	3.5%	2014	54,105	1
Vanilla swap	Torre Marenostrum	Caixabank	3.85%	2015	29,965	(2,444)
Total at 31 December 2012					**2,285,090**	**(36,535)**
- Third parties					860,220	(32,896)
- Related parties (Note 23)					1,424,870	(3,639)
- Fixed-to-floating hedges					2,285,090	(36,535)
- Floating-to-fixed hedges					-	-

Derivative financial instrument	Company	Counterparty	Interest rate	Maturity	Notional value (thousands of euros)	Fair value – Asset / (Liability)
Vanilla swap	Parhaus	Calyon	2.218%	2012	39,079	(461)
Vanilla swap	Parchamps	Calyon	2.218%	2012	7,395	(87)
Vanilla swap	Pargal	Calyon	2.218%	2012	24,710	(292)
Vanilla swap	Parchar	Calyon	2.218%	2012	1,870	(22)
Vanilla swap –forward starting	SFL	CA-CIB	2.53%	2015	100,000	(3,806)
Vanilla swap – forward starting	SFL	CA-CIB	2.175%	2015	150,000	(4,135)
Vanilla swap – forward starting	SFL	CA-CIB	2.50%	2015	150,000	(5,576)
Vanilla swap	SFL	RBS	3.895%	2013	28,600	(1,517)
Vanilla swap	SFL	RBS	3.895%	2013	12,200	(647)
Vanilla swap	SFL	HSBC	2.63%	2014	50,000	(1,796)
Vanilla swap	SFL	HSBC	2.71%	2014	100,000	(4,128)
Vanilla swap	SFL	HSBC	E3M	2016	100,000	5,945
Vanilla swap – forward starting	SFL	HSBC	1.95%	2017	200,000	(4,323)
Vanilla swap	SFL	BNP Paribas	2.375%	2012	50,000	(125)
Vanilla swap	SFL	BNP Paribas	2.63%	2014	50,000	(1,796)
Vanilla swap	SFL	BNP Paribas	2.265%	2013	50,000	(1,106)
Vanilla swap – forward starting	SFL	CM-CIC Marches	1.846%	2017	100,000	(1,653)
CAP	SFL	Société Generale	2.75%	2012	200,000	-
Collar	SFL	JP Morgan	EUR12M +1.415% Floor 3.415% Cap 6.5%	2014	400,000	(23,321)
Collar	Colonial	Deutsche Bank	Floor (3.85%) Cap (4.45%)	2013	25,000	(1,013)
Swap	Colonial	Deutsche Bank	3.715%	2013	400,000	(19,204)
CAP	Colonial	Banco Popular	3.25%	2014	30,000	47
CAP	Colonial	Calyon	3.25%	2014	140,000	221
CAP	Colonial	CA-CIB	1.875%	2014	150,000	625
CAP	Colonial	Eurohypo	2.50%	2014	150,000	386
CAP	Colonial	RBS	1.875%	2014	150,000	625
CAP	Colonial	RBS	2.50%	2014	250,000	639
CAP	Colonial	RBS	3.25%	2014	140,000	221
CAP	Colonial	Caixabank	2.50%	2014	100,000	257
CAP	Colonial	Caixabank	3.25%	2014	140,000	221
CAP	Colonial	Caixabank	3.25%	2014	50,000	79
CAP	Abix	Caixabank	3.5%	2014	54,105	48
Vanilla swap	Torre Marenostrum	Caixabank	3.85%	2015	31,519	(2,403)
Total at 31 December 2011					**3,624,477**	**(68,097)**
- Third parties					1,725,000	(52,520)
- Related parties (Note 23)					1,899,477	(15,577)
- Fixed-to-floating hedges					3,524,477	(74,042)
- Floating-to-fixed hedges					100,000	5,945

In 2012, the subsidiary SFL restructured four interest rate swaps in the amount of 250,000 thousand euros, reducing the fixed rate and extending the maturity by two years. In September 2012, SFL restructured the interest rate hedges of the Parholding companies, the maturity of which is in September 2017, with a notional of 185,220 thousand euros and a rate of 0.8825%.

In addition, in 2012, at SFL, two interest rate hedges expired—a cap and a swap—with a total notional of 250,000 thousand euros, and eight swaps, with a total notional of 1,200,000 thousand euros, were cancelled early.

At 31 December 2012, 100% of the notional of the Group's derivatives portfolio is in compliance with the terms of IFRS 39; consequently, the mark-to-market (MtM) differences between periods are recognised in equity.

At 31 December 2012, the accumulated impact on equity of derivative hedge accounting was a negative 1,008 thousand euros, net of the tax effect and consolidation adjustments (Note 14) (31 December 2011: net gain in equity of 2,467 thousand euros).

The impact of accounting for derivatives qualifying for hedge accounting on the 2012 consolidated statement of comprehensive income (Note 21.g) was 16,165 thousand euros recognised as finance cost, relating primarily to the French subsidiary (at 31 December 2011, the cost amounted to 9,536 thousand euros).

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 2011 and 2012.

At year-end 2012, the net fair value of the derivatives gave rise to a financial liability of 36,535 thousand euros, including capitalised coupon interest of 1,076 thousand euros. Of this total, 83 thousand euros relates to an asset balance (Notes 10 and 13) and 36,620 thousand euros to a liability balance (Note 15). In addition, 3,639 thousand euros relates to derivatives written with related financial institutions (Note 23). The fair value of derivatives at 31 December 2011 gave rise to a financial liability of 68,097 thousand euros.

At 31 December 2012, the notional hedging amount was 2,285,090 thousand euros. The total amount of borrowings hedged or at fixed rates, with the inclusion of the notional of the fixed-rate bond issues of the subsidiary SFL (Note 15), stands at 3,285,090 thousand euros,

As a result, the effective hedging ratio at 31 December 2012 (floating rate hedges) was 85%, while the percentage of borrowings hedged or at fixed rates was 89% of total debt.

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.

17. Trade payables and other non-current liabilities

The breakdown of this heading by item and maturity is as follows:

	Thousands of euros			
	31 December 2012		31 December 2011	
	Current	Non-current	Current	Non-current
Trade and other payables	15,841	-	18,494	-
Advances	15,978	-	19,634	-
Payables for the purchase of properties and land	58,932	-	34,238	-
Guarantees and deposits received	1,515	22,696	1,484	21,890
Payable to Social Security	2,034	-	2,084	-
Deferred income	8,623	-	2,816	-
Other payables and current liabilities	3,613	150	2,705	139
Total	**106,536**	**22,846**	**81,455**	**22,029**

At 31 December 2011 and 2012, "Trade and other payables" on the consolidated statement of financial position included primarily the amounts pending payment by the Group for business-related purchases and costs associated with the property rental operating segment and the Corporate Unit.

"Advances" primarily reflects amounts paid upfront by tenants.

"Payables for the purchase of properties and land" relates to borrowings for the acquisition of properties. Of these payables, 36,677 thousand euros corresponds to various properties of the subsidiary SFL currently under refurbishment (Champs Elysées 82-88 and 92 and Quai Le Gallo, 46). They also include the amount outstanding on the acquisition of Francisco Silvela (Note 20) of 21,799 thousand euros.

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

In keeping with additional provision three, "Disclosure requirements," of Law 15/2010, of 5 July, relating to the amendment of Law 3/2004 regarding measures to combat late payment in commercial transactions, and as stipulated in the related resolution issued by Spain's Accounting and Audit Institute (ICAC) on 29 December 2010, the following table provides the required disclosures regarding "aggregate" balances outstanding to suppliers and trade creditors at the reporting date for the Colonial Group's Spanish companies:

	Thousands of euros					
	Payments made and payments outstanding at year-end					
	2012			2011		
	Amount	%	As a % of the total number of invoices	Amount	%	As a % of the total number of invoices
Paid within the legal deadline	15,042	55%	68%	40,506	61%	76%
Other	12,473	45%	32%	26,103	39%	24%
Total amounts paid in the year	**27,515**	**100%**	**100%**	**66,609**	**100%**	**100%**
Weighted average days past due – payments made after legal deadline	109			98		
Weighted average days past due – payments made within legal deadline	39			24		
Amounts past due at the reporting date by more than the legally permitted term (*)(**)	2,089			2,719		

(*) Law 15/2010, of 5 July, in transitory provision two, stipulates a gradual shortening in trade account payment terms to 60 days from 1 January 2013. The Law sets the payment deadline applicable for the period elapsing between publication of the legislation in Spain's official gazette and 31 December 2011 at 85 days, falling to 75 days in 2012.

(**) Does not include outstanding accounts payable for the purchase of real estate assets.

Weighted average days past due was calculated by dividing the sum of the products of each of the payments to suppliers made during the year after the legally stipulated payment term and the number of days by which this deadline was surpassed (numerator) by the total amount of payments made during the year later than the legally stipulated payment term (denominator).

The maximum legally permitted term applicable to the Colonial Group's Spanish companies in 2012 under Law 3/2004 on combating late payment in commercial transactions is 75 days.

The disclosures regarding balances payable outstanding at year-end of discontinued operations are provided in Note 25.

As regards payments made by the Company after the legally permitted term, note that these are primarily payments relating to construction work and property refurbishment that are paid within the payment terms stipulated in the contracts signed with the various contractors.

18. Provisions

Changes in "Provisions" for 2011 2012 in the accompanying consolidated statement of financial positions are as follows:

	Thousands of euros			
	Non-current provisions			Current provisions
	Provision for taxes	Provisions for employee benefits	Provisions for contingencies and other provisions	Provisions for contingencies and other provisions
Balance at 31 December 2010	**780**	**1,123**	**20**	**150**
Additions	2,365	-	7,011	111
Retirements	(643)	(278)	(10,591)	(150)
Transfers	-	-	10,591	-
Balance at 31 December 2011	**2,502**	**845**	**7,031**	**111**
Additions	396	240	-	205
Retirements	(1,930)	(46)	(7,000)	-
Transfers (Note 20)	-	-	-	-
Balance at 31 December 2012	**968**	**1,039**	**31**	**316**

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

In 2012, provisions in the amount of 7,000 thousand euros were reversed, with a credit to "Net change in provisions" of the accompanying consolidated statement of comprehensive income.

19. Tax matters

Inmobiliaria Colonial S.A. heads a group of companies filing consolidated tax returns since 1 January 2008. This consolidated tax group includes only subsidiaries incorporated in Spain in which the Parent owns at least 75%, either directly or indirectly (this threshold falls to 70% in the case of listed subsidiaries). In addition to the Parent, this consolidated tax group in 2011 and 2012 comprised Riofisa, S.A.U., Inmocaral Servicios, S.A.U,, Riofisa Espacios Inmobiliarios, S.L.U., Riofisa Internacional, S.L., Riofisa Sema, S.L., Riofisa Desarrollos Internacionales, S.L., Asentia Project, S.L.U., Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U., Abix Service, S.L.U., Asentia gestión, S.L.U., and Riofisa Este, S.L.

Corporate income tax expense for the year is calculated based on taxable income for the year, which differs from consolidated profit/(loss) presented in the statement of comprehensive income, which 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 breakdown of tax receivables and payables on the accompanying consolidated statements of financial position is as follows:

	Thousands of euros			
	Tax receivables			
	Current		Non-current	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Tax refunds receivable	69	72	-	-
Deferred tax assets receivable	2,297	4,083	-	-
VAT	16,451	12,536	-	-
Deferred tax assets	-	-	216,564	738,150
Total tax receivables	**18,817**	**16,691**	**216,564**	**738,150**

	Thousands of euros			
	Taxes payable			
	Current		Non-current	
	31 December 2012	31 December 2011	31 December 2012	31 December 2011
Income tax payable	407	4,929	-	-
Other taxes payable	8,142	3,443	-	-
Exit tax payable (SFL Group)	1,968	3,685	1,717	2,500
VAT payable	1,232	5,204	-	-
Tax extensions	22,319	22,721	9,588	28,942
Deferred tax liabilities	-	-	225,859	171,990
Total taxes payable	**34,068**	**39,982**	**237,164**	**203,432**

Income tax

The detail of “Income tax expense” in the statement of comprehensive income for 2011 and 2012 is as follows:

	Thousands of euros	
	2012	2011
Corporate income tax	(3,027)	(6,832)
Variation due to deferred and prepaid taxes, tax credits and tax relief	(562,649)	70,982
Income tax	**(565,676)**	**64,150**
- from continuing operations:	(528,778)	64,601
- from discontinued operations (Note 25):	(36,898)	(451)

	Thousands of euros			
	Continuing operations	Discontinued operations	Total	Tax effect – at the 30% national rate (*)
Profit/(loss) before tax	(46,464)	(382,272)	(428,736)	128,621
Effect of the adjustments to taxable income for France (SIIC 4 effect and adjustments to the tax base)	(282,813)	-	(282,813)	84,844
Effects of the adjustments to taxable income for Spanish companies and uncapitalised tax credits generated in the year	326,050	407,669	733,719	(220,116)
Prior income tax expense (base)	**(3,227)**	**25,397**	**22,170**	**(6,651)**
Other				5,895
Tax credit decapitalisation				(564,920)
Income tax				**(565,676)**

(*) Tax/(expense)/revenue

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

	Thousands of euros	
	2012	2011
Accounting profit/(loss) before tax (aggregate of individual expenses)	(734,629)	(78,050)
Permanent differences	(336,245)	(206,186)
Temporary differences	147,919	(195,510)
Aggregate taxable income/(tax loss) before use of unused tax losses	**(922,955)**	**(482,746)**
Application of unused tax losses	8,896	(447)
Aggregate taxable income (tax loss)	**(914,058)**	**(483,192)**
Recognised tax loss	12,214	14,518
Unrecognised taxable income/(tax loss)	(926,272)	(497,710)

At 31 December 2012 and 2011, the permanent differences recognised by the Group correspond primarily to the SFL subgroup - subject to the French SIIC regime (Note 4.p) – for permanent negative differences of 296,298 thousand euros and 173,485 thousand euros, respectively, and a dividend received from this company by the Parent, giving rise to permanent negative differences of 38,223 thousand euros and 32,816 thousand euros, respectively.

The difference between taxes payable for the current year and previous years and taxes already paid or to be paid for those years is recorded under "Deferred tax assets" and "Deferred tax liabilities" in the consolidated statement of financial position.

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 2011	Additions	Retirements	Transfers	31 December 2012
Tax credits in respect of loss carryforwards	632,367	-	(475,071)	-	157,296
Unused tax credits for deductions for dividends receivable	28,448	-	(28,448)	-	-
Unused tax credits for deductions for reinvestments	16,423	-	(16,423)	-	-
Unused tax credits for deductions for training	1	-	(1)	-	-
Fair value of derivative financial instruments	8,711	-	(1,240)	-	7,471
Impairment of assets	52,200	-	(403)	-	51,797
	738,150	**-**	**(521,586)**	**-**	**216,564**

Tax assets in respect of loss carryforwards

Under prevailing legislation, losses from a given year can be used to offset taxable income during the following 15 years. Nonetheless, the final amounts against which the tax losses can be applied may vary as a result of inspections of the years in which they arose. The consolidated statement of financial position at 31 December 2012 recognises tax credits in respect of tax loss carryforwards in the amount of 157,296 thousand euros in "Deferred tax assets" within non-current assets.

The following table shows the aggregate amounts of tax losses pending utilisation by the Spanish companies along with the last years for offset:

	Thousands of euros		
Year	At companies that make up the consolidated tax group	At other Group companies	Last year for offset
1995	-	822	2013
1997	-	295	2015
1999	-	1	2017
2000	12,979	1	2018
2001	5,470	-	2019
2002	1	16	2020
2003	141	336	2021
2004	38,516	113	2022
2005	38	552	2023
2006	25,215	110	2024
2007	356,280	2,367	2025
2008	1,291,596	4,721	2026
2009	974,354	9,806	2027
2010	806,800	5,718	2028
2011	490,356	10,526	2029
2012	906,583	28,587	2030
Total	**4,908,329**	**63,971**	

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 income 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 2012, 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 loss carryforwards	**4,908,329**	**63,971**
Adjustments for transactions among companies that make up the consolidated tax group	(579,023)	-
Adjustments for the offset of taxable income and tax loss carryforwards among companies that make up the consolidated tax group	(9,940)	-
Total tax loss carryforwards	**4,319,366**	**63,971**
Recognised as assets	522,261	4,545
Continuing operations	524,321	-
Discontinued operations	(2,060)	4,545
Not recognised as assets	3,797,105	59,426
Continuing operations	2,888,889	-
Discontinued operations	908,216	59,426

Utilisation of capitalised tax credits

Under prevailing legislation, losses from a given year can be used to offset taxable income during the following 18 years.

Al 31 December 2011, the Parent’s directors estimated the recoverability of tax credits capitalised on the basis of the business plan approved at that date, which drew on the following main assumptions:

	2011
Projection period (years)	18
Rotation rate of the real estate investment portfolio, %	10% anual
Yield on reinvestment, % (Note 4.c)	6.5
Investment/asset contributions (€ million)	500
Yield on new assets, %	6.50%
Occupancy rate, %	95%

As detailed in the preceding table, the Parent's plan envisioned rotating its assets and reinvesting the rents obtained, as well as carrying out certain investment transactions. The business plan also included an equity issue exclusively for repayment of the Parent's debt, as well as an ultimate rotation of 50% of the rental property portfolio by the end of the projection period.

In addition, at year-end 2011, the legislative changes that had been enacted, extending the period for utilising tax credits from 15 to 18 years, were taken into account. Accordingly, on 31 December 2011, 70 million euros in tax credits in respect of the tax loss carryforwards were capitalised.

At 31 December 2012, the Parent's directors re-evaluated the business plan in light of the downturn in the real estate market this year, as well as expectations for the rental business in Spain over the medium and long term. Accordingly, the business plan primarily considers the results of the Parent's ordinary activities for the 18-year period, which were projected on the basis of the Parent's current portfolio of rental properties. The results of ordinary activities were estimated on the basis of the performance of rentals, as well as occupancy levels for each of the Parent's properties individually. However, because of short-term market uncertainty and the need to follow a prudence criterion, for the purpose of assessing the recoverability of tax credits, the business plan approved at year-end 2012 did not take into account the annual rotation of the Parent's current assets, the investment and capital-increase transactions, or a final rotation of 50% of the property portfolio.

In accordance with the approved business plan, and in keeping with the principle of prudence in valuation, the Parent wrote down capitalised tax credits by 520 million euros.

The assessment of the recoverability of tax credits also took into account certain tax planning strategies that would allow for the exit of the Asentia subgroup if the disposal of this subgroup does not materialise.

The sensitivity of the assumptions referred to above regarding the recoverability of deferred tax assets at 31 December 2012 is detailed in the following table:

	Millions of euros
Rentals (1% below those considered)	(3)
% occupancy (1% below that considered)	(5)

Tax credits for deductions

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 greater in 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.

The Parent has met in full its reinvestment commitments for the last five years within the timeframes established by prevailing legislation, as shown below:

	Thousands of euros			
	2008	2009	2010	2011
Profit to which tax credit applied for reinvestment	10,175	11,236	3,730	251
Reinvestment commitments	33,515	154,283	24,500	25,000
Reinvested by the Company	33,515	136,423	-	-

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 5-year period (3 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			
	2014	2015	2016	2017
Reinvested by the Company	32,672	70,419	5,617	27,606
Associated rent	3,723	5,956	216	1,009

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

The nature and amount of tax credits at 31 December 2012 unused by the Group due to a shortfall in taxable income, totalling 55,361 thousand euros, and the deadlines for their application, are set out below:

	Thousands of euros		
Nature of deduction	**Year of origin**	**Amount**	**Last year for use**
Double taxation tax credit	2006	7,544	2013
	2007	12,482	2014
	2008	8,612	2015
	2009	287	2016
	2010	273	2017
	2011	355	2018
	2012	333	2019
Tax credit for training			
	2008	1	2018
	2009	1	2019
	2010	1	2020
Tax credit for reinvestment			
	2002	458	2012
	2003	3,316	2013
	2004	1,056	2014
	2005	92	2015
	2006	1,314	2016
	2007	16,293	2017
	2008	1,185	2018
	2009	1,347	2019
	2010	381	2020
	2011	30	2021
		55,361	

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

	Thousands of euros				
Deferred tax liabilities	**31 December 2011**	**Additions**	**Retire-ments**	**Changes in the scope of consolidation (Note 2.f)**	**31 December 2012**
Asset revaluations	93,020	14,600	-	39,269	146,889
Deferred non-monetary contribution (Note 11)	49,923	-	-	-	49,923
SIIC – 4 (Note 4.m)	20,896	-	-	-	20,896
Deferral for reinvestment	8,151	-	-	-	8,151
	171,990	**14,600**	**-**	**39,269**	**225,859**

Asset revaluations

This deferred tax liability corresponds fundamentally to the difference between the accounting cost of investment properties measured at fair value (under IFRS) and their tax basis (acquisition cost less depreciation). Deferred tax liabilities are measured as a general rule (except as set out in Note 4.m) applying a rate of 30% to the difference between the book and tax values of the various assets, net, where appropriate, of monetary corrections.

Non-monetary contribution to capital increase

On 29 June 2007, various shareholders of the Parent subscribed to a rights issue through non-monetary contributions consisting of property assets and equity investments. The transaction was eligible for the special tax neutrality regime for mergers, spin-offs, contributions of assets and securities swaps provided for in Chapter VIII, Title VII of the Spanish Corporate Tax Act, as amended, enacted by Royal Decree 4/2004 (Note 1).

The contributions were made at market value, generating a difference between the tax and accounting basis of the assets contributed, which must be borne by these shareholders once these assets have been sold. This amount is secured by a first demand guarantee in favour of Inmobiliaria Colonial, S.A. (Note 11) and is recognised in the consolidated statement of financial position under “Other non-current assets”.

Tax extensions

At 31 December 2012, the Parent has been granted the following extensions by the tax authorities:

– Permission to defer over five years the payment of 30,244 thousand euros relating to the 2007 income tax expense of the absorbed subsidiary Subirats-Coslada Logística, S.L.U. (Note 1), granted in 2008. This debt is guaranteed by mortgages against various properties of Group subsidiary Asentia Project, S.L.U.

– Permission to defer over five years the payment of 15,325 thousand euros related to the VAT expense for 2008, granted in 2009. The debt is guaranteed by a mortgage against a property owned by Group subsidiary Asentia Project, S.L.U. S in favour of the tax authorities.

– Permission to defer over five years the payment of 8,508 thousand euros corresponding to the income tax expense for 2008 of the consolidated tax group headed by the Parent, granted in 2009. This debt is guaranteed by a mortgage against a plot of land owned by Group subsidiary Riofisa, S.L.U.

– Permission to defer over five years payment of a total of 14,844 thousand euros of stamp duty accrued following the cancellation and re-constitution of the mortgage on all of the rental properties owned by the Parent Company in Spain, pledged as collateral as part of the syndicated loan refinancing agreement (Note 15). Of this sum, 6,763 thousand euros corresponds to properties located in Catalonia and 8,081 thousand euros to assets located in Madrid. This debt is guaranteed by mortgages on various properties of Group subsidiary Asentia Project, S.L.U.

– Permission to defer over five years the payment of 1,223 thousand euros corresponding to the income tax expense for 2010 of the consolidated tax group headed by the Parent, granted in January 2012. This debt is guaranteed by a mortgage against a plot of land owned by Group subsidiary Riofisa, S.L.U.

The maturity schedule for the deferred payments, excluding interest, at 31 December 2011 and 31 December 2012 is as follows:

31 December 2011

	Thousands of euros						
	Current	Non-current					Total
	1 year	2 years	3 years	4 years	5 years	Total non-current	
VAT	4,388	4,388	362	-	-	4,750	9,138
Stamp duty Catalonia	1,607	2,040	2,040	510	-	4,590	6,197
Stamp duty Madrid	2,107	2,442	2,442	407	-	5,291	7,398
Income tax 2007	8,681	7,067	-	-	-	7,067	15,748
Income tax 2008	2,478	2,478	1,679	-	-	4,157	6,635
Total	**19,261**	**18,415**	**6,524**	**917**	**-**	**25,855**	**45,116**

31 December 2012

	Thousands of euros						
	Current	Non-current					Total
	1 year	2 years	3 years	4 years	5 years	Total non-current	
VAT	4,388	363	-	-	-	363	4,751
Stamp duty Catalonia	2,040	2,040	510	-	-	2,550	4,590
Stamp duty Madrid	2,442	2,442	407	-	-	2,849	5,291
Income tax 2007	7,068	-	-	-	-	-	7,068
Income tax 2008	2,478	1,540	-	-	-	1,540	4,018
IS 2010	57	342	369	369	31	1,111	1,168
Total	**18,473**	**6,727**	**1,286**	**369**	**31**	**8,413**	**26,886**

At 31 December 2011 and 2012, accrued and unpaid interest on the above deferrals amounted to 6,547 thousand and 5,947 thousand euros, respectively.

Other tax issues

The tax inspection of Inmobiliaria Colonial, S.A. (absorbed company, Note 1) for 1994 to 1997 in relation to corporate income tax, VAT and personal income tax withholding ended in 2001. The Parent signed assessments in the amount of 296 thousand euros in agreement, while the portion signed under protest amounts to 12.6 million euros, and basically relates to discrepancies over exempt reinvested income in calculations of corporate income tax. In 2011 and 2012, the Parent Company was notified of the rulings on the appeals lodged in respect of its settlements in which the Supreme Court accepted the criteria followed by the Parent in terms of reinvestment exemptions.

At 31 December 2012, some SFL Group companies had tax inspections in progress for sundry taxes for immaterial amounts. The Group does not expect material liabilities to arise as a result of these inspections.

In 2011 the tax authorities initiated inspections at merged companies Dehesa de Valme, S.L. and Entrenúcleos Desarrollo Inmobiliario, S.L. with a focus on the 2006 and 2007 filings.

The Group has the last four years open for review by the tax inspection authorities for all applicable taxes in Spain and France. No additional material liability for the Group is expected to arise in the event of a new inspection.

20. Contingent assets and liabilities

Guarantees extended to third parties

On 24 November 2004, an agreement was signed between Inmobiliaria Colonial, S.A. and Prédica for the sale by Inmobiliaria Colonial of 9.6% of SFL to Prédica. At 31 December 2009, Prédica held 5.09% of SFL's share capital. Under the terms of the shareholders' agreement, the Parent undertook to purchase the shares from Prédica, at Prédica's request, in the event of a waiver by SFL of the SIIC regime, delisting SFL's shares from the Paris stock exchange, or in the event of a significant restructuring of SFL's business. The purchase price will be the prevailing market price.

For its part, the SFL subgroup has shareholders agreements with the following companies.

- Agreement with Prédica 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 checking accounts held by SFL in the common subsidiary, at a price agreed between the parties or at market value.

- Agreement with Prédica, a shareholder of the Parholding subgroup (Note 2.f), 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 checking 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 liability lawsuit 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 liability lawsuit against certain former directors in connection with the losses caused by the acquisition of shares of Riofisa in 2007.

- A corporate liability lawsuit against certain former directors in connection with the purchase of treasury shares between March and December 2007, both months inclusive.

Contingent liabilities

Since February 1999, the Parent has been awaiting a ruling on various suits brought in connection with a purchase agreement signed for the acquisition of the building located at Francisco Silvela, 42 in Madrid for 21.8 million euros (Note 17). Inmobiliaria Colonial S.A. has deposited a bank guarantee in court for the amount on which payment is pending. At the date of authorisation for issue of these consolidated financial statements, the definitive rulings on certain of the appeals presented were pending; however the legal advisors who are handling this matter believe that these appeals pose negligible risk to the Group.

There are demarcation proceedings affecting virtually all the estates acquired in the past by the Parent Company (Grupo Inmocaral, S.A. at that time) on a stretch of the coast of Almeria in respect of which legal proceedings are ongoing before the National Court, which has issued a sentence upholding the appeal lodged and declaring the Ministerial Order approving the demarcation null and void due to prescription of the case; however the decision is not yet final. Until the legal proceedings culminate in the form of a final decision, it is not possible to ascertain whether the land will ultimately remain within said demarcation. At 31 December 2012, this asset continued to be recognised under "Inventories" of discontinued operations at a recoverable amount of 7,510 thousand euros, which corresponds to the appraisal value provided by an independent third party expert.

The Parent Company began legal proceedings against the seller of a piece of land located in Roquetas de Mar (Almeria) seeking a sentence against the seller and damages in compensation for the surplus amount paid, determined to be 74,101 thousand euros, plus legal interest thereon, as the amount of housing finally zoned in the definitive urban development plan was substantially less than that assumed and stipulated. On 21 September 2012, both the Parent and the seller filed a notice of desistence regarding the actions filed in these proceedings. On 24 September 2012, the court handed down its decision, in which it deemed that all of the parties had desisted from the actions filed and it did not impose any legal fees. As a result of the agreement reached, the Parent is not required to pay the amount pending, i.e., 41,199 thousand euros, which was recognised as a reduction in the value of the asset, and the seller is not required to pay the Parent the amounts claimed by the latter, i.e., 74,101 thousand euros.

Other contingencies

On 21 December 2007, the Parent entered a promise to purchase agreement with Grupo Monteverde for the acquisition of the equity of Proyecto Kopérnico 2007, S.L. The promise to purchase agreement stipulated an upfront cash payment of 80,000 thousand euros (Note 10), which Inmobiliaria Colonial, S.A. paid in December 2007, and the assumption by the Parent of certain rights and obligations vis-à-vis Eurohypo and Banco Madrid in the amount of 340,000 thousand euros, so long as this did not imply a higher cash outlay by Inmobiliaria Colonial, S.A. As a result, the total deal size was 420,000 thousand euros, which was equivalent to the market value of the properties owned by Proyecto Kopérnico 2007, S.L.

When it came to signing the purchase agreement, the Parent understood that it was not possible to do so without making a higher outlay in keeping with the agreed terms, which it why it terminated the promise to purchase agreement. Grupo Monteverde did not accept the termination and initiated court proceedings against the Parent (at Madrid's Court of First Instance No. 13). On 5 June 2011, the court issued a ruling partially upholding the suit brought by Grupo Monteverde and condemning Inmobiliaria Colonial, S.A. to raise the shares in the company in question to public deed and to assume certain loans and guarantees, albeit only to the extent that so doing does not entail a higher outlay on the part of Inmobiliaria Colonial, S.A. Both parties have appealed the sentence before the Madrid appellate courts. The legal advisers handling this matter believe that the risk that the claim against the Parent will succeed is remote.

At 31 December 2011 and 2012, the Parent recognised an impairment loss on the full 80,000 thousand euro down payment, as a result of the fall in value of the assets owned by Proyecto Kopérnico 2007, S.L., based on the appraisal of an independent expert (Note 10).

On 20 January 2010, Monteverde Grupo Inmobiliario, S.L. initiated voluntary bankruptcy proceedings at the Madrid Mercantile Court. At the date of authorisation for issue of these consolidated financial statements, Monteverde Grupo Inmobiliario, S.L. was in liquidation.

21. 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 was 225,293 thousand and 229,206 thousand euros, respectively, in 2012 and 2011. The breakdown by geographic segment is as follows:

Rental business (Note 6)	Thousands of euros	
	2012	2011
Spain	75,091	77,607
International	150,202	151,599
	225,293	**229,206**

Revenue in 2011 and 2012 includes the effect of deferring grace periods and rent reset clauses throughout the term of the agreement between the start of the lease agreement until the first option for renewing it. These accruals increased 2012 revenue by 7,614 thousand euros (and 2011 revenue by 10,081 thousand euros).

At 31 December 2011 and 2012, the total sum of minimum future lease collections corresponding to the Group's non-cancellable operating leases, on the basis of then-prevailing agreements, and without considering the impact of community expenses or future inflation-linked rent increases or contractually agreed rent increases, was as follows:

Minimum operating lease payments collectible	Thousands of euros	
	Nominal amount	
	31 December 2012	31 December 2011
Within one year	218,739	206,367
Spain	**66,735**	**72,865**
International	**152,004**	**133,502**
Between two and five years	523,362	462,407
Spain	**130,226**	**125,366**
International	**393,136**	**337,041**
After five years	185,407	171,247
Spain	**39,207**	**51,867**
International	**146,200**	**119,380**
Total	927,507	840,021
Spain	**236,168**	**250,098**
International	**691,339**	**589,923**

b) Other operating income

This heading reflects mainly property services rendered. This source of income totalled 5,039 thousand and 3,419 thousand euros in 2012 and 2011, respectively.

c) Employee benefits expense

The breakdown of this heading in the accompanying consolidated statement of comprehensive income is as follows:

	Thousands of euros	
	2012	**2011**
Wages and salaries	14,125	15,152
Social security costs	4,665	4,676
Other personnel expenses	2,338	1,057
Termination benefits	10	498
Total	**21,137**	**21,383**
Spain	**7,838**	**7,614**
International	**13,299**	**13,769**

"Other personnel expenses" in the preceding table includes 1,921 thousand euros corresponding to the cost accrued during the year under the Parent's long-term bonus scheme and SFL's stock option plan detailed in Note 22.

Group headcount at 31 December 2011 and 2012, as well as the average headcount in 2012, employed in continuing operations, broken down by job category and gender:

	Employees at 31 December 2012		Average headcount, 2012	
	Men	**Women**	**Men**	**Women**
General and area managers	14	5	14	5
Technical graduates and middle managers	14	8	14	8
Clerical staff	33	81	33	81
Other	1	1	1	1
	62	**95**	**62**	**95**

Group headcount at 31 December 2011 and 2012, as well as the average headcount in 2012, employed in discontinued operations, broken down by job category and gender is as follows:

	Employees at 31 December 2012		Average headcount, 2012	
	Men	Women	Men	Women
General and area managers	22	6	22	6
Technical graduates and middle managers	22	12	22	12
Clerical staff	37	89	39	93
Other	2	3	3	2
	83	**110**	**86**	**113**

d) Other operating expenses

The breakdown of this heading in the accompanying consolidated statement of comprehensive income is as follows:

	Thousands of euros	
	2012	2011
External and other expenses	10,860	7,781
Taxes other than income tax	23,770	23,006
Total	**34,630**	**30,787**

e) Net change in impairment losses on trade receivables (Note 12)

The movement in "Impairment losses on trade receivables" included in "Trade and other receivables" in the consolidated statement of financial position for the year was as follows:

	Thousands of euros	
	2012	2011
Opening balance	158,288	157,701
Net change	2,386	587
Closing balance	**160,674**	**158,288**

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 provided in the following table:

	Thousands of euros	
	2012	2011
Goodwill impairment (Note 7)	(57,972)	(69,079)
Impairment of properties for own use (Note 8)	(1,951)	(8,182)
Derecognitions of replaced assets (Notes 9 and 25)	-	(41,325)
Impairment charges and net gains/(losses) on assets	**(59,923)**	**(118,586)**

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

The following table breaks down Group gains from asset sales (Notes 9 and 25):

	Thousands of euros					
	Sale price		Costs to sell		Net gain/(loss) on sale	
	2012	2011	2012	2011	2012	2011
Spain	20,300	25,675	24,066	24,635	(3,766)	1,040
International	-	50,000	-	42,331	-	7,669
Total	**20,300**	**75,675**	**24,066**	**66,966**	**(3,766)**	**8,709**

The breakdown of changes in the fair value of investment properties in 2011 and 2012 is as follows:

	Thousands of euros	
	2012	2011
Change in fair value by statement of financial position heading		
Investment property (Note 9)	293	105,090
Non-current assets held for sale - Investment property (Note 25)	18,800	(12,528)
Changes in the fair value of investment properties recognised in the statement of comprehensive income	**19,093**	**92,561**

g) Finance income and cost

The breakdown of net finance cost in 2011 and 2012 is as follows:

	Thousands of euros	
	2012	2011
Finance income:		
Revenue from equity investments	827	1,736
Other interest and similar income	1,907	5,386
Income from financial derivatives (Note 16)	11,490	16,673
Capitalised borrowing costs (Note 4.c)	12,471	9,248
Share of profit/(loss) of equity-accounted investments (Note 10)	20,967	18,703
Total finance income	**47,662**	**51,746**
Finance expense:		
Interest and similar expense	(137,566)	(134,411)
Debt arrangement expenses	(10,834)	(9,996)
Expense on financial derivatives (Note 16)	(27,655)	(26,209)
Total finance cost	**(176,055)**	**(170,616)**
Impairment of financial assets (Note 13)	(20,621)	(119)
Net finance income/(expense)	**(149,014)**	**(118,989)**

h) Related party transactions

The main related party transactions undertaken in 2011 and 2012 were as follows:

	Thousands of euros			
	2011		2012	
	Interest income (cost)	Building leases and other income	Interest income (cost)	Building leases and other income
The Royal Bank of Scotland Group, PLC	(13,637)	-	(13,420)	-
Crédit Agricole				
Commerzbank				
Banco Popular	-	-	(73)	-
Coral Partners	(10,826)	-	(9,067)	-
La Caixa	(1,803)	2,695	(2,654)	2,685
Gas Natural, SDG, S.A.	-	5,728	-	5,789
Total	**(53,047)**	**20,531**	**(51,428)**	**21,257**

In addition, some of the Parent's shareholders received dividends from the subsidiary SFL in 2011 and 2012.

i) Results by consolidated company

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

Company	Thousands of euros					
	Profit/(loss) for the year		Profit/(loss) attributable to non-controlling interests		Profit/(loss) attributable to owners of the Parent	
	2012	2011	2012	2011	2012	2011
Inmobiliaria Colonial, S.A.	(863,662)	(76,546)	-	-	(863,662)	(76,546)
Torre Marenostrum, S.A.	(3,482)	2,971	1,637	(1,331)	(1,845)	1,640
SFL subgroup	299,453	186,374	(148,086)	(94,069)	151,367	92,305
Riofisa subgroup	(168,325)	(532)	11,856	532	(156,469)	-
Desarrollos Urbanísticos Entrenúcleos 2009 S.L.U.	(44,506)	-	-	-	(44,506)	-
Asentia Project, S.L.U.	(204,407)	-	-	-	(204,407)	-
Abix Service, S.L.U.	(7,549)	(2,483)	-	-	(7,549)	(2,483)
Asentia Invest, S.L.	(1)	(1)	-	-	(1)	(1)
Asentia Gestión, S.L.U.	(1)	(1)	-	-	(1)	(1)
Inmocaral Servicios, S.A.U.	(1,932)	-	-	-	(1,932)	-
Total	**(994,412)**	**109,782**	**(134,593)**	**(94,868)**	**(1,129,005)**	**14,914**

22. Stock option plans

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

On 30 June 2011, the Parent set up a long-term share-based payment scheme for its chairman, CEO and the members of its executive committee. The plan can be settled only in Parent shares between 15 and 30 January 2015.

Accrual of bonuses under this scheme is dependent on delivery of certain predefined metrics which are summarised below:

– Growth in net asset value (NAV) of the Parent above the arithmetic average growth in NAV at certain listed real estate companies

– Growth in recurring consolidated cash flow of at least 20%

– Growth in Group subsidiary SFL's NAV per share above the arithmetic average growth in NAV at certain listed French real estate companies

– Growth in the Parent Company's NAV per share of 100%, and

– Delivery of the core components of the Business Plan

All the above metrics refer to the four-year period from 1 January 2011 to 1 January 2015. At 31 December 2012, the Parent had recognised an expense in this connection under "Employee benefits expense - Other personnel expenses" in the consolidated statement of comprehensive income in the amount of 1,233 thousand euros (Note 21.c). As this scheme is payable in Parent shares, the balancing entry for this expense in recognised directly in Group equity (Note 4.j).

The maximum number of shares to which the plan beneficiaries may be entitled is set forth in the table below:

	Maximum no. of shares
Juan José Brugera Calvo	400,000
Pedro Viñolas Serra	600,000
Executive Committee	780,000
Total	1,780,000

AThe approved scheme also entails a final adjustment such that the monetary value of the shares delivered is in no event more than 100% the Parent's average share price in April 2011, on the basis of the number of shares into which its share capital is divided following the share aggregation outlined in Note 14.

The scheme also envisages an adjustment mechanism, at the recommendation of the Nomination and Remuneration Committee, in the event the Company takes measures that affect the indicators (NAV, no. of shares outstanding, etc.).

The 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. This expected percentage is 50.00%. The resulting amount is charged on a straight-line basis over the grant period.

The fair value of the shares granted is determined by the quoted price at the allocation date.

At 31 December 2012, 1,233 thousand euros was recognised in the consolidated statement of comprehensive income relating to this bonus shares allocation plan (617 thousand euros at 31 December 2011).

The Parent acquired 1,710,000 shares in order to cover, as appropriate, the remuneration stemming from the plan (Note 14).

Stock option plan on SFL shares

At 31 December 2012, SFL had three stock option plans for executive directors and senior managers of the SFL subgroup. These options can be exercised at any time at the strike price. The strike price for each of the stock option plans was set by reference to the average share price over a specific period.

	Purchase options (*)		
Date of approval of stock option plan	21,03,2002	25,04,2003	13,03,2007
End of exercise period	20,03,2012	24,04,2013	12,03,2015
Strike price per share	27.22	25.88	60.11
Number of outstanding options at 31 December 2011	3,063	35,469	233,748
Shares subscribed for in 2012	3,063	35,469	-
Shares granted in 2012	-	-	4,670
Shares cancelled in 2012	-	-	4,083
Number of outstanding options at 31 December 2012	-	-	234,335

(*) SFL holds treasury shares in the amount needed to service these stock option plans (Note 14).

The SFL Group has not applied fair value criteria to these employee stock option plans since the impact is not material.

In addition, the subsidiary SFL has two bonus-share plans at 31 December, the breakdown of which is:

	Plan 1	Plan 2
Meeting date	09.05.2011	09.05.2011
Board of Directors date	16.02.2012	16.02.2012
Exercise date, starting on	31.12.2014	31.12.2013
% expected	70.83%	70.83%
Target number	32,988	13,678
Expected number	23,366	9,688
Amount per share	29.08 €	30.97 €
Estimated number at year end	23,366	9,688

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 expected percentage is 70.83% for the plans of the subsidiary SFL. The resulting amount is charged on a straight-line basis over the grant period.

The fair value of the shares allocated is determined by the quoted price at the grant date, adjusted by the discounted value of future dividends paid during the acquisition period applying the Capital Asset Pricing Model (CAPM).

At 31 December 2012, 329 thousand euros was recognised in the consolidated statement of comprehensive income relating to these bonus share plans.

23. Year-end balances with related parties and associates

At 31 December 2012, the Group had the following balances outstanding with related parties and associates:

	Thousands of euros				
Asset / (Liability) Company	**Syndicated loans (Note 15)**	**Lines of credit received (Note 15)**	**Other loans received (Note 15)**	**Interest on borrowings (Note 15)**	**Net derivatives (Note 16)**
Royal Bank of Scotland	(359,660)	-	(40,800)	(3,921)	(1,241)
Crédit Agricole	(358,577)	(17,653)	(13,417)	(3,831)	22
Commerzbank	(359,943)	-	-	(3,919)	9
Coral Partners	(349,170)	-	-	(3,711)	-
La Caixa	-	-	(47,054)	(100)	(2,430)
Banco Popular	-	-	-	-	1
Total	**(1,427,350)**	**(17,653)**	**(101,271)**	**(15,482)**	**(3,639)**

At 31 December 2011, the Group had the following balances outstanding with related parties and associates:

	Thousands of euros				
Asset / (Liability) Company	**Syndicated loans (Note 15)**	**Lines of credit received (Note 15)**	**Other loans received (Note 15)**	**Interest on borrowings (Note 15)**	**Net derivatives (Note 16)**
Royal Bank of Scotland	(401,266)	-	(40,800)	(108)	(680)
Crédit Agricole	(398,665)	(18,117)	(31,477)	(148)	(13,533)
Commerzbank	(365,099)	-	-	(99)	387
Coral Partners	(354,171)	-	-	(113)	-
La Caixa	-	-	(49,474)	(228)	(1,798)
Banco Popular	-	-	-	-	47
Total	**(1,519,201)**	**(18,117)**	**(121,751)**	**(696)**	**(15,577)**

24. Director and senior management compensation and other benefits

Compensation of Board members

In 2012, the Company recorded an expense of 2,340 thousand euros in relation to wages and salaries, incentives, attendance fees and bylaw-stipulated compensation earned by former and serving members of the Board of Directors. The details of this compensation are as follows:

	Thousands of euros		
	Inmobiliaria Colonial, S.A.	Other Group companies	Total
Compensation paid to executive directors:	**874**	**150**	**1,024**
Per diem allowances:	**303**	**108**	**411**
Per diem allowances: Directors	285	72	357
Additional per diems for the Chairman	18	36	54
Fixed compensation:	**905**	**-**	**905**
Director remuneration	500	-	500
Additional remuneration for the Executive Committee	175	-	175
Additional remuneration for the Audit and Control Committee	110	-	110
Additional remuneration for the Nomination and Remuneration Committee	120	-	120
Total	**2,082**	**258**	**2,340**
Remuneration for Executive Directors:	1,127	222	1,349

Director compensation accrued in 2011 was 2,347 thousand euros, with 853 thousand euros earned by executive directors, 449 thousand euros in per diems and 895 thousand euros in fixed remuneration, respectively.

At 31 December 2012, the Parent had a civil liability insurance policy covering all of its directors, executives and staff for a total of 561 thousand euros (864 thousand euros in 2011). In 2009, the Parent took out an insurance policy on the convertible bonds (Note 14) maturing in five years at a cost of 412 thousand euros.

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

At 31 December 2012, 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 Company's Board of Directors was made up of 10 men at both year-ends.

In 2012, pursuant to Article 229 of the Spanish Corporate Enterprises Act, the following members of the Parent's Board of Directors declared that they held equity interests in the share capital, or performed duties on the boards of directors, of the companies listed below, which engage in an activity that is identical, similar or complementary to the activity that constitutes the corporate purpose of Inmobiliaria Colonial, S.A. This list does not include companies owned by the directors, which in any event are not material in terms of the Group's business volume.

Director	Company	Post or duties	% shareholding
Juan José Brugera Clavero	Société Foncière Lyonnaise, S.A.	Chairman of the Board	0.00%
Pedro Viñolas Serra	Société Foncière Lyonnaise, S.A.	Director	0.00%
	SIIC de Paris, S.A.	Director	0.00%
	Asentia Project, S.L.U.	Representative of the Sole Director (Inmobiliaria Colonial, S.A.)	0.00%
	Asentia Invest, S.L.U.	Representative of the Sole Director (Inmobiliaria Colonial, S.A.)	0.00%
	Abix Service, S.L.U.	Representative of the Sole Director (Inmobiliaria Colonial, S.A.)	0.00%
José María Sagardoy Llonis	-	-	-
Manuel Fernando Menéndez López (*)	-	-	-
Carlos Gramunt Suárez	-	-	-
Jean-Luc Ransac	Foncière des Régions	-	0.00%
	Icade	-	0.00%
Alain Chetrit	-	-	-
Alberto Ibáñez González	-	-	-
Javier Faus Santasusana	-	-	-
Carlos Fernández-Lerga Garralda	Société Foncière Lyonnaise, S.A.	Director	0.00%
Javier Iglesias de Ussel Ordís	-	-	-

(*) On 4 October 2012, director Manuel Fernando Menéndez López tendered his resignation, and Carlos Gramunt Suárez was appointed as the new director.

In addition, the Directors have not carried out, nor are they currently carrying out, for their own account or for the account of others, any activities that are identical, similar or complementary to the activity that constitutes the corporate purpose of the Group companies, nor have they carried out during the year any transactions with Group companies outside the ordinary course of their business or on non-arm's-length terms.

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 Parent's senior management team was made up of two men and two women at both year ends.

In 2012 and 2011, the senior management team earned 977 thousand and 967 thousand euros, respectively, in wages and salaries.

At 31 December 2012 and 2011, one member of the senior management team had signed a Board-approved golden parachute clause, which is triggered in the event of termination under certain circumstances or change of control.

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

The movements under this heading in the years ended 31 December 2011 and 2012 were as follows:

	Thousands of euros		
	Investment property (Note 4.s1)	Assets of the Asentia Project subgroup (Note 4.s2)	Total
Balance at 31 December 2010	**183,955**	**1,739,613**	**1,923,568**
Additions	1,991	-	1,991
Retirements or decreases	(28,185)	(19,670)	(47,855)
Transfers	9	-	9
Impairment (Note 21.f)	(12,528)	-	(12,528)
Balance at 31 December 2011	**145,242**	**1,719,943**	**1,865,185**
Additions	337	-	337
Retirements or decreases	(22,826)	(483,001)	(505,827)
Transfers	245,311	-	245,311
Impairment (Note 21.f)	18,800	-	18,800
Balance at 31 December 2012	**386,864**	**1,236,942**	**1,623,806**

At 31 December 2012, the Asentia Project subgroup had taken out several mortgages in an aggregate amount of 557,904 thousand against various assets held for sale, with a net carrying amount of 581,578 thousand euros. At 31 December 2011, these mortgages totalled 573,090 thousand euros and were held against assets held for sale with a net carrying amount at year-end of 719,068 thousand euros.

Investment property

All the reclassified properties meet the requirements for classification as non-current assets held for sale.

<u>Changes in 2012</u>

In 2012 the main transactions carried out were as follows:

- The Parent sold six properties belonging to the Centro Norte complex (Madrid) for a total price of 20,300 thousand euros, giving rise to a loss on the disposal of 2,527 thousand euros.

- At 31 December 2012, the subsidiary SFL had signed an agreement to sell an asset named Hotel Mandarin Oriental for 290,000 thousand euros. At year end, the sale agreement was subject to compliance with certain conditions precedent. At 13 February 2013, the property was sold for the amount indicated above.

The property was transferred from “Investment property” to “Non-current assets held for sale” in the consolidated statement of financial position.

Changes in 2011

Retirements in 2011 related primarily to:

- Sale of part of the Centro Norte property (Madrid), giving rise to the derecognition of 23,633 thousand euros and recognition of an associated gain of 1,049 thousand euros (Note 21.f).

- Sale of a premise in Camelias (Madrid), triggering the derecognition of 616 thousand euros and recognition of an associated loss of 9 thousand euros (Note 21.f).

- The derecognition of certain assets replaced (Note 4.c) that were included in a refurbished property in the amount of 3,936 thousand euros (Note 21.e).

At 31 December 2012, the Group had taken out mortgages in an aggregate amount of 8,006 thousand euros against properties with a net carrying amount at year-end of 26,071 thousand euros. At 31 December 2011, the corresponding balances were 11,567 thousand and 29,819 thousand euros, respectively.

In addition, the Parent owns a property that is mortgaged as security for a third-party loan for the amount of 8,420 thousand euros.

Assets and associated liabilities held for sale in the group of companies headed by Group subsidiary Asentia Project

As indicated in Note 1, the Parent completed the subsidiarisation of its land and development business, as stipulated in the Framework Refinancing Agreement, structured so as to limit financial recourse to Inmobiliaria Colonial. Against this backdrop, and since the Parent plans to sell all the assets and liabilities of the Asentia Project subgroup en bloc and in a single transaction (Note 4.s), the Parent has presented all the assets and liabilities, current and non-current, in “Non-current assets held for sale” and “Liabilities relating to assets held for sale”.

The following table breaks down these two headings (“Non-current assets held for sale” and “Liabilities relating to assets held for sale”) in the accompanying consolidated statement of financial position, as well as “Loss from discontinued operations” as per the consolidated statement of comprehensive income corresponding to the subgroup headed by Group subsidiary Asentia Project.

Consolidated statement of financial position, breakdown of non-current assets held for sale and associated liabilities

ASSETS	31 December 2012	31 December 2011	LIABILITIES	31 December 2012	31 December 2011
Intangible assets	10	23			
P,P&E held under concession and concession work in progress	105,899	111,266			
Property, plant and equipment	305	437			
Investment property	42,578	52,399	Bank borrowings and other financial liabilities	964,384	944,147
Non-current financial assets	14,988	15,062	Non-current deferred tax liabilities	12,620	16,799
Non-current deferred tax assets	2,641	47,158	Non-current provisions	21,020	20,384
Other non-current assets	-	5	Other non-current liabilities	11,532	4,257
NON-CURRENT ASSETS	**166,421**	**226,350**	**NON-CURRENT LIABILITIES**	**1,009,556**	**985,587**
Inventories	1,004,262	1,388,675			
Trade and other receivables	18,241	25,628			
Current financial assets	2,223	14,404			
Tax receivables	1,723	2,605	Bank borrowings and other financial liabilities	560,140	541,868
Cash and cash equivalents	44,072	62,281	Trade payables	80,461	167,141
Non-current assets held for sale	-	-	Taxes payable	5,634	11,779
CURRENT ASSETS	**1,070,521**	**1,493,593**	**CURRENT LIABILITIES**	**646,235**	**720,788**
TOTAL ASSETS	**1,236,942**	**1,719,943**	**TOTAL EQUITY AND LIABILITIES**	**1,655,791**	**1,706,375**

The main changes in 2012 and 2011 to the various headings of the consolidated statement of financial position for the groups of assets and liabilities classified as held for sale are itemised below:

Property, plant and equipment held under concession

This heading includes assets held under concession arrangements and leased by the Riofisa subgroup. These assets generated rental income of 9,941 thousand and 9,302 thousand euros, respectively, in 2011 and 2012.

Investment property

This heading includes a number of properties leased by the Riofisa subgroup. These assets generated rental income of 1,027 thousand and 1,790 thousand euros, respectively, in 2012 and 2011.

Inventories

The movements under this heading in the years ended 31 December 2012 and 2011 were as follows:

	Thousands of euros						
	Undeveloped land and lots	Developments under construction	Construction in progress	Completed developments	Advances	Impairment	Total
Balance at 31 December 2010	**2,225,732**	**141,979**	**669**	**167,506**	**61,146**	**(1,263,296)**	**1,333,736**
Additions and provisions	5,772	-	-	-	-	(63,297)	**(57,525)**
Retirements	(6,810)	-	(669)	(27,370)	-	147,313	**112,464**
Transfers	80,502	(141,979)	-	22,007	(54,656)	94,126	**-**
Balance at 31 December 2011	**2,305,196**	**-**	**-**	**162,143**	**6,490**	**(1,085,154)**	**1,388,675**
Additions and provisions	9,734	-	-	-	-	(313,710)	**(303,976)**
Retirements	(43,253)	-	-	(44,609)	(2,125)	9,550	**(80,437)**
Transfers	(290)	-	-	-	290	-	**-**
Balance at 31 December 2012	**2,271,387**	**-**	**-**	**117,535**	**4,655**	**(1,389,314)**	**1,004,262**

In 2012, Group subsidiary Asentia Project sold 115 units (110 apartments and 5 premises), 157 parking spaces and 71 storage rooms, giving rise to the derecognition of 33,793 thousand euros in total. In addition, the Riofisa subgroup sold 38 units (business premises and offices) and 42 parking spaces, resulting in the derecognition of 5,199 thousand euros.

In 2011, Group subsidiary Asentia Project sold 49 units (48 apartments and 1 premises), 67 parking spaces and 42 storage rooms, giving rise to the derecognition of 13,593 thousand euros in total. In addition, the Riofisa subgroup sold 119 units (business premises and offices) and 133 parking spaces, resulting in the derecognition of 16,953 thousand euros.

At 31 December 2011, the Group had recognised an accumulated impairment loss of 1,085,154 thousand euros to reduce the carrying amount of certain sites, plots, completed developments and advances to their net realisable value, which was established in accordance with the criteria outlined in Note 4.s. At 31 December 2011, this balance included an additional impairment loss of 9,360 thousand euros recognised by the Parent's directors in order to correct the carrying amount of the investment in Asentia Project and to reflect the fact that this business was no longer considered a core business. This provision was fully reversed at 31 December 2012.

In addition, the retirements include the recognition of the agreement between the Parent and Salinas de Roquetas's seller (Note 20), in connection with the legal actions taken by both parties.

The breakdown of the accumulated impairment charge is itemised in the table below:

	Thousands of euros					
	31 December 2012			31 December 2011		
	Cost	Impairment charge	Net amount	Cost	Impairment charge	Net amount
Zoned land and lots	2,271,387	(1,366,693)	904,694	2,187,998	(1,011,271)	1,176,727
Developments under construction	-	-	-	203,135	(63,809)	139,326
Completed developments	117,534	(22,621)	94,913	80,572	(7,950)	72,622
Advances	4,655	-	4,655	2,125	(2,125)	-
Total	**2,393,576**	**(1,389,314)**	**1,004,262**	**2,473,830**	**(1,085,155)**	**1,388,675**

Bank borrowings and other financial liabilities

At 31 December 2012 and 2011, the breakdown by maturity of the bank borrowings and other financial liabilities presented under "Liabilities relating to assets held for sale" in the consolidated statement of financial position is as follows:

31 December 2012	Thousands of euros							
	Current	Non-current						Total
	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	
Bank borrowings:								
Lines of credit	753	38,844	29,483	-	-	-	68,327	69,080
Third parties	678	38,844	9,840	-	-	-	48,684	49,362
Related parties	75	-	19,643	-	-	-	19,643	19,718
Loans	69,087	189,777	102,480	149	158	159,441	452,005	521,092
Third parties	11,407	179,797	45,140	149	158	159,441	384,685	396,092
Related parties	57,680	9,980	57,340	-	-	-	67,320	125,000
Syndicated loans	-	896,855	-	-	-	-	896,855	896,855
Third parties	-	234,348	-	-	-	-	234,348	234,348
Related parties	-	662,507	-	-	-	-	662,507	662,507
Interest	3,802	7,600	8,171	-	-	-	15,771	19,573
Third parties	3,702	6,971	6,695	-	-	-	13,666	17,368
Related parties	100	629	1,476	-	-	-	2,105	2,205
Debt arrangement expenses	(78)	(78)	(78)	(78)	(78)	(18)	(330)	(408)
Total bank borrowings	**73,564**	**1,132,998**	**140,056**	**71**	**80**	**159,423**	**1,432,628**	**1,506,192**
Concession debt	310	276	276	276	277	3,785	4,890	5,200
Derivative financial instruments	3,476	-	-	-	-	9,656	9,656	13,132
Total other financial liabilities	**3,786**	**276**	**276**	**276**	**277**	**13,441**	**14,546**	**18,332**
Total at 31 December 2012	**77,350**	**1,133,274**	**140,332**	**347**	**357**	**172,864**	**1,447,174**	**1,524,524**

31 December 2011	Thousands of euros							
	Current	Non-current						Total
	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	
Bank borrowings:								
Lines of credit	12,640	-	49,422	-	-	-	49,422	62,062
Third parties	12,640	-	34,024	-	-	-	34,024	46,664
Related parties	-	-	15,398	-	-	-	15,398	15,398
Loans	70,321	11,566	237,276	45,208	218	157,388	451,656	521,977
Third parties	6,674	11,566	179,936	45,208	218	157,388	394,316	400,990
Related parties	63,647	-	57,340	-	-	-	57,340	120,987
Syndicated loans	-	-	857,329	-	-	-	857,329	857,329
Third parties	-	-	224,020	-	-	-	224,020	224,020
Related parties	-	-	633,309	-	-	-	633,309	633,309
Interest	1,934	1	4,231	4,223	-	4	8,459	10,393
Third parties	1,837	1	2,719	4,223	-	4	6,947	8,784
Related parties	97	-	1,512	-	-	-	-	1,609
Debt arrangement expenses	(228)	(78)	(78)	(78)	(78)	(97)	(409)	(637)
Total bank borrowings	**84,667**	**11,489**	**1,148,180**	**49,353**	**140**	**157,295**	**1,366,457**	**1,451,124**
Concession debt	620	620	620	620	620	10,468	12,948	13,568
Derivative financial instruments	1,643	-	-	-	-	8,607	8,607	10,250
Other	11,073	-	-	-	-	-	-	11,073
Total other financial liabilities	**13,336**	**620**	**620**	**620**	**620**	**19,075**	**21,555**	**34,891**
Total at 31 December 2011	**98,003**	**12,109**	**1,148,800**	**49,973**	**760**	**176,370**	**1,388,012**	**1,486,015**

In the above statement of financial position for discontinued activities, bank borrowings are classified as current or non-current using the criteria set out in Note 4.s2.

In 2010 Asentia Project increased capital by means of a contribution of the Parent's land and development business (Note 1), along with 840,895 thousand euros of bank borrowings, including 795,000 thousand euros of syndicated debt (Note 15).

The breakdown of the syndicated loan by tranche at 31 December 2012 and 2011 is provided in the next table:

	Thousands of euros			
	31 December 2012		31 December 2011	
	Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Asentia Project Syndicated Loan -				
Term Loan Facility	501,020	501,020	501,020	501,020
Convertible Facility	275,000	275,000	275,000	275,000
Interest included within the nominal value of the borrowings ("PIK")	-	60,031	-	81,309
Profit participation loan ("PIK")(*)	-	60,804	-	-
Total	**776,020**	**896,855**	**776,020**	**857,329**

(*) At 31 December 2012, in accordance with the loan contract, the interest accrued and capitalised since the conversion date, in the amount of 1,171 thousand euros, is included in the nominal value of the participating loan (Profit Participating Loan).

The syndicated loan of Asentia Project, S.L.U. falls due on 31 December 2014 and accrues capitalisable interest at the Euribor rate plus 400 basis points. The nominal value of the equity loan (préstamo participativo) (Profit Participation Loan) currently accrues 6.5% interest annually. In both cases the interest is included in the nominal value of the borrowing or equity loan.

The Asentia Project, S.L.U. syndicated loan comprises two tranches:

i. The Term Loan Facility for 520,000 thousand euros, secured by: (i) a mortgage commitment on the Asentia Project properties; (ii) collateral on Asentia Project's equity; and (iii) collateral on all of Riofisa's equity. At 31 December 2012, the outstanding balance of this tranche stood at 579,399 thousand euros, net of the amount repaid by Asentia Project since the loan was arranged (18,980 thousand euros), including capitalised interest in the amount of 78,379 thousand euros of which 39,458 thousand euros relates to the Profit Participating Loan. The amount drawn down under this tranche was 553,862 thousand euros at year-end 2011.

ii. The Convertible Facility for 275,000 thousand euros, secured by warrants convertible into shares of the Parent (Note 15) at the election of the lenders: (i) at maturity; (ii) in the event of breach of covenants; or (iii) as a result of the sale of a significant percentage of assets by Asentia Project should the cash proceeds fetched be insufficient to fully repay the Convertible Facility. The exercise price of the warrants is the higher of: i) 12 euros per share; ii) the par value of the Parent's shares; or iii) the arithmetic mean of the Company's share price at close of trading for the 30 trading sessions prior to notification of the warrant exercise. At 31 December 2012, the outstanding balance of this tranche, including interest capitalised, stood at 317,456 thousand euros, of which 21,346 thousand euros relates to the Profit Participating Loan. The amount drawn down under this tranche was 303,466 thousand euros at year-end 2011.

The Framework Refinancing Agreement envisions the conversion of the Convertible Facility and of interest capitalised within the nominal value of the debt under both tranches into participative loans in the event the Parent has to liquidate due to losses incurred. Borrowings will be converted into equity loans (préstamos participativos) in the amount necessary to re-establish a balanced capital structure at Asentia Project, S.L.U. In this instance, the warrants would cover: (i) the outstanding balance of the Convertible Facility; and (ii) the outstanding balance of the equity loan up to a maximum of 275,000 thousand euros.

This conversion is mandatory, and must be carried out no later than 45 days after the request date.

On 1 August 2012, the Sole Director of Asentia Project, S.L.U. requested that the lenders of the latter company convert 59,632 thousand euros to an equity loan in order to avoid the mandatory dissolution of Asentia Project no later than at the end of 2012. On 14 September 2012, the conversion was signed and filed with the Companies Registry.

At 31 December 2012, as a result of Asentia Project, S.L.U.'s losses in the second half of the year, this company has been forced to liquidate, in light of the aforementioned September 2012 equity loan and Additional Provision One of Royal Decree-Law 10/2008 of 12 December adopting financial measures to improve liquidity of small and medium-sized companies and other supplementary economic measures, for the sole purpose of ensuring that impairment losses on items of property, plant and equipment, investment property and inventories are not taken into account in determining losses for the possible reduction of capital and dissolution of a company as stipulated in articles 363 and 327 of the Corporate Enterprises Act.

In light of the dissolution of Asentia Project, S.L.U., the company's Sole Director is expected to ask the lenders to convert 171,151 thousand euros of the syndicated loan into an equity loan in order to re-establish equity for company law purposes. If this occurs, given that the aforementioned effects of Royal Decree-Law 10, 2008, of 12 December, were extended through Royal Decree-Law 3/2013, of 22 February, Asentia Project, S.L.U. is not expected to be in dissolution in the short term.

The syndicated loan sets forth that, beginning at certain leverage ratios (loan to value or net loan to value) ratios, the equity loans may, in turn, be converted, at the election of lenders, into shares of Asentia Project, S.L.U. In the event that the banks exercise this option, Inmobiliaria Colonial, S.A.'s stake in Asentia Project would be diluted, possibly causing this company to be removed from the Colonial Group's scope of consolidation.

The entire Convertible Facility has been treated as a liability for accounting purposes and no related equity instrument has been recognised. The terms of the loan (maturity and interest rate) are market terms, which it is why the total amount of the borrowings is considered to approximate that of a debt instrument.

At 31 December 2011 and 2012, Asentia Project had recognised 81,309 and 120,835 thousand euros of interest on the syndicated loan, respectively; this interest has been capitalised in full in the nominal value of the loan.

The syndicated loan of Asentia Project, S.L.U. requires compliance with certain financial ratios starting at 31 December 2010, as well as with other financial reporting conditions. The financial ratios, which are calculated based on the separate financial statements of Group subsidiary Asentia Project, S.L.U., are as follows:

Situation	Effect	Mandatory/Non-mandatory
If Asentia Project, S.L.U. is forced to liquidate in accordance with prevailing company law	Conversion of the interest and the Convertible Facility tranche into an equity loan in the amount necessary to avoid dissolution	Mandatory for the creditor banks
If LTV is > 100% or Net Loan to Value > 110%	Conversion of debt into company equity	Optional for the creditor banks
If the net Loan to Value ratio is > 95%	Conversion of a mortgage commitment into mortgage	Optional for the creditor banks
In the event that the equity loan is not settled in full at maturity or in the event of a sale of the assets of Asentia Project S.L.U.	Conversion of the warrants on the shares of Inmobiliaria Colonial, S.A. issued to secure the Convertible Facility	Optional for the creditor banks

Notes:

1. Loan to Value is defined as total debt divided by the Gross Asset Value of Asentia plus the Net Asset Value of Riofisa.

2. Net Loan to Value is defined as net total debt, without considering the equity loans, divided by the Gross Asset Value of Asentia plus the Net Asset Value of Riofisa.

3. Gross Asset Value is defined as the sum of the values of the properties in the operating segment contributed based on the appraisal dated 31 December 2009 for the first two years and on an updated appraisal thereafter.

4. The Net Asset Value of Riofisa is defined as the sum of the values of the properties of Riofisa based on the appraisal dated 31 December 2009 for the first two years and on an updated appraisal thereafter, less total Riofisa borrowings. This figure is then multiplied by Asentia's effective percentage shareholding in Riofisa.

This syndicated loan, which for Inmobiliaria Colonial, S.A. limited recourse through the warrants described above, can be called in before maturity in the event of a change of control at the Parent.

In 2011, Group company Riofisa reached an agreement with its banks for the restructuring of its debt, which has been extended to a long-term loan (36 months) repayable in a single maturity in December 2014. The agreement also contemplates, in respect of over 90% of the refinanced debt, the possibility of extending this maturity for another 24 months provided that certain milestones are reached, mainly delivery of urban planning related milestones.

The refinancing agreement is part of the Riofisa viability plan which has been certified by an independent expert appointed by the Companies Register.

The guarantees given under the Framework Refinancing Agreement for borrowings of Inmobiliaria Colonial, S.A. of 19 February 2010 (Note 15) are listed below:

– A second-lien mortgage on the property asset Serrano Galvache no. 26, Madrid and up to a maximum of 40,000 thousand euros given by the Parent to guarantee the mortgage loan of 45,000 thousand euros plus interest accrued and not paid of 6,695 thousand euros owed to Bankia by Asentia Project, the debt of 10,000 thousand euros of S.L.U., Riofisa, S.A.U. and the pledge on the rent of this building.

– If Asentia Project, S.L.U. obtains, as proceeds from the disposal of the mortgaged land called Los Naranjos, more than 45,000 thousand euros, the excess above this amount up to 10,000 thousand euros must be used to repay Riofisa, S.A.U.'s loan with Bankia.

– Subsidiary Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. has a loan of 150,000 thousand euros with BBVA taken out to finance the acquisition of land in Dos Hermanas (Seville). On 19 February 2010, certain agreements were reached with BBVA under Inmobiliaria Colonial, S.A.'s Framework Refinancing Agreement to expand the loan by up to 23,000 thousand euros to cover the urban development costs of UE1 and UE2, the finance charges related to the loan and the arrangement of a hedge on the full amount of the loan, entered into on 31 March 2010. At 31 December 2012, the total balance of the loan drawn down was 152,003 thousand euros. Collateral of the loan and derivative includes:

– First, second and third lien mortgages on the land of UE2 of the Dos Hermanas (Seville) partial plan (SEN-1).

– Pledge of 100% of the shares of subsidiary Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U.

– Pledge of the security deposits.

– Pledge on credit rights with the public administration for VAT related to costs borne on urban development work of UE1 and UE2.

– Pledge of amounts received from insurance with subsidiary Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. not earmarked to repair or replace damages.

The mortgage loan has a single maturity at 31 March 2018 and bears interest at the Euribor rate plus a spread of 175 basis points.

The financing agreement with BBVA includes a previously agreed business plan. If the planned disposals are not carried out (provided there are no undrawn amounts of the loan), the Parent would have to contribute certain amounts of funds to meet the requirements of the business plan. At 31 December 2012, if none of the planned sales materialized, 89,000 thousand euros would have been needed to comply with the business plan, once the cost reduction negotiated with the Council had been applied. The loan includes early repayment clauses: i) if there are considerable delays in the business plan that prevent it from being executed, ii) if there are delays in the business plan greater than three months for reasons attributable to Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U., Asentia Project, S.L.U or Inmobiliaria Colonial, S.A., iii) if Inmobiliaria Colonial, S.A. fails to meet its obligations to contribute funds if necessary, and iv) if there is a change of control.

In addition, Sociedad Asentia Project S.L.U. guarantees, with estates located in Llinars del Vallés, a credit facility for 10,000 thousand euros between subsidiary Riofisa, S.A.U. and Santander Central Hispano.

Cash and cash equivalents

At 31 December 2011 and 2012, cash and cash equivalents stood at 62,281 thousand and 44,072 thousand euros, of which 18,703 thousand and 19,957 thousand euros was pledged. "Cash and cash equivalents" includes a current account of subsidiary Asentia Project, S.L.U. with an unrestricted amount of 10,148 thousand euros. This amount is unrestricted unless the situations for early repayment established in the loan agreement arise, in which case the amount would be pledged in favour of the bank syndicate.

Trade payables and other non-current liabilities

The breakdown of this heading by item and maturity in the accompanying consolidated statements of financial position is as follows:

	Thousands of euros			
	31 December 2012		31 December 2011	
	Current	Non-current	Current	Non-current
Trade and other payables	64,394	-	91,746	-
Advances	13,187	-	14,194	-
Payables for the purchase of properties and land	2,880	-	4,320	-
Guarantees and deposits received	-	2,959	-	3,623
Other liabilities	-	8,573	56,881	634
Total	**80,461**	**11,532**	**167,141**	**4,257**

"Trade and other payables" mainly includes the amounts outstanding for trade purchases and related costs and the amounts of the prepayments received from customers before the sale of the properties or sites is recognised. It also includes the expense for planning pending on sites disposed of 2007 in the town of Dos Hermanas (Seville) as established in the purchase agreements for these sites. In this regard, on 20 December 2012, subsidiary Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. and the Town Council of Dos Hermanas signed a new urban planning agreement to over completion of the urban development work described above, adjusting the Group's outstanding obligations to the current market situation and the needs of the municipality. Under the new agreement, the outstanding obligations to be incurred by the Group have been reduced by 28,699 thousand euros and recognised under "Cost of sales" in discontinued operations in the consolidated statement of comprehensive income. At 31 December de 2012, costs to be incurred amounted to 14,800 thousand euros (51,516 thousand in euros en 2011). The Parent's directors believe actual costs incurred will not deviate significantly from the provision recognised.

“Other liabilities” included the 41,199 thousand euro balance pending payment at 31 December 2011 for the acquisition of the land located in Roquetas de Mar (Note 20).

In keeping with additional provision three, “Disclosure requirements,” of Law 15/2010, dated 5 July 2010, related to the amendment of Law 3/2004 regarding measures to combat late payment in commercial transactions, and as stipulated in the related resolution issued by Spain’s Accounting and Audit Institute (ICAC) on 29 December 2010, the following table provides the required disclosures regarding balances outstanding to suppliers and trade creditors at the reporting date for the Colonial Group’s Spanish companies that are classified as held for sale (Note 4.s):

	Thousands of euros					
	Payments made and payments outstanding at year-end					
	2012			2011		
	Amount	%	As a % of the total number of invoices	Amount	%	As a % of the total number of invoices
Paid within the legal deadline	19,038	66%	74%	45,021	74%	83%
Other	9,615	34%	26%	13,386	26%	17%
Total amounts paid in the year	**28,653**	**100%**	**100%**	**58,407**	**100%**	**100%**
Weighted average days past due – payments made after legal deadline	107			132		
Weighted average days past due – payments made by legal deadline	36			41		
Amounts past due at the reporting date by more than the legally permitted term (*)(**)	246			1,905		

(*) Law 15/2010, of 5 July, in transitory provision two, stipulates a gradual shortening in trade account payment terms to 60 days from 1 January 2013. The Law sets the payment deadline applicable for the period elapsing between publication of the legislation in Spain’s official gazette and 31 December 2011 at 85 days, falling to 75 days in 2012.

(**) Does not include outstanding accounts payable for the purchase of fixed assets.

Weighted average days past due was calculated by dividing the sum of the products of each of the payments to suppliers made during the year after the legally stipulated payment term and the number of days by which this deadline was surpassed (numerator) by the total amount of payments made during the year later than the legally stipulated payment term (denominator).

As regards payments made by the companies whose assets and liabilities are classified as held-for-sale after the legally permitted term, note that these are primarily payments relating to construction and refurbishment work that are paid within the payment terms stipulated in the contracts signed with the various contractors.

Non-current deferred tax assets

At 31 December 2012, all tax credits, in the amount of 44,517 thousand euros, have been written off.

Consolidated statement of comprehensive income breakdown for discontinued operations

	Thousands of euros	
	2012	2011
Revenue	38,305	35,749
Cost of sales (*)	(11,297)	(30,546)
Other income	616	2,096
Employee benefits expense	(4,512)	(5,605)
Other operating expenses	(12,562)	(15,253)
Depreciation and amortisation expense	(3,180)	(3,312)
Net change in provisions	(1,406)	(4,818)
Net gain/(loss) on sales of assets	-	5,164
Operating profit/(loss)	**5,964**	**(16,525)**
Change in fair value of investment property	(9,820)	(994)
Net gain/(loss) on change in value of assets and net impairment charges	(316,376)	79,234
Finance income	6,860	6,848
Finance expenses	(68,900)	(68,645)
Losses before taxes	**(382,272)**	**(82)**
Income tax expense (Note 19)	(36,898)	(451)
Consolidated net loss from continuing operations	**(419,170)**	**(533)**
Consolidated net profit/(loss) from discontinued operations	-	-
Consolidated net loss	**(419,170)**	**(533)**
- attributable to equity holders of the Parent (Note 5)	(407,314)	-
- attributable to non-controlling interests	(11,856)	(533)
Basic loss per share	**(1.811)**	**-**
- from discontinued operations (Note 5)	(1.811)	-
Diluted loss per share:	**(1.811)**	**-**
- from discontinued operations (Note 5)	(1.811)	-

(*) Includes the impact of the reduction of the Group's outstanding obligations stemming from the urban planning agreement signed with the Council of Dos Hermanas, for 28,699 thousand euros.

The breakdown of “Net gain/(loss) on change in value of assets and net impairment charges” is as follows:

	Thousands of euros	
	2012	2011
Impairment of assets held under concession	(2,666)	(575)
Impairment of inventories	(323,070)	(63,303)
Impairment of the investment in Asentia Project (Note 4.s)	9,360	143,112
Net gain/(loss) on change in value of assets and net impairment charges	**(316,376)**	**79,234**

The breakdown of net finance expense in 2011 and 2012 is as follows:

	Thousands of euros	
	2012	2011
Finance income:		
Revenue from equity investments	-	1
Other interest and similar income	443	1,770
Capitalised borrowing costs (Note 4.s2)	6,417	4,909
Income from financial derivatives	-	168
Total finance income	**6,860**	**6,848**
Finance expense:		
Interest and similar expense	(68,900)	(68,645)
Total finance cost	**(68,900)**	**(68,645)**
Net finance income/(expense)	**(62,040)**	**(61,797)**

26. Auditors' fees

Fees for auditing services in 2011 and 2012 provided to the various companies composing the Colonial Group by the principal auditor and other auditors are set forth below:

	Thousands of euros	
	Principle auditor	Other auditors
2011 -		
Audit services	900	354
Audit-related services	8	-
Non-audit services	154	218
Total 2011	**1,062**	**573**
2012 -		
Audit services	871	355
Audit-related services	15	-
Non-audit services	201	75
Total 2012	**1,087**	**430**

No fees were invoiced for tax advisory services.

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.

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 (see Note 2). 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 I

Fully consolidated companies

At 31 December 2011 and 2012, fully consolidated subsidiaries and related information are as follows:

	% shareholding					
	Direct		Indirect		Shareholder	Line of business
	31.12.11	31.12.12	31.12.11	31.12.12		
Torre Marenostrum, S.L. Avda. Diagonal 532 08006 Barcelona (Spain)	55%	55%	-	-		Real estate
Asentia Project, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Desarrollos Urbanísticos Entrenúcleos 2009. S,L,U, Avda, Diagonal 532 08006 Barcelona (Spain)	-	-	100%	100%	Asentia Project, S.L.U.	Real estate
Asentia Invest, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	-	-	-	-		Real estate
Asentia Gestión, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Abix Service, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Inmocaral Servicios, S.A.U. Paseo de la Castellana, 52 Madrid (Spain)	-	-	100%	100%	Asentia Project, S.L.U.	Real estate
Société Foncière Lyonnaise, S.A. (SFL) 40, rue Washington 75008 Paris (France)	53.45%	53.45%	-	-		Real estate
Segpim, S.A. 40, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Sales of real estate and rendering of services
LocaParis, SAS 40, rue Washington 75008 Paris (France)	-	-	100%	100%	Segpim	Sales of real estate and rendering of services
Maud, SAS (antigua SB1, SAS) 40, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SB2, SAS 40, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SB3, SAS 40, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SCI SB3 40, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate

	% shareholding					
	Direct		Indirect		Shareholder	Line of business
	31.12.11	31.12.12	31.12.11	31.12.12		
SCI Washington 40, rue Washington 75008 Paris (France)	-	-	66%	66%	SFL	Real estate
SCI 103 Grenelle 40, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SCI Paul Cézanne 40, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
Riofisa, S.A.U. Avda. Diagonal 532 08006 Barcelona (Spain)	-	-	100%	100%	Asentia Project, S.L.U.	Real estate
Riofisa Sur, S.L. Paseo de la Castellana 52, 3ª planta 28046 Madrid (Spain)	-	-	50.10%	50.10%	Riofisa, S.A.U.	Real estate
Necsa, Nuevos Espacios Comerciales,S.A. Paseo de la Castellana 52, 3ª planta 28046 Madrid (Spain)	-	-	60%	60%	Riofisa, S.A.U.	Real estate
Nuevas Estaciones del Ferrocarril, S.A. Paseo de la Castellana 52, 3ª planta 28046 Madrid (Spain)	-	-	60%	60%	Riofisa, S.A.U.	Real estate
Riofisa Espacios Inmobiliarios, S.L.U. Paseo de la Castellana 52, 3ª planta 28046 Madrid (Spain)	-	-	100%	100%	Riofisa, S.A.U.	Real estate
Riofisa Internacional, S.L. Paseo de la Castellana 52, 3ª planta 28046 Madrid (Spain)	-	-	99.99%	99.99%	Riofisa, S.A.U.	Real estate
			0.01%	0.01%	Riofisa Desarrollos Internacionales, S.L.	
Riofisa Sema, S.L. Paseo de la Castellana 52, 3ª planta 28046 Madrid (Spain)	-	-	100%	100%	Riofisa Internacional, S.L. Riofisa Desarrollos Internacionales, S.L.	Real estate
Riofisa Desarrollos Internacionales,S.L. Paseo de la Castellana 52, 3ª planta 28046 Madrid (Spain)	-	-	-	-	Riofisa Sema, S.L.	Real estate
			100%	100%	Riofisa Internacional, S.L.	
Riofisa Real Estate, S.R.L. Sector 1, World Trade Centre Bucharest, Piata Montreal, Nr 10 Bucarest (Romania)	-	-	100%	100%	Riofisa Internacional, S.L.	Real estate
Riofisa Bulgaria Eood “Sredets” region, 2a Saborna Str.Floor 3 Sofia (Bulgaria)	-	-	100%	100%	Riofisa Internacional, S.L.	Real estate
Riofisa Developments Eood “Sredets” region, 2a Saborna Str. Floor 3. Sofia (Bulgaria)	-	-	100%	100%	Riofisa Internacional, S.L.	Real estate
Parque Aqua Mágica, S.L. C/ General Riera 3 07003 Palma de Mallorca (Spain)	-	-	69.97%	69.97%	Riofisa, S.A.U. / Asentia Project S.L.U.	Real estate
Riofisa Dehesa, S.L. Paseo de la Castellana 52, 3ª planta 28046 Madrid (Spain)	-	-	69.30%	69.30%	Riofisa, S.A.U.	Real estate

	% shareholding					
	Direct		Indirect		Shareholder	Line of business
	31.12.11	31.12.12	31.12.11	31.12.12		
Riofisa Este, S.L. (formerly Riofisa Procam, S.L.) Paseo de la Castellana 52, 3ª planta 28046 Madrid (Spain)	-	-	100%	100%	Riofisa, S.A.U.	Real estate
SC Parchamps 40, rue Washington 75008 Paris (France)	-	-	50%	50%	SAS Parholding	Real estate
SC Pargal 40, rue Washington 75008 Paris (France)	-	-	50%	50%	SAS Parholding	Real estate
SC Parhaus 40, rue Washington 75008 Paris (France)	-	-	50%	50%	SAS Parholding	Real estate
SC Parchar 40, rue Washington 75008 Paris (France)	-	-	50%	Fusionada	SAS Parholding	Real estate
SAS Parholding 40, rue Washington 75008 Paris (France)	-	-	50%	50%	SFL	Holding company

At 31 December 2011 and 2012, the proportionately consolidated subsidiaries and related information are as follows:

	% participación					
	Direct		Indirect		Shareholder	Line of business
	31.12.11	31.12.12	31.12.11	31.12.12		
UTE La Dehesa (Vias y Construcciones, S.A.) Av. Luis de Morales, 32 41018 Seville (Spain)	-	-	50%	50%	Inmocaral Servicios, S.A.	Construction
Goldale Real Estate, S.R.L 24-26 Nordului Road, 5th Floor Room 2 Bucharest (Romania)	-	-	50%	50%	Riofisa Internacional, S.L.	Real estate
Masterange Imobiliare SRL 24-26 Nordului Road, 5th Floor Room 14, District 1 Bucharest (Romania)	-	-	50%	50%	Riofisa Internacional, S.L.	Real estate

At 31 December 2011 and 2012, the companies consolidated using the equity method and related information are as follows:

	% participación					
	Direct		Indirect		Shareholder	Line of business
	31.12.11	31.12.12	31.12.11	31.12.12		
SIIC de Paris, S.A. 24, Place Vendôme 75001 Paris (France)	-	-	29.99%	29.63%	SFL	Real estate

At 31 December 2011 and 2012, 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, and Necsa y Nefsa, which were audited by PriceWaterhouseCoopers.

APPENDIX II

Information on companies with joint ventures included in the scope of consolidation

The financial information for joint ventures at 31 December 2012 and the year then ended:

	Thousands of euros					
	% shareholding	Income and expenses	Non-current assets	Current assets	Non-current liabilities-	Current Liabilities-
Goldale Real Estate, S.R.L	50%	(8,287)	-	9,959	-	74
Masterange Imobiliare S.R.L.	50%	(6,395)	-	7,496	-	17

The financial information for joint ventures at 31 December 2011 and the year then ended:

	Thousands of euros					
	% shareholding	Income and expenses	Non-current assets	Current assets	Non-current liabilities-	Current Liabilities-
SAS Parholding	50%	(6)	22,675	88,115	87,996	825
SC Parchamps	50%	2,955	34,900	2,835	16,709	19,145
SC Pargal	50%	8,372	107,213	9,996	61,483	55,195
SC Parhaus	50%	7,107	86,522	2,817	159	92,602
SC Parchar	50%	127	5,971	138	2,223	4,367
Goldale Real Estate, S.R.L	50%	(1,484)	-	16,997	820	23,429
Masterange Imobiliare S.R.L.	50%	(1,341)	-	12,164	-	20,559

Inmobiliaria Colonial, S.A. and subsidiaries

Consolidated Management Report fo the year ended

31 December 2012

1. Business performance and Group situation

Macroeconomic environment

Global economy

Now ended, 2012 was marked by the upheaval surrounding the eurozone crisis and the worrisome slowdown in global economic growth. The economic and monetary policies adopted are beginning to bear fruit, but there is still a long road ahead. The calm restored in the international financial markets and economic climate has allowed confidence to be shored up and short-term indicators to improve gradually. As 2013 begins, we expect these signs to consolidate.

If anything, the monetary environment in 2012 was characterised by expansive economic policies around the world. Authorities' commitment to provide a stable economic and financial framework has prevailed in the decisions of most central banks. The main results can be seen in the relative stabilisation in eurozone sovereign debt markets and the containment of the downturn in the main economies. Nevertheless, with prices holding steady and economic activity still extremely soft, monetary conditions in the eurozone and the US eased further in December.

In the US, the Federal Reserve loosened its monetary policy further. At its first meeting after president Barack Obama's re-election, the Fed announced unprecedented decisions. For the first time ever, it explicitly linked interest rate tightening to unemployment and inflation. Specifically, the Fed promised to keep interest rates exceptionally low (at the current 0%-0.25% levels) as long as unemployment remains above 6.5% and expected inflation for the coming 1 to 2 years is not, on average, more than one half of a percentage point above the long-term target of 2%. With these policies, the Fed hopes to improve the communication strategy of its monetary policy so as to maximise their effectiveness.

Eurozone

The euro's early years coincided with a long period of prosperity for Europe. This led observers to think that many of the imbalances among Member States, in particular in the so-called "peripheral" countries, could be corrected gradually. However, the financial crisis that broke out in 2008 quickly made it clear that this might not be the case. Authorities were forced to go back to the long-forgotten agenda of structural reform and implement it as quickly as possible, while attempts were made to clean up public finance and deleveraging in the private sector was underway. In the height of the crisis, when confidence in peripheral countries was at its lowest, making all the adjustments at the same time seemed far-fetched. Nevertheless, we now have the first convincing signs that the re-balancing process is underway.

Where the most progress has been made is on the external front. The current account deficit of the periphery, which reached 6.7% of GDP in 2008, dropped to 1.7% in 2012, according to forecasts of the European Commission (EC). This was partly the result of waning domestic demand in these countries, but also partly the result of improvements in price competitiveness. In addition, this correction is being carried out without the core countries having promoted policies aimed at boosting domestic demand, which would have made the process more tolerable. Internal imbalances are also being corrected, but this is taking longer due to economic weakness in the periphery. Their fiscal deficit, which stood at 8.8% of GDP in 2009, declined to 5.2% in 2012, according to EC forecasts. This is just 2.2 percentage points above the limits set in the Maastricht criteria. To carry out this adjustment, it has also been necessary to deal with the strong increase in borrowing costs stemming, in part, from financial stress. While in most core countries debt service costs exceed 4% of GDP, in the core countries it stands at around 2%. The deleveraging process in the peripheral countries also appears to be well on track, but the pending adjustment in this area is still considerable and is likely to limit these countries' ability to recover over the medium term. In this sense, it would appear that the actions of the core countries are contradictory. While levels of indebtedness in core countries are substantially below those of the peripheral countries, these are also carrying out a deleveraging process.

In addition to the structural problems of the peripheral countries, the crisis has also revealed that the institutional pillars on which the common European project was built were full of cracks. In order to prop up these structures, the eurozone must be given the necessary instruments so that, moving forward, there can be greater control over macroeconomic, fiscal and financial system imbalances. That said, as for the financial system, major agreements have been reached, such as the transfer to the European Central Bank of the oversight functions of European banks. On the macroeconomic and fiscal fronts, progress has been quite modest. In addition, these agreements cannot be implemented without first improving the democratic legitimacy of European institutions, given that doing so will require the relinquishment of important degrees of sovereignty. The process is extremely complex, but exceptional times require exceptional decisions.

Spain

Although Spain remains in recession, the pace of contraction may have levelled off. Gross domestic product (GDP) contracted 0.3% year-on-year in the third quarter of 2012. This was smaller than expected owing, above all, to consumers' having brought forward purchases because of the scheduled VAT hike and to robust exports. The VAT effect, given its temporary nature, will not help in the fourth quarter, while exports will be hard pressed to maintain the pace of growth seen in the third quarter.

Leading indicators for the fourth quarter corresponding to October and November showed that economic activity continued to contract in the fourth quarter. Nevertheless, there are no signs for the time begin that the recession is becoming substantially worse. The industrial production index fell a seasonally-adjusted 3.3% year-on-year in October 2012, an improvement of more than four percentage points compared to September. The reason for this lower rate of decline may be the boost from exports, which, for now, are the only growth driver for the industrial sector.

France

Turning to France, noteworthy is the sharp five-tenths of a percent year-on-year drop in the CPI, to 1.6%. At the same time unit labour costs declined 1.7%, also significantly undermining household purchasing power potentially weighing negatively on consumption capacity.

Market situation

Rental market

Barcelona

In the Barcelona office market, transaction volume fell 35% in the fourth quarter declined to 40,300m². This put cumulative volume at 199,000m² for 2012, a 26% decline from 2011. Regarding location, the highest levels of rental transactions were executed in the city centre and new business districts. Sixty-three per cent of the floor area contracted is concentrated in these two areas.

The largest transactions were in the CBD in Passeig de Gràcia / Diagonal. This seems to be where companies currently find good properties at highly competitive rents, with no need to move outside the city. The prime location is the place where the greatest number of transactions take place.

The average vacancy rate in Barcelona stands at 13.8% for the entire market and 9.4% in the prime location. Looking ahead to 2013, 62,000m² of new speculative supply centred on 5 projects is expected to come on to the market. This amount of future supply is considered somewhat small.

Prime office rents remained stable in the fourth quarter, with a maximum rent of €18.00/m²/month. In the remaining areas, rents continue to trend downward. In Barcelona, rents declined in 2012 on average by 6.45%. By contrast, on Passeig de Gràcia / Diagonal the decline was less than 3%. The city outskirts suffered the most, with rents plunging 10.40%. Rents look set to continue falling slightly in 2013, although this will depend on macroeconomic variables.

Madrid

Space let in the fourth quarter of 2012 was slightly higher than in previous quarters, at over 73,000m². However, compared to the fourth quarters of previous years, the last time levels were similar was in the mid-1990s. The lack of transactions larger than 5,000m² in 2012 limited the total volume of space let, although large volume contracts could be signed in 2013, driving a better performance. While indicators for previous quarters already confirmed dominance of the CBD, 60% of the demand for office space in the fourth quarter was in the CBD.

The vacancy rate in the fourth quarter was 12.1%, up 6.3% from the third. In the prime location it was 9.1%. Less rental space and vacancies, coupled with newly completed and delivered rental properties, were behind the increased availability in all areas.

For the first time since 2009, prime rents in Madrid were steady, at €24.25m²/month, owing to the decrease in quality products in the prime location. Maximum rents in other areas continued to decline gradually given the dearth of transactions, even though high quality products were available. The prime location was the most stable, and by the end of 2013 a longer-lasting stabilization is expected.

According to some brokers, the Madrid office market may have bottomed out in 2012 owing to Spain's struggles amid the euro crisis. 2013 should be a year of transition, in which the situation could begin to improve.

Paris

Office lets in Paris in 2012 totalled 2,380,000m², just 3% less than in 2011. Meanwhile, cumulative lets in the golden triangle amounted to 344,903m².

For the third consecutive year, the vacancy rate remained stable, with immediate supply of 3,585,000m², or 6.8% for the Paris region, compared to 340,000m² or 5% in the CBD. A total of 70 deals of more than 5,000m² were carried out in 2012, including 12 transactions of more than 20,000m², for more than 1,100,000m², equivalent to 47% of the total floor space let in the year.

Prime rental prices in the CBD fell slightly at the end of the year, to €770/m²/year, but were still higher than in 2011. This decline stems from the smaller number of transactions above €800/m²/year.

The state of the French economy could mean that rents in the Paris market in general could come under pressure, but rents in the CBD should remain high given the lack of supply of prime assets. Consulting firms and law offices continue to compete for new, high-quality properties in the area, and are willing to pay high rents.

Sources: December 2012 reports by Jones Lang Lasalle, Cushman & Wakefield, CBRE, Aguirre Newman and La Caixa.

Highlights

Introduction

Against the macroeconomic and industry backdrop described above, the highlights of the Group's results are:

– Revenue totalled 225.3 million euros, and was generated by the Group's recurring business, property rentals. The Group also earned 20.3 million euros on the disposal of investment assets.

– Operating profit before net valuation gains, depreciation and amortisation charges, provisions and interest was 191.8 million euros, including the share of the profit of equity-accounted SIIC de Paris of 21.0 million euros.

– According to the independent appraisals by CB Richard Ellis, Jones Lang Lasalle and Atis Real at year-end, the Group's investment property revalued by 19.1 million euros in the year. This revaluation masks an increase in valuations in France (236.3 million euros) and a decline in valuations in Spain (-217.2 million euros) and reflects a net 0.8% increase in value in like-for-like terms of rental assets in operation with respect to December 2011 (-12.8% in Spain and +7.6% in France).

– The Group capitalised 12.5 million euros of borrowing costs related to investment property in progress.

– Net finance expense was 149.0 million euros, including 12.5 million euros in capitalised finance costs and 21.0 million euros in profit attributable to the investment in SIIC de Paris.

– In addition, valuation adjustments were recognised as result of the non-core assets disposal plan established within the framework of the Group's debt restructuring agreement, largely affecting its investments in Colren, FCC and Riofisa. These amounted to -419.2 million euros and are recognised under "Profit/(loss) from discontinued operations".

– After subtracting profit attributable to non-controlling interests (134.6 million euros), loss after tax attributable to equity holders of the parent amounted to 1,129.0 million euros.

– The appraisal of assets in the second half of 2012 stood at 6,694 million euros, of which 5,535 thousand euros related to the Group's recurring business, the rental business, including SFL's 29.99% equity interest in SIIC de Paris. The appraisal of the rental properties implies a 4.3% year-on-year gain in the total value of these assets on a like-for-like basis. The remaining 1,159 million euros corresponds to the Group's residential and commercial premises business, classified as a discontinued operation, implying a 22.7% decline in value on 2011 in like-for-like terms.

Highlights by business area are as follows:

Rental business

– Rental revenue amounted to 225.3 million euros, of which 150.2 million euros, or 67%, related to the contribution by the Group's French subsidiary, SFL, while the remaining 75.1 million euros was generated in Spain.

– The bulk of revenue came from office buildings (81%) and shopping centres (17%). By geographical area, the main sources of revenue were spread across the Colonial Group's three largest markets (Paris 67%, Madrid 19% and Barcelona 14%).

– At the end of 2012, the Group had a portfolio of rental properties (currently rented and under development) of approximately 1.1 million m², excluding Riofisa, which has been classified as an asset held for sale. The bulk of the portfolio (82%) was leased at 31 December 2012. The overall occupancy rate stood at 83.8% in December 2012.

– The commercial effort undertaken by the Group in 2012 led to new lettings (additions and renewals) representing a leasable area of over 118,000m² (68% in Spain and 32% in France).

– At the end of 2012, the Colonial Group had a portfolio of rental properties under development consisting of five office buildings. This excludes Riofisa, which is classified as an asset held for sale. In all, these properties encompass a surface area of over 97,000m². Lettings on these properties will start between 2013 and 2015.

Residential business

– Revenue recognised on housing sales totalled 27.3 million euros in 2012. No land sales were concluded in 2012.

– Colonial forged ahead with its strategy of gradually lowering its exposure to the residential business: in 2012 the Group cut its stock of unsold homes substantially compared to 2011. The Company currently has 94 finished units (vs. 204 at year-end 2011). Of these a pre-sale contact has been signed for one house. Sales of the remaining 93 are underway. Therefore, at year-end 2012, el stock of housing pending delivery stood at 0.1 million euros, equivalent to one house.

– Commercial sales of homes and business premises in 2012 totalled 23.0 million euros.

– The land bank stood at 1.7 million m² at the end of 2012. Fifty-three percent of this land is located in Andalusia and the remaining 47% between Madrid and the eastern part of the peninsula (Catalonia/Levante/Palma).

2. Outlook

Rental business

In Spain, rents are expected to continue to decline somewhat in 2013, although this will depend on macroeconomic variables.

According to some brokers, the Madrid office market may have bottomed out in 2012 owing to Spain's struggles amid the euro crisis. 2013 should be a year of transition, in which the situation could begin to improve.

The state of the French economy could mean that rents in the Paris market in general could come under pressure, but rents in the CBD should remain high given the lack of supply of prime assets. Consulting firms and law offices continue to compete for new, high-quality properties in the area, and are willing to pay high rents.

3. Risk management policies and objectives

See section D.1 of the 2012 Annual Corporate Governance Report.

4. Research and development

As a result of the inherent characteristics of the Group, its business activities and structure, it does not usually carry out research and development activities.

5. Treasury shares

In 2012, Inmobiliaria Colonial, S.A. traded in treasury shares, leaving it with a net balance at 31 December 2012 of 1,710,000 shares, with a par value of 1,710,000 euros, representing 0.76% of the Parent Company's share capital.

6. Events after the end of the reporting period

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

7. Other items

In accordance with the provisions of Article 116 bis of Securities Market Law 24 of 28 July 1988, introduced by Law 6 of 12 April 2007, Inmobiliaria Colonial, S.A. ("Colonial" or "the Parent") discloses the following information:

a) The capital structure, including securities not listed on a regulated EU market, indicating, as appropriate, the different classes of shares and, for each class of share, the rights and obligations conferred and the percentage of share capital they represent

See section A.1 of the 2012 Annual Corporate Governance Report.

b) Restrictions on the transfer of securities

See section 2 of the Appendix of the 2012 Annual Corporate Governance Report.

c) Significant direct and indirect shareholdings

See section A.2 of the 2012 Annual Corporate Governance Report.

d) Limitations on voting rights

See section A.10 of the 2012 Annual Corporate Governance Report.

e) Agreements between shareholders

See section A.6 of the 2012 Annual Corporate Governance Report.

f) Rules governing the appointment and removal of directors and amendments to the Company's bylaws

Appointment and removal of members of the Board of Directors

See sections B.1.19 and B.1.20 of the 2012 Annual Corporate Governance Report.

Modification of the Parent's bylaws

See section 3 of the Appendix to the 2012 Annual Corporate Governance Report.

g) Powers granted to members of the Board of Directors and, in particular, authorisation to issue or redeem shares

Powers granted to members of the Board of Directors

The Board of Directors, acting as a single body, is responsible for the management, administration and representation of the Company both in and out of court. The Board's main duties are to supervise and control the Company's general management and to decide on fundamental issues affecting the Company.

Board resolutions are carried out by the member or members designated by the Board or, if no directors are designated, by the Chairman or other party authorised to carry out company resolutions.

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

At a meeting on 15 October 2008, the Board of Directors of the Company agreed to jointly grant all legal and statutory powers to the CEO of the Company, except for those matters which may not be delegated under prevailing legislation. This resolution was ratified on 28 November 2008 by the Board of Directors once his appointment as director had been ratified at the Extraordinary General Meeting held on 21 November 2008.

Power to issue and buy back shares

See section A.9 of the 2012 Annual Corporate Governance Report.

h) Significant agreements entered into by the Company that will come into force, be modified or terminate in the event of a change of control of the Company following a takeover bid as well as their implications, except where disclosure could pose a serious risk to the Company. This exception shall not apply when the Company is legally required to disclose such information

See section 4 of the Appendix to the 2012 Annual Corporate Governance Report.

i) Agreements between the Company and its Board members or employees providing for compensation upon resignation or unfair dismissal or if their employment relationship terminates due to a takeover bid

See sections B.1.13 and B.1.16 of the 2012 Annual Corporate Governance Report and section 5 of the accompanying Appendix.

8. Annual Corporate Governance Report

For the purposes of section 526 of the Spanish Corporate Enterprises Act, it is hereby noted that the Annual Corporate Governance Report for 2012 forms part of this Consolidated Management Report.

INMOBILIARIA COLONIAL, S.A.

ANNUAL CORPORATE GOVERNANCE REPORT

A OWNERSHIP STRUCTURE

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

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
16/01/2012	225,918,383.00	225,918,383	225,918,383

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

NO

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

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
HM TREASURY	0	45,164,454	19.991
THE ROYAL BANK OF SCOTLAND PLC	45,152,974	0	19.986
COMMERZBANK, A.G.	14,830	45,131,483	19.983
EUROHYPO AG, SUCURSAL EN ESPAÑA	45,131,483	0	19.977
CREDIT AGRICOLE CORPORATE INVESTMENT BANK, París HEAD OFFICE	44,466,707	0	19.683
CREDIT AGRICOLE, S.A.	0	44,466,707	19.683
CORAL PARTNERS (LUX) S.A.R.L.	33,285,211	0	14.733
CAJA DE AHORROS Y PENSIONES DE BARCELONA	0	13,074,273	5.787
CAIXAHOLDING, S.A.U.	11,497,945	0	5.089
THE GOLDMAN SACHS GROUP, INC.	0	11,170,028	4.944
KRETA IMMOBILIEN GMBH	11,088,630	0	4.908
BANCO POPULAR ESPAÑOL, S.A.	10,549,143	0	4.669

Name or corporate name of indirect shareholder	Through: name or corporate name of direct shareholder	Number of direct voting rights	% of total voting rights
COMMERZBANK, A.G.	EUROHYPO AG, SUCURSAL EN ESPAÑA	45,131,483	19.977
CREDIT AGRICOLE, S.A.	CREDIT AGRICOLE CORPORATE INVESTMENT BANK, París HEAD OFFICE	44,466,707	19.683
CAJA DE AHORROS Y PENSIONES DE BARCELONA	CAIXAHOLDING, S.A.U.	11,497,316	5.089
THE GOLDMAN SACHS GROUP, INC.	KRETA IMMOBILIEN GMBH	11,088,630	4.908
THE ROYAL BANK OF SCOTLAND GROUP, PLC	THE ROYAL BANK OF SCOTLAND PLC	45,152,974	19.986

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

A.3 Complete the following tables on the Company's Board members holding voting rights through company shares:

Name or corporate name of Director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
JUAN JOSÉ BRUGERA CLAVERO	0	0	0.000
PEDRO VIÑOLAS SERRA	10	0	0.000
ALAIN CHETRIT	1	0	0.000
ALBERTO IBÁÑEZ GONZÁLEZ	3	0	0.000
CARLOS FERNÁNDEZ-LERGA GARRALDA	65	0	0.000
CARLOS GRAMUNT SUÁREZ	10	0	0.000
JAVIER FAUS SANTASUSANA	1	0	0.000
JAVIER IGLESIAS DE USSEL ORDÍS	1	0	0.000
JEAN-LUC RANSAC	1	0	0.000
JOSÉ MARÍA SAGARDOY LLONIS	0	0	0.000

% of total voting rights held by the Board of Directors	**0.0000**

Complete the following tables on share options held by members of the Board:

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.

A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant holdings and the Company and/or its group, unless insignificant or arising from ordinary trading or exchange activities.

Type of relationship:
Contractual

Brief description:
Part of the syndicate extending a loan to Inmobiliaria Colonial, S.A.

Name or corporate name of related party
COMMERZBANK, A.G.
CRÉDIT AGRICOLE, S.A.
CORAL PARTNERS (LUX) S.A.R.L.
THE ROYAL BANK OF SCOTLAND GROUP, PLC

A.6. Indicate whether any shareholders' agreements have been notified to the Company pursuant to article 112 of the Securities Market Act (Ley del Mercado de Valores). Provide a brief description and list the shareholders bound by the agreement, as applicable.

NO

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

NO

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

NOT APPLICABLE

A.7. Indicate whether any individuals or legal entities currently exercise control or could exercise control over the Company in accordance with article 4 of the Securities Market Act. If so, identify.

NO

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
1,710,000	0	0.757

(*) Through:

Total	0

Detalle las variaciones significativas. de acuerdo con lo dispuesto en el Real Decreto 1362/2007. realizadas durante el ejercicio:

Gain/(loss) on treasury shares during the year (thousands of euros)	0

A.9 Give details of the applicable conditions and time periods governing any resolutions of the General Shareholders' Meeting authorising the Board of Directors to purchase and/or transfer treasury shares.

The General Shareholders' Meeting held on 20 April 2010 granted authorisation to the Board of Directors, under Resolution 13, subject to the requirements established under article 146 and related provisions of the Corporate Enterprises Act, and other applicable legislation, for the direct or indirect acquisition of treasury shares in the amount it considers suitable in respect of the circumstances.
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 value 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 share capital or any other upper threshold established in 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 may be used wholly or partially for their delivery or transfer to Directors or Company employees or to those of the companies in its Group, directly or as a consequence of them having exercised their option rights, within the framework of duly approved remuneration schemes linked to the market value of the Company shares.
To this end, the Board of Directors was authorised with the broadest powers to apply for as many authorisations and to enter into as many agreements as deemed necessary or advisable to comply with prevailing legislation, in order to duly execute this resolution. It is expressly noted that these powers may be delegated in any of the members of the Board, including its Secretary and Vice-Secretary.

A.10 Indicate, as applicable, any restrictions imposed by Law or the Company's Bylaws on exercising voting rights, as well as any legal restrictions on the acquisition or transfer of ownership interests in the share capital. Indicate whether there are any legal restrictions on exercising voting rights:

NO

Statutory cap on percentage of voting rights that can be exercised by a single shareholder	0

Indicate whether there are any restrictions included in the Bylaws on exercising voting rights:

NO

Bylaw-mandated cap on percentage of voting rights that can be exercised by a single shareholder	0

Indicate if there are any legal restrictions on the acquisition or transfer of share capital:

NO

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.

B COMPANY MANAGEMENT STRUCTURE

B.1 Board of Directors

B.1.1 List the maximum and minimum number of Directors included in the Bylaws:

Maximum number of Directors	15
Minimum number of Directors	5

B.1.2 Complete the following table with Board members' details:

Name or corporate name of Director	Repre-sentative	Position on the Board	Date of first appointment	Date of last appointment	Election procedure
JUAN JOSÉ BRUGERA CLAVERO	-	CHAIRMAN	19/06/2008	27/06/2008	VOTE AT SHAREHOLDERS' MEETING
PEDRO VIÑOLAS SERRA	-	CHIEF EXECUTIVE OFFICER	18/07/2008	21/11/2008	VOTE AT SHAREHOLDERS' MEETING
ALAIN CHETRIT	-	DIRECTOR	12/04/2010	12/04/2010	VOTE AT SHAREHOLDERS' MEETING
ALBERTO IBÁÑEZ GONZÁLEZ	-	DIRECTOR	12/04/2010	12/04/2010	VOTE AT SHAREHOLDERS' MEETING
CARLOS FERNÁNDEZ-LERGA GARRALDA	-	DIRECTOR	19/06/2008	27/06/2008	VOTE AT SHAREHOLDERS' MEETING
CARLOS GRAMUNT SUÁREZ	-	DIRECTOR	04/10/2012	04/10/2012	CO-OPTION
JAVIER FAUS SANTASUSANA	-	DIRECTOR	20/04/2010	20/04/2010	VOTE AT SHAREHOLDERS' MEETING
JAVIER IGLESIAS DE USSEL ORDÍS	-	DIRECTOR	19/06/2008	19/06/2008	VOTE AT SHAREHOLDERS' MEETING
JEAN-LUC RANSAC	-	DIRECTOR	12/04/2010	12/04/2010	VOTE AT SHAREHOLDERS' MEETING
JOSÉ MARÍA SAGARDOY LLONIS	-	DIRECTOR	06/05/2008	27/06/2008	VOTE AT SHAREHOLDERS' MEETING

Total number of Directors	**10**

Indicate any Board members who left during this period.

Name or corporate name of Director	Status of the Director at the time	Departure date
MANUEL MENÉNDEZ LÓPEZ	PROPRIETARY	04/10/2012

B.1.3 Complete the following tables on the Board members and their respective categories.

EXECUTIVE DIRECTORS

Name or corporate name of Director	Committee proposing appointment	Post held in the Company
JUAN JOSÉ BRUGERA CLAVERO	NOMINATION AND REMUNERATION COMMITTEE	CHAIRMAN
PEDRO VIÑOLAS SERRA	NOMINATION AND REMUNERATION COMMITTEE	CHIEF EXECUTIVE OFFICER

Total number of Executive Directors	2
% of the Board	20.000

EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of Director	Committee proposing appointment	Name or corporate name of significant shareholder represented or proposing appointment
ALAIN CHETRIT	NOMINATION AND REMUNERATION COMMITTEE	CORAL PARTNERS (LUX) S.A.R.L.
ALBERTO IBÁÑEZ GONZÁLEZ	NOMINATION AND REMUNERATION COMMITTEE	THE ROYAL BANK OF SCOTLAND GROUP, PLC
CARLOS GRAMUNT SUÁREZ	NOMINATION AND REMUNERATION COMMITTEE	CAJA DE AHORROS Y PENSIONES DE BARCELONA
JAVIER FAUS SANTASUSANA	NOMINATION AND REMUNERATION COMMITTEE	COMMERZBANK, A.G.
JEAN-LUC RANSAC	NOMINATION AND REMUNERATION COMMITTEE	CREDIT AGRICOLE, S.A.
JOSÉ MARÍA SAGARDOY LLONIS	NOMINATION AND REMUNERATION COMMITTEE	BANCO POPULAR ESPAÑOL, S.A.

Total number of Proprietary Directors	**6**
% of the Board	**60.000**

INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of Director	Profile
CARLOS FERNÁNDEZ-LERGA GARRALDA	Law graduate of the University of Navarra. He also holds a Masters in European Studies from the University of Leuven (Belgium) and a Doctorate in Law from the Complutense University of Madrid. He has also participated in post-graduate courses specialising in Commercial Law at the Bank of Spain's Training Centre. He completed his international law studies at The Hague Academy of International Law and his comparative law and international organisations studies in Strasbourg and at the Collège Universitaire d´Etudes Fédéralistes in Nice, Val d'Aosta. He was an Advisory Member of the Ministry and Secretary of State for Relations with the European Communities between 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 was also a Director and Chairman of the Audit Committee at Abantia Corporación; 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 as well as a member of the Executive Committee of the Elcano Royal Institute. He has also been a Director at Gamesa Corporación Tecnológica, S.A. (Lead Independent Director) and Chairman of its Appointments and Remuneration Committee as well as a General Board Member of La Caixa. 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 practice law at his firm, Carlos Fernández-Lerga Abogados, mainly offering legal advice on civil and commercial law.
JAVIER IGLESIAS DE USSEL ORDÍS	Graduate of Modern and Contemporary History from the University of Barcelona. He has participated in various courses on company management and administration, marketing, risk analysis and prevention of money laundering. He held several senior positions at Lloyds Bank International from 1974 to 1995 in London, Dubai, Brazil, Paraguay and Spain, including Branch Manager for Sao Bernardo do Campo (Brazil), Deputy General Manager (Paraguay) and Director of International Trade, Marketing and UK Corporate Banking (Madrid). He also held several posts at The Bank of New York Mellon between 1995 and June 2008, including Managing Director and Regional Director for Spain, Portugal and Andorra (Madrid), Managing Director and Head of the Latin American and Caribbean Division (New York) and Country Manager and Senior Representative (Madrid).

Total number of Independent Directors	**2**
% of the Board	**20.000**

OTHER EXTERNAL DIRECTORS

List the reasons why these cannot be considered Proprietary or Independent Directors and detail their relationships with the Company, its executives or shareholders.

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

B.1.4 Explain, when applicable, the reasons why Proprietary Directors have been appointed upon the request of shareholders who hold less than 5% of the share capital.

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

B.1.5 Indicate whether any Director has resigned from office before their term of office has expired, whether that Director has given the Board his/her reasons and through which channel. If made in writing to the whole Board, list below the reasons given by that Director:

YES

Name of Director
MANUEL MENÉNDEZ LÓPEZ
Reasons for resignation
At the Board Meeting of 4 October 2012, Mr. Menéndez tendered his resignation as a Proprietary Director representing Caja de Ahorros y Pensiones de Barcelona (La Caixa) and notified all of the Company's Directors present of his resignation and the reasons for the same.

B.1.6 Indicate what powers, if any, have been delegated to the Chief Executive Officer:

Name or corporate name	Brief description
PEDRO VIÑOLAS SERRA	He has been delegated all powers that may be delegated by law and under the Company's Bylaws.

B.1.7 List the Board members, if any, who hold office as Directors or executives in other companies belonging to the listed Company's group:

Name or corporate name	Name or corporate name of the group	Post
JUAN JOSÉ BRUGERA CLAVERO	SOCIÉTÉ FONCIÈRE LYONNAIS	CHAIRMAN AND DIRECTOR
PEDRO VIÑOLAS SERRA	ABIX SERVICE, S.L.	REPRESENTATIVE OF SOLE DIRECTOR (COLONIAL)
PEDRO VIÑOLAS SERRA	ASENTIA INVEST, S.L.	REPRESENTATIVE OF SOLE DIRECTOR (COLONIAL)
PEDRO VIÑOLAS SERRA	ASENTIA PROJECT, S.L.	REPRESENTATIVE OF SOLE DIRECTOR (COLONIAL)
PEDRO VIÑOLAS SERRA	SIIC DE Paris, S.A.	DIRECTOR
PEDRO VIÑOLAS SERRA	SOCIÉTÉ FONCIÈRE LYONNAIS	DIRECTOR
CARLOS FERNÁNDEZ-LERGA GARRALDA	SOCIÉTÉ FONCIÈRE LYONNAIS	DIRECTOR

B.1.8 List any Company Directors 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:

B.1.9 Indicate and, where appropriate, explain whether the Company has established rules about the number of Boards on which its Directors may sit:

NO

B.1.10 In relation with Recommendation 8 of the Unified Code, indicate the Company's general policies and strategies that are reserved for approval by the Board of Directors in plenary session:

Investment and financing policy	YES
Design of the structure of the corporate group	YES
Corporate governance policy	YES
Corporate social responsibility policy	YES
The strategic or business plan and management targets and annual budgets	YES
Remuneration and evaluation of senior officers	YES
Risk control and management, and the periodic monitoring of internal information and control systems	YES
Dividend policy, as well as the policies and limits applying to treasury shares	YES

B.1.11 Complete the following tables on the aggregate remuneration paid to Directors during the year:

a) In the reporting Company:

Item	**Thousands of euros**
Fixed remuneration	748
Variable remuneration	126
Attendance fees	303
Bylaw-mandated compensation	905
Share options and/or other financial instruments	0
Other	0
Total	2,082

Other benefits	**Thousands of euros**
Advances	0
Loans	0
Funds and pension plans: contributions	0
Funds and pension plans: obligations	0
Life insurance premiums	0
Guarantees issued by the Company in favour of Directors	0

b) For company Directors sitting on other governing bodies and/or holding senior management posts within group companies:

Item	Thousands of euros
Fixed remuneration	150
Variable remuneration	0
Attendance fees	108
Bylaw-mandated compensation	0
Share options and/or other financial instruments	0
Other	0
Total	258

Other benefits	Thousands of euros
Advances	0
Loans	0
Funds and pension plans: contributions	0
Funds and pension plans: obligations	0
Life insurance premiums	0
Guarantees issued by the Company in favour of Directors	0

c) Total remuneration by type of Director:

Type of Director	By Company	By group
Executive	1,127	222
External Proprietary	693	0
External Independent	262	36
Other External	0	0
Total	2,082	258

d) Remuneration as percentage of profit attributable to the Parent Company:

Total remuneration received by Directors (in thousands €)	2,340
Total remuneration received by Directors/profit attributable to the Parent Company (%)	0.0

B.1.12 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	Post
JUAN CEÑAL GONZALEZ-FIERRO	DEPUTY CHIEF EXECUTIVE OFFICER
ALBERTO ALCOBER TEIXIDO	BUSINESS MANAGER
NURIA OFERIL COLL	SENIOR MANAGER OF LEGAL DEPARTMENT
CARMINA GANYET CIRERA	SENIOR MANAGER OF CORPORATE DEVELOPMENT

Total remuneration received by senior management (in thousands of euros)	977

B.1.13 Identify, in aggregate terms, any indemnity or "golden parachute" clauses that exist for members of senior management (including Executive Directors) of the Company or of its group in the event of dismissal or changes in control. Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the Company or its group:

Number of beneficiaries	3

	Board of Directors	General Shareholders' Meeting
Body authorising clauses	YES	NO

Is the General Shareholders' Meeting informed of such clauses? NO	NO

B.1.14 Describe the procedures for establishing remuneration for Board members and the relevant provisions in the Bylaws.

Procedures for establishing Board members' remuneration and relevant provisions in the Bylaws

The Board, at the proposal of the Nomination and Remuneration Committee, shall distribute among its members the remuneration agreed at the General Meeting.
The statutory provisions relating to the remuneration of Directors are detailed in article 30 of the Bylaws, by virtue of which:
1. Directors shall be remunerated.
2. Directors' remuneration shall consist of:

(i) An annual fixed and defined payment plus attendance fees for meetings of the Board of Directors and its executive and advisory committees. The amount of remuneration that may be paid by the Company to all Directors in respect of these items shall be that determined for this purpose by the General Shareholders' Meeting and this shall remain in force until agreement is reached at the General Meeting to change it; and

(ii) an annual variable payment, comprising a share of four per cent (4%) of the Company's net profit, which may only be drawn from profit in keeping with prevailing legislation for profit distributions. The Board of Directors may agree to reduce the aforementioned percentage where it deems this appropriate in any given year.

3. The Board shall decide the distribution of the relevant amounts pursuant to the provisions of (i) and (ii) above amongst the various Directors. Consequently, the remuneration of the various Directors may differ according to their category or position.

In addition, and irrespective of the remuneration provided for above, provision is made for remuneration systems indexed to the listed price of the shares or which involve the granting of shares or share options, intended for Directors. The General Shareholders' Meeting shall determine the value of the shares to be taken as a reference, the number of shares to be allocated to each Director, the price at which options may be exercised, the term of this remuneration system and any other relevant conditions, and must agree as to the application of any such system.

4. The remuneration provided for in the foregoing paragraphs, arising out of membership of the Board of Directors, shall be compatible with and separate from any other income payable to Directors (regardless of the nature of their relationship with the Company) for any other executive or advisory duties they may carry out for the Company other than those assigned to them as Directors, be they commercial or labour, in cash or in kind (fixed, variable or contingent, including pension and insurance plans and, if applicable, social security payments, any type of pension or compensation and any applicable compensation), and subject to the legal system applicable thereto.

5. The Board shall produce an Annual Report on Director Remuneration which will include complete, clear and comprehensible information about the Company's remuneration policy approved by the Board for the current

year and for future years, as appropriate. It will also include an overall summary of how the policy was applied during the year, with disclosure of the individual remuneration accrued by each Director. The report will be disseminated and submitted for a consultative vote as a separate item on the agenda of the Ordinary General Shareholders' Meeting. In this respect, the shareholders at the General Shareholders' Meeting of 28 June 2012 approved, under Item 10 of the agenda, the report on the Remuneration Policy of the Company's Directors, the main aspects of which are detailed in section B.1.16.

Indicate whether the Board has reserved for plenary approval the following decisions:

On the proposal of the Company's chief executive, the appointment and removal of senior officers, and their compensation clauses	YES
Directors' remuneration and, in the case of Executive Directors, the additional consideration for their management duties and other contract conditions	YES

B.1.15 Indicate whether the Board of Directors approves a detailed remuneration policy and specify the points included:

YES

The amount of the fixed components, itemised where necessary, of Board and Board committee attendance fees, with an estimate of the fixed annual remuneration they give rise to	YES
Variable components	YES
The main characteristics of pension systems, including an estimate of their amount or annual equivalent cost.	YES
The conditions that the contracts of Executive Directors exercising executive functions shall respect	YES

B.1.16 Indicate whether the Board submits a report on the Directors' remuneration policy to the advisory vote of the General Shareholders' Meeting, as a separate point on the agenda. Explain the points of the report regarding the remuneration policy as approved by the Board for forthcoming years, the most significant departures in those policies with respect to that applied during the year in question and a global summary of how the remuneration policy was applied during the year. Describe the role played by the Remuneration Committee and whether external consultancy services have been procured, including the identity of the external consultants:

YES

Cuestiones sobre las que se pronuncia la política de retribuciones

The Board of Directors submitted its report on the Remuneration Policy for the Directors of Inmobiliaria Colonial, S.A. for 2012 to a consultative vote at the General Shareholders' Meeting held on 28 June 2012 which was prepared pursuant to article 61 of the Securities Market Act and approved by the Board pursuant to article 24 of the Regulations of the Board of Directors.

The report includes information on fixed remuneration, variable components, pension systems, the procedure for approving Director and senior executive remuneration as well as the Directors' Remuneration Policy for the current, previous and future years. It also contains the individual remuneration accrued by each Director.

The 2012 report was approved at the General Shareholders' Meeting of 28 June 2012 with 99.5371% of the votes in favour.

Below are details of the individual remuneration accrued by each Director in the year, broken down by item:

Juan José Brugera Clavero
Fixed remuneration 316
Bylaw-mandated compensation 100
Attendance fees 48
Attendance fees for directorships at other Group companies 36
Fixed remuneration at Group companies 150
Total 650

Pedro Viñolas Serra
Fixed remuneration 432
Variable remuneration 126
Bylaw-mandated compensation 75
Attendance fees 30
Attendance fees for directorships at other Group companies 36
Total 699

Carlos Fernández-Lerga Garralda
Bylaw-mandated compensation 95
Attendance fees 30
Attendance fees for directorships at other Group companies 36
Total 161

Javier Iglesias de Ussel Ordís
Bylaw-mandated compensation 110
Attendance fees 27
Total 137

Manuel Menéndez López
Bylaw-mandated compensation 37
Attendance fees 21
Total 58

Carlos Gramunt Suárez
Bylaw-mandated compensation 13
Attendance fees 9
Total 22

José María Sagardoy Llonis
Bylaw-mandated compensation 75
Attendance fees 27
Total 102

Alberto Ibáñez González
Bylaw-mandated compensation 100
Attendance fees 27
Total 127

Jean-Luc Ransac
Bylaw-mandated compensation 100
Attendance fees 30
Total 130

Alain Chetrit
Bylaw-mandated compensation 100
Attendance fees 30
Total 130

Javier Faus Santasusana
Bylaw-mandated compensation 100
Attendance fees 24
Total 124

TOTAL
Total fixed remuneration: 748
Total variable remuneration: 126
Bylaw-mandated compensation: 905
Total Attendance Fees: 303
Attendance fees for directorships at other Group companies: 108
Fixed remuneration at Group companies: 150
TOTAL: 2,340

Role played by the Remuneration Committee
The duties of the Nomination and Remuneration Committee include ensuring observance of the remuneration policy established by the Company and in particular proposing to the Board of Directors the remuneration policy applicable to Directors and senior management, the individual salary of the Chairman of the Board and the Chief Executive Officer, and other contractual conditions, and the basic conditions for contracts of other Executive Directors and senior managers, reporting and making proposals on incentive plans over several years awarded to the Company's senior management and in particular those that may be established in relation to the value of shares (article 35 of the Regulations of the Board of Directors).

Have external consultancy firms been used?	NO
Identity of external consultants	

B.1.17 List any Board members who are likewise members of the Boards of Directors, or executives or employees of companies that own significant holdings in the listed Company and/or group companies:

Name or corporate name of Director	Name or corporate name of significant shareholder	Post
JEAN-LUC RANSAC	CRÉDIT AGRICOLE, S.A.	MANAGING DIRECTOR- HEAD OF DEBT RESTRUCTURING IN EUROPE
JOSÉ MARÍA SAGARDOY LLONIS	BANCO POPULAR ESPAÑOL, S.A.	DEPUTY MANAGING 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	Description of relationship
CARLOS GRAMUNT SUÁREZ	CAJA DE AHORROS Y PENSIONES DE BARCELONA	Carlos Gramunt is a Corporate Officer at Caixabank, S.A., an investee of Caja de Ahorros y Pensiones de Barcelona

B.1.18 Indicate whether any changes have been made to the regulations of the Board of Directors during the year:

YES

Description of changes

Pursuant to article 516 of the Corporate Enterprises Act, shareholders attending the Inmobiliaria Colonial, S.A. General Shareholders' Meeting held on 28 June 2012 were informed of the amendments made to the Board of Directors' Regulations since the previous General Meeting.

The amendments made to the Regulations affect articles 2, 7, 9, 11, 16, 17, 20, 21, 24, 37, 39 and 40, and were approved by the Board of Directors at its meeting of 10 May 2012.

The amendments made were intended to bring the Regulations into line with the legal reforms introduced by Act 25/2011, of 1 August, the partial reform of the Corporate Enterprises Act and the incorporation of Directive 2007/36/EC of the European Parliament and of the Council of 11 July 2007 on the exercise of certain rights of shareholders in listed companies, as well as by Royal Decree-Law 9/2012, of 16 March, regarding the simplification of reporting and documentation obligations for mergers and spin-offs of corporate enterprises.

B.1.19 Indicate the procedures for appointing, re-electing, appraising and removing Directors. List the competent bodies and the processes and criteria to be followed for each procedure.

The procedures for appointing and re-electing Directors are governed by article 9 of the Regulations of the Board of Directors, which reads as follows:

Directors shall be appointed at the General Shareholders' Meeting or by the Board of Directors exercising its power of co-option, pursuant to the prevailing Corporate Enterprises Act.

Proposals for appointments or re-election of Directors which the Board of Directors submits to the General Shareholders' Meeting, as well as any appointments by co-option made by the Board itself, shall be subject to a report from the Nomination and Remuneration Committee, in the case of Independent Directors and other Directors, respectively.

From the moment the meeting notices for the General Meeting are published, the Board of Directors must publish on its website the following information on persons proposed for appointment or ratification as Director:
(i) their professional and biographical profile;
(ii) other directorships held in companies, whether listed companies or not, except for holding companies of the Director or their immediate family;
(iii) an indication of the category of Director, indicating, in the case of Proprietary Directors, the shareholder on whose initiative they were appointed, re-elected or ratified, or with whom they have links;
(iv) the date of their first appointment as Director of the Company, as well as subsequent appointments; and
(v) the shares in the Company and share options held by them.

When the Board of Directors does not agree with the Nomination and Remuneration Committee's recommendations, it must explain the reasons for this and duly record the grounds for this disagreement in the minutes book.

Both the Board of Directors and the Nomination and Remuneration Committee shall ensure that new Directors are appointed in accordance with the requirements set out in the prevailing Corporate Enterprises Act, the Bylaws and the Board Regulations. In the nomination of the person to be proposed for the role of Director, all efforts shall be made to ensure that this is a person of recognised trustworthiness, competence, experience and professional standing suitable to carry out their responsibilities.

Those subject to legal prohibition, incapacity or incompatibility may not be Directors.

No age limit is set for appointment as Director, or for the exercise of this position.

The Company shall establish induction programmes to provide new Directors with rapid and adequate knowledge of the Company and its group, as well as corporate governance rules. Refresher courses shall be offered when circumstances require.

Without prejudice to the provisions of article 14 above, it should be noted that article 9 of the Regulations of the Board of Directors states that Independent Directors may not remain as such for a continuous period of more than 12 years.

With respect to the resignation and removal of Directors, article 11 of the Regulations of the Board of Directors establishes that:

Directors shall cease their functions once their term of office has expired, and when decided at the General Meeting using the authority granted pursuant to law and the Company's Bylaws.

Members of the Board of Directors must tender their resignation to the Board of Directors and resign, if deemed appropriate, 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.
3. In the case of Proprietary Directors, when the shareholder at whose initiative they were appointed fully transfers their holding in Inmobiliaria Colonial or reduces their stakes to a level which entails losing some of their entitlement to Proprietary Directors.
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 harm the Company's name or reputation. Directors must inform the Board of any criminal charges brought against them and the progress of any subsequent trial. In any event, if a Director is indicted or tried for any of the crimes stated in article 213 of the Corporate Enterprises Act, the Board should examine the matter as soon as possible and, in view of the particular circumstances, decide whether or not he or she should be called on to resign. All such determinations should be disclosed in the Annual Corporate Governance Report.

The Board of Directors should not propose the removal of External Proprietary or Independent Directors before the expiry of their tenure, except for exceptional cases and where just cause is found by the Board, subject to a report from the Nomination and Remuneration Committee. In particular, just cause will be presumed when a Director is in breach of his or her fiduciary duties or comes under one of the disqualifying grounds described in article 4 of the Regulations which impede their appointment as an Independent Director.

In accordance with article 4 of these Regulations, Independent Directors may also be asked to resign following changes in the Company's ownership structure.

When Directors resign or leave the Board for any reason before their tenure expires, they shall state the reasons in a letter to all members of the Board, irrespective of whether such resignation is filed as a significant event, and the reason for doing so must be explained in the Annual Corporate Governance Report. In particular, in the event that the resignation of the Director is due to the fact that the Board has adopted significant or reiterative decisions in respect of which the Director has expressed serious reservations, which has led to the decision to resign, the letter of resignation addressed to the other members shall expressly state this.

B.1.20 Indicate the cases in which Directors must resign.

Pursuant to article 11 of the Regulations of the Board of Directors:

Members of the Board of Directors must tender their resignation to the Board of Directors and resign, if deemed appropriate, 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.

3. In the case of Proprietary Directors, when the shareholder at whose initiative they were appointed fully transfers their holding in Inmobiliaria Colonial or reduces their stakes to a level which entails losing some of their entitlement to Proprietary Directors.

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 harm the Company's name or reputation. Directors must 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 crimes stated in article 124 of the Public Limited Companies Act, 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 he or she should be called on to resign. All such determinations should be disclosed in the Annual Corporate Governance Report.

B.1.21 Indicate whether the duties of chief executive fall upon the Chairman of the Board of Directors. If so, describe the measures taken to limit the risk of powers being concentrated in a single person:

NO

Indicate, and if necessary, explain, whether rules have been established that enable any of the Independent Directors to convene Board meetings or include new items on the agenda, to coordinate and voice the concerns of External Directors and oversee the evaluation by the Board of Directors.

NO

B.1.22 Are qualified majorities, other than those prescribed by law, required for any type of decisions?:

NO

Describe how resolutions are adopted by the Board of Directors and specify, at least, the minimum attendance quorum and the type of majority for adopting resolutions:

B.1.23 Indicate whether there are any specific requirements, apart from those relating to the Directors, to be appointed Chairman.

NO

B.1.24 Indicate whether the Chairman has the casting vote:

YES

Subjects for which a casting vote is required
Decisions shall be adopted by the absolute majority of Directors attending the Board meeting.
In the event of a tie, the Chairman shall have the casting vote (articles 27 and 38 of the Regulations of the Board of Directors).

B.1.25. Indicate whether the Bylaws or the Regulations of the Board of Directors set any age limit for Directors:

NO

Age limit for Chairman -
Age limit for Chief Executive Officer -
Age limit for Directors -

B.1.26 Indicate whether the Bylaws or the regulations of the Board of Directors set a limited term of office for Independent Directors:

YES

Maximum number of years in office	12

B.1.27 If there are few or no female Directors, explain the reasons and describe the initiatives adopted to remedy this situation.

Explanation of reasons and initiatives

In 2012, one vacancy arose on the Board of Directors which was filled subject to a favourable report from the Nomination and Remuneration Committee.

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 may not be attributed to any bias inherent in the selection process.

In this respect, it is to be noted that the Board of Directors expressly attributed to the Nomination and Remuneration Committee the function of ensuring that the procedure used to select Directors is in no way biased against women and that the appointments made by the Board of Directors via co-option and proposed appointments submitted to the General Shareholders' Meeting are based on purely professional criteria.

Indicate in particular whether the Appointments and Remuneration Committee has established procedures to ensure the selection processes are not subject to implicit bias that will make it difficult to select female Directors, and make a conscious effort to search for female candidates who have the required profile:

YES

Indicate the main procedures

According to article 35 of the Regulations of the Board of Directors, one of the functions of the Nomination and Remuneration Committee is to ensure that when vacancies arise on the Board, selection procedures are not subject to any implicit bias hindering the selection of female Directors, and that the Company deliberately seeks and includes within potential candidates those female candidates who have the suitable professional profile, with a duty to explain to the Board, as applicable, through the Annual Corporate Governance Report, the reason why there are few or no female Directors, and the initiatives adopted to address this situation.

B.1.28 Indicate whether there are any formal processes for granting proxies at Board meetings. If so, give brief details.

Proxies shall be granted in writing and specifically for each meeting, and solely to another member of the Board (article 38 of the Regulations of the Board of Directors). Proxies granted must include specific instructions as to the vote to be cast on the matters to be debated.

B.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:

Number of Board meetings	10
Number of Board meetings held in the absence of its Chairman	0

Indicate how many meetings of the various Board committees were held during the year:

Number of meetings of the Executive or Delegated Committee	0
Number of meetings of the Audit Committee	7
Number of meetings of the Appointments and Remuneration committee	6
Number of meetings of the Appointments Committee	0
Number of meetings of the Remuneration Committee	0

B.1.30 Indicate the number of Board meetings held during the financial year without the attendance of all members. Non-attendance will also include proxies granted without specific instructions:

Number of non-attendances by Directors during the year	5
% of non-attendances of the total votes cast during the year	5.000

B.1.31 Indicate whether the individual and consolidated financial statements submitted for authorisation for issue by the Board are certified previously:

YES

Indicate, where applicable, the person(s) who certified the Company's individual and consolidated financial statements prior to their authorisation by the Board:

Name	Post
ANGELS ARDERIU IBARS	CHIEF FINANCIAL OFFICER

B.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.

Article 8 of the Regulations of the Board of Directors establishes the following procedure for the Audit Report:

The Board of Directors shall seek to prepare the annual financial statements in such a way as to avoid reservations or qualifications in the Audit Report and, should these exist, both the Chairman of the Audit and Control Committee and the auditors shall clearly explain to shareholders the content and scope of the said reservations or qualifications.

Article 8 of the Regulations of the Board of Directors also states that the Board of Directors shall seek to prepare the annual financial statements in such a way as to avoid reservations or qualifications in the audit report and, should these exist, both the Chairman of the Audit and Control Committee and auditors shall clearly explain to shareholders the content and scope of the said reservations or qualifications.

B.1.33 Is the Secretary of the Board also a Director?

NO

B.1.34 Explain the procedures for appointing and removing the Secretary of the Board, indicating whether his/her appointment and removal have been notified by the Appointments Committee and approved by the Board in plenary session.

Appointment and removal procedure

Pursuant to article 29 of the Regulations of the Board of Directors, the position of Secretary of the Board of Directors need not be filled by a member of the Board. Their appointment and removal shall be approved by the Board in plenary session subject to a report by the Nomination and Remuneration Committee.

Does the Appointments Committee propose appointments?	YES
Does the Appointments Committee advise on dismissals?	YES
Do appointments have to be approved by the Board in plenary session?	YES
Do dismissals have to be approved by the Board in plenary session?	YES

Is the Secretary of the Board entrusted in particular with the function of overseeing corporate governance recommendations?

YES

Remarks

In this regard, the aforementioned article 29 of the Regulations of the Board of Directors expressly states that the Secretary shall take special care to ensure that the actions of the Board:
(i) adhere to the spirit and letter of the laws and their implementing regulations, including those issued by regulatory bodies;

(ii) comply with the Bylaws and Regulations of the General Shareholders' Meeting, the Regulations of the Board of Directors and other internal regulations; and
(iii) take into consideration the corporate governance recommendations contained in the Company's Bylaws and Regulations.

B.1.35 Indicate the mechanisms, if any,implemented by the Company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

Article 8 of the Regulations of the Board of Directors states that the relationship between the Board of Directors and external auditor shall be channelled through the Audit and Control Committee, as provided for in the Company's Bylaws and the Board Regulations.

Article 34 of said Regulations states that the competences and functions of the Audit and Control Committee shall include ensuring the independence of the external auditor and, to this end, ensuring that the Company reports any change of auditor to the CNMV, as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same. In the event of resignation of the external auditor, the Committee should investigate the issues giving rise to the resignation.

B.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

Outgoing auditor	Incoming auditor
-	-

Explain any disagreements with the outgoing auditor and the reasons for the same:

NO

B.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 (in thousands €)	166	51	217
Amount of non-audit work as a % of the total amount invoiced by the audit firm	31.576	9.006	19.870

B.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

B.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	6	6

	Company	Group
Number of years audited by current audit firm/Number of years the Company's financial statements have been audited (%)	24.0	24.0

B.1.40 List any equity holdings of the members of the Company's Board of Directors in other companies with identical, similar or complementary types of activity to that which constitutes the corporate purpose of the company and/or its group, and which have been reported to the company. Likewise, list the posts or duties they hold in such companies:

Name or corporate name of Director	Corporate name of the Company in question	% share	Post or duties
JEAN-LUC RANSAC	FONCIÈRE DES RÉGIONS	0.000	None
JEAN-LUC RANSAC	ICADE	0.000	None

B.1.41 Indicate and give details of any procedures through which Directors may receive external advice:

YES

Details of the procedure

Article 23 of the Regulations of the Board of Directors states that External Directors shall have the right to obtain from the Company the necessary advice to carry out their functions and, when necessary, request that legal, accounting or financial advisors or other experts be hired 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 External 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 being obtained may be adequately provided by the experts and technical staff at the Company.

B.1.42 Indicate whether there are procedures for Directors to receive the information they need in sufficient time to prepare for the meetings of the governing bodies:

YES

Details of the procedure

Article 22 of the Regulations of the Board of Directors states that 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 right of information extends to subsidiaries, whether domestic or foreign.

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 desired examinations and inspections.

B.1.43 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

Pursuant to article 11 of the Regulations of the Board of Directors, Board members shall tender their resignation and, if the Board of Directors considers it appropriate, shall formally resign in the following cases:

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

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

3. When their continuing as a member of the Board might harm the Company's name or reputation. Directors must inform the Board of any criminal charges brought against them and the progress of any subsequent trial. In any event, the moment a Director is indicted or tried for any of the crimes stated in article 213 of the Corporate Enterprises Act, 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.

The Board of Directors should not propose the removal of External Proprietary or Independent Directors before the expiry of their tenure, except for exceptional cases and where just cause is found by the Board, subject to a report from the Nomination and Remuneration Committee. In particular, just cause will be presumed when the Director is in breach of their fiduciary duties or comes under one of the disqualifying grounds enumerated in article 4 of the Regulations of the Board of Directors.

B.1.44 Indicate whether any Board member has notified the Company that he/she has been indicted or tried for any of the offences stated in article 124 of the Public Limited Companies Act.

NO

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the Director should continue to hold office.

NO

B.2 Committees of the Board of Directors

B.2.1 Give details of all the committees of the Board of Directors and their members:

EXECUTIVE OR DELEGATE COMMITTEE

Name	Post	Type
JUAN JOSÉ BRUGERA CLAVERO	CHAIRMAN	EXECUTIVE
ALAIN CHETRIT	VOCAL	PROPRIETARY
ALBERTO IBÁÑEZ GONZÁLEZ	VOCAL	PROPRIETARY
JAVIER FAUS SANTASUSANA	VOCAL	PROPRIETARY
JEAN-LUC RANSAC	VOCAL	PROPRIETARY
PEDRO VIÑOLAS SERRA	VOCAL	EXECUTIVE

AUDIT AND CONTROL COMMITTEE

Name	Post	Type
JAVIER IGLESIAS DE USSEL ORDÍS	CHAIRMAN	INDEPENDIENTE
ALAIN CHETRIT	VOCAL	PROPRIETARY
CARLOS FERNÁNDEZ-LERGA GARRALDA	VOCAL	INDEPENDENT
JOSÉ MARÍA SAGARDOY LLONIS	VOCAL	DOMINICAL

NOMINATION AND REMUNERATION COMMITTEE

Name	Post	Type
CARLOS FERNÁNDEZ-LERGA GARRALDA	CHAIRMAN	INDEPENDENT
ALBERTO IBÁÑEZ GONZÁLEZ	VOCAL	PROPRIETARY
JAVIER FAUS SANTASUSANA	VOCAL	PROPRIETARY
JAVIER IGLESIAS DE USSEL ORDÍS	VOCAL	INDEPENDENT
JEAN-LUC RANSAC	VOCAL	PROPRIETARY

B.2.2 Indicate whether the Audit Committee is responsible for the following.

To supervise the preparation process and monitor the integrity of the financial information on the Company and, if applicable, the group, and check compliance with regulatory requirements, the adequate boundaries of the scope of consolidation and correct application of accounting principles.	YES
To regularly review internal control and risk management systems, so main risks are correctly identified, managed and notified.	YES
To safeguard the independence and efficacy of the Internal Audit area; 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.	YES
To establish and supervise a mechanism whereby staff 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 firm.	YES
To submit to the Board proposals for the selection, appointment, reappointment and removal of the external auditor, and the engagement conditions.	YES
To receive regular information from the external auditor on the progress and findings of the audit programme, and check that senior management are acting on its recommendations.	YES
To ensure the independence of the external auditor.	YES
In the case of groups, the Committee should urge the group auditor to take on the auditing of all component companies.	YES

B.2.3 Describe the organisational and operational rules and the responsibilities attributed to each of the Board committees.

NOMINATION AND REMUNERATION COMMITTEE

A) Composition
The members of the Nomination and Remuneration Committee shall be appointed by the Board itself. The Committee shall comprise at least three members, who must all be External Directors.

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 Nomination and Remuneration Committee shall appoint a Chairman from among its members, who must be an Independent Director, and a Secretary.

B) Competencies

The Committee's functions include the following, among others:

1. To evaluate the balance of skills, knowledge and experience on the Board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties. Any Director may suggest directorship candidates to the Nomination and Remuneration Committee for its consideration.

2. To examine or organise, in appropriate form, the succession of the Chairman and Chief Executive, making recommendations to the Board so the handover proceeds in a planned and orderly manner. In the event that the Chairman is also the Chief Executive, the above shall apply to the Chairman and Managing Director(s).

3. To report on the senior officer appointments and removals which the Chief Executive proposes to the Board, proposing the persons or posts that should be considered senior management within the Company, and drawing up proposed admonishments.

4. To ensure that when vacancies arise on the Board, selection procedures are not subject to any implicit bias hindering the selection of female Directors, such that the Company makes a conscious effort to search for and include female candidates who have the required profile. The Committee shall explain to the Board, if applicable, through the Annual Corporate Governance Report, the reason why there are few or no female Directors, and the initiatives adopted to remedy this situation.

5. To report, in advance, on all proposals made by the Board of Directors to the General Shareholders' Meeting for the appointment or removal of Directors, including those cases of co-option by the Board of Directors itself.

6. To propose to the Board the members who are to sit on each Committee.

7. To ensure observance of the Company's remuneration policy and, in particular, to propose to the Board of Directors the remuneration policy applicable to Directors and senior management, the individual salary of the Chairman of the Board and the Chief Executive Officer, and other contractual conditions, and the basic contractual conditions of other Executive Directors and senior managers, reporting and drafting proposals on incentive plans over several years awarded to the Company's senior management and, in particular, those that may be established in relation to the value of shares.

8. To ensure the transparency of salaries and include in the notes to the financial statements information on the Directors' remuneration.

C) Operation

The Committee shall meet, at the discretion of its Chairman, as many times as necessary to carry out its functions. It may also be convened when so requested by two of its members.

The Appointments and Remuneration Committee shall have access to all the information and documents required to perform its duties. Members of the Nomination and Remuneration Committee may be assisted, during their meetings, by persons who, in their capacity as advisors, are deemed appropriate. A maximum of two for each member of said Committee shall be allowed.

EXECUTIVE OR DELEGATE COMMITTEE

The Board of Directors may establish an Executive Committee comprising members of the Board itself and which, if applicable, shall have the Chairman of the Board of Directors as one of its members and also as its Chairman. The Board may permanently delegate to it all or part of its powers, other than those which cannot be delegated pursuant to the law or the Regulations.

The Executive Committee shall comprise a minimum of three and a maximum of ten members.

The Board of Directors shall appoint the Directors who are to make up the Executive Committee, ensuring that the breakdown of its members by Director category is similar to that of the Board itself, and that its Secretary is likewise the Secretary of the Board of Directors. In order to be valid, the appointment of Directors to the Executive Committee shall require the favourable vote of two thirds of the Board.

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 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 offices 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.

Those absent may be represented by another member of the Executive Committee, by means of a letter addressed to its Chairman.

Discussions shall be led by the Chairman. In his absence the meeting shall be chaired by a member elected by the majority of those present.

Resolutions shall be adopted by the absolute majority of the Committee members. 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 a meeting of the Board of Directors, the convening of which shall be requested by the members of the Executive Committee pursuant to article 29 of the Company's Bylaws, unless a meeting of the said body has already been convened to be held within the following 30 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 the said meeting.

The Executive Committee, through its Chairman, shall inform the Board of the matters dealt with and decisions adopted by the Committee. A copy of the minutes shall be sent to all Directors.

AUDIT AND CONTROL COMMITTEE

A) Composition

The Audit and Control Committee comprises a minimum of three Directors and at least a majority of Non-executive Directors, which shall be appointed by the Board of Directors at the proposal of its Chairman. The Committee shall appoint, from its members, a Secretary and a Chairman, the latter of which must be an Independent Director and must be replaced every four years. The Chairman may be re-elected once a period of one year from their departure has transpired (article 34 of the Regulations of the Board of Directors).

B) Competencies

Pursuant to article 34 of the Bylaws, the primary function of the Audit and Control Committee is to contribute to the strengthening and effectiveness of the Board's supervisory function, thus supporting the guarantees of objectivity and careful consideration of its resolutions through supervision, as a specialist body, of the process for the preparation of financial information, its internal controls and the independence of the external auditor.

The Audit and Control Committee has the following functions, among others:

1. To inform the General Shareholders' Meeting of matters raised by shareholders within its area of responsibility.

2. To monitor effectiveness of the Company's internal audit services which safeguard the correct functioning of the internal control over financial reporting systems, and if applicable, of the risk management systems. It shall also discuss with the external auditor and auditing firms any significant weaknesses in the internal control system identified during the course of the audit. The head of the Internal Audit area shall present an annual work programme to the Committee, report to it directly on any incidents arising during its implementation, and submit an activities report at the end of each year.

3. To submit to the Board, for approval, a report on the risk management control policy which specifies at least:
(i) the different types of risk the Company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance sheet risks;
(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.

4. To supervise the process of preparing the individual and consolidated financial statements and management reports and periodic financial information to be reported to the markets, ensuring that legal requirements are complied with and generally accepted accounting principles are correctly applied. It shall also report to the Board on the following considerations prior to their approval:
(i) that the financial information that all listed companies must periodically disclose and interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review; and
(ii) the creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of Inmobiliaria Colonial.

5.With respect to internal control and reporting systems:
(i) to monitor the preparation and 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 scope and the correct application of accounting principles;
(ii) to review internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed;
(iii) to safeguard the independence and effectiveness of the Internal Audit area; 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; and

(iv) to establish and supervise a mechanism whereby staff 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.

6. To act as a communication channel between the Board and the external auditor, assessing the results of each audit, and having the responsibilities in respect of the external auditor:
(i) to make recommendations to the Board for the selection, appointment, reappointment and removal of the external auditor, and the terms of their engagement;
(ii) to receive regular information from the external auditor on the progress and findings of the audit programme and check that senior management are acting on its recommendations in accordance with applicable legislation;
(iii) to ensure the independence of the external auditor and, to this end, ensure that the Company notifies any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for doing so. In the event of resignation of the external auditor, the Committee should investigate the issues giving rise to the resignation it; and
(iv) and urge the group auditor to take on the auditing of all component companies.

7. To establish the appropriate relationships with the auditors in order to receive information, for examination by the Audit and Control Committee, on matters which may jeopardise the independence of the same and any other matters relating to the audit process and any other communications provided for in audit legislation and technical audit regulations. In any case, on an annual basis the Audit and Control Committee must receive from the auditors written confirmation of their independence vis-à-vis the Company and any companies related to it, in addition to information on additional services of any kind rendered to these entities by the aforementioned auditors or persons or entities related to them pursuant to audit legislation.

8. To issue an annual report, prior to the issue of the Audit Report, containing an opinion on the independence of the auditors and addressing the provisions of any additional services referred to in the preceding paragraph.

9. To issue reports on related-party transactions as per article 17 of the Regulations.

10. To issue reports or proposals at the behest of the Board of Directors or the Chairman of the Board, on its areas of responsibility and any other matters that it deems relevant, and particularly reports on proposals to amend these Regulations.

11. To propose to the Board of Directors any other matters that it deems relevant for which it is responsible.

12. To supervise compliance with internal codes of conduct and corporate governance regulations.

C) Functioning

The Audit and Control Committee shall meet whenever requested to do so by any of its members, or at the behest of its Chairman, who is responsible for convening it. The conclusions reached in each meeting shall be drawn up in the minutes and reported to the plenary Board.

The Committee may request that any member of the management team or other personnel of the Company or its subsidiaries attend Committee meetings to offer their collaboration and access to the information available to them. In particular, Executive Directors must attend and provide information when requested to do so by the Committee. Likewise, the Committee may request the attendance at its meetings of the Company's auditor, and request the external services of attorneys and other independent professionals to help it better carry out its duties.

B.2.4 Indicate any advisory or consulting powers and, where applicable, the powers delegated to each of the committees:

Committee name
NOMINATION AND REMUNERATION COMMITTEE
Brief description
All advisory or consulting powers and powers delegated to this Committee are detailed under B.2.3. above.

Committee name
EXECUTIVE OR DELEGATE COMMITTEE
Brief description
All advisory or consulting powers and powers delegated to this Committee are detailed under B.2.3. above.

Committee name
AUDIT AND CONTROL COMMITTEE
Brief description
All advisory or consulting powers and powers delegated to this Committee are detailed under B.2.3. above.

B.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.

Committee name
NOMINATION AND REMUNERATION COMMITTEE
Brief description
The regulations concerning this Committee are detailed in article 33 of the Bylaws and article 40 of the Regulations of the Board of Directors. Both texts are available on the Company's website.

Once a year, the Board of Directors of Inmobiliaria Colonial, S.A. assesses its own performance, that of its Committees and the Chairman of the Board and the Chief Executive Officer, in order to fulfil the duties delegated to this body pursuant to article 37 of the Regulations of the Board of Directors, which incorporates Recommendation 22 of the Unified Good Governance Code published by the CNMV on 19 May 2006. For this purpose, each of the Board's committees prepares a report on its own activities so that its performance over the year may be evaluated by the Board of Directors.

Committee name
EXECUTIVE OR DELEGATE COMMITTEE
Brief description
The regulations concerning this Committee are detailed in article 29 of the Bylaws and article 32 of the Regulations of the Board of Directors. Both texts are available on the Company's website.

Once a year, the Board of Directors of Inmobiliaria Colonial, S.A. assesses its own performance, that of its Committees and the Chairman of the Board and the Chief Executive Officer, in order to fulfil the duties delegated to this body pursuant to article 37 of the Regulations of the Board of Directors, which incorporates Recommendation 22 of the Unified Good Governance Code published by the CNMV on 19 May 2006. For this purpose, each of the Board's committees prepares a report on its own activities so that its performance over the year may be evaluated by the Board of Directors.

Committee name
AUDIT AND CONTROL COMMITTEE
Brief description
The regulations concerning this Committee are detailed in articles 32 of the Bylaws and 34 of the Regulations of the Board of Directors. Both texts are available on the Company's website.

Once a year, the Board of Directors of Inmobiliaria Colonial, S.A. assesses its own performance, that of its Committees and the Chairman of the Board and the Chief Executive Officer, in order to fulfil the duties delegated to this body pursuant to article 37 of the Regulations of the Board of Directors, which incorporates Recommendation 22 of the Unified Good Governance Code published by the CNMV on 19 May 2006. For this purpose, each of the Board's committees prepares a report on its own activities so that its performance over the year may be evaluated by the Board of Directors.

The Committee also prepared an annual report on its activities, in compliance with its Bylaw stipulated requirement.

B.2.6 Indicate whether the composition of the Executive Committee reflects the participation within the Board of the different types of Directors:

NO

If the answer is no, explain the composition of the Executive 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 and experience to ensure that it can fulfil its mandate effectively, objectively and independently.

C RELATED-PARTY TRANSACTIONS

C.1 Indicate whether the Board plenary sessions have reserved the right to approve, subject to a favourable report from the Audit Committee or any other committee responsible for this task, transactions which the Company carries out with Directors, significant shareholders or representatives on the Board, or related parties:

YES

C.2 List any relevant transactions entailing a transfer of assets or liabilities between the Company or its group companies and the significant shareholders in the Company:

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 (in thousands of euros)
HM TREASURY	ASENTIA PROJECT, S.L.	Accrued interest	Finance income	7,380
HM TREASURY	ASENTIA PROJECT, S.L.	Accrued interest	Finance expenses	103
HM TREASURY	INMOBILIARIA COLONIAL, S.A.	Accrued interest	Finance expenses	12,133
HM TREASURY	INMOBILIARIA COLONIAL, S.A.	Accrued interest	Finance income	596
HM TREASURY	INMOBILIARIA COLONIAL, S.A.	Repayment of debt	Repayment or cancellation of loans and lease agreements (lessee)	5,158
HM TREASURY	NECSA, NUEVOS ESPACIOS COMERCIALES, S.A.	Accrued interest	Finance expenses	2,367
HM TREASURY	NECSA, NUEVOS ESPACIOS COMERCIALES, S.A.	Repayment of debt	Repayment or cancellation of loans and lease agreements (lessee)	1,944
HM TREASURY	SOCIÉTÉ FONCIÈRE LYONNAISE	Accrued interest	Finance expenses	1,883
HM TREASURY	SOCIÉTÉ FONCIÈRE LYONNAISE	Repayment of debt	Repayment or cancellation of loans and lease agreements (lessee)	36,000
COMMERZBANK, A.G.	ASENTIA PROJECT, S.L.	Accrued interest	Finance expenses	7,379
COMMERZBANK, A.G.	INMOBILIARIA COLONIAL, S.A.	Accrued interest	Finance expenses	10,133
COMMERZBANK, A.G.	INMOBILIARIA COLONIAL, S.A.	Repayment of debt	Repayment or cancellation of loans and lease agreements (lessee)	5,156
CREDIT AGRICOLE, S.A.	ASENTIA PROJECT, S.L.	Accrued interest	Finance expenses	7,179
CREDIT AGRICOLE, S.A.	INMOBILIARIA COLONIAL, S.A.	Repayment of debt	Repayment or cancellation of loans and lease agreements (lessee)	5,156
CREDIT AGRICOLE, S.A.	INMOBILIARIA COLONIAL, S.A.	Accrued interest	Finance expenses	10,925

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 (in thousands of euros)
CREDIT AGRICOLE, S.A.	SOCIÉTÉ FONCIÈRE LYONNAISE	Contractual	Leases	12,782
CREDIT AGRICOLE, S.A.	SOCIÉTÉ FONCIÈRE LYONNAISE	Repayment of debt	Repayment or cancellation of loans and lease agreements (lessee)	54,523
CREDIT AGRICOLE, S.A.	SOCIÉTÉ FONCIÈRE LYONNAISE	Accrued interest	Finance expenses	5,156
CORAL PARTNERS (LUX) S.A.R.L.	ASENTIA PROJECT, S.L.	Accrued interest	Finance expenses	7,159
CORAL PARTNERS (LUX) S.A.R.L.	INMOBILIARIA COLONIAL, S.A.	Accrued interest	Finance expenses	9,067
CORAL PARTNERS (LUX) S.A.R.L.	INMOBILIARIA COLONIAL, S.A.	Repayment of debt	Repayment or cancellation of loans and lease agreements (lessee)	5,002
CAJA DE AHORROS Y PENSIONES DE BARCELONA	ABIX SERVICE, S.L.	Accrued interest	Finance expenses	92
CAJA DE AHORROS Y PENSIONES DE BARCELONA	INMOBILIARIA COLONIAL, S.A.	Accrued interest	Finance expenses	849
CAJA DE AHORROS Y PENSIONES DE BARCELONA	INMOBILIARIA COLONIAL, S.A.	Contractual	Leases	2,685
CAJA DE AHORROS Y PENSIONES DE BARCELONA	INMOBILIARIA COLONIAL, S.A.	Accrued interest	Finance income	64
CAJA DE AHORROS Y PENSIONES DE BARCELONA	RIOFISA, S.A.	Repayment of debt	Repayment or cancellation of loans and lease agreements (lessee)	205
CAJA DE AHORROS Y PENSIONES DE BARCELONA	RIOFISA, S.A.	Accrued interest	Finance expenses	81
CAJA DE AHORROS Y PENSIONES DE BARCELONA	TORRE MARENOSTRUM S.L.U.	Accrued interest	Finance expenses	1,833
CAJA DE AHORROS Y PENSIONES DE BARCELONA	TORRE MARENOSTRUM S.L.U.	Repayment of debt	Repayment or cancellation of loans and lease agreements (lessee)	2,421
CAJA DE AHORROS Y PENSIONES DE BARCELONA	TORRE MARENOSTRUM S.L.U.	Accrued interest	Finance income	56
BANCO POPULAR ESPAÑOL, S.A.	ASENTIA PROJECT, S.L.	Accrued interest	Finance income	14
BANCO POPULAR ESPAÑOL, S.A.	INMOBILIARIA COLONIAL, S.A.	Accrued interest	Finance income	73
BANCO POPULAR ESPAÑOL, S.A.	RIOFISA DEHESA, S.L.	Accrued interest	Finance income	458

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 (in thousands of euros)
BANCO POPULAR ESPAÑOL, S.A.	RIOFISA SUR, S.L.	Accrued interest	Finance income	786
BANCO POPULAR ESPAÑOL, S.A.	RIOFISA, S.A.	Accrued interest	Finance income	56
BANCO POPULAR ESPAÑOL, S.A.	RIOFISA, S.A.	Repayment of debt	Repayment or cancellation of loans and lease agreements (lessee)	48
BANCO POPULAR ESPAÑOL, S.A.	RIOFISA, S.A.	Accrued interest	Finance income	2,187

C.3 List any relevant transactions entailing a transfer of assets or liabilities between the Company or its group companies and the Company's managers or Directors.

C.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.

C.5 Identify, where appropriate, any conflicts of interest affecting company Directors pursuant to article 127 ter of the LSA.

YES

Name or corporate name of Director
JOSÉ MARÍA SAGARDOY LLONIS
Description of the conflict of interest
Analysing asset disposals.

Name or corporate name of Director
JUAN JOSÉ BRUGERA CLAVERO
Description of the conflict of interest
Appraisal of the Company's Chairman.
Contract of the Company's Chairman.

Name or corporate name of Director
PEDRO VIÑOLAS SERRA
Description of the conflict of interest
Appraisal of the Company's Chief Executive Officer.
Contract of the Company's Chief Executive Officer.

C.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.

Article 16 of the Regulations of the Board of Directors states:
1. Directors must notify the Board of any situation that could lead to a direct or indirect conflict of interest with the Company.

Directors affected by the conflict of interest shall refrain from participating in any discussion or voting in matters related to the conflict.

2. Directors shall also notify the Company of any direct or indirect stake they, and their affiliates, as defined in article 231 of the Corporate Enterprises Act, may have in a company with the identical, similar or complementary corporate purpose, and the positions or duties they perform therein.

3. Any conflicts of interest as described above shall be detailed in the Notes to the Financial Statements.

Prior express authorisation of the Board of Directors is required, authorisation which can not be delegated, and subject to a favourable report by the Audit and Control Committee, in the following cases:

- Rendering to Inmobiliaria Colonial companies by a Director of professional services other than those deriving from the employment relationship with Executive Directors.
- 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 companies of supplies, materials, goods or rights in general. For the purposes of this section, a related person shall be understood to be that described in article 231 of the Corporate Enterprises Act.
- 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 usual 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.

The authorisation referred to in the previous paragraph does not apply in those related-party transactions that simultaneously comply with the following three conditions:

- They are governed by standard form contracts applied on an across-the-board basis to a large number of clients;

- They go through at market prices, generally set by the person supplying the goods or service.

- Their amount is no more than 1% of the Company's annual revenues.

In any event, relevant transactions of any category carried out by any Director or significant shareholder with the Company, its subsidiaries or affiliates must be recorded in the Annual Corporate Governance Report.

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

NO

Identify the listed subsidiaries in Spain:

D RISK CONTROL SYSTEMS

D.1 Give a general description of the risk policy in the Company and/or its group, detailing and evaluating the risks covered by the system, together with evidence that the system is appropriate for the profile of each type of risk.

Colonial's governing bodies regard risk management as a key aspect of its culture and, for this reason, all risks to which the Company is exposed must be identified, analysed, evaluated, managed, controlled and updated.

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

Colonial's ICRMS defines risk as any contingency which, should it occur, may prevent or or make it difficult for the Company to fulfil the objectives set by its governing bodies. These can be classified 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 in correct management of transactions, compromising compliance with the Company's operating targets.

- Reporting risks: risks in compiling relevant and complete information to generate internal and external reports.

- Compliance risks: risks arising from compliance with laws, regulations or standards in the markets in which the Company operates.

The main risks to which Colonial is exposed include:

- Slump (low demand) in the purchase of property assets in Spain and the resulting decline in the value and illiquidity of these property assets.

- Bearish cycle in the office rental market.

- Strategic management of the land and development business.

- Financing of property assets, financial debt structure and interest rate hedges.

- Compliance with regulations, particularly regarding the property business (Spanish and international) and as a listed company.

- Possible conflict of interest of core shareholders given their dual condition as core shareholders and finance providers.

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 update:

- Communication and consultation of the model by establishing constant communication flows (consultation, information and training) to promote a risk management culture throughout the entire Company.

- Monitoring and review of the model by monitoring and updating the results of the ICRMS ensuring that the risks are identified and that the treatment chosen is the most efficient.

iii) Control:

- Independent monitoring of the efficiency of the ICRMS and the existing control measures by the Internal Audit area.

The main bodies responsible for the Internal Control and Risk Management System (ICRMS) at Colonial are:

i) Board of Directors:

- Reviews and approves the Internal Control and Risk Management System.

- Approves the corporate risk map.

Colonial's Board of Directors has delegated to the Audit and Control Committee responsibility for risk management.

ii) Audit and Control Committee:

- Reviews the corporate risk map.

- 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.

- Ongoing monitoring of the ICRMS.

iii) Internal Audit

- Evaluates the effectiveness of those risk management processes and controls introduced to mitigate risks.

- Reviews and advises on the roll-out of risk treatment plans for all risk owners.

- 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.

- Submits to Colonial's governing bodies an annual review on the Company's risk map and progress made.

The ICRMS also identifies the duties of senior management, operating departments and owners of the risks with regard to risk management at Colonial. This involves implementing and maintaining a suitable level of internal control of the Company's risk appetite and tolerance.

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, likelihood of the risk occurring over a time period and the probability of the risk event occurring.

In this regard, the Company assesses risk from two angles, i.e. 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.

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 (for example, hedging transactions).

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.

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 the risk management activities at each of the business units.

- Preparation and update of risk records which include, among other information, the nature according to the risk area, response to the risk, details of the risk events comprising it, an assessment of the risk according to its impact, the likelihood and vulnerability, the strategic objectives affected and the impact this has on creating value for shareholders, 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 area analyses the corporate risk map and proposes which processes, risks and controls should be reviewed each year in the audit plan.

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

Colonial's ICRMS was developed throughout 2012. One of the main activities carried out was to bring the existing risk map up to date and formally develop risk records and the global reporting system.

These activities are due to conclude in the first half of 2013. After that date the owners of the risks will commence monitoring and self-assessment activities and Internal Audit will begin to supervise these activities and report on its findings.

D.2 Indicate whether the Company or group has been exposed to different types of risk (operational, technological, financial, legal, reputational, fiscal, etc.) during the year.

YES

If so, indicate the circumstances and whether the established control systems worked adequately.

Risks occurring in the year
Risk of conflict of interest with majority shareholders and Directors

Circumstances responsible for this occurrence
Some shareholders with seats on Colonial's Board of Directors are banks which are also creditors of the Company and hold equity interests in other companies engaged in the real estate business. Although the Company believes that these companies do not compete directly with it in the rental business, which is the focal point of the Group's strategy, there is no guarantee that in the future these companies' business opportunities and activities will not come into conflict with the Group's.
In any event, the members of Colonial's Board of Directors are required to report any situation that could pose a conflict, whether direct or indirect, with the interests of the Parent Company, as well as their equity interests in or positions held at companies whose activities are identical, similar or complementary to the activity that constitutes Colonial's corporate purpose.

Operation of control systems
In light of the Directors' ties with the Parent Company, article 21 of the Regulations of the Board of Directors stipulates that Director transactions that could pose a conflict of interest require the prior express authorisation of the Board of Directors, which cannot be delegated, subject to a favourable report by the Audit and Control Committee.

Risks occurring in the year
Prevailing slump in the Spanish property market

Circumstances responsible for this occurrence
The property business is inherently subject to economic and financial cycles. Occupancy rates, rents obtained and, in particular, asset values are affected by factors such as the supply and demand of properties with similar characteristics, interest rates, inflation, economic growth rates, legislation, political and economic events and other demographic and social factors.
Prior to the current recession, the real estate market in Spain had sustained exorbitant growth until well into the first half of the last decade, driven by economic factors (job creation, rising GDP), financial factors (low interest rates), and demographic, cultural and social factors (a preference for ownership of family homes, increased immigration, etc.).

However, the international financial crisis that erupted in the summer of 2007 has hurt the European property sector. As far as the Spanish property sector is concerned, these events prompted a turnaround in the outlook for a market in which prices and stocks had long since surpassed equilibrium levels.
The slowdown in the property sector, which until mid-2007 had been moderate, worsened noticeably from the second half of 2007 onwards, marked by low or very low business volumes in subsequent years. In Spain, this slowdown also continued for all of 2012. This situation has given rise to the devaluation of asset portfolios for many companies operating in the property sector in Spain, and the outlook for the Spanish property market in general remains bleak, aggravated by the insolvency and bankruptcy proceedings affecting multiple sector players.
Colonial is unable to predict the path that the economy will take in coming years, and there can be no assurance that the prevailing recession afflicting the property market will not deteriorate further, triggering a further decline in sales and rents and an increase in borrowing costs, which would have a material adverse effect on the Colonial Group's business and financial performance and financial position.

Operation of control systems
To mitigate as far as possible the impact of these cycles, Colonial diversifies its investments in different markets (France, Spain) and within these markets selects the property types and locations that are least vulnerable to the cyclical risk factors described above. Moreover, Colonial has defined its core business as the rental of properties for office use or as business premises and has taken the strategic decision to exit the housing development market.

Risks occurring in the year
Impairment of property assets

Circumstances responsible for this occurrence
The holding and acquisition of properties and land implies certain investment risk factors, including the possibility that returns on investment will be lower than estimated or that estimates and valuations performed (including estimates of development costs in the case of land) could prove inaccurate or wrong. In addition, the market value of property assets could decline under certain circumstances, for example, if expected yields fall. In the case of land, a decision by the pertinent planning authorities to increase the supply of zoned land in the vicinity could have an adverse impact on the development's rental or sales price.
Although Colonial performs market studies, appraisals and audits, and verifies the related legal and technical requirements, there can be no assurance that after properties are acquired material risk factors unforeseen at the acquisition date will not materialise (such as the imposition of zoning or environmental restrictions), or that the estimates upon which the valuation work was predicated will be met. These factors could ultimately impair the value of its properties and have a material adverse impact on Colonial's business and financial performance and on its financial position.

Operation of control systems
To mitigate this risk factor, Colonial engages independent experts to appraise all of its core business assets on a six-monthly basis. Colonial also engages appraisals of the assets classified as held-for-sale that make up its discontinued operation. These independent experts appraise the Colonial Group's assets using objective market criteria that are tailored for each portfolio property.
Nevertheless, the valuation of the Colonial Group's property portfolio should not be taken as an estimate or indication of how much these assets would fetch if they were sold on the market. Nor should the appraisals be deemed an estimate or indication of the price at which the Parent Company's shares will trade.

Risks occurring in the year
Relative illiquidity of real estate investments

Circumstances responsible for this occurrence
In 2012 the number of property transactions was very limited, largely due to the ongoing liquidity crunch in the sector.
This situation took the heaviest toll on the land and development segment. Colonial has taken the strategic decision to classify its operations in the land development segment as a discontinued operation and has therefore put these assets up for sale. However, the Company's disposal plans have been hindered by the lack of investments and transactions in this segment.

Real estate investments are relatively illiquid, especially in the current climate of sector recession, restricted liquidity and surplus supply of properties. Colonial may have difficulties in quickly realising the cash value of some of its real estate assets or could be forced to lower their realisable value. The illiquidity of its investments could limit the Company's ability to tailor the composition of its real estate portfolio to potential changes in the market/business situation. The ongoing credit crisis has hindered potential purchasers' ability to raise financing, making it more difficult to monetise certain real estate assets.

Operation of control systems

Colonial has mitigated this adverse effect by avoiding, within the context of the debt refinancing agreements reached, the imposition of deadlines for selling this class of assets, based on its belief that the resulting pressure could force it to offload properties on unfavourable terms with the attendant impact on property values.

To mitigate the impact that a liquidity squeeze could have on the scheduled sale of any of its properties, Colonial selects locations and property types that are least exposed to liquidity risk. In addition, Colonial has an ongoing building refurbishment work schedule aimed at endowing its properties with the latest technology developments and bringing them in line with the latest environmental standards and market requirements, all of which increases the liquidity of its assets within the constraints of the current market paradigm.

Risks occurring in the year

Property financing

Circumstances responsible for this occurrence

Companies operating in the real estate sector need to make heavy upfront investments to ensure development of their projects and the growth of their business by means of the purchase of rental properties and/or land. To date, Colonial has financed its investments through bank loans. Colonial's net debt rose sharply in recent years, peaking at 8,974 million euros on 30 September 2008. The Group has since reduced its borrowings significantly to 5,066 million euros (including the debt of assets held for sale) at 31 December 2012. The net debt of its rental business meanwhile is 3,623 million euros.

The fixed income market has contracted dramatically. The dearth of liquidity has not improved much despite central bank intervention, leading banks to limit financing for certain markets, including the real estate market. The repayment of Colonial's existing borrowings will be facilitated in part by operating cash flows, the sale of non-core assets and mainly via new financing agreements; however, this process will necessarily require the support of its creditors. In light of the prevailing international financial crisis, and in particular the recession affecting the Spanish property market, there can be no assurance that Colonial will be able to generate sufficient cash flow to service its debt or enter into financing agreements under favourable terms. This could have a material adverse impact on Colonial's business and financial performance and on its financial position.

Operation of control systems

In an attempt to prevent any possible difficulty in maintaining a sustainable capital structure, Colonial has adopted measures to drastically reduce its debt in recent years in an attempt to bring its leverage (in terms of loan-to-value) in line with acceptable rates for the sector, also extending the average life of its borrowings so that it can continue to enjoy the backing of the banks.

D.3 Indicate whether there is a committee or other governing body responsible for establishing and supervising these control systems.

YES

If so, please explain its duties.

Name of the committee or body
Audit and Control Committee

Description of duties
One of the basic functions of the Audit and Control Committee, as delegated expressly by the Company's 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.

In addition, the Company has a Compliance Department and Internal Audit Area to reinforce this objective.

The Audit and Control Committee has the following functions, among others:

- To submit to the Board, for approval, a report on Colonial's Internal Control and Risk Management System (ICRMS) which identifies at least:

    i. the different types of risk the Company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance sheet risks;

    ii. the determination of the risk level the Company sees as acceptable, including its risk appetite and tolerance levels;

    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.

- To supervise the process of preparing the individual and consolidated financial statements and management reports and periodic financial information to be reported to the markets, ensuring that legal requirements are complied with and generally accepted accounting principles are correctly applied.

- To monitor the preparation and integrity of the financial information prepared on the Company and, where appropriate, the Group.

- To review internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed.

The Compliance Department is responsible for ensuring compliance with the law and regulations, of any kind, which may affect the Group companies. The Internal Audit area meanwhile is responsible for carrying out the oversight duties established in its annual plans to ensure that the internal control procedures to mitigate and prevent risks are correctly implemented and work efficiently.

In this regard, Colonial's Board of Directors is ultimately responsible for ensuring that risks are correctly managed at the Company and delegates some of these duties to the Audit and Control Committee.

D.4 Identify and describe the processes for compliance with the regulations applicable to the Company and/ or its group.

As we have stated above, the Board of Directors is responsible for the Company's risk management policy and is assisted in this matter by the Audit and Control Committee who ensures that the policy is carried out.

At present, the Group has a corporate risk map structured into five areas of risk:

a) Strategic risks.

b) Operational risks.

c) Reporting risks.

d) Corporate risks.

e) Compliance risks.

Compliance covers all risks associated with adherence to internal and external regulations which affect the Group. These include corporate regulations, securities market regulations, urban planning and land regulations, environmental regulations, quality regulations, health and safety regulations for work sites, regulations concerning electrical installations in buildings, regulations on fire prevention, regulations on the prevention of occupational hazards, regulations on building safety, regulations on legionnaire's disease, employment regulations, data protection and regulations on money laundering in addition to internal regulations such as the Code of Ethics, Regulations of the General Shareholders' Meeting and the Board of Directors, the Internal Code of Conduct and the Bylaws, among others.

In 2011, and in response to the increasing need to manage the risks the economy is exposed to in a globalised and open world, governments and international bodies have approved an increasing number of both national and international regulations aimed at ensuring transparency, preventing fraud, safeguarding corporate information and respecting the rights of customers, shareholders and stakeholders. To this end, the Company's Audit and Control Committee set up a Compliance Department in which representatives from the Legal Services and Internal Audit areas participate.

The Department's main duties include:

- Maintaining all regulations applicable to Colonial up to date and available for the Audit and Control Committee;

- Being cognisant of regulatory changes and implementing procedures to ensure these are adhered to;

- Regularly appraising compliance with all applicable legislation as well as the appropriateness and effectiveness of internal regulations;

- Establishing, applying and maintaining appropriate procedures to detect and correct any breaches of the obligations included in applicable regulations;

- Notifying the Audit and Control Committee of any significant regulatory breaches, incidences or anomalies;

- Presenting the Audit and Control Committee with an annual activities report.

This department was formally set up in 2012 and carried out the following actions:

- Identifying the key compliance areas;

- Preparing a compliance risk inventory;

- Appointing personnel responsible for each compliance risk and reviewing the current internal risk control system, indicating improvements to be made for risks whose prevention did not comply with the Company's risk appetite and tolerance levels;

- Establishing a procedure to identify new regulations and updating current regulations;

- Drawing up self-assessment surveys for risk compliance for all existing corporate departments;

- Establishing internal control review criteria for all corporate departments;

- Structuring a reporting model of the results of the monitoring process;

This department shall ensure that all regulations and laws applicable to Colonial are correctly identified, interpreted, adhered to and supervised. It shall also establish the various roles and responsibilities between the different departments, business units and companies.

Notwithstanding the procedures outlined in the guidelines, each area within Colonial has a protocol that establishes the procedure to be followed in pursuing its respective activity, thereby ensuring compliance with applicable sector-specific regulations.

The actions carried out in 2012 are due to be concluded in the first quarter of 2013. After that date all departments will undertake the compliance self-assessment process, the Compliance Department will begin to monitor and control compliance risk at Colonial and the Internal Audit area will commence its monitoring activities and report on its findings.

E GENERAL SHAREHOLDERS' MEETINGS

E.1 Indicate the quorum required for constitution of the General Shareholders' Meeting established in the Company's Bylaws. Describe how it differs from the system of minimum quorums established in the LSA.

NO

	Quorum % other than that established in article 102 of the LSA for general cases	Quorum % other than that established in article 103 of the LSA for the special cases described in article 103
Quorum required for first call	0	0
Quorum required for second call	0	0

E.2 Indicate and, as applicable, describe any differences between the Company's system of adopting corporate resolutions and the framework set forth in the LSA.

NO

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

E.3 List all shareholders' rights regarding the General Shareholders' Meetings other than those established under the LSA.

Shareholders who, alone or as a group, hold a minimum of fifty shares, which must be registered in the book entry register five days prior to the date scheduled for the meeting, and who are able to prove this by presenting, at the registered office or to any bodies indicated in the notice of the meeting, the corresponding certificate of status or attendance card issued by the Company or entities responsible for keeping the book entry register, or in any other manner provided for by the law in force, may attend General Meetings in person or arrange to be duly represented.

In this respect please refer to section E.4. below.

E.4 Indicate the measures, if any, adopted to encourage shareholder participation at General Shareholders' Meetings.

1. Article 11 of the Regulations of the General Shareholders' Meeting states that once notice of the meeting has been given, shareholders may comment or make suggestions in relation to the items on the Agenda in writing or by e-mail.

The General Meeting shall not be informed of these comments or suggestions, however, the Board of Directors may take them into account along with the right of shareholders to participate in discussions at the General Meeting.

2. The Regulations of the Shareholders' Meeting provide extensive and detailed information on shareholders' right to information and their right to participation during the Meeting. In particular, and by way of example, the Regulations provide for:

a) The creation, at the discretion of the Board, of remote correspondence channels, which allow shareholders to exercise their right to vote and/or appoint proxies, and provide detailed information on the procedure and specific channels through which shareholders can exercise their right to information.

b) A significant improvement in terms of the legal regulation of the exercise of the right to attend (technical development of accreditation procedures and systems for the Meeting) and shareholder proxies (in this respect it must be stated that the proxy may be granted by postal correspondence or other means of remote communication if deemed appropriate).

c) The adoption of audiovisual media and simultaneous translation to improve meetings.

d) Detailed regulation of the procedure relating to the participation of shareholders in Meetings, so that the meeting agenda is followed and to ensure that the meeting runs smoothly, without infringing on the shareholders' legally recognised right to information.

E.5 Indicate whether the General Shareholders' Meetings is presided by the Chairman of the Board of Directors. List measures, if any, adopted to guarantee the independence and correct operation of the General Shareholders' Meeting:

YES

Details of measures

Article 23 of the Bylaws and article 17 of the Regulations of the General Shareholders' Meeting state that the Chairman of the Board of Directors shall act as Chairman of the meeting or, in his absence, the oldest Vice Chairman from amongst those appointed. The Secretary shall be the Secretary or the Vice-Secretary of the Board of Directors. In the absence of the aforementioned persons, the Chairman and Secretary of the General Meeting shall be appointed by those shareholders present at the meeting.

Article 1 of the Regulations regulates the organisation and conduct of the General Shareholders' Meeting in accordance with legal provisions and those of the Company's Bylaws.

Pursuant to article 17 of the Regulations, the Chairman of the Meeting shall direct the Meeting, resolve any doubts that may arise as regards the attendance list and the contents of the Agenda, allow those shareholders wishing to speak to do so as and when he deems it appropriate, indicate when a vote is to be taken on the resolutions and announce the result of voting and in general, exercise all authority required for the proper conduct of the meeting, including interpretation of the provisions of these Regulations.

E.6 Indicate the amendments, if any, made to the General Shareholders' Meeting regulations during the year.

The shareholders at the General Meeting of 28 June 2012 approved the amendment of the Regulations of the General Shareholders' Meeting to adapt the wording of articles 2, 3, 5, 7, 8, 9, 10, 12, 13, 14, 15, 21, 22, 24 and 26 to the legal reforms introduced by Act 25/2011, of 1 August, the partial reform of the Corporate Enterprises Act and the incorporation of Directive 2007/36/EC of the European Parliament and of the Council of 11 July, as well as with Royal Decree Law 9/2012, of 16 March, regarding the simplification of reporting and documentation obligations for mergers and spin-offs of corporate enterprises.

E.7 Indicate the attendance figures for the General Shareholders' Meetings held during the year:

		Attendance data			
Date of General Meeting	% attending in person	% by proxy	% by remote voting		Total
			Electronic means	Other	
28/06/2012	84.050	5.957	0.000	0.000	90.007

E.8 Briefly indicate the resolutions adopted at the General Shareholders' Meetings held during the year and the percentage of votes with which each resolution was adopted.

One.- Examination and, if applicable, ratification of the individual financial statements of Inmobiliaria Colonial, S.A. and the consolidated financial statements of Inmobiliaria Colonial, S.A. and its subsidiaries for the year ended 31 December 2011 and the Audit Reports of the Company's auditor.
Ratified with 99.5375% votes in favour.

Two.- Examination and, if applicable, ratification of the proposed appropriation of profit or loss for the Company for the year ended 31 December 2011.
Ratified with 99.5375% votes in favour.

Three.- Examination and, if applicable, ratification of the individual and consolidated Management Reports and approval of the Board of Directors' performance during the year ended 31 December 2011.
Ratified with 99.5373% votes in favour.

Four.- Re-appointment of the statutory auditor of Inmobiliaria Colonial, S.A. and its consolidated group.
Ratified with 99.5373% votes in favour.

Five.- Creation of the Company's corporate website, www.inmocolonial.com, pursuant to the provisions of articles 11 bis, 11 ter and 11 quáter of the Spanish Corporate Enterprises Act.
Ratified with 99.5376% votes in favour.

Six.- Amendment of articles 2 ,5, 14, 16, 18, 19, 20, 25, 29, 30, 32, 36 and 38 of the Bylaws in order to adapt the wording to recent legislative amendments on corporate law.
Ratified with 99.5375% votes in favour.

Seven.- Amendment of articles 2, 3, 5, 7, 8, 9, 10, 12, 13, 14, 15, 21, 22, 24 and 26 of the Regulations of the General Shareholders' Meeting to adapt the wording to recent legislative amendments on corporate law.
Ratified with 99.5375% votes in favour.

Eight.- Notification to the General Meeting on the modification of the Regulations of the Board of Directors to adhere to recent legislative amendments on corporate law.

Nine.- Ratification of the term for convening Extraordinary General Meetings under the terms of article 515 of the Corporate Enterprises Act.
Ratified with 99.4436% votes in favour.

Ten - Ratification of the report on the Directors' Remuneration Policy of Inmobiliaria Colonial, S.A. for 2012 submitted to the advisory vote.
Ratified with 99.5371% votes in favour.

Eleven .- Delegation of powers.
Ratified with 99.5373% votes in favour.

E.9 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 Shareholders' Meetings	50

E.10 Indicate and explain the policies pursued by the Company with reference to proxy voting at the General Shareholders' Meeting.

There are no specific policies relating to proxy voting, since there are no restrictions on the exercise of the right to vote by shareholders. Notwithstanding the above, the representation of shareholders at General Shareholders' Meetings and proxy requests are governed by articles 13 and 14 of the Company's Regulations of the Shareholders' Meeting, which state that:

Article 13.- Proxies.- All shareholders entitled to attend meetings may arrange to be represented at General Meetings by another person. The proxy must be granted in writing and specifically for each meeting, under the terms and conditions laid down in the Corporate Enterprises Act.

Should the represented shareholder have issued voting instructions along with their proxy, the proxyholder will vote accordingly and shall keep these instructions for one year from the date of the corresponding General Meeting.

The proxy may represent more than one shareholder with no limit on the number of shareholders they may represent. When a proxyholder holds various proxies, they may issue different votes according to the instructions received from each shareholder.

The law allows for proxies to vote on any issues not included on the Agenda and which may be raised at the Meeting.

In any event, the number of shares represented shall be included in the number required to hold a valid meeting. Proxies may be revoked at any time. The proxy shall be deemed revoked if the principal attends the meeting in person.

Proxies may also be granted by means of remote communication providing the identity of the shareholder can be guaranteed and, if applicable, the electronic means is secure, in accordance with prevailing legislation.

The proxy may also be granted by post by means of a letter to the Company giving details of the proxy granted, accompanied by the attendance card issued by the Company or entities responsible for keeping the book entry register. However, the attendance card shall suffice where that card provides for its use for the purposes of delegation by postal correspondence.

Proxies may also be granted by any other means of remote communication, provided that the identities of the shareholder and proxyholder have been confirmed and that such means have been approved by the Board of

Directors at the time of the notice of the meeting, and have been published in the notice of the meeting and on the Company's website.

Proxies granted by remote communication shall be governed by, in so far as is possible, article 12 of these Regulations on remote voting.

Proxies granted by means of any of the aforementioned remote correspondence channels must be received by the Company at least twenty-four (24) hours before the time and date scheduled for the General Meeting to take place at first notice, although the Chairman may accept any votes received after that deadline. Otherwise the proxy shall be deemed not to have been granted.

The Chairman and the Secretary of the General Meeting shall have wide ranging authority to acknowledge the validity of the document or medium accrediting the proxy, and only those not meeting the minimum requirements, and which cannot be rectified, shall be considered invalid.

Article 14.- Conflict of interest between the proxyholder and the public request for proxy.- Before being appointed, the proxy shall provide a detailed account to the shareholder of any conflicts of interest. If the conflict is subsequent to the appointment and the represented shareholder has not been notified of its possible existence, they must be informed immediately. In both cases, if new precise voting instructions are not received for each of the issues on which the proxy should vote on behalf of the shareholder, they must abstain from voting. In particular, a conflict of interest may exist when the proxy is in any of the situations set forth in the Corporate Enterprises Act in this regard.

If the Directors of the Company, the securities custodians or those entities responsible for the book entry register request a proxy for themselves or for another party, and, in general, where a proxy has been obtained by public request, the rules contained in the Corporate Enterprises Act, the Securities Market Act and implementing provisions shall apply.

In particular, the proxy form must contain or have attached to it the Agenda, the request for voting instructions and the way in which the proxy is to vote in the event that no specific instructions have been given. The delegation may also include those points which, although not listed on the Agenda, may be dealt with by law at the meeting, and may also provide for the replacement of the Director acting as proxy by another Director, by the Secretary of the Board or another shareholder attending the meeting if the Director is in a situation of conflict of interest preventing he from exercising the vote delegated.

By way of an exception, the proxy may vote differently where circumstances arise that were not known when the voting instructions were sent and there is a risk of the interests of the principal being adversely affected. In the event of a vote cast contrary to the instructions given, the proxy shall immediately inform the principal, in writing, explaining the reasons for the vote.

In the cases of public requests for proxies, the Director representing the shareholder shall adhere to the restrictions on voting rights stipulated in the consolidated Corporate Enterprises Act regarding conflicts of interest.

It shall be understood that a public request has been made when one and the same person holds proxies for more than three shareholders.

Unless otherwise stated, when a proxy is in a situation of conflict of interest, it shall be understood that the proxy has also appointed as representatives, the Chairman and, subsequently, the Secretary of the General Meeting.

E.11 Indicate whether the Company is aware of the policy of institutional investors on whether or not to participate in the Company's decision-making processes.

NO

E.12 Indicate the address and method of accessing corporate governance content on your Company's website.

http://www,inmocolonial.com

Once connected the website, go to the Information for Shareholders and Investors menu and from here click on the Corporate Governance link. All corporate information relating to this issue in accordance with the current legislation can be found here.

F 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 them, explain the recommendations, standards, practices or criteria the company applies.

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.

See sections: A.9, B.1.22, B.1.23, E.1 and E.2

Compliant

2. When a parent and a subsidiary company are stock market listed, the two should provide detailed disclosures on:

a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;
b) The mechanisms in place to resolve possible conflicts of interest.

See sections: C.4 and C.7

Not applicable

3. Even when not expressly required under company law, any decisions involving a fundamental corporate change should be submitted to the General Shareholders' Meeting for approval or ratification. In particular:

a) The transformation of listed companies into holding companies through the process of subsidiarisation, i.e. reallocating core activities to subsidiaries that were previously carried out by the originating firm, even though the latter retains full control of the former;
b) Any acquisition or disposal of key operating assets that would effectively alter the Company's corporate purpose;
c) Operations that effectively add up to the Company's liquidation

Partially compliant

Article 5 of the Regulations of the Board of Directors states that the Board of Directors shall submit to the prior authorisation of the General Shareholders' Meeting all transactions involving the acquisition or disposal of key operating assets when they give rise to an effective amendment of the corporate purpose, as well as operations the effect of which is tantamount to the liquidation of the Company.

In this respect, it was agreed that subsidiarisation transactions need not be presented for authorisation at the General Shareholders' Meeting, since such transactions may require rapid decision-making in order to take advantage of timely opportunities and already benefit from wide-ranging legal mechanisms for the protection of shareholders and the Company's interests. Notwithstanding the foregoing, the Board of Directors does periodically inform shareholders and the markets of these transactions de la Junta.

4. Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information stated in Recommendation 28, should be made available at the same time as the publication of the Meeting notice.

Compliant

5. Separate votes should be taken at the General Meeting on materially separate items, so shareholders can express their preferences in each case. This rule shall apply in particular to:

a) The appointment or ratification of Directors, with separate voting on each candidate;
b) Amendments to the Bylaws, with votes taken on all articles or group of articles that are materially different.

See section: E.8

Compliant

6. Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.

See section: E.4

Compliant

7. The Board of Directors should perform its duties with unity of purpose and independent judgement, according all shareholders the same treatment. It should be guided at all times by the Company's best interest and, as such, strive to maximise its value over time. It should likewise ensure that the Company abides by the laws and regulations in its dealings with stakeholders; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories where it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily.

Compliant

8. The Board should see the core components of its mission as to approve the Company's strategy and authorise the organisational resources to carry it forward, and to ensure that management meets the objectives set while pursuing the company's interests and corporate purpose. As such, the Board in full should reserve the right to approve:

a) The Company's general policies and strategies, and, in particular:

i) The strategic or business plan and management targets and annual budgets;
ii) Investment and financing policy;
iii) Design of the structure of the corporate group;
iv) Corporate governance policy;
v) Corporate social responsibility policy;
vi) Remuneration and evaluation of senior officers;
vii) Risk control and management, and the periodic monitoring of internal information and control systems;
viii) Dividend policy, as well as the policies and limits applying to treasury stock.

See sections: B.1.10, B.1.13, B.1.14 and D.3

b) The following decisions:

i) On the proposal of the Company's Chief Executive, the appointment and removal of senior officers, and their compensation clauses.

See section: B.1.14

ii) Directors' remuneration and, in the case of Executive Directors, the additional consideration for their management duties and other contract conditions.
See section: B.1.14
iii) The financial information that all listed companies must periodically disclose.
iv) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the General Shareholders' Meeting;
v) The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.

c) Transactions which the Company conducts with Directors, significant shareholders, shareholders with Board representation or other persons related thereto ("related-party transactions"). However, Board authorisation need not be required for related-party transactions that simultaneously meet the following three conditions:

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;

3. Their amount is no more than 1% of the Company's annual revenues.

It is advisable that related-party transactions should only be approved subject to a favourable report from the Audit Committee or some other committee handling the same function; and that the Directors involved should neither exercise nor delegate their votes, and should withdraw from the meeting room while the Board deliberates and votes.

Ideally the above powers should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the Executive Committee in urgent cases and later ratified by the full board.

See sections: C.1 and C.6

Compliant

9. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise no fewer then five and no more than fifteen members.

See section: B.1.1

Compliant

10. External Directors, Proprietary and Independent, should occupy an ample majority of Board places, 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.

See sections: A.2, A.3, B.1.3 and B.1.14

Compliant

11. In the event that some External Director can be deemed neither Proprietary nor Independent, the Company should disclose this circumstance and the links that person maintains with the Company or its senior officers, or its shareholders.

See section: B.1.3

Not applicable

12. That among External Directors, the relation between Proprietary and Independent Directors should match the proportion between the capital represented on the Board by Proprietary Directors and the remainder of the Company's capital.

This proportional criterion can be relaxed so the weight of Proprietary Directors is greater than would strictly correspond to the total percentage of capital they represent:

1. In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the existence of shareholders with considerable sums actually invested.

2. In companies with a plurality of shareholders represented on the Board but not otherwise related.

See sections: B.1.3, A.2 and A.3

Compliant

13. The number of Independent Directors should represent at least one third of all Board members.

See section: B.1.3

Explain

Colonial's Board of Directors currently has two Independent Directors who, without representing one-third of all Directors, do represent, as indicated in the OECD Principles of Corporate Governance and EC Recommendation of 15 February 2006, a sufficient number of Independent Directors to adequately guarantee the protection of the interests of the minority shareholders included in the Company's capital structure.

14. The nature of each Director should be explained to the General Meeting of Shareholders, which will make or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year's Annual Corporate Governance Report, after verification by the Nomination Committee. This Report should also disclose the reasons for the appointment of Proprietary Directors at the urging of shareholders controlling less than 5% 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.

See sections: B.1.3 and B.1.4

Compliant

15. When women Directors are few or non existent, the Board should state the reasons for this situation and the measures taken to correct it; in particular, the Nomination Committee should take steps to ensure that:

a) The process of filling board vacancies has no implicit bias against women candidates;
b) The Company makes a conscious effort to include women with the target profile among the candidates for board places.

See sections: B.1.2, B.1.27 and B.2.3

Compliant

16. The Chairman, as the person responsible for the proper operation of the Board of Directors, should ensure that Directors are supplied with sufficient information in advance of Board meetings, and work to procure a good level of debate and the active involvement of all members, safeguarding their rights to freely express and adopt positions; he or she should organise and coordinate regular evaluations of the Board and, where appropriate, the Company's Managing Director or Chief Executive, along with the chairmen of the relevant Board committees.

See section: B.1.42

Compliant

17. When a company's Chairman is also its Chief Executive, an Independent Director should be empowered to request the calling of Board meetings or the inclusion of new business on the agenda; to coordinate and give voice to the concerns of external directors; and to lead the Board's evaluation of the Chairman.

See section: B.1.21

Not applicable

18. The Secretary should take care to ensure that the Board's actions:

a) Adhere to the spirit and letter of laws and their implementing regulations, including those issued by regulatory agencies;
b) Comply with the Company Bylaws and the regulations of the General Shareholders' Meeting, the Board of Directors and others;
c) Are informed by those good governance recommendations of the Unified Code that the Company has subscribed to.

In order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal should be proposed by the Nomination Committee and approved by a full Board meeting; the relevant appointment and removal procedures being spelled out in the Board's regulations.

See section: B.1.34

Compliant

19. The Board should meet with the necessary frequency to properly perform its functions, in accordance with a calendar and agendas set at the beginning of the year, to which each Director may propose the addition of other items.

See section: B.1.29

Compliant

20. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. When Directors have no choice but to delegate their vote, they should do so with instructions.

See sections: B.1.28 and B.1.30

Compliant

21. 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, the person expressing them can request that they be recorded in the minute book.

Compliant

22. The Board in full should evaluate the following points on a yearly basis:

a) The quality and efficiency of the Board's operation;
b) Starting from a report submitted by the Nomination Committee, how well the Chairman and Chief Executive have carried out their duties;
c) The performance of its committees on the basis of the reports furnished by the same.

See section: B.1.19

Compliant

23. All Directors should be able to exercise their right to receive any additional information they require on matters within the Board's competence. Unless the Bylaws or Board regulations indicate otherwise, such requests should be addressed to the Chairman or Secretary.

See section: B.1.42

Compliant

24. All Directors should be entitled to call on the Company for the advice and guidance they need to carry out their duties. The Company should provide suitable channels for the exercise of this right, extending in special circumstances to external assistance at the Company's expense.

See section: B.1.41

Compliant

25. Companies should organise induction programmes for new Directors to acquaint them rapidly with the workings of the Company and its corporate governance rules. Directors should also be offered refresher programmes when circumstances so advise.

Compliant

26. Companies should require their Directors to devote sufficient time and effort to perform their duties effectively, and, as such:

a) Directors should apprise the Nomination Committee of any other professional obligations, in case they might detract from the necessary dedication;

b) Companies should lay down rules about the number of directorships their Board members can hold.

See sections: B.1.8, B.1.9 and B.1.17

Partially compliant

The Company is partially compliant since, although Directors disclose any professional obligations they may have, the Company has not established any rules on the number of directorships their Board members can hold.

27. The proposal for the appointment or renewal of Directors which the Board submits to the General Shareholders' Meeting, as well as provisional appointments by the method of co-option, should be approved by the Board:

a) On the proposal of the Nomination Committee, in the case of Independent Directors.
b) Subject to a report from the Nomination Committee in all other cases.

See section: B.1.2

Compliant

28. Companies should post the following Director particulars on their websites, and keep them permanently updated:

a) Professional experience and background;
b) Directorships held in other companies, listed or otherwise;
c) An indication of the Director's classification as Executive, Proprietary or Independent; In the case of Proprietary Directors, stating the shareholder they represent or have links with;
d) The date of their first and subsequent appointments as a company Director; and
e) Shares held in the Company and any options on the same.

Compliant

29. Independent Directors should not stay on as such for a continuous period of more than 12 years.

See section: B.1.2

Compliant

30. 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 latter's number should be reduced accordingly.

See sections: A.2, A.3 and B.1.2

Compliant

31. 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 just cause is found by the Board, based on a proposal from the Nomination Committee. In particular, just cause will be presumed when a Director is in breach of his or her fiduciary duties or comes under one of the disqualifying grounds enumerated in section III.5 (Definitions) of this Code.

The removal of Independent Directors may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the Company's capital structure, in order to meet the proportionality criterion set out in Recommendation 12.

See sections: B.1.2, B.1.5 and B.1.26

Compliant

32. Companies should establish rules obliging Directors to inform the Board of any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention 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 crimes stated in article 124 of the Public Limited Companies Act (LSA), the Board should examine the matter and, in view of the particular circumstances and potential harm to the Company's name and reputation, decide whether or not he or she should be called on to resign. The Board should also disclose all such determinations in the Annual Corporate Governance Report.

See sections: B.1.43 and B.1.44

Compliant

33. All Directors should express clear opposition when they feel a proposal submitted for the Board's approval might damage the corporate interest. In particular, Independent and other Directors unaffected by the conflict of interest should challenge any decision that could go against 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 should also apply to the Secretary of the Board, Director or otherwise.

Compliant

34. 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. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.

See section: B.1.5

Compliant

35. The Company's remuneration policy, as approved by its Board of Directors, should specify at least the following points:

- a) The amount of the fixed components, itemised, where necessary, of Board and Board committee attendance fees, with an estimate of the fixed annual remuneration they give rise to.
- b) Variable components, in particular:
  - i) The types of Directors they apply to, with an explanation of the relative weight of variable to fixed remuneration items;
  - ii) Performance evaluation criteria used to calculate entitlement to the award of shares, share options or any performance-related remuneration;
  - iii) The main parameters and grounds for any system of annual bonuses or other, non cash benefits; and
  - iv) An estimate of the total amount of variable payments arising from the remuneration policy proposed, as a function of degree of compliance with pre-set targets or benchmarks.
- c) The main characteristics of pension systems (for example, supplementary pensions, life insurance and similar arrangements), with an estimate of their amount or annual equivalent cost.
- d) The conditions to apply to the contracts of Executive Directors exercising senior management functions, among them:
  - i) Duration;
  - ii) Notice periods; and
  - iii) Any other clauses covering hiring bonuses, as well as indemnities or "golden parachutes" in the event of early termination of the contractual relation between Company and Executive Director.

See section: B.1.15

Compliant

36. Remuneration comprising the delivery of shares in the Company or other companies in the group, share options or other share-based instruments, payments linked to the Company's performance or membership of pension schemes should be confined to Executive Directors.

The delivery of shares is excluded from this limitation when Directors are obliged to retain them until the end of their tenure.

See sections: A.3 and B.1.3

Compliant

37. External Directors' remuneration should sufficiently compensate them for the dedication, abilities and responsibilities that the post entails, but should not be so high as to compromise their independence.

Compliant

38. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Compliant

39. In the case of variable awards, remuneration policies should include 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, atypical or exceptional transactions or circumstances of this kind.

Compliant

40. The Board should submit a report on the Directors' remuneration policy to the advisory vote of the General Shareholders' Meeting, as a separate point on the agenda. This report can be supplied to shareholders separately or in the manner each Company sees fit.

The report will focus on the remuneration policy the Board has approved for the current year with reference, as the case may be, to the policy planned for future years. It will address all the points referred to in Recommendation 35, except those potentially entailing the disclosure of commercially sensitive information. It will also identify and explain the most significant changes in the remuneration policy with respect to the previous year, with a global summary of how the policy was applied over the period in question.

The role of the Remuneration Committee in designing the policy should be reported to the Meeting, along with the identity of any external advisors engaged.

See section: B.1.16

Compliant

41. The notes to the financial statements should list individual Directors' remuneration in the year, including:

a) A breakdown of the compensation obtained by each company Director, to include where appropriate:
   - i) Participation and attendance fees and other fixed Directors payments;
   - ii) Additional compensation for acting as chairman or member of a Board committee;
   - iii) Any payments made under profit-sharing or bonus schemes, and the reason for their accrual;
   - iv) Contributions on the Director's behalf to defined-contribution pension plans, or any increase in the Director's vested rights in the case of contributions to defined-benefit schemes;
   - v) Any severance packages agreed or paid;
   - vi) Any compensation they receive as Directors of other companies in the group;
   - vii) The remuneration Executive Directors receive in respect of their senior management posts;

viii) Any kind of compensation other than that listed above, of whatever nature and provenance within the group, especially when it may be considered a related-party transaction or when its omission would detract from a true and fair view of the total remuneration received by the Director.

b) An individual breakdown of deliveries to Directors of shares, share options or other share-based instruments, itemised by:
   i) Number of shares or options awarded in the year, and the terms set for their execution;
   ii) Number of options exercised in the year, specifying the number of shares involved and the exercise price;
   iii) Number of options outstanding at the annual close, specifying their price, date and other exercise conditions;
   iv) Any change in the year in the exercise terms of previously awarded options.
c) Information on the relation in the year between the remuneration obtained by Executive Directors and the Company's profits, or some other measure of enterprise results.

Compliant

42. When the Company has an Executive Committee, the breakdown of its members by director category should be similar to that of the Board itself.

See sections: B.2.1 and B.2.6

Partially compliant

The Secretary of the Board also acts as Secretary to the Executive Committee.

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

43. 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

44. In addition to the Audit Committee as required under the Securities Market Law, the Board of Directors should form a committee, or two separate committees, of Nomination and Remuneration.

The rules governing the make-up and operation of the Audit Committee and the committee or committees of Nomination and Remuneration should be set forth in the Board regulations, and include the following:

a) The Board of Directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its Directors and the terms of reference of each committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first Board plenary following each meeting;
b) These committees should be formed exclusively of External Directors and have a minimum of three members. Executive Directors or senior officers may also attend meetings, for information purposes, at the Committees' invitation.
c) Committees should be chaired by an Independent Director.
d) They may engage external advisors, when they feel this is necessary for the discharge of their duties.
e) Meeting proceedings should be drawn up in the minutes and a copy thereof sent to all Board members.

See sections: B.2.1 and B.2.3

Compliant

45. The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the Audit Committee, the Nomination Committee or, as the case may be, separate Compliance or Corporate Governance committees.

Compliant

46. All members of the Audit Committee, particularly its Chairman, should be appointed with regard to their knowledge and background in accounting, auditing and risk management matters.

Compliant

47. Listed companies should have an Internal Audit area, under the supervision of the Audit Committee, to ensure the proper operation of internal reporting and control systems.

Compliant

48. The head of the Internal Audit area should present an annual work programme to the Audit Committee, report to it directly on any incidents arising during its implementation; and submit an activities report at the end of each year.

Compliant

49. Control and risk management policy should specify at least:

a) The different types of risk (operational, technological, financial, legal, reputational, etc.) the Company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks;
b) The determination of the risk level the Company sees as acceptable;
c) Measures in place to mitigate the impact of risk events should they occur;
d) The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

See section: D

Compliant

50. The Audit Committee's role should be:

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 scope of consolidation, and the correct application of accounting principles.
b) Review internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed.
c) Monitor the independence and efficacy of the Internal Audit area; 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.
d) Establish and supervise a mechanism whereby staff 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.

2. With respect of the external auditor:

a) Make recommendations to the Board for the selection, appointment, reappointment and removal of the external auditor, and the terms and conditions of his engagement.
b) Receive regular information from the external auditor on the progress and findings of the audit programme, and check that senior management are acting on its recommendations.
c) Monitor the independence of the external auditor, to which end:
i) The Company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
ii) The Committee should ensure that the Company and the auditor adhere to current regulations on the provision of non-audit services, the limits on the concentration of the auditor's business and, in general, other requirements designed to safeguard auditors' independence;
iii) The Committee should investigate the issues giving rise to the resignation of any external auditor.
d) In the case of groups, the Committee should urge the group auditor to take on the auditing of all component companies.

See sections: B.1.35, B.2.2, B.2.3 and D.3

Compliant

51. 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

52. The Audit Committee should prepare information on the following points from Recommendation 8 for input to Board decision-making:

a) The financial information that all listed companies must periodically disclose. The Committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.
b) The creation or acquisition of shares in special purpose vehicles or entities resident in countries or territories considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.
c) Related-party transactions, except where their scrutiny has been entrusted to some other supervision and control committee.

See sections: B.2.2 and B.2.3

Compliant

53. The Board of Directors should seek to present the financial statements to the General Shareholders' Meeting without reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the Chairman of the Audit Committee and the auditors should give a clear account to shareholders of their scope and content.

See section: B.1.38

Compliant

54. The majority of Nomination Committee members – or Nomination and Remuneration Committee members as the case may be – should be Independent Directors.

See section: B.2.1

Explain

Inmobiliaria Colonial, S.A.'s Nomination and Remuneration Committee comprises a total of five members, all of whom are External Directors, including two Independent Directors. Moreover, this Committee is chaired by one of the Independent Directors.

The Board of Directors considers that, beyond the specific category of Directors comprising the Committee, the aptitudes, experience and qualifications of the Directors are sufficient to ensure the efficient performance of the duties and responsibilities vested in said Committee.

55. The Nomination Committee should have the following functions in addition to those stated in earlier recommendations:

a) Evaluate the balance of skills, knowledge and experience on the Board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.
b) Examine or organise, in appropriate form, the succession of the Chairman and Chief Executive, making recommendations to the Board so the handover proceeds in a planned and orderly manner.
c) Report on the senior officer appointments and removals which the Chief Executive proposes to the Board.
d) Report to the Board on the gender diversity issues discussed in Recommendation 14 of this Code.

See section: B.2.3

Compliant

56. The Nomination Committee should consult with the Company's Chairman and Chief Executive, especially on matters relating to Executive Directors.

Any Board member may suggest directorship candidates to the Nomination Committee for its consideration.

Compliant

57. The Remuneration Committee should have the following functions in addition to those stated in earlier recommendations:

a) Make proposals to the Board of Directors regarding:
   i) The remuneration policy for Directors and senior officers;
   ii) The individual remuneration and other contractual conditions of Executive Directors.
   iii) The standard conditions for senior officer employment contracts.
b) Oversee compliance with the remuneration policy set by the Company.

See sections: B.1.14 and B.2.3

Compliant

58. The Remuneration Committee should consult with the Chairman and Chief Executive, especially on matters relating to Executive Directors and senior officers.

Compliant

G OTHER INFORMATION OF INTEREST

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, specify and explain below.

1. Section A.2- The number of direct and indirect voting rights included in section A.2 pertaining to Commerzbank, A.G., Eurohypo A.G. Sucursal en España, HM Treasury, The Royal Bank of Scotland, The Goldman Sachs Group, Inc. and Kreta Inmobilien have been calculated by the Company based on the latest notifications received from its shareholders at 31 December 2012. The number of voting rights reported was adjusted following the share aggregation (1x100 shares) carried out in 2011, whereby they may not coincide exactly with the number of voting rights held by each shareholder.
2. Section A.2 - With regard to significant changes in the shareholder structure during the year, it should be noted that although HM Treasury filed a notice on 26 September 2012 stating that it indirectly holds a stake equivalent to 19.991%, this notice cannot be deemed to be a change in the shareholder structure in 2012 given that, as stated in the notice, this transaction took place on 22 September 2010.
3. Section A.8 - In 2012, the Company acquired a total of 1,410,645 direct shares, 0.624% of the total share capital. These acquisitions were notified on 30 January 2013 and have therefore not been included in Section A.8.C.
4. Section B.1.11 - The total sum of remuneration indicated in section B.1.11 of this Report includes remuneration received by members of the Company's management team and Board of Directors who no longer worked at the Company at 31 December 2012.
5. Section B.1.12 - It is expressly noted that section B.1.12. was completed pursuant to the definition of senior management included, exclusively, in the Code of Good Governance for listed companies, and therefore no other definitions of senior management referred to in prevailing legislation are applicable, in particular, that included in Royal Decree 1382/1985 of 1 August on the special employment relationship of senior management personnel.

You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the Company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

Binding definition of Independent Director:

List any Independent Directors who maintain, or have maintained in the past, a relationship with the Company, its significant shareholders or managers, when the significance or importance thereof would dictate that the Directors in question may not be considered Independent pursuant to the definition set forth in section 5 of the Unified Good Governance Code:

NO

Date and signature:

This annual corporate governance report was approved by the Company's Board of Directors at its meeting held on:

28/02/2013

List whether any Directors voted against or abstained from voting on the approval of this Report.

NO

Inmobiliaria Colonial, S.A.

Appendix to the Annual Corporate Governance Report for 2012

The Sustainable Economy Act 2/2011 was approved on 4 March 2011. Among other aspects, it modified the existing legal regime incorporating new disclosure requirements for listed companies.

Particularly, the Sustainable Economy Act amended the Securities Market Act 24/1988, of 28 July, and introduced a sixth chapter entitled “The Annual Corporate Governance Report”. This chapter contains a new article 61 bis, which repeals and consolidates the content of former articles 116 and 116 bis regarding the Annual Corporate Governance Report (hereinafter ACGR).

Due to the abovementioned amendments, among other additional contents, the 2012 ACGR must now include a description of the main characteristics of the internal control and risk management systems regarding statutory financial reporting (hereinafter ICFR system).

In preparing this 2012 ACGR Inmobiliaria Colonial has used the contents and structure of the model established in CNMV Circular 4/2007, of 27 December, which still prevails.

However, and in relation to the additional content regarding corporate governance contained in the Sustainable Economy Act which is not specifically included in any of the sections of the current ACGR model and forms, the Company has prepared this appendix in order to comply with prevailing disclosure requirements.

Information on the six additional sections required by the new article 61 bis of the Securities Market Act is provided below:

1. Securities that are not admitted to trading on a regulated market in a Member State, where appropriate with an indication of the different classes of shares and, for each class, the rights and obligations attached thereto.

There are no securities admitted to trading on a non-EU market.

2. Any restrictions on the transfer of securities and any restrictions on voting rights.

Restrictions on the transfer of securities.

The Bylaws of Inmobiliaria Colonial do not establish any restrictions on the transfer of securities.

However, the transfer of securities is subject to the following legal restrictions:

- As stipulated in article 53 of the Securities Market Act 24/1988, Royal Decree 1362/2007, of 19 October, and CNMV Circular 2/2007, of 19 December, the Company must notify the issuer and the CNMV of the acquisition or transfer of shares in the Company with voting rights above the thresholds determined in article 23 of Royal Decree 1362/2007 (1% if the acquirer is domiciled in a tax haven, in a tax-free country or one with which there is no exchange of fiscal information according to prevailing legislation). This obligation shall apply when the total number of voting rights changes to above or below the abovementioned threshold.

- Article 60 of the Securities Market Act 24/1988 stipulates that a takeover bid must be launched if 30% or more of the Company’s share capital or voting rights are acquired.

Restrictions on voting rights.

Article 25 of the Company's Bylaws establishes the procedure for adopting resolutions tabled at General Shareholders' Meetings. The Bylaws clearly state that each share carries one voting right. Generally speaking, resolutions shall be adopted by the favourable vote of the majority of the capital present or represented.

Likewise, Inmobiliaria Colonial's Bylaws, in adherence with the obligations stipulated in article 527 of the consolidated Corporate Enterprises Act, do not establish an upper limit on the votes that can be cast by a shareholder or by companies belonging to the same group.

3. Rules governing the amendment of the Company's Bylaws.

Amendments to the Company's Bylaws may be agreed at the General Shareholders' Meeting in compliance with the following requirements:

a) Special attendance quorum at the General Shareholders' Meeting.

Article 22 of the Bylaws states that 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 the meeting is held at second call, the attendance of shareholders holding twenty-five per cent of the capital shall be sufficient.

This article of the Bylaws is further implemented by article 16 of the Regulations of the General Shareholders' Meeting, which stipulates that *"for a General Meeting held at first call to pass valid resolutions on capital increases and reductions, amendments to the Bylaws, the issue of debentures, the removal of or limits to the pre-emptive rights to acquire new shares, as well as the conversion, merger, spin-off or division of the Company and the transfer of the registered office to outside Spain, 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.*

The content of this article is without prejudice to the reinforced quorums for constitution or voting established by law or in the Bylaws."

b) Special quorum for adopting resolutions.

With regard to adopting resolutions, article 25 of the Bylaws stipulates that the resolutions of the General Meeting shall be adopted by the favourable vote of the majority of the capital present and duly represented. In the cases provided for in article 22 of the Bylaws, at second call where shareholders representing twenty-five per cent or more of the subscribed capital with voting rights but less than fifty per cent are present, the valid adoption of resolutions shall require a two-thirds majority of the share capital present or duly represented at the General Meeting.

Likewise, article 22 of the Regulations of the General Shareholders' Meeting regarding the adoption of resolutions states that *"…At second call where shareholders representing twenty-five per cent or more of the subscribed capital with voting rights but less than fifty per cent are present, the favourable vote of two thirds of the share capital present or represented shall be required for adopting resolutions on capital increases or reductions, amendments to the Bylaws, the issuance of debentures, the removal of or limits to the pre-emptive rights to acquire new shares, as well as the conversion, merger, spin-off or division of the Company and the transfer of the registered office to outside Spain.*

Each share grants entitlement to one vote.

Separate votes are taken on materially separate items so shareholders can express their preferences in each case and this rule shall apply, in particular, in the case of resolutions concerning: (i) the appointment or ratification of Directors, with separate voting on each candidate; (ii) any amendments to the Bylaws, with votes taken on all articles or groups of articles that are materially different.

(…)"

Except for the special quorums mentioned above, the Bylaws and the Regulations of the General Shareholders' Meeting do not include any special protection of shareholder rights in amendments of the Bylaws, without prejudice to the duty to comply with the special protection which, in the event of amendments to the Bylaws and for each case, is regulated by Royal Decree 1/2010, of 2 July, which approves the consolidated Corporate Enterprises Act and the Mercantile Registry Regulations.

4. Significant agreements entered into by the Company which come into force, are amended or terminated in the event of a change of control of the Company due to a takeover bid, and the effects thereof.

The Company is party to certain financing agreements with various financial institutions for a total amount of €1.9 billion. The clauses of these contracts contemplate early expiry of the same in the event of any change, for whatever reason, to the current shareholder structure which may entail the loss of the current control of the Company.

5. Agreements between the Company and its directors and executives and employees providing for compensation if they resign or are made redundant without just cause or if employment is ended as a result of a takeover bid.

As described in section B.1.16 of the current ACGR, the Chairman of the Board and the CEO, by virtue of their condition as Executive Directors and as an integral part of their remuneration for executive functions, are entitled to additional compensation should they be made redundant or resign as a result of a change of control at the Company or any relevant changes in the composition of the Board of Directors.

In addition, the Company's long-term incentive plan, which entails the delivery of shares contingent on the Company meeting certain targets, and which has as its beneficiaries the Chairman of the Board, the CEO and all the members of the Company's Executive Committee, states that the Board shall agree on the early settlement of the Plan in the event that a public takeover bid for the entire share capital of the Company is authorised.

6. A description of the main characteristics of the internal control and risk management systems with regard to statutory financial reporting.

As the definitive regulatory amendments to the ACGRs to include the additional disclosure requirements sought by the Sustainable Economy Act 2/2011, of 4 March, have not yet been approved, Inmobiliaria Colonial has opted to use as the frame of reference for its description of its ICFR system the recommendations of the Internal Control Working Group detailed in the CNMV Draft Circular of 26 October 2011, which proposes amendments to the ACGR model.

In this regard, below is a description of the main characteristics of Inmobiliaria Colonial's ICFR system.

6.1. The entity's control environment. Specify at least the following components with a description of their main characteristics:

6.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR system; (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) Approve the Company's general policies and strategies and, in particular, the investment and financing policy, the strategic business plan, as well as annual management targets and annual budgets, the treasury shares policy, the corporate governance and corporate social responsibility policies and the risk management and

control policy, identifying the main risks to the Company and introducing and monitoring adequate internal control over financial reporting systems 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) Guarantee the quality of the information disclosed to shareholders and the markets concerning significant transactions and decide what financial information the Company must publish periodically due to its listed company status.

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) Supervise Board committees, including the Audit and Control Committee.

4) Approve the internal regulations or codes of conduct of Inmobiliaria Colonial and, to the extent legally required, of its subsidiaries.

In this regard, the Board is ultimately responsible for the existence of an effective ICFR system at Colonial.

This ICFR organisational and monitoring structure, 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.

Pursuant to article 34 of the Regulations of the Board of Directors, the primary function of the Audit and Control Committee is to contribute to the strengthening and effectiveness of the Board's supervisory function, thus enhancing the guarantees of objectivity and careful consideration of its resolutions through supervision, as a specialist body, of the process of preparing the economic and financial information, its internal controls and the independence of the external auditor.

In particular, the Audit and Control Committee is entrusted with the following functions regarding the ICFR system organisational model:

1) To submit to the Board, for approval, a report on the risk management control policy which specifies at least: (i) the different types of risk the Company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance sheet risks; (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) With respect to internal control and reporting systems: (i) to monitor the preparation and integrity of the financial information prepared on the Company and, where appropriate, the Group, check for compliance with legal provisions, the accurate demarcation of the consolidation scope and the correct application of accounting principles; (ii) to review internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed; (iii) to safeguard the independence and effectiveness of Internal Audit; 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; and (iv) to establish and supervise a mechanism whereby staff 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 firm.

3) To act as a communication channel between the Board and the external auditor, assessing the results of each audit, and having the responsibilities in respect of the external auditor: (ii) to receive regular information from the external auditor on the progress and findings of the audit programme, and check that senior management are acting on its recommendations.

4) The conclusions reached in each meeting shall be recorded in the minutes and reported to the plenary Board.

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 results reporting model.

Internal Audit is responsible for drawing up the Internal Audit Plan, which includes the necessary tests to verify compliance with ICFR system 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 the ICFR system.

6.1.2. 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 company.

Internal Audit and the Operations-Finance Department are responsible for designing the organisational structure of Colonial's ICFR system 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 ICRF system is based on two differentiated areas:

a) The general control environment, where the main ICFR system guidelines, as well as the roles and responsibilities of senior management, are developed.

b) Specific ICFR system controls, where the related operational procedures regarding preparing 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) Internal Audit and the Audit and Control Committee are responsible for monitoring the ICFR system to guarantee it functions effectively.

e) Finally, the Operations-Finance Department is responsible for documenting 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 specific reference is made 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 Compliance Department, 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 Compliance Department 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 submitted by the Audit and Control Committee.

Whistle-blowing channel, for reporting to the audit committee 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 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) to establish and supervise a mechanism whereby staff 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."

As we have noted in the previous point, the Compliance Department, 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 Compliance Department, 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 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 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 Compliance Department, 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 or accounting departments, the Operations-Finance Department proposes the need for specific training.

6.2. Risk assessment in financial reporting. Report at least the following:

6.2.1. 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 Board of Directors, 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 (ICRM system).

The Audit and Control Committee has the following functions, among others:

a) To submit to the Board, for approval, a report on the risk management control policy which specifies at least:

1) the different types of risk the Company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off balance sheet risks;

2) the determination of the risk level the Company sees as acceptable;

3) the measures in place to mitigate the impact of risks events should they occur;

4) the internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

b) To supervise the process of preparing the individual and consolidated financial statements and management reports and periodic financial information to be reported to the markets, ensuring that legal requirements are complied with and generally accepted accounting principles are correctly applied.

c) To monitor the preparation and integrity of the financial information prepared on the Company and, where appropriate, the Group.

d) To review internal control and risk management systems on a regular basis, so 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, which is part of the Company's risk and internal control policy, is to guarantee the preparation and disclosure 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 largest entries 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 largest entries.

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 of a contract/agreement.

5) Valuation: Incorrect determination of the value of an asset, liability, income 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-Financial Departments at the proposal of any of them, also taking into account the suggestions and proposals of Internal Audit review of operations. The Audit and Control Committee must approve any amendments to the Manual while Internal Audit and the Operations-Financial Department must previously be notified 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.

The Regulations of the Board of Directors of Colonial, and, specifically the section regarding the responsibilities of the Audit and Control Committee, state that the Committee's responsibilities are, 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, check 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 Consolidation and Fiscal Planning Department, which reports to the Operations-Finance Department. The Audit and Control Committee is notified when the consolidation scope 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 mangers 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, and have been approved by the Audit and Control Committee.

At present, Colonial has a corporate risk map structured into five areas of risk:

a) Strategic risks.

b) Operational risks.

c) Reporting risks.

d) Compliance risks.

e) Corporate risks.

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 Company'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) to review internal control and risk management systems on a regular basis, so 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.

6.3. Control activities. Specify at least the following components with a description of their main characteristics:

6.3.1. Procedures for reviewing and authorising the financial information and description of ICFR system 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.

Procedures for reviewing and authorising the financial information and description of ICFR system to be disclosed to the markets, stating who is responsible in each case.

As mentioned above, the Audit and Control Committee is responsible for supervising the preparation and disclosure of reliable financial information to the market. To this end, 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 to identify 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.

b) Annual report on directors' remuneration.

c) Registration document.

d) Significant events.

There are preparation and review procedures in place for all relevant statutory financial reporting to the market. Under this procedure an internal control questionnaire must be completed involving all accounting and administration operating areas, senior management 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.

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.

Colonial has an ICFR organisational and monitoring structure which has been approved by the Audit and Control Committee, whereby specific internal control mechanisms 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 them.

The organisational structure of Colonial's ICFR system is based on two differentiated areas:

a) The general control environment, where the main ICFR system guidelines, as well as the roles and responsibilities of senior management, are developed.

b) Specific ICFR system 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 for mitigating financial reporting risks, as well as formal documentation. 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 have therefore been 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, which could have a material impact on the abovementioned information, are identified.

Colonial has, as a general control on the information to be publicly disclosed, a manual for disclosure of statutory information which details the final control procedures that are necessary before the Company publishes its financial statements, which include a mandatory questionnaire to be completed each time information is disclosed to the public.

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, evaluations 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, working and updated annually to include any potential amendments.

The main definitions used in documenting these processes are as follows:

Process: common method of actions or predefined tasks that enable work to be carried out in a systematic and correct manner.

Risk: possible loss caused by an event (or a series of events) which could adversely affect the attainment of a process's objectives.

Control: key activity in the execution of a process to mitigate risk (or a series of risks).

The key processes at Colonial which affect the preparation of financial information are documented according to the following:

a) Flow charts of the activities in the procedure.

The flow charts clearly show the activities to be carried out in a specific process. They provide a comprehensive view of the inherent risks in each of the activities carried out and of the controls in place to mitigate these risks.

b) Narratives with a description of the processes, their risks and the controls in place.

These narratives describe in detail the activities of the process, associating them with the risks and controls, as well as the personnel responsible for their execution. In essence, they are a transcription of the activities carried out in the processes.

c) Risk and control matrices.

The risk and control matrices offer a detailed vision of the risks and controls related to the critical procedures.

The matrices are tools for controlling and reporting on the effectiveness of the internal control system and are the basis for audit reviews and/or self-assessment control projects.

The Internal Control and Risk Management Manual of the ICFR system 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.

6.3.2. 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 Colonial companies use the same SAP operating system. Even though the French Group SFL uses the same system, it is not fully integrated, 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 Service Level Agreements (SLAs) with the external supplier.

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.

h) Management of users, profiles and accesses.

6.3.3. 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 6.3.1., 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:

1) Valuation of real estate assets: determination of fair value.

2) Financial hedging instruments: efficiency tests and resulting fair value.

3) 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.

Internal Audit's annual plan includes the monitoring activities needed to ensure the processes described are correctly executed.

6.4. Information and communication. Specify at least the following components with a description of their main characteristics:

6.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations; and a manual of accounting policies regularly updated and communicated to all the company's operating units.

The ICFR organisational and monitoring structure, which has been approved by the Audit and Control Committee, establishes that the Operating-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 interpretation.

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.

6.4.2. 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 the ICFR system.

In 2012, Colonial rolled out the SAP BPC 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 customised 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 details 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 file of the information in an internal repository with access limited to the staff involved in preparing the financial information.

There is no specific tool for managing the ICFR system, although Colonial has chosen a market tool which will be operational in 2013.

It currently has a filing procedure for all related documentation in an internal repository, with access limited to the staff involved in the ICFR system.

6.5. Monitoring. Specify at least the following components with a description of their main characteristics:

6.5.1. The ICFR oversight activities carried out by the Audit Committee and if the company has an Internal Audit function whose competencies include supporting the committee in its role of monitoring the internal control system, including the ICFR system. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

The main activities carried out by the Audit and Control Committee in relation to the ICFR system in 2012 have involved supervising the completion of the development process and subsequent introduction of the system once the main control and monitoring policies and procedures were approved. These include:

1. The ICFR organisational and monitoring structure.

2. The Internal Control and Risk Management Manual.

3. The Code of Ethics and whistle-blowing channel.

4. The manual for disclosure of statutory information.

5. The Group accounting policies manual.

The Audit and Control Committee held meetings with the internal audit function to analyse the introduction, implementation and effectiveness of the ICFR system.

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 its 2013 action plan and its 2013 audit plan, which include 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 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.

Included in the internal control procedures are those relating to the ICFR system, which will be included in the 2013 audit plan.

The following activities were included in the 2012 audit plan:

1. In relation to financial information:

a. Review of the financial information publicly disclosed.

b. Analysis of the consistency of the accounting criteria used as well as an analysis of the observations and recommendations received from the external auditor.

c. Review of the management report.

d. Review of the information contained in the annual financial statements and interim financial statements concerning related-party transactions.

e. Monitoring of the design and implementation of the processes, risks and relevant controls related to the ICRM system.

2. In relation to Control and Risk Management:

a. Monitoring of compliance with external regulations applicable to the Company.

b. Development and monitoring of the risk management control policy, and specifically Colonial's Internal Control and Risk Management system (ICRM system).

c. Review of the corporate risks report included in the annual financial statements.

3. In relation to Corporate Governance:

a. Review of the information on risk management included in the ACGR.

b. Monitoring of the activities of the Compliance Department.

Likewise, during 2012, Internal Audit also collaborated in the development and introduction of the ICFR system.

The 2013 Audit Plan includes specific tasks to verify that Colonial's ICFR system functions effectively.

6.5.2. A discussion procedure whereby the auditor (pursuant to TAS), Internal Audit 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 34 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. To act as a communication channel between the Board of Directors and the external auditor, assessing the results of each audit, and having the responsibilities in respect of the external auditor:

(ii) to receive regular information from the external auditor on the progress and findings of the audit plan and check that senior management are acting on its recommendations in accordance with applicable legislation;

2. To establish the appropriate relationships with the auditors in order to receive information for examination by the Audit and Control Committee, on matters which may jeopardise the independence of the same and any other matters relating to the audit process and any other communications provided for in audit legislation and technical audit regulations.

Likewise, and in relation to Internal Audit, the functions of the Audit and Control Committee include:

1. To monitor the effectiveness of the Company's internal audit services which safeguard the proper operation of the internal reporting and control systems, and if applicable, of the risk management systems. The Committee shall also discuss with the external auditor and auditing firms any significant weaknesses in the internal control system identified during the course of the audit. The head of Internal Audit shall present an annual work programme to the Committee, report to it directly on any incidents arising during its implementation, and submit an activities report at the end of each year.

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.

6.6. Any other relevant information

No other aspects have been identified.

6.7. External auditor review. Report on:

6.7.1. Whether 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.

In 2012 Colonial concluded drawing up the formal documentation regarding its ICFR system which it had started in 2011.

Section 6.5.1 of this ACGR appendix describes the main activities carried out in 2012 by the Audit and Control Committee and Internal Audit with regard to the ICFR system.

In 2013, Internal Audit will begin to verify the operating efficiency of Colonial’s ICFR system. According to the results of its review it will ascertain whether or not an external auditor review is necessary.

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