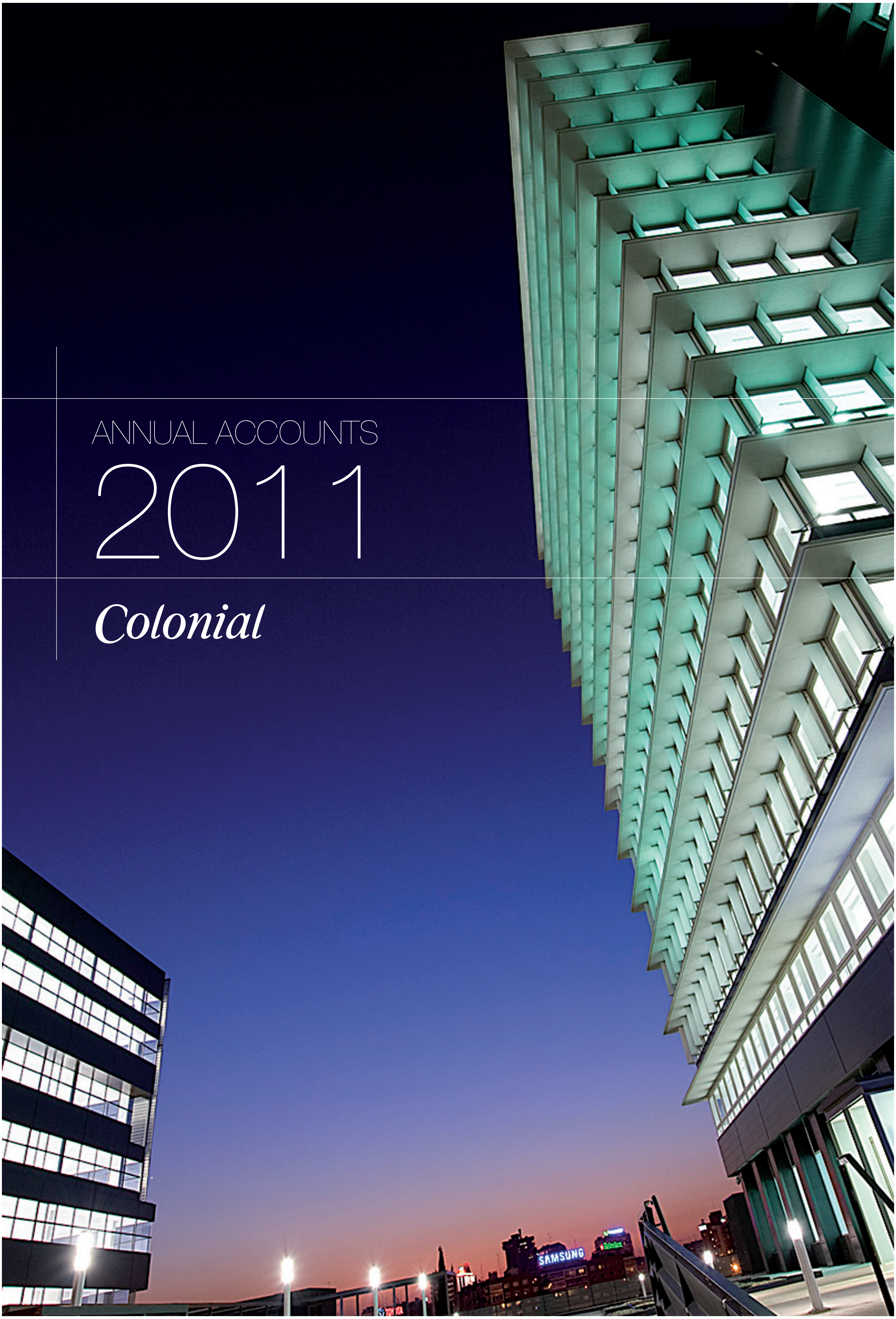
ANNUAL ACCOUNTS 2011

Colonial



Deloitte.

Deloitte, S.L.
Avda. Diagonal, 654
08034 Barcelona
España

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

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see notes 2 and 28). 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 2011 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 2011 present fairly, in all material respects, the consolidated equity and consolidated financial position of Inmobiliaria Colonial, S.A. and Subsidiaries at 31 December 2011, 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 20 and 26 to the accompanying consolidated financial statements, which indicate that the Group has recognised deferred tax assets and liabilities amounting to EUR 785 million and EUR 189 million, respectively. The Parent's directors consider that the amounts recognised will be recovered in full, on the basis of the Group's business plan which envisages the replacement of certain assets and the performance of certain investment transactions in the future.

4. The accompanying consolidated directors' report for 2011 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 2011. 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
29 February 2012

COL·LEGI
DE CENSORS JURATS
DE COMPTES
DE CATALUNYA

Membre exercent:
DELOITTE, S.L.

Any 2012 Núm. 20/12/00088
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.

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.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2011 (THOUSAND OF EUROS)

ASSETS	**Note**	**31/12/11**	**31/12/10**
Goodwill	7	177,972	247,051
Intangible assets	8	997	680
Property, plant and equipment	9	37,170	38,798
Investment property	10	4,618,113	4,505,288
Financial assets	11	282,889	273,916
- *Investments in associates*		*266,106*	*252,096*
- *Other financial assets*		*16,783*	*21,820*
Deferred tax assets	20	738,150	658,225
Other non-current assets	12	61,041	61,464
NON-CURRENT ASSETS		**5,916,332**	**5,785,422**
Trade and other receivables	13	46,904	36,777
Financial assets	14	25,923	24,549
Tax receivables	20	16,691	15,524
Cash and cash equivalents	16	65,926	77,435
Non-current assets held for sale	26	1,865,185	1,923,568
CURRENT ASSETS		**2,020,629**	**2,077,853**
TOTAL ASSETS		**7,936,961**	**7,863,275**

Notes 1 to 28 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 2011.

EQUITY AND LIABILITIES	Note	31/12/11	31/12/10
Share capital		225,918	2,710,966
Share premium		93	4,217,294
Reserves		1,114,877	(4,849,981)
Valuation adjustments recognised in equity - financial instruments		2,467	27,274
Gains (losses) on available-for-sale financial assets		(7,909)	(8,914)
Other equity instruments		2,445	1,832
Treasury shares		(59,543)	(58,986)
Profit/(loss) for the year		14,914	(739,262)
Equity attributable to owners of the Parent Company		**1,293,262**	**1,300,223**
Non-controlling interests		**1,037,761**	**992,977**
EQUITY	**15**	**2,331,023**	**2,293,200**
Bank borrowings and other financial liabilities	16 y 17	2,563,324	3,368,250
Bonds and similar issued securities	16	496,680	-
Deferred tax liabilities	20	203,432	231,812
Provisions	19	10,378	1,923
Other non-current liabilities	18	22,029	21,331
NON-CURRENT LIABILITIES		**3,295,843**	**3,623,316**
Bank borrowings and other financial liabilities	16 y 17	468,948	116,512
Bonds and similar securities issued	16	13,224	-
Trade payables	18	81,455	83,607
Taxes payable	20	39,982	34,363
Provisions	19	111	150
Liabilities relating to assets held for sale	26	1,706,375	1,712,127
CURRENT LIABILITIES		**2,310,095**	**1,946,759**
TOTAL EQUITY AND LIABILITIES		**7,936,961**	**7,863,275**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2011

(THOUSAND OF EUROS)

Consolidated statement of comprehensive income	**Note**	**2011**	**2010**
Revenue	22	229,206	260,658
Other income	22	3,419	8,031
Employee benefits expense	22	(21,383)	(23,454)
Other operating expenses	22	(30,787)	(40,677)
Depreciation and amortisation expense		(1,269)	(1,614)
Net change in provisions	22	2,833	(1,932)
Net gain /(loss) on sales of assets	22	8,709	(50,006)
Operating profit		**190,728**	**151,006**
Change in fair value of investment property	22	92,561	18,785
Impairment charges and net gains / (losses) on assets	22	(118,586)	(275,875)
Finance income	22	23,795	5,913
Share of profit/(loss) of associates	11 y 22	18,703	13,327
Finance cost	22	(161,368)	(168,231)
Impairment of financial assets	22	(119)	(5,504)
Profit/(loss) before tax		**45,714**	**(260,579)**
Income tax receipt (expense)	20	64,601	(16,726)
Consolidated net profit/(loss) from continuing operations		**110,315**	**(277,305)**
Loss from discontinued operations	26	(533)	(378,414)
Consolidated net profit/(loss)		**109,782**	**(655,719)**
Profit/(loss) for the year attributable to equity holders of the Parent Company	22	14,914	(739,262)
Profit/(loss) attributable to non-controlling interests	22	94,868	83,543
Basic earnings per share (€)	5	0.066	(5.628)
Diluted earnings per share (€)	5	0.066	(5.628)

Notes 1 to 28 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 2011.

Other comprehensive income	Note	2011	2010
Consolidated net profit/(loss)		**109,782**	**(655,719)**
Other components of comprehensive income recognised directly in equity		**(22,296)**	**10,306**
Net gain/(loss) on hedging instruments	17	(32,805)	33,076
Net gain/(loss) on available-for-sale financial assets	15	1,005	(12,535)
Other gains/(losses)		234	(63)
Income tax relating to components of other comprehensive income		9,270	(10,172)
Consolidated comprehensive income/(loss)		**87,486**	**(645,413)**
Total comprehensive income/(loss) for the year attributable to owners of the Parent Company		(6,668)	(735,052)
Total comprehensive income/(loss) attributable to non-controlling interests		94,154	89,639
Basic comprehensive income/(loss) per share (€)		(0.032)	(5.596)
Diluted comprehensive income/(loss) per share (€)		(0.032)	(5.596)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2011

(THOUSAND OF EUROS)

	Note	Share capital	Share premium	Parent Company reserves
Balance at 31 December 2009	**15**	**210,743**	**3,481,889**	**(4,369,607)**
Total comprehensive income/(loss) for the year		-	-	(13,707)
Rights issue		2,500,223	735,405	(12,063)
Allocation of 2009 profit/(loss)		-	-	(484,573)
Issue of other equity instruments		-	-	(41,320)
Treasury shares		-	-	(3,825)
Changes in consolidation scope and other changes		-	-	-
Balance at 31 December 2010	**15**	**2,710,966**	**4,217,294**	**(4,925,095)**
Total recognised income and expense for the year		-	-	-
Rights issue		11	93	(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 2009 profit		-	-	(711,026)
Issuance of other equity instruments		-	-	(100)
Treasury share portfolio		-	-	-
Share-based payment transactions		-	-	-
Changes in consolidation scope and other changes		-	-	-
Balance at 31 December 2011	**15**	**225,918**	**93**	**1,065,456**

Notes 1 to 28 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 2011.

Reserves in consolidated companies	Valuation adjustments recognised in equity - financial instruments	Gains/ (losses) on available-for-sale financial assets	Treasury shares	Other equity instruments	Profit/(loss)	Non-controlling interests	Total
64,895	**(3,418)**	**3,621**	**(61,878)**	**1,403,531**	**(474,011)**	**969,826**	**1,225,591**
(240)	30,692	(12,535)	-	-	(739,262)	89,639	**(645,413)**
-	-	-	-	(1,414,240)	-	-	**1,809,325**
10,396	-	-	-	-	474,011	(65,846)	**(66,012)**
-	-	-	-	12,541	-	-	**(28,779)**
3	-	-	2,892		-	(11)	**(941)**
60	-	-	-	-	-	(631)	**(571)**
75,114	**27,274**	**(8,914)**	**(58,986)**	**1,832**	**(739,262)**	**992,977**	**2,293,200**
2,220	(24,807)	1,005	-	-	14,914	94,154	**87,486**
-	-	-	-	(104)	-	-	**(676)**
-	-	-	-	-	-	-	**-**
-	-	-	-	-	-	-	**-**
(28,236)	-	-	-	-	739,262	(48,637)	**(48,637)**
-	-	-	-	100	-	-	**-**
(18)	-	-	(557)	-	-	(432)	**(1,007)**
-	-	-	-	617	-	-	**617**
341	-	-	-	-	-	(301)	**40**
49,421	**2,467**	**(7,909)**	**(59,543)**	**2,445**	**14,914**	**1,037,761**	**2,331,023**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011

(THOUSAND OF EUROS)

	Note	2011	2010
CASH FLOWS FROM CONTINUING OPERATIONS			
1. CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		190,728	151,006
Adjustments to profit			
Depreciation and amortisation (+)		1,269	1,614
Net changes in provisions (+/-)	22	(2,833)	1,932
Other	22	617	(931)
Gains / (losses) on disposal of investment properties (+/-)	22	(8,709)	50,006
Adjusted profit		181,072	203,627
Taxes paid (-)		(8,040)	(722)
Increase / (decrease) in current assets and liabilities			
Increase / (decrease) in receivables (+/-)		(22,196)	(23,365)
Increase / (decrease) in payables (+/-)		12,333	(17,686)
Net cash generated by operating activities		**163,169**	**161,854**
2. CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in (-)			
Intangible assets		(423)	(398)
Property, plant and equipment		(295)	(1,117)
Investment property	10	(88,651)	(106,350)
Financial assets		-	(11,266)
Equity investments, financial assets and other		-	(2,788)
		(89,369)	(121,919)
Disposals of (+)			
Property, plant and equipment		265	-
Investment property	10	75,080	123,901
Equity investments, financial assets and other	11	6,135	50,019
		81,480	173,920
Net cash generated by/(used in) investing activities		**(7,889)**	**52,001**

	Note	2011	2010
3. CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid (-)	15	(48,637)	(65,846)
Repayment of borrowings (-)		(476,960)	(435,707)
Net interest expense (+/-)		(149,743)	(176,989)
Trading in treasury shares (+/-)		(1,007)	(941)
		(676,347)	(679,483)
Proceeds from bank funding (+)		509,499	479,104
Proceeds from other non-current financing (+)			
- Rights issue	15	-	17,007
- Expenses associated with rights issues		(676)	(17,233)
Other collections/payments for current financial assets and other (+/-)		735	3,486
		509,558	482,364
Net cash used in financing activities		**(166,789)**	**(197,119)**
4. NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS			
Net cash flows for year from/(used in) continuing activities		**(11,509)**	**16,736**
Cash and cash equivalents at the beginning of the year		**77,435**	**77,435**
Cash transferred to land and development business		-	(73,261)
Cash and cash equivalents at the end of the year		**65,926**	**20,910**
CASH FLOWS FROM DISCONTINUED OPERATIONS			
1. Cash transferred to land and development business		-	73,261
2. Net cash generated by operating activities		2,433	40,909
3. Net cash (used in) / generated by investing activities		36,658	(8,810)
4. Net cash used in financing activities		(77,241)	(44,032)
NET CASH FLOWS (USED IN)/FROM DISCONTINUED OPERATIONS	**26**	**(38,150)**	**61,328**

Notes 1 to 28 and Appendices I and II of the accompanying notes to the consolidated financial statements are an integral part of the consolidated statement of cash flows for the year ended 31 December 2011

INMOBILIARIA COLONIAL, S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

Translation 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 28). In the event of a discrepancy, the Spanish-language version prevails.

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") is 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. (hereinafter, "SFL subgroup" or "SFL"). In addition, the Group develops land and housing in Spain through subsidiaries Asentia Project, S.L.U. (formerly, Colren) 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 Rumania through the group headed up by Riofisa, S.A.U. (hereinafter, "Riofisa subgroup" or "Riofisa").

In 2011, the Parent reduced share capital as follows:

- On 27 June 2011, the Parent registered a 1,452,628 thousand euro capital decrease with the Companies Register, decreasing the par value of all shares outstanding from 0.12 euros per share to 0.0557 euros per share and cancelling 10 treasury shares, all with the purpose of restoring a balanced capital structure in the wake of losses, having used the issue premium and voluntary reserves to offset prior-year losses.

- On the same date, the 22,591,407,700 shares into which the Parent Company's share capital is divided were aggregated, cancelled and exchanged for new shares issued at a rate of one new share for every 100 formerly outstanding, increasing the par value of the newly-issued shares to 5.57 euros per share.

- Lastly, at the Company's Annual General Meeting on 21 June 2011, the shareholders resolved to reduce share capital by 1,032,431 thousand euros, by reducing the par value of all shares to 1 euro per share with a view to endowing restricted reserves of 15,982 thousand euros and voluntary reserves of 1,016,449 thousand euros. This capital decrease was recorded in the Barcelona Companies Register on 19 September 2011.

In 2010, meanwhile, the following transactions took place, all under the scope of the agreements reached by virtue of the “Framework Refinancing Agreement” signed between the Parent and the banks (this agreement was certified by an independent expert appointed by the Companies Register which issued a favourable report on the refinancing agreement and viability plan):

- 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 to be transferred.

- Contribution to subsidiary Abix Service, S.L.U. (hereinafter, Abix) of the Llacuna development in Barcelona.

Lastly, on 16 June 2002 and 29 June 2006, the Company issued equity, some of which in exchange for non-monetary contributions. 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 individual financial statements of the Parent Company 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 2011 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 2012, 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 2011 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 2011 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 Company have been applied to all the companies included in the scope of consolidation.

The Group’s 2010 consolidated financial statements were approved by the shareholders of the Parent in general meeting on 21 June 2011.

b) Adoption of International Financial Reporting Standards

The Colonial Group’s consolidated financial statements are presented in accordance with International Financial Reporting Standards pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002. In Spain, the requirement to present consolidated financial statements under the IFRS approved by the European Union 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 2011

New accounting standards became effective in 2011 and were accordingly applied in preparing the accompanying consolidated financial statements. The new standards are as follows:

New standards, amendments and interpretations		**Mandatory application in annual periods beginning on or after**
Amendments to IAS 32 – Financial Instruments: Presentation – Classification of Rights Issues	The amendments address the accounting treatment of rights, options and warrants denominated in a currency other than the functional currency	Annual periods beginning on or after 1 February 2010
Revision of IAS 24 – Related Party Disclosures	This revision changes the definition of 'related party' and reduces disclosure requirements for government-related entities, i.e. entities that are controlled, jointly controlled or significantly influenced by a government	Annual periods beginning on or after 1 January 2011
Improvements to IFRS (published in May 2010)	Amendments to a series of standards	Most are effective for annual periods beginning on or after 1 January 2011; some are effective for annual periods beginning on or after 1 July 2010
Amendments to IFRIC 14 – Prepayments of a Minimum Funding Requirement	As amended, the prepayment of a minimum funding requirement may give rise to the recognition of an asset	Annual periods beginning on or after January 2011
IFRIC 19 - Extinguishing Financial Liabilities with Equity Instrument	This interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments	Annual periods beginning on or after 1 July 2010

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 yet to be endorsed by the European Union:

New standards, amendments and interpretations		Mandatory application in annual periods beginning on or after
Amendments to IFRS 7 – Financial Instruments: Disclosures – Transfers of Financial Assets (published in October 2010)	Increases the disclosure requirements regarding for transactions involving transfers of financial assets	Annual periods beginning on or after 1 July 2011
IFRS 9 – Financial Instruments: Classification and Measurement (published in November 2009 and October 2010)	Replaces the rules for the classification and measurement of financial assets and liabilities and for derecognition established in IAS 39	Annual periods beginning on or after 1 January 2015
Amendments to IAS 12 – Income Tax – Deferred Tax on Investment Property (published in December 2010)	The amendment provides guidance on the calculation of deferred tax on investment properties measured at fair value in accordance with IAS 40	Annual periods beginning on or after 1 January 2012
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
IFRS 11 – Joint Arrangements (published in May 2011)	Replaces IAS 31 Interests in Joint Ventures	Annual periods beginning on or after 1 January 2013
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 periods beginning on or after 1 January 2013
IFRS 13 – Fair Value Measurement (published in May 2011)	Establishes a single source of guidance for fair value measurements and disclosures	Annual periods beginning on or after 1 January 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
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
Amendments to IAS 1 – Presentation of Items 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 (issued in June 2011)	The amendments primarily affect defined benefit plans as the biggest change is the elimination of the 'corridor approach'	Annual periods beginning on or after 1 January 2013
Amendments to IFRS 9 and IFRS 7 – Mandatory Effective Date and Transition Disclosures (issued in December 2011)	Pushes back the mandatory effective date of IFRS 9 and amends transition requirements and disclosures	N/A
Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities (published in December 2011)		Annual periods beginning on or after 1 January 2014
Amendments to IFRS 7 – 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 2013
IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine (published in October 2011)	The IFRS Interpretation Committee addresses how and went to account for stripping costs (the process of removing from a surface mine)	Annual periods beginning on or after 1 January 2013

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 accounting (Note 2.f). 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 within "Non-current financial assets – Investments in associates" in the consolidated statement of financial position.

The companies that will be affected by application of IFRS 11 are French companies SAS Parholding, SC Parchamps, SC Pargal, SC Parhaus and SC Parchar and the Rumanian companies Goldale Real Estate S.R.L. and Masterange Imobiliare S.R.L., both of which are classified as held for sale. In the case of the French companies, the main impact of the change in accounting rule on the consolidated statement of financial position would be to reduce "Investment property" by 254,070 thousand euros and to reduce "Bank borrowings and other financial liabilities" by 76,569 thousand euros. In the case of the Rumanian companies, the accounting change would reduce "Non-current assets held for sale" by 14,562 thousand euros and decrease "Liabilities relating to assets held for sale" by 11,441 thousand euros.

d) Functional currency

These consolidated financial statements are presented in the Group's functional currency, namely, euros, as this is the currency of the main economic area in which the Group operates.

e) Responsibility for the information provided and estimates and judgments 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:

- Goodwill measurement and impairment (Notes 4.a and 7).
- 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.p and 20).
- The market value of investment property has been taken from appraisals by independent experts at the date of preparation of the corresponding consolidated financial statements. For 2010 and 2011, these appraisals were prepared following the income capitalisation method permitted by The Royal Institution of Chartered Surveyors (RICS) (Notes 4.c and 4.e).
- Impairment losses on certain inventories as a result of lower property appraisals by independent experts vis-à-vis the carrying amounts of these assets (Notes 4.i and 26).
- The useful life of intangible assets and property, plant and equipment for own use (Notes 4.b, 4.d, 8 and 9).
- 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.

f) 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 are 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.

g) Changes in the consolidation scope

In 2010, Group subsidiary SFL acquired 29.99% of SIIC de Paris, S.A. in exchange for the contribution to this French real estate investment trust of two of SFL's French properties (Notes 10 and 11). There were no other changes to the Group's consolidation scope with a material impact on the accompanying consolidated financial statements in either 2011 or 2010.

The companies consolidated at 31 December 2011 and 2010 are listed in Appendix I.

At 31 December 2011, Asentia Invest, S.L.U., Asentia Gestión, S.L.U. (formerly Acrostic Invest, S.L.U.), SB1 SAS, SB2 SAS, SB3 SAS and SCI SB3 were dormant. At 31 December 2010, Asentia Gestión, S.L.U., SB1 SAS, SB2 SAS, SB3 SAS and SCI SB3 were inactive subsidiaries.

At both year-ends, Live in Spain, S.L. and Ariete, S.A. were in liquidation.

h) Basis of comparison

As a result of the aggregation of shares outlined in Notes 1 and 15, which gave rise to the issue of 1 new share for every 100 existing shares, the comparative 2010 earnings per share (basic and diluted) disclosures have been restated in accordance with IAS 33 (Note 5).

i) Financial position – Working capital

At 31 December 2011, current liabilities are 303,034 thousand euros greater than current assets (without considering "Non-current assets held for sale" or "Liabilities relating to assets held for sale" in the accompanying consolidated statement of financial position), due primarily to the current bank borrowings of French subsidiary SFL (434,712 thousand euros). As noted in Note 16, SFL has two revolving credit lines with combined undrawn balances of 610,000 thousand euros, which fall due in 2014 and 2015, respectively, which is why the directors do not expect to encounter difficulties in servicing the Group's current obligations.

3. DISTRIBUTION OF THE PARENT'S PROFIT

The distribution of 2011 profit proposed by the Directors of the Parent for approval by its shareholders at the general shareholders' meeting is as follows:

	Thousands of euros
Basis of distribution:	
Profit for the year	**18,287**
Distribution:	
To the legal reserve	1,829
To prior-year losses	1,413
To voluntary reserves	15,045
	18,287

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.

Group management makes 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 management of the Parent 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 management tests 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 unit and its goodwill are not considered impaired. To the contrary, 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) Intangible assets (Note 8 and 26)

"Intangible assets – Software" consists primarily of the cost of acquiring and implementing integrated IT systems. The cost is amortised on a straight-line basis at a rate of 25% per annum.

Patents are measured at acquisition cost and are recognised under "Intangible assets - Industrial property". Patents are amortised on a straight-line basis at an annual rate of 10%.

c) Property, plant and equipment held under concession (Note 26)

Group subsidiary Necsa, S.A., which is part of the Riofisa subgroup and is classified as a discontinued operation, 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 2010 and 2011 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.

The depreciation charge relating to the fair value gains allocated to concession assets in operation as a result of the business combination with Riofisa was 1,421 thousand euros in both 2011 and 2010.

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 11,752 thousand euros.

d) Property, plant and equipment (Notes 9 and 26)

Properties for own use -

Properties for own use, including office furniture and equipment, are recognised at acquisition cost less accumulated depreciation and 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 earnings associated with the asset items will flow to the Group and their 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 "Other operating expenses – External services and other expenses" (Note 22.d).

e) Investment property (Notes 10 and 26)

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 2010 and 2011) at the date of preparing the consolidated statement of financial position, so that the year-end fair values reflect prevailing market conditions in respect of items of investment property. 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 2010 and 2011 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 the 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 2010 and 2011 are set out in the tables below:

Yields (%) - Offices	**31 December 2011**	**31 December 2010**
Barcelona – Prime Yield		
Business district	5.69	5.74
City centre	6.32	6.43
Madrid – Prime Yield		
Business district	5.75	5.82
City centre	5.98	6.15
Paris – Prime Yield		
Business district	5.26	5.41
City centre	5.78	5.91

Assumptions made at 31 December 2011				
Rental increases (%) - offices	**Year 1**	**Year 2**	**Year 3**	**Year 4**
Barcelona –				
Business district	-2	3.7	4.5	3.5
City centre	-2	3.7	4.5	3.5
Madrid -				
Business district	-2	4	7.7	2.9
City centre	-2	4	7.7	2.9
Paris –				
Business district	2.2	1.3	2.5	1.2
City centre	2.2	1.3	2.5	1.2

Assumptions made at 31 December 2010				
Rental increases (%) - offices	**Year 1**	**Year 2**	**Year 3**	**Year 4**
Barcelona –				
Business district	0.30	1.01	1.30	1.64
City centre	0.30	1.01	1.30	1.64
Madrid -				
Business district	0.30	1.01	1.30	1.64
City centre	0.30	1.01	1.30	1.64
Paris –				
Business district	-	1 / 2.5	2 / 5	2.5
City centre	-	1 / 2.5	2 / 5	2.5

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 2010 and 2011 to determine the value of its investment property:

	Thousands of euros		
Sensitivity of valuations to changes of one-quarter of one point in the yield	**Valuation**	**Decrease of one-quarter of one point**	**Increase of one-quarter of one point**
December 2011	4,830,817	+241,299	-219,552
December 2010	4,742,680	+227,753	-208,367

Note: the effect detailed in the table above 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 26) to yield changes.

The table below details the borrowing costs capitalised (Note 22.g) in the years ended 31 December 2010 and 2011:

	Thousands of euros	
	Amount capitalised during the year	**Average interest rate**
2010:		
Inmobiliaria Colonial, S.A.	513	2.88%
SFL subgroup	14,788	4.10%
Total 2010:	**15,301**	**-**
2011:		
Inmobiliaria Colonial, S.A.	493	3.25%
SFL subgroup	8,755	3.88%
Total 2011:	**9,248**	**-**

The rental income earned in 2010 and 2011 from the lease of these investment properties amounted to 260,658 thousand and 229,206 thousand euros, respectively (Note 22.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.t).

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 2010 and 2011, 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 16), both current and non-current, in the consolidated statement of financial position include the total present value of 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.

f) Impairment of intangible assets, property, plant and equipment held under concession and property, plant and equipment

At each reporting date, the Colonial Group assesses the carrying amounts of its property, plant and equipment, intangible assets, and property, plant and equipment held under concession 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.

g) Non-current assets held for sale and discontinued operations (Note 26)

Assets classified as 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 immediately sold and the sale is expected to be fully realised within a period of no more than twelve months from its classification as a held-for-sale asset.

The 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 assets are expected to be sold in the short term. The accompanying consolidated statement of financial position includes under this heading all the assets which at the date of authorising these consolidated financial statements for issue the Group had decided to sell.

Discontinued operations

Discontinued operations consist of the sale, disposal in other ways or the 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 2010, the Parent carried its interest in Asentia Project, S.L.U. (formerly, Colren) as a non-current asset held for sale and its land and development business segment as a discontinued operation.

h) Financial instruments (excluding derivative financial instruments)

A financial instrument is a contract that gives rise to a financial asset at one entity and a financial liability or equity instrument at another. All financial instruments are initially measured at cost, including all related transaction costs. Financial instruments are classified into the following categories for subsequent measurement purposes:

Financial assets (Notes 11, 14 and 26)

- 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.

- Other financial assets: 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.

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

Financial liabilities (Notes 16 and 26)

Financial liabilities consist primarily of loans from banks. They are carried at amortised cost, net of directly attributable transaction expenses.

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 transaction costs attributable, 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.

i) Inventories (Note 26)

Inventories, held exclusively by the Asentia Project subgroup, which is classified as a discontinued operation, and consisting of land, developments under construction and finished developments, are valued at acquisition cost or execution cost, including restatements to fair value under purchase price allocations in connection with business combinations and also in connection with the corporate restructuring, specifically the non-monetary contributions 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, so long as the construction work takes longer than a 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 value.

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 leased property; from this value, development, planning, construction and demolition costs, professional fees, permit and marketing costs, borrowing costs and development profit, among other items, are then deducted, in order to arrive at an implied price which a developer might pay for the 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 it is current state.

The table below details the borrowing costs capitalised in the years ended 31 December 2010 and 2011:

	Thousands of euros	
	Amount capitalised during the year	**Average interest rate**
2010:		
Asentia Project, S.L.U.	942	3.02%
Desarrollos Urbanísticos Entrenúcleos, S.L.U.	3,608	2.31%
Total 2010:	**4,550**	**-**
2011:		
Desarrollos Urbanísticos Entrenúcleos, S.L.U.	4,909	3.80%
Total 2011:	**4,909**	**-**

At 31 December 2011, all the Group's inventories are recorded in the consolidated statement of financial position as "Non-current assets held for sale" (Note 4.g).

j) Receivables (Notes 13 and 26)

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 2010 and 2011, the Group had no receivables past due but not impaired.

k) Cash and cash equivalents (Notes 16 and 26)

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.

l) Equity instruments (Note 15)

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 profit or loss.

ll) 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 19 and 26). Contingent liabilities are not recognised but are disclosed in Note 21.

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.

m) 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 at either year-end 2010 or 2011.

Pension obligations -

At 31 December 2011, 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 2011, the amount recognised in the accompanying consolidated statement of financial position in this connection was 845 thousand euros (non-current). At 31 December 2010, the non-current liability was 1,114 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 Company has a long-term payment scheme which can only be settled with shares of Inmobiliaria Colonial, S.A. (Note 23). Services received are measured at the fair value (quoted price) of the shares of Inmobiliaria Colonial, S.A. when the payment scheme was approved.

n) Derivative financial instruments (Notes 17 and 26)

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.

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 Company's Board of Directors.

o) 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. The Group also has a residential property development and land management business which has an operating cycle significantly different from that of the Group's main activity, the rental business.

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.

In relation to the assets and liabilities of discontinued operations, which are disclosed in Note 26, those 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, as the assets must be realised in the land and development subgroup's normal operating cycle, and the liabilities directly associated with these assets, which are classified as 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.

p) Income tax (Note 20)

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 instance 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 Company 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 (hereinafter, 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 only affects 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 (i.e., Parholding Group in the SFL subgroup).

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 on 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 19,243 thousand euros and 20,896 thousand euros was recognised in the consolidated statements of financial position at 31 December 2010 and 2011, respectively.

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.

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 (Note 20).

q) Recognition of revenue and expenses (Notes 22 and 26)

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.

Finance lease

Group subsidiary Necsa (part of the Riofisa subgroup) is lessor in a finance lease. Upon initial recognition, this Group subsidiary recognised a receivable for the total present value of the minimum lease payments receivable under the lease plus the asset's residual value, discounted using the implicit contractual interest rate. The difference between the credit recognised as an asset and the amount receivable, which corresponds to unaccrued interest, is taken to the consolidated statement of comprehensive income as accrued using the effective interest rate method.

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 2011 and 2010, 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.

The acquisition cost of the leased assets is presented in the consolidated statement of financial position in accordance with the nature of the asset, plus initial direct lease agreement costs, which are expensed over the term of the lease on the same basis as lease income.

Any collection or payment that might be made when arranging an operating lease will be treated as a prepaid lease collection or payment, which will be allocated to profit or loss over the lease term in accordance with the time pattern in which the benefits of the leased asset are provided or received.

Land and development business segment (Note 26)

- *Recognition of revenue from sales of developments and land*

  Under IFRS, revenue from sales of developments is recognised by the Group when ownership of the property is transferred.

  Until then, expenses incurred in connection with the development construction work are accrued in inventories and down payments received against the total sale price are recorded under "Inventories", and down payments received against the total sale price are recorded under "Trade payables - Customer advances" in the accompanying consolidated statement of financial position.

- *Cost of sales*

  This heading includes the costs associated with developments delivered and recognised for the year, as well as the cost of land sold.

Sales made to lenders as part of the Framework Refinancing Agreement of 19 February 2010

In 2010, the Parent sold assets to lenders totalling 39,143 thousand euros under the agreements that make up the Framework Refinancing Agreement, reducing the Company's borrowings by the same amount.

The impact of these sales on the various headings of the 2010 consolidated statement of comprehensive income is disclosed in the table below:

	Thousands of euros
Net gain/(loss) on sales of assets	(327)
Loss from discontinued operations	(14,951)
Total sales to lenders – net gain (loss)	(15,278)

These transactions were carried out as asset sales in accordance with the criteria for recognition of revenue and expenses described above and, therefore, were carried out on an arm's length basis.

r) Borrowing costs

Borrowing costs directly allocable to the acquisition, construction or production of qualifying investment property or real estate developments (Notes 4.e and 4.i, 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 10 and 26).

s) Consolidated statement of cash flows (indirect method)

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

- Cash flows: inflows and outflows of cash and cash equivalents. Cash equivalents are highly liquid, low-risk short-term investments (Note 4.k)
- 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 equivalents
- Financing activities: activities that result in changes in the size and composition of the contributed equity and borrowings that are not operating activities

t) 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 2010 and 2011, the Group invoiced 43,369 thousand and 40,135 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 2010 and 2011, included under "Operating profit" in the accompanying consolidated statements of comprehensive income, amounted to 64,081 thousand and 55,087 thousand euros, respectively. Expenses incurred in connection with investment properties that did not generate rental income were not material.

u) 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.

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 15).

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 16), in the amounts of 275,000 thousand and 23,333 thousand euros, respectively. At 31 December 2011, 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 2011	**31 December 2010 (*)**
Consolidated profit (loss) for the year attributable to owners of the Parent:	**14,914**	**(739,262)**
- from continuing operations	14,914	(365,043)
- from discontinued operations (Note 26)	-	(374,219)
	No. of shares	**No. of shares**
Weighted average number of ordinary shares ('000)	225,630	131,343
Number of potential ordinary shares resulting from conversion of bonds ('000) (Note 15)	73	73
Weighted average number of ordinary shares - diluted ('000)	225,668	131,343
	Euros	**Euros**
Basic earnings per share	**0.066**	**(5.628)**
- from continuing operations	0.066	(2.779)
- from discontinued operations	-	(2.849)
Diluted earnings per share	**0.066**	**(5.628)**
- from continuing operations	0.066	(2.779)
- from discontinued operations	-	(2.849)

(*) As outlined in Note 1, on 27 June 2011, the Group registered the aggregation and cancellation of the 22,591,407,700 shares into which the Company's capital was divided, exchanging one newly-issued share for every 100 shares formerly outstanding. In accordance with IAS 33, the calculation of basic earnings per share assumes that this transaction took place on the first day of the earliest period presented. As a result, basic earnings per share for the year ended 31 December 2010 has been restated.

For information purposes, the conversion of the warrants outstanding on 31 December 2011, assuming the 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 conversion of the warrants on 1 January 2011 would be 250,529 thousand shares, leaving diluted earnings per share of 0.060 euros.

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 2011, 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 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 France, Bulgaria and Rumania, 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.

Revenue by segment comprises revenue directly attributable to each segment, as well as gains from the sale of investment properties. Revenue by segment excludes both interest and dividend income. The Group has included within revenue by segment its share of revenue of proportionally consolidated joint ventures.

Expenses by segment comprises 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.

Assets and liabilities allocated by segment are those directly related to that business' activities and operations and 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.

Segment reporting

	Thousands of euros							
	Rentals		Development & Land		Corporate Unit		Total Group	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenue	**232,625**	**266,016**		**-**		**2,673**	**232,625**	**268,689**
Revenue (Note 22.a)	229,206	260,658	-	-	-	-	229,206	260,658
Spain	77,607	85,761	-	-	-	-	77,607	85,761
International	151,599	174,897	-	-	-	-	151,599	174,897
Other income (Note 22.b)	3,419	5,358	-	-	-	2,673	3,419	8,031
Spain	16	207	-	-	-	2,673	16	2,880
International	3,403	5,151	-	-	-	-	3,403	5,151
Net gain/(loss) on sales of assets (Note 22.f)	**8,709**	**(50,006)**	-	**-**	-	**-**	**8,709**	**(50,006)**
Spain	1,040	(16,147)	-	-	-	-	1,040	(16,147)
International	7,669	(33,859)	-	-	-	-	7,669	(33,859)
Operating profit/(loss)	**226,382**	**195,298**	**-**	**-**	**(35,654)**	**(44,292)**	**190,728**	**151,006**
Spain	72,042	62,232	-	-	(14,351)	(23,994)	57,691	38,238
International	154,340	133,066	-	-	(21,303)	(20,298)	133,037	112,768
Change in fair value of investment property (Note 22.f)	**92,561**	**18,785**	**-**	**-**	**-**	**-**	**92,561**	**18,785**
Spain	(5,533)	(88,245)	-	-	-	-	(5,533)	(88,245)
International	98,094	107,030	-	-	-	-	98,094	107,030
Net impairment charges (Note 22.e)	**(110,404)**	**(282,465)**	**-**	**-**	**(8,182)**	**6,590**	**(118,586)**	**(275,875)**
Spain	(110,404)	(282,465)	-	-	(3,073)	6,590	(113,477)	(275,875)
International	-	-	-	-	(5,109)	-	(5,109)	-
Net finance cost (Note 22.g)	**-**	**-**	**-**	**-**	**(118,989)**	**(154,495)**	**(118,989)**	**(154,495)**
Spain	-	-	-	-	(83,957)	(119,919)	(83,957)	(119,919)
International	-	-	**-**	-	(35,032)	(34,576)	(35,032)	(34,576)
Profit/(loss) before tax	**-**	**-**	**-**	**-**	**45,714**	**(260,579)**	**45,714**	**(260,579)**
Spain	-	-	-	-	(145,277)	(445,801)	(145,277)	(445,801)
International	-	-	**-**	-	190,991	185,222	190,991	185,222
Consolidated profit/ (loss) from continuing operations	**-**	**-**	**-**	**-**	**110,315**	**(277,305)**	**110,315**	**(277,305)**
Spain	-	-	-	-	(76,059)	(454,317)	(76,059)	(454,317)
International	-	-	**-**	-	186,374	177,012	186,374	177,012
Loss from discontinued operations (Note 26)	**-**	**-**	**-**	**(330,600)**	**(533)**	**(47,814)**	**(533)**	**(378,414)**
Spain	-	-	**-**	(330,600)	(533)	(47,814)	(533)	(378,414)
International	-	-		-		**-**		**-**
Consolidated net profit / (loss)	**-**	**-**	**-**	**-**	**109,782**	**(655,719)**	**109,782**	**(655,719)**
Spain	-	-	-	-	(76,592)	(832,732)	(76,592)	(832,732)
International	-	-	-	-	186,374	177,013	186,374	177,013
Profit/(loss) attributable to non-controlling interests (Note 22.i)	**-**	**-**	**-**	**-**	**(94,868)**	**(83,543)**	**(94,868)**	**(83,543)**

	Thousands of euros							
	Rentals		Development & Land		Corporate Unit		Total Group	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**	**2011**	**2010**
Spain	-	-	-	-	(798)	3,503	(798)	3,503
International	-	-	-	-	(94,070)	(87,046)	(94,070)	(87,046)
Net profit/(loss) attributable to owners of the parent (Note 5)	**-**	**-**	**-**	**-**	**14,914**	**(739,262)**	**14,914**	**(739,262)**
Spain	-	-	-	-	(77,390)	(829,229)	(77,390)	(829,229)
International	-	-	-	-	92,304	89,967	92,304	89,967

There were no significant intra-segment transactions in 2010 or 2011.

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**	
	31 December 2011	**31 December 2010**	**31 December 2011**	**31 December 2010**	**31 December 2011**	**31 December 2010**	**31 December 2011**	**31 December 2010**
Assets								
Goodwill (Note 7)	177,972	247,051	-	-	-	-	177,972	247,051
Intangible assets, property, plant and equipment and investment property	4,618,112	4,506,138	-	-	38,168	38,628	4,656,280	4,544,766
Financial assets	1,013	981	-	-	107,619	122,823	108,632	123,804
Investments in associates (Note 11)	266,106	252,096	-	-	-	-	266,106	252,096
Other non-current assets	4,284	1,866	-	-	794,907	717,823	799,191	719,689
Trade receivables and other current assets	5,932	4,711	-	-	57,663	47,590	63,595	52,301
Non-current assets held for sale (Note 26)	145,242	183,955	1,719,943	1,739,613	-	-	1,865,185	1,923,568
TOTAL	**5,218,662**	**5,196,798**	**1,719,943**	**1,739,613**	**998,357**	**926,864**	**7,936,961**	**7,863,275**
					Spain		4,385,923	4,464,570
					International		3,551,037	3,398,705
					Current		*67,045*	*59,613*
					Non-current		*3,483,992*	*3,339,092*

	Thousands of euros							
	Rentals		Development & Land		Corporate Unit		Total Group	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Liabilities								
Bank borrowings and other financial liabilities (Note 16)	-	-	-	-	3,032,272	3,484,762	3,032,272	3,484,762
Trade liabilities (suppliers and payables)	30,089	31,590	-	-	51,366	52,017	81,455	83,607
Other disclosures								
Investments in intangible assets, property, plant and equipment and investment property	97,439	119,557	-	-	225	86	97,664	119,643

	Thousands of euros							
	Rentals		Development & Land		Corporate Unit		Total Group	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Other disclosures								
Depreciation and amortisation expense	362	263	-	-	907	1,351	1,269	1,614
Expenses that do not entail outflows of cash other than the depreciation and amortisation charge for the year:								
Changes in provisions	(2,833)	1,932	-	-	-	-	(2,833)	1,932
Change in fair value of investment property (Note 22.f)	92,561	18,785	-	-	-	-	92,561	18,785
Impairment charges and net gains/(losses) on assets (Note 22.e)	(110,404)	(282,465)	-	-	(8,182)	6,590	(118,586)	(275,875)

7. GOODWILL

An analysis of movement in goodwill in the years ended 31 December 2010 and 2011 is as follows:

	Thousands of euros		
	Inmobiliaria Colonial, S.A.	**Other**	**Total**
Balance at 31 December 2009	**493,734**	**368**	**494,102**
Impairment (Note 22.e)	(247,051)	-	(247,051)
Balance at 31 December 2010	**246,683**	**368**	**247,051**
Impairment (Note 22.e)	(69,079)	-	(69,079)
Balance at 31 December 2011	**177,604**	**368**	**177,972**

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.

ALLOCATION TO CASH GENERATING UNITS AND GOODWILL IMPAIRMENT TESTING

The Parent's management tests each CGU for impairment at year-end or whenever indications of impairment exist by comparing the CGU's carrying amount, including goodwill, with its recoverable amount, recognising any impairment charges in the consolidated statement of comprehensive income.

Goodwill generated by the business combination with Inmobiliaria Colonial, S.A. -

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

The basic assumptions underlying the cash flow projections made in 2010 and 2011 are shown in the next table:

	2011	**2010**
Projection period (years)	10	10
Asset rotation rate, %	10% annual	10% annual
Yield on reinvestment, % (Note 4.e)	6 – 6.50%	6 – 6.50%
Spain -		
Discount rate	7.34%	7.12%
Nominal growth rate ("g")	1.50%	1.50%
France -		
Discount rate	5.80%	5.68%
Nominal growth rate ("g")	1.50%	1.50%

The financial projections cover a period greater than five years, as the Parent Company'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 Spain and 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 Spain and France, and 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.

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. At 31 December 2010, the impairment charge recognised on the rentals CGU and the associated goodwill was 247,051 thousand euros.

In the wake of the impairment charge recognised in 2011, the entire goodwill balance recognised at 31 December 2011 is borne by the French rentals business.

The sensitivity of the goodwill impairment charge to changes in the discount rate, the yield generated by reinvesting (both by 10bp) and the asset rotation rate (by 10%) are shown in the next table:

	Millions of euros	
	2011	**2010**
Sensitivity to discount rate (+ 10bp)	-	(81)
Sensitivity to asset rotation rate (10% lower)	-	(26)
Sensitivity to yield on reinvestment (10bp less)	-	(26)

8. INTANGIBLE ASSETS

The movement in intangible assets in 2010 and 2011 was as follows:

	Thousands of euros							
	Computer software		Industrial property		Intangible assets in progress	Total		
	Cost	Accumulated amortisation	Cost	Accumulated amortisation		Cost	Accumulated amortisation	Total
Balance at 31 December 2009	**7,977**	**(7,381)**	**9**	**(9)**	-	**7,986**	**(7,390)**	**596**
Additions or charges	183	(313)	-	-	216	399	(313)	86
Transfers to assets held for sale	(32)	30	-	-	-	(32)	30	(2)
Balance at 31 December 2010	**8,128**	**(7,664)**	**9**	**(9)**	**216**	**8,353**	**(7,673)**	**680**
Additions or charges	156	(243)	-	-	267	423	(243)	180
Transfers	157	-	-	-	(20)	137	-	137
Balance at 31 December 2011	**8,441**	**(7,907)**	**9**	**(9)**	**463**	**8,913**	**(7,916)**	**997**

9. PROPERTY, PLANT AND EQUIPMENT

The movement in property, plant and equipment in 2010 and 2011 was as follows:

	Thousands of euros								
	Properties for own use			Other P,P&E		Total			
	Cost	Accumulated depreciation	Impairment	Cost	Accumulated depreciation	Cost	Accumulated depreciation	Impairment	Total
Balance at 31 December 2009	**56,471**	**(8,521)**	**(9,865)**	**10,430**	**(4,743)**	**66,901**	**(13,264)**	**(9,865)**	**43,772**
Additions or charges	86	(592)	6,590	1,031	(736)	1,117	(1,328)	6,590	6,379
Decreases or derecognitions	(391)	267	-	(3,301)	394	(3,692)	661	-	(3,031)
Transfers	(8,102)	-	-	(424)	302	(8,526)	302	-	(8,224)
Transfers to assets held for sale	-	-	-	(182)	84	(182)	84	-	(98)
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**

At 31 December 2011, 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 purposes, 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".

The external appraisals of the Group's assets at year-end 2010 indicated the need to revert 6,590 thousand euros of impairment losses recognised on properties for own use in prior years. At 31 December 2011, these appraisals evidenced the need to recognise an asset impairment charge in the amount of 8,182 thousand euros.

The carrying amount of property, plant and equipment located outside Spain at 31 December 2010 and 2011 was 22,151 thousand and 23,774 thousand euros, respectively.

10. INVESTMENT PROPERTY

The movements under this heading in the years ended 31 December 2010 and 2011 were as follows:

	Thousands of euros			
	Investment property	**Work in progress**	**Prepayments**	**Total**
Balance at 31 December 2009	**4,114,507**	**532,659**	**148**	**4,647,314**
Additions	11,689	104,546	1,892	118,127
Decreases or derecognitions	(379,194)	(556)	(148)	(379,898)
Transfers	139,919	(74,300)	-	65,619
Change in fair value	59,578	(5,452)	-	54,126
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	83,989	21,101	-	**105,090**
Balance at 31 December 2011	**4,296,800**	**320,459**	**854**	**4,618,113**

Changes in 2011

Additions in 2011 primarily relate to various development and renovation projects that the Group is carrying out:

- To properties of the SFL subgroup: Rue St. Honoré 247, Call LDA, Washington Plaza, Champs Elysées 90, Champs Elysées 82-88, Quai Le Gallo and Prony Wagram in the aggregate amount of 62,292 thousand euros. In addition, the SFL subgroup made a number of property investments totalling 12,583 thousand euros.

- The Parent made investments totalling 15,511 thousand euros in the Ausias March (Barcelona) and the Martínez Villergas (Madrid) projects. Investments in other Group assets totalled 6,560 thousand euros.

Decreases in 2011 were mainly the result of the following transactions:

- Sale of an SFL property, triggering the derecognition of 42,122 thousand euros and recognition of an associated gain of 7,669 thousand euros (Note 22.f).

- The derecognition of certain assets replaced (Note 4.e) that were included in partially or fully refurbished properties for an aggregate 37,389 thousand euros (Note 22.e).

Transfers in 2011 relate to:

- The transfer of the several properties from “Work in progress” to “Investment property” upon completion of the corresponding refurbishment work, for a total of 347,147 thousand euros.

- The transfer of two properties from “Investment property” to “Work in progress” upon start-up of refurbishment work, in the amount of 53,240 thousand euros.

- SFL moved its head office to another owned property, 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.

Changes in 2010

Additions in 2010 primarily related to various development and renovation projects that the Group was carrying out:

- To properties of the SFL subgroup: Rue St. Honoré 247, Call LDA, Washington Plaza, Champs Elysées 90, Champs Elysées 82-88, Quai Le Gallo and Prony Wagram in the aggregate amount of 94,843 thousand euros. In addition, the SFL subgroup invested a total of 3,531 thousand euros in other properties and made a 1,891 thousand euro down-payment on the refurbishment work at Champs Elysées 92.

- The Parent made investments totalling 5,768 thousand euros in the Llacuna project and 7,416 thousand euros in the Martínez Villergas project. Investments in other Group assets totalled 4,747 thousand euros.

Decreases in 2010 were mainly the result of the following transactions:

- Two properties contributed by subsidiary SFL to SIIC de Paris (Note 2.g), giving rise to aggregate derecognitions of 320,286 thousand euros (Note 22.f).

- Sale of a property in Barcelona for 24,500 thousand euros (Note 22.f), generating a derecognition in the amount of 24,061 thousand euros.

In 2010, two SFL properties were transferred from “Non-current assets held for sale” to “Investment property” in an aggregate amount of 57,827 thousand euros (Note 26).

In addition, the Parent derecognised a number of property assets recorded under “Investment property” for an aggregate amount of 35,290 thousand euros (Note 22.e), relating to a building in Madrid that was fully refurbished (Note 4.e).

Change in fair value

The heading labelled “Change in fair value of investment property” in the consolidated statement of comprehensive income includes a net gain on the value of investment property in 2011 of 105,090 thousand euros (compared to a net gain of 54,126 thousand euros in 2010) (Note 22.f). These changes reflect the changes in the fair value of the Group’s investment properties evidenced by the independent property appraisals dated 31 December 2011 and 2010 (Note 4.e).

Other disclosures

The total surface area (above and under-ground) of investment property and projects under development at 31 December 2011 and 2010 is as follows:

	Total surface area (m²) (**)					
	For rental 2011		Projects under development 2011		Total 2011	
	31 December 2011	31 December 2010	31 December 2011	31 December 2010	31 December 2011	31 December 2010
Barcelona	231,618	253,736	59,778	37,660	291,396	291,396
Madrid	200,549	202,876	39,510	31,069	240,059	233,945
Rest of Spain	78	78	-	-	78	78
Paris (*)	345,860	331,036	79,103	100,524	424,963	431,560
	778,105	**787,726**	**178,391**	**169,253**	**956,496**	**956,979**

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

At 31 December 2011, the Group had taken out mortgages in an aggregate amount of 561,428 thousand euros against properties with a net carrying amount at year-end of 1,064,592 thousand euros (Note 16). At 31 December 2010, the corresponding balances were 642,693 thousand and 1,153,838 thousand euros, respectively.

In addition, the Parent Company's syndicated loan was secured by a mortgage (Note 16) of 1,431,527 thousand euros at 31 December 2011 on certain assets of Inmobiliaria Colonial, S.A. (mortgage of 1,450,150 thousand euros at year-end 2010).

The Group's main finance leases at 31 December 2010 and 2011 are as follows:

			Thousands of euros		
				Instalments outstanding	
Description	**Average term (years)**	**Average years transpired**	**Asset's net carrying value**		**Current**
Rives de Seine	12	10.3	75,905	65,021	10,884
Quai Le Gallo	12	10.8	58,458	54,522	3,936
Prony-Wagram	7	1.5	41,221	38,430	2,791
Finance lease assets at 31 December 2010 (Note 16)			**175,584**	**157,973**	**17,611**

			Thousands of euros		
				Instalments outstanding	
Description	**Average term (years)**	**Average years transpired**	**Asset's net carrying value**		**Current**
Rives de Seine	12	11.3	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 16)			**103,452**	**89,308**	**14,143**

On 12 July 2011, Group subsidiary SFL executed early its purchase option under the finance lease on the Quai le Gallo property in Paris for 56,510 thousand euros.

To secure the commitments assumed by the Parent with respect to borrowings provided by a bank to subsidiary Abix (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 16). In 2011, these rents totalled 4,517 thousand euros.

In addition, Group subsidiary Torre Marenostrum has granted a bank a pledge on the pecuniary rights deriving from the rental lease on its property. In 2011, these rents totalled 5,729 thousand euros.

Lastly, the Parent has granted a bank a guarantee of up to 40,000 thousand euros in the form of a second-lien mortgage on one of its properties on a 45,000 thousand euro mortgage taken out by Asentia Project and a loan taken out by Riofisa in the amount of 10,000 thousand euros. The rents (6,990 thousand euros in 2011) on this property have also been pledged to the bank.

Since February 1999, the Parent is 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 21.7 million euros (Note 18). Inmobiliaria Colonial S.A. has a legal record of its attempt to make the corresponding payment and set up a bank deposit, attempts which were rejected by the seller. 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 Parent's legal advisors believe that these appeals pose negligible risk to the Group.

11. FINANCIAL ASSETS (NON-CURRENT)

The movements under this heading in the years ended 31 December 2010 and 2011 were as follows:

	Thousands of euros					
	Balance at 31 December 2009	**Acquisitions and charges**	**Disposals or decreases**	**Transfers**	**Transfers to assets held for sale**	**Balance at 31 December 2010**
Investments in associates (Note 2.g)	-	252,096	-	-	-	252,096
Investments in unconsolidated companies	1,071	-	-	-	-	1,071
Prepayments on investments	80,000	-	-	-	-	80,000
Other loans	1,721	17	-	(866)	-	872
Non-current securities portfolio	15,331	-	-	-	(15,331)	-
Financial instruments (Note 17)	186	12,594	(9)	-	-	12,771
Deposits and guarantees extended	9,388	94	(1,220)	-	(85)	8,177
Impairment	(95,617)	(785)	-	-	15,331	(81,071)
Total	**12,080**	**264,016**	**(1,229)**	**(866)**	**(85)**	**273,916**

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

Investments in associates

The movement in “Investments in associates” in 2011 and 2010:

2011

	Thousands of euros			
	31 December 2010	**Acquisitions or share of profit**	**Disposals or dividends received**	**31 December 2011**
SIIC de Paris, S.A.	252,096	18,703	(4,693)	266,106
Total	**252,096**	**18,703**	**(4,693)**	**266,106**

In 2011, the carrying amount of the investment in SIIC de Paris increased by 18,703 thousand euros, which is Group subsidiary SFL’s share of that company’s profit. Elsewhere, it was decreased by 4,693 thousand euros, which is the dividend received by SFL from SIIC de Paris.

2010

	Thousands of euros		
	1 January 2010	**Acquisitions or share of profit**	**31 December 2010**
SIIC de Paris. S,A,	-	252,096	252,096
Total	**-**	**252,096**	**252,096**

Investment in SIIC de Paris, S.A. -

In 2010, Group subsidiary SFL contributed two properties located in Paris’ business district La Défense, valued at 286,000 thousand euros (Note 22.f), to SIIC de Paris, S.A., receiving as consideration 15,476,190 newly issued shares in SIIC de Paris valued at 18.48 euros per share. The shareholders of SIIC de Paris approved the related share issuance in a general meeting on 27 December 2010.

Upon receipt of the ownership interest in SIIC de Paris, SFL then sold 2,706,652 of these shares to Realia Patrimonio, S.L.U. for 50,019 thousand euros, equivalent to a price per share of 18.48 euros.

At 31 December 2010 and 2011, SFL held 12,769,538 shares in SIIC de Paris, representing 29.99% of the latter’s share capital.

The carrying amount of this investment at 31 December 2010, recognised at cost, which is equivalent to the fair value of the investment, is itemised in the following table:

	Thousands of euros
	31 December 2010
December 2010 -	
SIIC de Paris equity (IFRS Cost)	650,489
Attributable unrealised gains	199,539
Other adjustments	(9,426)
Adjusted equity	**840,602**
Attributable equity (29.99%)	252,096
Net consideration given (including costs) (*)	238,769
Difference – gain on bargain purchase (Note 22.g)	13,327
Carrying amount of the investment at 31 December 2010	**252,096**

(*) Includes costs of 2,788 thousand euros directly attributable to the acquisition.

The table below includes the main financial indicators for SIIC de Paris as of 31 December 2010 and 30 June 2011, based on the latest information disclosed publicly by the Group investee:

	Thousands of euros	
(Information prepared under IFRS cost criteria)	**30 June 2011**	**31 December 2010**
Total assets	1,263,766	1,281,220
Total equity	674,773	656,837
Total liabilities	588,993	624,383
Revenue	34,006	57,446
Profit for the year	27,126	11,465

Investments in unconsolidated companies

This heading includes the 2.44% indirect investment in Grupo Vendôme Rome SCA (based on data at 31 December 2003), equivalent to a total of 79,546 shares carried at 1,071 thousand euros. This investment had been written off in full at both year-ends.

Prepayments on investments

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, which Inmobiliaria Colonial, S.A. paid in December 2007 and the assumption by the Parent Company of the borrowings of Proyecto Kopérnico 2007, S.L. (a Grupo Monteverde company) 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 is why it terminated the promise to purchase agreement. Grupo Monteverde did not accept the termination and launched court proceedings against the Parent (before 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 Company's legal advisors believe that the likelihood that the sentence will be executed is remote, as it can only be executed if so doing does not imply a higher outlay for Inmobiliaria Colonial, S.A.

At 31 December 2010 and 2011, 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.

On 20 January 2010, Monteverde Grupo Inmobiliario, S.L. initiated voluntary bankruptcy proceedings at the Madrid Mercantile Court.

Non-current securities portfolio

This heading included the equity investment held by Group subsidiary Inmocaral Servicios, S.A.U in Ariete, S.A., in the amount of 15,331 thousand euros, and which at 31 December 2010 was fully impaired. Both the investment and the associated impairment allowance were reclassified to "Non-current assets held for sale" in the consolidated statement of financial position at 31 December 2010.

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.

12. OTHER NON-CURRENT ASSETS

"Other non-current assets" in the accompanying statement of financial position includes the receivable from the previous shareholders of the Parent relating to the tax effect of the non-monetary contributions made by these shareholding companies as part of the equity issue dated 29 June 2006 described in Note 1. This amount is secured by a first demand guarantee in favour of Inmobiliaria Colonial, S.A.

The balancing entry was recognised under "Deferred tax liabilities" in the consolidated statement of financial position.

At 31 December 2010 and 2011, the secured account receivable totalled 61,001 thousand euros.

13. TRADE AND OTHER RECEIVABLES

The breakdown of this current asset heading in the accompanying consolidated statements of financial position at 31 December 2010 and 2011 is as follows:

	Thousands of euros	
	31 December 2011	**31 December 2010**
Trade receivables from sales and services	48,567	37,964
Other receivables	155,794	155,801
Impairment of trade receivables (Note 22.e)	(158,288)	(157,701)
Other current assets	831	713
Total trade and other receivables	**46,904**	**36,777**

Trade receivables from sales and services

“Trade receivables from sales and services” in the table above include the sums receivable from customers 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 due to breach of compliance with the suspensive clauses, are recognised under “Other receivables” and totalled 152,189 thousand euros, including accrued interest.

On 26 July 2007, the Parent and Nozar, S.A. signed a purchase agreement for an estate (the “Calle Antonio López” project) that was subject to delivery of certain conditions precedent. As a result of breach of these conditions precedent, Nozar, S.A. (via a deed notarised on 31 January 2008) acknowledged a 81,736 thousand euro credit payable to the Parent (76,853 thousand euros in principal and 4,883 thousand euros of interest) also granting it two guarantees: a mortgage on the estate in question to guarantee repayment of 43,000 thousand euros of principal (plus interest, costs and expenses) and a pledge of shares representing 98.82% of Boï Taüll, S.A. to secure repayment of 33,853 thousand euros of principal (plus interest, costs and expenses).

Also on 26 July 2007, the Parent and NZ Patrimonio, S.L.U. signed a purchase agreement for nine estates (the “Calle Ríos Rosas” project) that was subject to delivery of certain conditions precedent. As a result of breach of these conditions precedent, NZ Patrimonio, S.L.U. (via a deed notarised on 31 January 2008) acknowledged a 61,095 thousand euro credit payable to the Parent (57,445 thousand euros in principal and 3,650 thousand euros of interest), also granting it a mortgage on the estates in question to secure repayment of the loan (plus interest, costs and expenses).

On 18 February 2009, the Parent Company reached an agreement with Nozar, S.A. and NZ Patrimonio, S.L.U. by virtue of which the latter companies committed to repay the amounts owed by 1 September 2009 and provided the Parent Company with additional guarantees at the time. Those guarantees had been withdrawn at 31 December 2010. Nozar, S.A. and NZ Patrimonio, S.L.U. are currently in bankruptcy proceedings.

Impairment of trade receivables

The accompanying consolidated statement of financial position recognises impairment charges against the full amount of trade receivables from Nozar, S.A. and NZ Patrimonio, S.L.U. totalling 152,189 thousand euros, of which 1,441 thousand euros was recognised in 2010 (Note 22.e).

14. FINANCIAL ASSETS (CURRENT)

The breakdown of current financial assets in the accompanying consolidated statements of financial position at 31 December 2010 and 2011 is as follows:

	Thousands of euros	
	31 December 2011	**31 December 2010**
Short-term deposits and guarantees	2,000	629
Available-for-sale financial assets	23,785	23,868
Derivative financial instruments	138	-
Other loans	-	52
Total	**25,923**	**24,549**

Deposits and guarantees extended

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

Available-for-sale financial assets

These assets correspond primarily to the Parent Company's financial investment in FCC, carried at 24,828 thousand euros and representing 0.99% of the construction firm's share capital (23,824 thousand euros at 31 December 2010). This investment is measured at fair value, with changes in the fair value recorded directly in the equity.

In 2011, the impact of restating the Group's investment in FCC to fair value was to increase equity by 1,005 thousand euros (a decrease of 12,535 thousand euros in 2010); the loss accumulated by the Group in equity in this respect totals 7,909 thousand euros (8,914 thousand euros at year-end 2010) and does not represent a permanent decline in the asset's value (Note 4.h).

At 31 December 2010 and 2011, the shares in FCC were pledged as guarantees in respect of the syndicated loan (Note 16).

15. EQUITY

Share capital -

At 31 December 2009 the share capital comprised 1,756,194,451 fully subscribed and paid-in shares with a par value of 0.12 euros each, represented by book entries.

On 24 March 2010, the Board of Directors of the Parent Company agreed to issue equity following a request by the Parent Company's creditor banks to convert their convertible bonds into shares under the scope of the agreements reached in the Framework Refinancing Agreement (Note 16). As a result, 13,061,219 convertible bonds were cancelled and share capital was increased by 678,559 thousand euros, while the share premium was increased by 735,105 thousand euros, by means of the issuance of 5,654,654,674 new shares (at a par value of 0.12 euros per share plus a share premium of 0.13 euros per share). This capital increase has been fully paid in and was filed with the Barcelona Companies Register on 24 March 2010.

On 30 June 2010, the Parent Company registered two further equity issues with the Barcelona Companies Register. The first, paid-in in cash, entailed the issuance of 141,728,910 new shares and increased share capital by 17,007 thousand euros. The second, issued in exchange for non-cash assets, specifically the offset of credit claims held by the Company's various creditors, entailed the issuance of 15,036,501,707 new shares and increased share capital by 1,804,380 thousand euros.

Moreover, a number of bond conversion periods closed in 2010, giving rise to the issuance of 2,304,883 new shares (increasing share capital by 277 thousand euros and the share premium by 299 thousand euros). All the related share issues have been fully paid-in and filed with the Barcelona Companies Register.

As a result, the Parent's share capital at 31 December 2010 was represented by 22,591,384,625 fully subscribed and paid up shares with a par value of 0.12 euros each.

In 2011, prior to the capital reduction to offset losses and subsequent aggregation of shares (Note 1), 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, while the share premium was increased by 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, as indicated in Note 1, in an extraordinary general meeting in 2011 the Parent Company'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 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.

At 31 December 2011, all of the above transactions had been filed with the Barcelona Companies Register.

Based on the pertinent filings with the CNMV, the shareholders owning significant direct or indirect interests of 3% or more Inmobiliaria Colonial, S.A. at 31 December 2011 and 2010 are as follows:

31 December 2011

	% shareholding (*)		
	Direct	**Indirect**	**Total**
Name or corporate name of the shareholder:			
Commerzbank, A.G.	0.007%	19.977%	19.984%
The Royal Bank of Scotland Group, PLC	-	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.

31 December 2010

	% shareholding (*)		
	Direct	**Indirect**	**Total**
Name or corporate name of the shareholder:			
Commerzbank, A.G.	0.035%	20.095%	20.130%
The Royal Bank of Scotland Group, PLC	-	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	5.788%	-	5.788%
The Goldman Sachs Group, Inc.	-	4.910%	4.910%
Banco Popular Español, S.A.	4.599%	-	4.599%

(*) Information dated 31 December 2010.

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 share 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. (formerly Colren) and Abix Service S.L.U.

Share premium-

The "Share premium" account in the consolidated statement of financial position was built up basically as a result of the various equity issues carried out in 2006 and 2007.

In 2010, the share premium account increased by 735,405 thousand euros as a result of the conversions of bonds into shares outlined above.

At 31 December 2010, the share premium account stood at 4,217,294 thousand euros.

In 2011, the share premium account was used to offset prior-year losses as part of the capital reduction undertaken to restore the equilibrium of the Parent Company's capital structure (Note 1).

After that offset entry, the share premium account was increased by 93 thousand euros as result of the bond conversions detailed above.

At 31 December 2011, the share premium account stood at 93 thousand euros.

The Spanish Corporate Enterprises Act explicitly allows the share premium balance to be used to increase capital and establishes no restrictions as to its use.

Legal reserve-

Under the Spanish Corporate 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 only be used to offset losses, provided that no other sufficient reserves are available for such purpose.

Goodwill reserve-

Under the Spanish Corporate Enterprises Act, an annual amount based on 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 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. The following table outlines the amounts deducted in prior years in this respect:

Year	Thousands of euros
2008	15,983
2009	15,983
2010	15,983
Total	**47,949**

As a result, the Parent Company has endowed a restricted reserve in the amount of 47,949 thousand euros.

Reserves at fully consolidated companies-

The breakdown of reserves at consolidated companies, in thousands of euros, is as follows:

	Thousands of euros	
	31 December 2011	**31 December 2010**
Inmobiliaria Colonial, S.A. (consolidation adjustments)	1,677,681	1,342,220
Torre Marenostrum, S.L.	147	(375)
SFL subgroup	(433,921)	(456,220)
Abix Service, S.L.U.	(4,731)	-
Asentia Gestión, S.L.U.	(1)	-
Riofisa subgroup	(886,267)	(807,586)
Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U	(13,617)	(1)
Asentia Project, S.L.U (formerly Colren, S.L.U.)	(285,957)	(1)
Inmocaral Servicios, S.A.U.	(3,913)	(2,923)
Total	**49,421**	**75,114**

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 designated as cash flow hedges (Note 17).

The changes in this heading are as follows:

	Thousands of euros	
	31 December 2011	**31 December 2010**
Opening balance	27,274	(3,418)
Changes in the fair value of hedges in the period	(24,807)	30,692
Closing balance	**2,467**	**27,274**

Parent company treasury shares-

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

	31 December 2011	31 December 2010 (*)
No. of shares	299,236	284,842
Carrying amount (€ '000)	36,786	36,704
% of equity	0.132%	0.126%

(*) As outlined in Note 1, on 27 June 2011, the Group registered the aggregation and cancellation of the 22,591,407,700 shares into which the Company's capital was divided, exchanging one newly-issues share for every 100 existing shares. As a result, the number of shares held as treasury shares has been restated.

The increase in the number of Parent company shares held as treasury shares in 2011 corresponds mainly to the definitive registration of ownership of shares that was pending completion at 31 December 2010.

In 2010, the Parent Company sold 1,042,699 treasury shares in order to bring the number of shares outstanding in line with the exchange ratio set for the two equity issues filed with the Barcelona Companies Register on 30 June 2010. The proceeds from the sale totalled 127 thousand euros, giving rise to a loss of 3,825 thousand euros, which was recognised directly in equity. In addition, the Parent Company acquired 19,079,442 treasury shares for 1,049 thousand euros.

SFL shares-

The Colonial Group held the following shares in subsidiary SFL at year-end 2011 and 2010 (held as treasury shares):

	31 December 2011	31 December 2010
No. of shares	498,482	473,611
Carrying amount (€ '000)	22,757	22,282
% of equity	1.07%	1.02%

The main transactions carried out in 2011 were the acquisition of 81,019 shares for a total of 1,636 thousand euros and the sale of 56,148 shares for a total of 1,161 thousand euros, which resulted in a net loss of 18 thousand euros, which was recognised directly in Group equity.

In 2010, 65,662 shares were acquired for 2,514 thousand euros and 65,043 shares were sold for 2,493 thousand euros, generating a consolidated net gain of 3 thousand euros.

Some of SFL's shares are held to cover three stock option plans with different maturity dates and strike prices (Note 23).

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' profit or loss 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 2009	**19,535**	**924,155**	**26,136**	**969,826**
Profit (loss) for the year	692	87,046	(4,195)	**83,543**
Dividends and other	-	(65,848)	(640)	**(66,488)**
Financial instruments	(97)	6,193	-	**6,096**
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**

A breakdown of the impact of consolidation scope changes on non-controlling interests in 2011 and 2010 is provided below:

	Thousands of euros	
	31 December 2011	**31 December 2010**
Dividend paid by the SFL subgroup to non-controlling interests	(44,466)	(59,271)
Dividend paid by the Washington Plaza to non-controlling interests	(2,284)	(6,277)
Dividend paid by the Torremarenostrum to non-controlling interests	(304)	-
Other	(2,316)	(940)
Total	**(49,370)**	**(66,488)**

Other equity instruments: Convertible bonds-

As part of the 14 September 2008 debt restructuring agreement, the Parent issued bonds convertible into Parent Company 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 2011, following the conversions detailed in the section titled “Share capital” earlier in this Note, 15,324 bonds had yet to be converted. The breakdown of bonds pending conversion and interest accrued to 31 December 2011 and 2010 are detailed below:

Free conversion tranche	Number of bonds pending conversion	Value of bonds (Thousands of euros)	Accrued interest (Thousands of euros)
31 December 2011	15,324	1,827	1
31 December 2010	16,215	1,831	1

Conversion of all outstanding bonds would result in the issuance of 73,132 new Parent Company shares.

The increase in the par value of the bonds as a result of the capitalisation of interest accrued of 6.32 euros per share during the first interest period was ratified in public deed by the Parent on 30 December 2011, leaving the par value per bond at 119.27 euros.

A total of 13,066,510 bonds were cancelled in 2010, increasing share capital by 678,836 thousand euros and the share premium by 735,404 thousand euros.

In 2011, prior to the capital reduction undertaken to offset losses and subsequent aggregation of shares (Note 1), 51 bonds were converted, giving rise to the issuance of 23,085 old shares and increasing share capital and the share premium by 3 and 4 thousand euros, respectively.

The breakdown of the conversions taking place since the aggregation of shares of 27 June 2011 is as follows:

			Thousands of euros	
Date	**Number of bonds redeemed**	**Number of new shares issued**	**Amount of the capital increase**	**Associated increase in share premium**
July 2011	226	1,044	5	20
October 2011	614	2,888	3	69
Total	840	3,932	8	89

On 10 January 2012, the Parent cancelled 79 bonds, triggering the issuance of 374 new shares with a par value of 1 euro each and increasing the share premium by 9 thousand euros.

16. BANK BORROWINGS AND OTHER FINANCIAL LIABILITIES

The maturity schedule of “Bank borrowings and other financial liabilities” at year-end 2011 and 2010 is as follows:

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 24)	*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 24)	*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 24)	*72,000*	-	*1,439,773*	*7,428*	-	-	*1,447,201*	*1,519,201*
Finance leases assets (Note 10)	14,143	56,457	2,790	2,790	27,271	-	89,308	103,451
-Third parties	*11,305*	*43,040*	*2,790*	*2,790*	*27,271*	-	*75,891*	*87,196*
-Related parties (Note 24)	*2,838*	*13,417*	-	-	-	-	*13,417*	*16,255*
Interest	1,780	-	-	-	-	-	-	1,780
-Third parties	*1,084*	-	-	-	-	-	-	*1,084*
-Related parties (Note 24)	*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
Derivative financial instruments at fair value (Note 17)	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**	**193,307**	**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 breakdown of the bank borrowings and other financial liabilities attributable to Group companies headed up by Group subsidiary Asentia Project, which have been reclassified in the consolidated statement of financial position to "Liabilities relating to assets held for sale", is provided in Note 26

31 December 2010	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	24,344	-	-	-	-	-	-	24,344
-Third parties	*8,074*	-	-	-	-	-	-	*8,074*
-Related parties (Note 24)	*16,270*	-	-	-	-	-	-	*16,270*
Loans	13,797	356,332	76,801	78,447	47,073	237,125	795,778	809,575
-Third parties	*8,116*	*277,806*	*33,403*	*75,672*	*44,121*	*198,396*	*629,398*	*637,514*
-Related parties (Note 24)	*5,681*	*78,526*	*43,398*	*2,775*	*2,952*	*38,729*	*166,380*	*172,061*
Syndicated loans	-	180,000	-	2,002,912	200,000	-	2,382,912	2,382,912
-Third parties	-	*115,200*	-	*510,139*	*162,860*	-	*788,199*	*788,199*
-Related parties (Note 24)	-	*64,800*	-	*1,492,773*	*37,140*	-	*1,594,713*	*1,594,713*
Finance leases assets (Note 10)	17,611	68,664	56,458	2,790	2,790	27,271	157,973	175,584
-Third parties	*17,611*	*68,664*	*56,458*	*2,790*	*2,790*	*27,271*	*157,973*	*175,584*
Interest	3,680	-	-	-	-	-	-	3,680
-Third parties	*2,470*	-	-	-	-	-	-	*2,470*
-Related parties (Note 24)	*1,210*	-	-	-	-	-	-	*1,210*
Debt arrangement expenses	(9,352)	(8,917)	(8,862)	(8,377)	(1,577)	(845)	(28,578)	(37,930)
-Third parties	*(9,352)*	*(8,917)*	*(8,862)*	*(8,377)*	*(1,577)*	*(845)*	*(28,578)*	*(37,930)*
Total	**50,080**	**596,079**	**124,397**	**2,075,772**	**248,286**	**263,551**	**3,308,085**	**3,358,165**
-**Third parties**	**26,919**	**452,753**	**80,999**	**580,224**	**208,194**	**224,822**	**1,546,992**	**1,573,911**
-**Related parties**	**23,161**	**143,326**	**43,398**	**1,495,548**	**40,092**	**38,729**	**1,761,093**	**1,784,254**
Other financial liabilities:								
Checking account with SCI Washington Plaza	57,544	-	-	-	-	-	-	57,544
Market value of financial instruments	8,514	18,667	4,887	34,685	1,926	-	60,165	68,679
Other financial liabilities	374	-	-	-	-	-	-	374
Total	**66,432**	**18,667**	**4,887**	**34,685**	**1,926**	**-**	**60,165**	**126,597**
Total at 31 December 2010	**116,512**	**614,746**	**129,284**	**2,110,457**	**250,212**	**263,551**	**3,368,250**	**3,484,762**

The breakdown of the bank borrowings and other financial liabilities attributable to Group companies headed up by Group subsidiary Asentia Project, which have been reclassified in the consolidated statement of financial position to "Liabilities relating to assets held for sale", is provided in Note 26.

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. In addition, the carrying amount of the bonds issued by SFL, which are traded on the Euronext Paris exchange, does not differ materially from their fair value.

Lines of credit-

The Group has lines of credit of up to 44,464 thousand euros, which at year-end 2011 were fully drawn down. These credit facilities mature in the short term. At 31 December 2010, the balance of fully drawn-down lines of credit held by the Group totalled 24,344 thousand euros.

At 31 December 2011, the Group had a long-term checking account extended to a SCI Washington company by its minority shareholder which accrues interest at 3-month Euribor plus 60 basis points. The balance at year-end was 57,879 thousand euros, including accrued outstanding interest (57,544 thousand at year-end 2010, including accrued outstanding interest).

Syndicated loans -

The breakdown of the Group's syndicated loans by subsidiary at 31 December 2010 and 2011 is as follows:

	Thousands of euros	
	31 December 2011	**31 December 2010**
Inmobiliaria Colonial, S.A.	1,737,912	1,737,912
Société Foncière Lyonnaise, S.A.	240,000	645,000
Total syndicated loans	**1,977,912**	**2,382,912**

Parent company syndicated loan -

The Parent and its lender banks reached a formal and binding agreement on 19 February 2010 to restructure all the Company's bank debt, including both the syndicated loan and other bank borrowings. This restructuring enabled the recapitalisation of the Parent, the reinforcement of its long-term capital structure and a reduction in leverage.

The refinancing agreement took effect following the issue by an independent expert of a favourable report on the Framework Refinancing Agreement and viability plan.

The breakdown of the 19 February 2010 restructuring transaction is as follows:

- *The Colonial Syndicated Loan:* This is a long-term financing arrangement, due 31 December 2014, for a total initial amount at the time of the restructuring of 3,453,878 thousand euros. The Colonial Syndicated Loan comprised two tranches:

    i. Tranche A, in the amount of 1,800,878 thousand euros, which is in turn 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 10); (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 Company as a result of the sale of assets; and (iv) a share pledge consisting of the shares held by the Parent Company in subsidiary Torre Marenostrum.

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

3. Tranche A3: The portion of the Revolving Credit Facility which was not drawn down at the date of the restructuring agreement, in the amount of 62,966 thousand euros. At 31 December 2010 and 2011, 40,232 thousand euros had been drawn down and had been deposited in a restricted account at the behest of the creditors.

Tranche A accrues interest at Euribor plus 175 basis points.

From 31 December 2011, if the Parent Company'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 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 within the nominal value of the debt and would not entail any cash outlay whatsoever.

ii. Tranche B1 in the amount of 1,653,000 thousand euros which the lending banks contributed in the form of non-cash contributions to the capital increase. This tranche accrued capitalisable interest until the contribution date at Euribor plus 400 basis points, entailing the capitalisation of 37,480 thousand euros of interest. The related capital increase was undertaken by the Parent Company in June 2010 and was filed with the Barcelona Companies Register on 30 June 2010 (Note 15).

- *The Colren (currently Asentia Project) Syndicated Loan:* a long-term facility due 31 December 2014 in the amount of 795,000 thousand euros corresponding to the portion of the former syndicated loan allocated to the land and development operating segment (Note 26). This loan accrues (capitalisable) interest at Euribor plus 400 basis points. The Colren 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 2011, the outstanding balance of this tranche stood at 553,862 thousand euros, net of the amount repaid by Asentia Project in the first half of 2011 (18,980 thousand euros), including interest in the amount of 52,842 thousand euros capitalised within the nominal value of the debt. The amount drawn down under this tranche was 539,758 thousand euros at year-end 2010.

ii. The Convertible Facility for 275,000 thousand euros, secured by warrants convertible into shares of the Parent Company 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; ii) the par value of the Parent Company'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 2011, the balance of this tranche, including interest capitalised within the nominal value of the borrowings, stood at 303,466 thousand euros. The amount drawn down under this tranche was 287,921 thousand euros at year-end 2010.

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 equity loans *(préstamos participativos)* in the event the Parent Company has to liquidate due to losses incurred. Borrowings will be converted into equity loans 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.

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.

- Tranche B2 in the amount of 35,000 thousand euros subscribed in full by ING Real Estate. On 19 November 2010, this tranche was allocated to Group company Abix, increased by 1,459 thousand euros of interest capitalised within the nominal value of the borrowings. Of the total outstanding, 23,333 thousand euros are convertible into shares of the Parent by through the exercise of warrants granted to ING, the lender, on the same terms and conditions as those outlined in connection with the *Asentia Project Convertible Facility.*

The breakdown of the syndicated debt by tranche at 31 December 2010 and 2011 is provided below:

	31 December 2011		31 December 2010	
Thousands of euros	**Limit**	**Nominal amount drawn down**	**Limit**	**Nominal amount drawn down**
Colonial Syndicated Loan -				
Facility A – Tranche 1	1,650,012	1,650,012	1,650,012	1,650,012
Facility A – Tranche 2	87,900	87,900	87,900	87,900
Facility A – Tranche 3 Revolving Facility *	62,966	-	62,966	-
Total Colonial Syndicated Loan	**1,800,878**	**1,737,912**	**1,800,878**	**1,737,912**
Asentia Project Syndicated Loan -				
Term Loan Facility	501,020	501,020	515,325	515,325
Convertible Facility	275,000	275,000	275,000	275,000
Total Asentia Project Syndicated Loan (**)	**776,020**	**776,020**	**790,325**	**790,325**
Total	**2,576,898**	**2,513,932**	**2,591,203**	**2,528,237**

(*) For the purpose of calculating the nominal value drawn down, the Parent Company presents the amount drawn down under Tranche 3, the revolving portion of Facility A, less the amount on deposit in a restricted current account (40,232 thousand euros).

(**) At 31 December 2010, the Asentia Project Syndicated Loan was reclassified to "Liabilities relating to assets held for sale" in the consolidated statement of financial position (Note 4.g).

Compliance with covenants -

At 31 December 2011, the Parent Company was compliant with the following financial ratios stipulated in the Framework Refinancing Agreement:

- Loan-to-value (LTV) ratio under 85%. LTV is calculated as the percentage obtained by dividing the amount of the Parent Company's net debt by the market value of its properties plus the net asset value (NAV) of its equity investments in subsidiaries devoted to property management. At 31 December 2011, the Parent Company complied with this covenant.

- Debt service coverage ratio (DSCR) > 1, calculated as the percentage obtained by dividing recurring operating cash flow by the debt service charge. At 31 December 2011, the Parent Company complied with this covenant.

Other commitments and restrictions -

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

- The Parent Company 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 Company may not assume additional borrowings.

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

- The Parent Company 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 Company.

SFL syndicated loans

On 28 January 2005, Group company SFL took out a syndicated loan arranged by Natexis Banques Populaires in the amount of 600,000 thousand euros, structured as a revolving facility due in January 2012. In 2009, SFL repaid 150,000 thousand euros of this loan, and reduced the limit to 400,000 thousand euros. In 2010, SFL repaid another 200,000 thousand euros, and reduced the limit further to 200,000 thousand euros. This limit was fully drawn down at 31 December 2011 (180,000 thousand euros at year-end 2010).

On 8 October 2009, SFL took out a new syndicated loan arranged by BNP Paribas in the amount of 300,000 thousand euros, structured as a revolving facility due in October 2014. At 31 December 2011, none of this facility had been drawn down (265,000 thousand euros has been drawn down at year-end 2010).

On 17 December 2010, SFL took out a new syndicated loan arranged by Natixis in the amount of 350,000 thousand euros, structured as a revolving facility due in December 2015. At 31 December 2011, 40,000 thousand euros of this loan had been drawn down (200,000 thousand euros at year-end 2010).

These syndicated loans require compliance with a series of financial covenants, including leverage and interest coverage ratios, as detailed below. At 31 December 2010 and 2011, SFL was not in breach of any of its covenants under any of the above loans.

	Ratios	31 December 2011	31 December 2010
Natixis 2005 syndicated loan	New debt/equity value <=50%	36.6%	36.8%
	EBITDA/net interest expense > 2.5x	2.6	3.5
	Secured debt/equity value <=20%	6.5%	9.1%
	Equity value excluding secured debt >=€1bn	€3.2bn	€2.9bn
Natixis 2010 syndicated loan	LTV ratio <= 50%	36.6%	36.8%
	Interest coverage ratio >= 2.5x	3	4
	Secured debt/equity value <=20%	6.5%	9.1%
	Appraisal value of unmortgaged properties >=€2bn	€2.8bn	€2.5bn
BNP-Paribas syndicated loan	LTV ratio <= 50%	36.6%	36.8%
	Interest coverage ratio >= 2.5x	2.6	3.5
	Secured debt/equity value <=20%	6.5%	9.1%
	Appraisal value of unmortgaged properties >=€2bn	€2.8bn	€2.5bn

Note: €bn refers to billions of euros.

Interest expense accrued and outstanding on these syndicated loans recognised in the accompanying 2011 and 2010 consolidated statements of comprehensive income amounted to 235 thousand and 1,785 thousand euros, respectively.

Loans -

At 31 December 2011 and 2010, in addition to the Parent Company's syndicated loan, the Group had the following mortgage loans, secured by its investment properties and non-current assets held for sale:

	Thousands of euros			
	31 December 2011		**31 December 2010**	
	Mortgage debt	**Market value of collateral**	**Mortgage debt**	**Market value of collateral**
Investment property - rentals (Note 10)	561,428	1,186,330	642,693	1,160,888
Non-current assets held for sale (Note 26)	573,090	771,581	600,671	845,549
	1,134,518	**1,957,910**	**1,243,364**	**2,006,437**

The decrease in mortgage debt associated with investment property reflects the impact of the early execution by Group subsidiary SFL of its finance lease purchase option on the Quai le Gallo property for 56,510 thousand euros. Most of the rest of the decrease is accounted for by sums paid by the Group in accordance with the repayment scheduled agreed with its various lender banks.

The decrease in mortgage debt associated with non-current assets held for sale corresponds mainly to mortgages tied to investment properties sold by Riofisa in the framework of its debt restructuring agreement (Note 26) for a total of 28,502 thousand euros. Most of the rest of the decrease is accounted for by sums paid by the Group in accordance with the repayment schedules agreed with its various lender banks.

Compliance with covenants -

At 31 December 2011, the Colonial Group had taken out ten loans, for a total amount of 468,210 thousand euros (473,162 thousand euros at year-end 2010), 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' loan agreement requires it to keep its LTV ratio ≤ 85% from 31 December 2011. This ratio was higher than the covenanted threshold at year-end. As a result, under the terms of the loan agreement, this company has to repay the amount of the loan needed to bring this ratio to below the required level within a maximum period of 24 months.

Collateral -

At 31 December 2010 and 2011, shares of Group subsidiary Parholding (part of the SFL subgroup) carried at 6,070 thousand euros were pledged.

Debt issuance -

On 17 May 2011, Group investee Société Foncière Lyonnaise issued 500,000 thousand euros of non-convertible bonds (each with a par value of 100 thousand euros). The five-year bonds carry a fixed coupon of 4.625%, payable annually, with final maturity on 25 May 2016.

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, which are recognised in "Bonds and similar securities issued" in the accompanying 2011 consolidated statement of financial position, amounted to 14,196 thousand euros at year-end.

Finance leases-

El detalle de los activos en régimen de arrendamiento financiero. se indica en la Nota 10,

Syndicated loan arrangement costs and fees -

At 31 December 2011 and 2010, the amounts recognised in the consolidated statement of comprehensive income in this connection totalled 8,300 thousand and 7,847 thousand euros, respectively.

Interest rate on borrowings -

The average interest rate paid by the Group in 2011 on borrowings allocated to continuing operations was 3.68% (4.30% in 2010). The Group's average credit spread in 2011 was 158 basis points over Euribor.

Interest expense accrued and outstanding totalled 15,976 thousand euros (including 14,196 thousand euros corresponding to interest accrued and outstanding on the bonds issued by Société Foncière Lyonnaise) at year-end 2011 (3,680 thousand euros at year-end 2010).

Cash and cash equivalents -

At 31 December 2011 and 2010, amounts of 65,926 thousand and 77,435 thousand euros, respectively, were recognised under "Cash and cash equivalents", of which 26,350 thousand and 26,243 thousand euros, respectively, were pledged. The latter sums are mainly pledged to the banks participating in the syndicated loan.

Bank borrowings classified as liabilities relating to assets held for sale (Note 26)-

At 31 December 2011, all the bank borrowings associated with the group headed up by Asentia Project, totalling 1,451,124 thousand euros (1,441,900 thousand euros at year-end 2010), had been reclassified to "Liabilities relating to assets held for sale" in the consolidated statement of financial position (Note 4.g).

As a result, at 31 December 2011, the total balance of the Group's borrowing, including bank borrowings, non-convertible bonds, capitalised interest and debt arrangement expenses, stood at 4,857,623 thousand euros (4,800,065 thousand euros at year-end 2010).

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 section and in Note 17, and equity (capital and reserves, Note 15).

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.

17. 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 500,000 thousand euros of bonds issued by Group Company SFL, so that a higher percentage 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 2011 and 2010, including financial instruments, on comprehensive income before allocation to non-controlling interests and the related tax effect and on Group equity.

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**
-100pb	(27,238)	(2,435)	2.05%
-75pb	(22,425)	(157)	0.13%
-50pb	(15,353)	148	0.12%
-25pb	(7,931)	321	0.27%
+25pb	8,301	(1,053)	0.88%
+50pb	17,409	(3,302)	2.77%
+75pb	27,272	(6,871)	5.77%
+100pb	37,743	(10,365)	8.94%

31 December 2010

	Thousands of euros		
	Increase / (decrease)	**Revenue / (expense)**	
+/- basis point change in interest rate	**Impact on equity**	**Impact on comprehensive income**	**% change in recognised expense**
-100pb	(17,920)	(5,242)	3.34%
-75pb	(13,113)	(3,193)	2.03%
-50pb	(8,523)	(2,262)	1.44%
-25pb	(4,139)	(1,345)	0.86%
+25pb	3,924	1,805	1.15%
+50pb	7,646	4,078	2.60%
+75pb	11,198	6,426	4.09%
+100pb	14,625	7,828	4.98%

- Refinancing risk: the Group's financial structure warrants diversification of its sources of financing by entity, product and maturity.

- 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 it can service its debt and reduce its indebtedness. The refinancing agreement includes a cash flow budget that will enable the Parent Company to service its debt and meet the expenses inherent to its ordinary business activities.

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

Derivative financial instruments

The Group has arranged a series of interest rate hedging derivatives. The next table itemises these derivatives and states their fair values at year-end 2010 and 2011:

Derivative financial instrument	Company	Counterparty	Interest rate 2009	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	Societe 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 24)					1,899,477	(15,577)
- Fixed-to-floating hedges					3,524,477	(74,042)
- Floating-to-fixed hedges					100,000	5,945

Derivative financial instrument	Company	Counterparty	Interest rate June 2010	Maturity	Face value (thousands of euros)	Fair value – Asset / (Liability)
Vanilla swap	Parhaus	Calyon	2.218%	2012	39,079	(705)
Vanilla swap	Parchamps	Calyon	2.218%	2012	7,395	(133)
Vanilla swap	Pargal	Calyon	2.218%	2012	24,710	(446)
Vanilla swap	Parchar	Calyon	2.218%	2012	1,870	(34)
Collar	SFL	JP Morgan	EUR12M +1.415% Floor 3.415% Cap 6.5%	2014	400,000	(31,729)
Vanilla swap	SFL	Calyon	Swap 3.785%	2011	100,000	(1,379)
Vanilla swap	SFL	RBS	Swap 3.895%	2013	28,600	(1,808)
Vanilla swap	SFL	RBS	Swap 3.895%	2013	12,200	(771)
Vanilla swap	SFL	HSBC	2.63%	2014	50,000	(1,322)
Vanilla swap	SFL	CADIF	1.655%	2011	50,000	(80)
Vanilla swap	SFL	BNP-Paribas	2.375%	2012	50,000	(781)
Vanilla swap	SFL	BNP-Paribas	2.63%	2014	50,000	(1,322)
Vanilla swap	SFL	BNP-Paribas	2.265%	2013	50,000	(941)
Vanilla swap	SFL	HSBC	2.71%	2014	100,000	(2,815)
Vanilla swap	SFL	RBS	Swap (4.42%)	2011	100,000	(902)
Vanilla swap	SFL	Eurohypo	Swap 4.4025%	2011	100,000	(897)
Collar	Colonial	Eurohypo	Floor (4.00%) Cap (4.76%)	2011	100,000	(794)
CAP	Colonial	La Caixa	Cap (3%)	2011	196,757	-
Collar	Colonial	Bancaja	Floor (4.10%) Cap (4.85%)	2011	30,000	(246)
Collar	Colonial	Caja Madrid	Floor (4.12%) Cap (4.85%)	2011	150,000	(1,238)
Swap	Colonial	Deutsche Bank	4.60% SI (CMS10Y-C. S2Y)<0.75% 3.25% SI (CMS10Y-C. S2Y)>0.75%	2012	450,000	(16,577)
Collar	Colonial	Deutsche Bank	Floor (3.85%) Cap (4.45%)	2013	25,000	(1,508)
CAP	Colonial	Banco Popular	3.25%	2014	30,000	293
CAP	Colonial	Calyon	3.25%	2014	140,000	1,367
CAP	Colonial	Eurohypo	2.50%	2014	150,000	2,242
CAP	Colonial	La Caixa	2.50%	2014	100,000	1,490
CAP	Colonial	La Caixa	3.25%	2014	140,000	1,367
CAP	Colonial	La Caixa	3.25%	2014	50,000	488
CAP	Colonial	RBS	2.50%	2014	250,000	3,792
CAP	Colonial	RBS	3.25%	2014	140,000	1,367
Vanilla swap – forward starting	Torre Marenostrum	La Caixa	Swap 3.85%	2015	32,929	(2,251)
CAP	Abix	La Caixa	3.5%	2014	51,805	365
Total at 31 December 2010					**3,200,345**	**(55,908)**
- Third parties					1,845,345	(58,479)
- Related parties (Note 24)					1,355,000	2,571

At 31 December 2011, 68% of the fair value of the derivatives written qualified for hedge accounting under IFRS 39. In terms of fair value, as 98.6% of these instruments are efficient, valuation gains and losses are recognised in equity.

In 2011, the Parent Company arranged two new interest rate caps on a combined notional amount of 300,000 thousand euros. SFL also arranged an interest rate cap on a notional amount of 200,000 thousand euros and seven swaps on a combined notional amount of 800,000 thousand euros, of which 700,000 thousand euros are floating-to-fixed hedging instruments.

At 31 December 2011, the accumulated impact on equity of derivative hedge accounting was a gain of 2,467 thousand euros, net of the tax effect and consolidation adjustments (31 December 2010: cumulative net gain of 27,274 thousand euros).

The impact of accounting for derivatives qualifying for hedge accounting on the 2011 consolidated statement of comprehensive income was 9,536 thousand euros (Note 22.g), recognised as finance cost (10,627 thousand euros in 2010).

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 2010 and 2011.

At year-end 2011, the net fair value of the derivatives gave rise to a financial liability of 68,097 thousand euros, including capitalised coupon interest of 2,029 thousand euros. Of this total, 9,314 thousand euros relates to an asset balance (Notes 11 and 14) and 77,411 thousand euros to a liability balance (Note 16). In addition, 15,577 thousand euros relates to derivatives written with related financial institutions (Note 24). The fair value of derivatives at 31 December 2010 was 55,908 thousand euros. The decrease in fair value reflects the decline in market interest rates.

At 31 December 2011, the notional amount of all hedges arranged was 3,624,477 thousand euros, for which the inception of the hedging relationship is January 2012 for 300,000 thousand euros and July 2012 for 400,000 thousand euros (Vanilla swap – forward starting). In addition, the total notional value includes a 100,000 thousand euro floating rate derivative allocated to the bonds issued by SFL, so that the balance of floating-to-fixed hedges at 31 December 2011 stood at 2,824,477 thousand euros.

As a result, the effective hedging ratio at 31 December 2011 (floating-to-fixed hedges divided by total floating rate debt) was 96.6%, while the percentage of borrowings hedged or at fixed rates was 94.2% of the total.

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.

18. TRADE PAYABLES AND OTHER NON-CURRENT LIABILITIES

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

	Thousands of euros			
	31 December 2011		31 December 2010	
	Current	Non-current	Current	Non-current
Trade and other payables	18,494	-	20,936	-
Advances	19,634	-	16,583	-
Payables for the purchase of properties and land	34,238	-	32,798	-
Guarantees and deposits received	1,484	21,890	1,484	21,192
Other liabilities	7,605	139	11,806	139
Total	**81,455**	**22,029**	**83,607**	**21,331**

At 31 December 2011 and 2010, "Trade 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" reflects amounts paid upfront by tenants and stood at 19,134 thousand and 16,583 thousand euros, respectively, at year-end 2011 and 2010. It also includes 500 thousand euros of downpayments for property purchases.

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

The breakdown of "Other liabilities" at year-end 2011 and 2010 is provided below:

	Thousands of euros			
	31 December 2011		31 December 2010	
	Current	Non-current	Current	Non-current
Other liabilities:				
Payable to Social Security	2,084	-	1,958	-
Deferred income	2,816	-	3,511	-
Other payables and current liabilities	2,705	139	6,337	139
Total	**7,605**	**139**	**11,806**	**139**

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:

	Thousands of euros				
	Payments made and payments outstanding at year-end				
	2011			**2010**	
	Amount	**%**	**As a % of the total number of invoices**	**Amount**	**%**
Paid within the legal deadline	40,506	61%	76%	(1)	(1)
Other	26,103	39%	24%	(1)	(1)
Total amounts paid in the year	**66,609**	**100%**	**100%**	(1)	(1)
Weighted average days past due – payments made after legal deadline	98			(1)	(1)
Weighted average days past due – payments made within legal deadline	24			(1)	(1)
Amounts past due at the reporting date by more than the legally permitted term (*)(**)	2,719			(1)	(1)

(1) These disclosures are not required for 2010 due to the first-time application rule. As a result, this information is only provided for 2011.

(*) Transitory provision two of Law 15/2010, of 5 July 2010, 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 property 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 2011 under Law 3/2004 on combating late payment in commercial transactions is 85 days.

The disclosures regarding balances payable outstanding at year-end of discontinued operations are provided in Note 26.

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.

19. PROVISIONS

Changes in "Provisions" 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 2009	**680**	**1,137**	**102**	**1,085**
Additions	100	58	-	-
Retirements	-	-	(82)	(935)
Transfers	-	(72)	-	-
Balance at 31 December 2010	**780**	**1,123**	**20**	**150**
Additions	2,365	-	7,011	111
Retirements	(643)	(278)	(10,591)	(150)
Transfers (Note 20)	-	-	10,591	-
Balance at 31 December 2011	**2,502**	**845**	**7,031**	**111**

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

20. 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 Company 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 2010 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., Riofisa Este, S.L., Asentia Project, S.L.U., Abix Service, S.L.U., Asentia Gestión, S.L.U., and Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U.

In addition to the above-listed companies, in 2011 the consolidated tax group includes Asentia Invest, S.L.U. (note 2.g).

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 2011	**31 December 2010**	**31 December 2011**	**31 December 2010**
Tax refunds receivables	72	557	-	-
Deferred tax assets receivable	4,083	3,287	-	-
VAT	12,536	11,680	-	-
Deferred tax assets	-	-	738,150	658,225
Total tax receivables	**16,691**	**15,524**	**738,150**	**658,225**

	Thousands of euros			
	Taxes payable			
	Current		**Non-current**	
	31 December 2011	**31 December 2010**	**31 December 2011**	**31 December 2010**
Income tax payable	4,929	1,576	-	-
Other taxes payable	3,443	5,904	-	-
Exit tax payable (SFL Group)	3,685	2,479	2,500	2,183
VAT payable	5,204	8,253	-	-
Tax extensions	22,721	16,151	28,942	49,506
Deferred tax liabilities	-	-	171,990	180,123
Total taxes payable	**39,982**	**34,363**	**203,432**	**231,812**

Tax extensions

At 31 December 2011, 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. This debt is guaranteed by a mortgage against a property owned by Group subsidiary Asentia Project 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 16). 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.

The maturity schedule for the deferred payments, excluding interest, 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**

During 2011, the Parent applied for 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. This permission was granted on 12 January 2012. This debt will be guaranteed by a mortgage on a property owned by Group subsidiary Riofisa, S.L.U.

31 December 2010

	Thousands of euros						
	Current	**Non-current**					**Total**
	1 year	**2 years**	**3 years**	**4 years**	**5 years**	**Total non-current**	
VAT	4,113	4,388	4,388	366	-	9,142	13,255
Stamp duty Catalonia	318	1,607	2,040	2,040	510	6,197	6,515
Stamp duty Madrid	429	2,107	2,442	2,442	407	7,398	7,827
Income tax 2007	8,681	8,681	7,067	-	-	15,748	24,429
Income tax 2008	538	2,478	2,478	2,190	-	7,146	7,684
Total	**14,079**	**19,261**	**18,415**	**7,038**	**917**	**45,631**	**59,710**

At 31 December 2011, accrued and unpaid interest on the above deferrals amounted to 6,547 thousand euros (5,947 thousand euros at year-end 2010).

Income tax

The detail of "Income tax expense" in the consolidated statement of comprehensive income for 2010 and 2011 is as follows:

	Thousands of euros	
	2011	**2010**
Corporate income tax	(6,832)	(17,223)
Variation due to deferred and prepaid taxes tax credits and tax relief	70,982	9,144
Income tax	**64,150**	**(8,079)**
- from continuing operations:	64,601	(16,726)
- from discontinued operations (Note 26):	(451)	8,647

The tax income recognised in 2011 corresponds primarily to the recognition of 70 million euros of tax credits generated by the Parent during the year.

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

	Thousands of euros	
	2011	**2010**
Accounting profit / (loss) before tax (aggregate of individual expense)	(78,050)	(835,914)
Permanent differences	(206,186)	(147,211)
Temporary differences	(195,510)	295,864
Taxable income before the use of unused tax losses	**(482,746)**	**(687,261)**
Application of unused tax losses	(447)	(1,562)
Aggregate taxable income (tax loss)	**(483,192)**	**(688,823)**
Recognised tax loss	14,518	(143,684)
Unrecognised taxable income (tax loss)	(497,710)	(545,139)

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

At 31 December 2010, the permanent differences recognised by the Group corresponded primarily to the SFL subgroup - subject to the French SIIC regime (Note 4.p) – for a permanent negative difference in the amount of 154,676 thousand euros, and a dividend received from this company by the Parent, giving rise to a permanent negative difference of 43,755 thousand euros. In addition, the Parent recognised a permanent positive adjustment for the non-deductible portion of impairment of goodwill in the amount of 64,711 thousand euros.

The temporary differences recognised in 2010 and 2011 correspond primarily to adjustments to taxable income (tax loss) deriving from the impairment losses on the Group companies' various financial investments.

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 at year-end 2011 and 2010 and the movements during these years are as follows:

	Thousands of euros				
	Recognised as assets				
Deferred tax assets	**31 December 2010**	**Additions**	**Retirements**	**Transfers**	**31 December 2011**
Tax credits in respect of loss carryforwards	557,718	69,849	-	4,800	632,367
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	1,053	7,658	-	-	8,711
Impairment of assets	54,497	-	-	(2,297)	52,200
Other	85	-	(85)	-	-
	658,225	**77,507**	**(85)**	**2,503**	**738,150**

	Thousands of euros				
	Recognised as assets				
Deferred tax assets	**31 December 2009**	**Additions**	**Retirements**	**Transfers**	**31 December 2010**
Tax credits in respect of loss carryforwards	527,798	44,427	-	(14,507)	557,718
Unused tax credits for deductions for dividends receivable	28,175	273	-	-	28,448
Unused tax credits for deductions for reinvestments	16,041	382	-	-	16,423
Unused tax credits for deductions for training	1	-	-	-	1
Fair value of derivative financial instruments	13,408	-	(11,114)	(1,241)	1,053
Impairment of assets	82,498	(27,913)	-	(88)	54,497
Impairment of trade receivables	19,583	(19,583)	-	-	-
Other	696	-	-	(611)	85
	688,200	**(2,414)**	**(11,114)**	**(16,447)**	**658,225**

Tax assets respect of loss carryforwards -

Under prevailing legislation, losses from a given year can be used to offset taxable income during the following 18 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 2011 recognises the tax assets in respect of unused tax losses in the amount of 632,367 thousand euros (557,718 thousand euros at year-end 2010) 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	973,198	9,806	2027
2010	806,804	5,718	2028
2011	490,392	10,526	2029
Total	**4,000,630**	**35,384**	

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 next table reconciles the aggregate of the individual tax losses and the consolidated tax loss, 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	**4,000,630**	**35,384**
Adjustments for transactions among companies that make up the consolidated tax group	(302,886)	-
Adjustments for the offset of taxable income and tax loss carryforwards among companies that make up the consolidated tax group	(8,784)	-
Total tax loss carryforwards	**3,688,956**	**35,384**
- Recognised as assets	2,191,512	21,127
- *Continuing operations*	*2,107,891*	-
- *Discontinued operations*	*83,621*	*21,127*
- Not recognised as assets	1,497,444	14,257
- *Continuing operations*	*1,179,841*	-
- *Discontinued operations*	*317,603*	*14,257*

Utilisation of capitalised tax credits -

The Parent's directors have estimated the recovery period for its tax credits on the basis of the projections described in Note 7 for the years up to 2025, considering an offset period of 18 years, which coincides with the length of time the Parent Company has to offset its tax losses against taxable profit under prevailing tax legislation. This period has increased by three years since 2010 as a result of amendments introduced by Royal Decree Law 9/2011 (19 August 2011).

In addition to the assumptions used for goodwill impairment testing purposes, which only take into consideration cash flows from operations deriving from the rental business, in order to determine the taxable income to be generated throughout the projection period, the Parent Company has factored in all administrative expenses and the net finance expense implied by the projections used to test goodwill for impairment. The assumptions modelled also included an equity issue exclusively for repayment of Parent Company debt, investing activity and ultimate turnover of 50% of the rental property portfolio by the end of the projection period.

The following table shows the main assumptions used:

	2011	**2010**
Projection period (years)	18	15
Asset rotation rate, %	10% annual	10% annual
Yield on reinvestment, % (Note 4.e)	6.50%	6.50%
Investment/asset contributions (€ million)	500	850
Yield on new assets, %	6.50%	6.50%
Occupancy rate, %	95%	95%

In light of the legislative changes taking place during the year and the projections modelled, the Parent Company has recognised a portion of the tax credits generated during the year (70 million euros), as the directors believe sufficient taxable income will be generated to recover the unused tax credits recognised at 31 December 2010 and 2011.

The sensitivity analysis performed on two of the above inputs, namely a 10% reduction in the assumed asset turnover rate and/or the amount of investments, indicated that deferred tax assets would be not be impaired.

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 in 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				
	2007	**2008**	**2009**	**2010**	**2011**
Profit to which tax credit applied for reinvestment	51,160	10,175	11,236	3,107	251
Reinvestment commitments	283,835	33,515	154,283	24,500	25,000
Reinvested by the Company	283,835	33,515	107,940	-	-

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**
Reinvested by the Company	32,762	70,419	4,758
Associated rent	3,723	5,956	198

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 2011 unused by the Group due to a shortfall in taxable income, totalling 55,028 thousand euros, and the deadlines for their application, are set out below:

	Thousands of euros			
		Pending use		
Nature of deduction	**Year of origin**		**Not recognised**	**Last year for use**
Double taxation tax credit	2006	7,544	-	2013
	2007	12,482	-	2014
	2008	7,862	750	2015
	2009	287		2016
	2010	273		2017
	2011	-	355	2018
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	7,274	9,019	2017
	2008	1,185	-	2018
	2009	1,347	-	2019
	2010	381	-	2020
	2011	-	30	2021
		44,872	**10,156**	

The breakdown of the deferred tax liabilities recognised at year-end 2011 and 2010 and the movements in the years then ended are as follows:

	Thousands of euros				
Deferred tax liabilities	**31 December 2010**	**Additions**	**Retirements**	**Transfers**	**31 December 2011**
Asset revaluations	92,215	547	(3,547)	3,805	93,020
Deferred non-monetary contribution (Note 12)	49,923	-	-	-	49,923
SIIC – 4 (Note 4.p)	19,243	1,653	-	-	20,896
“Cerro Murillo” deferral (Note 19)	10,591	-	-	(10,591)	-
Deferral for reinvestment	8,151	-	-	-	8,151
	180,123	**2,200**	**(3,547)**	**(6,786)**	**171,990**

	Thousands of euros			
Deferred tax liabilities	**31 December 2009**	**Additions**	**Retirements**	**31 December 2010**
Asset revaluations	79,935	12,294	(14)	92,215
Deferred non-monetary contribution (Note 12)	52,782	-	(2,859)	49,923
SIIC – 4 (Note 4.p)	21,215	(1,972)	-	19,243
“Cerro Murillo” deferral	10,591	-	-	10,591
Deferral for reinvestment	8,501	-	(350)	8,151
	173,024	**10,322**	**(3,223)**	**180,123**

Asset revaluations -

This deferred tax liability corresponds fundamentally to the difference between the accounting cost of investment properties measured at fair value (Note 4.e) and their tax basis (acquisition cost less depreciation). Deferred tax liabilities are measured as a general rule (except as set out in Note 4.p) 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 12) and is recognised in the consolidated statement of financial position under “Other non-current assets”.

<u>Other tax issues-</u>

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 December 2011, the Parent Company was notified of the rulings on the appeals lodged in respect of its 1995 and 1996 settlements in which the Supreme Court has accepted the criteria followed by the Parent in terms of reinvestment exemptions. Although the appeals lodged with respect to the 1994 and 1997 settlements have yet to be ruled on, the Parent Company's directors and legal counsel believe that the courts will find in favour of the Parent regarding the reinvestment exemption suits.

At 31 December 2011, 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.

21. CONTINGENT ASSETS AND LIABILITIES

Guarantees extended to third parties

The SFL Group has stakes in the joint ventures indicated below, and has entered into agreements with each venturer:

- *Joint venture 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.*

- *Joint venture with Prédica in the Parholding subgroup, 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.*

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.

Contingent assets

The Company has brought the following corporate liability lawsuits:

- A corporate liability lawsuit against the 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 the former directors in connection with the losses caused by the acquisition of shares of Riofisa.

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

Contingent liabilities

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 the said demarcation. In the event that the final planning permission does not correspond with that approved at the time of the purchase, the Group will consider initiating the appropriate measures to recover the price paid. At 31 December 2011, this asset was carried at a recoverable value of 9,410 thousand euros, which corresponds to the appraisal value provided by an independent third party expert.

The Parent Company has begun 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. Although the carrying amount of the asset - 71,589 thousand euros - is higher than its market value, no provision has been made for this item in the consolidated statement of financial position as the Parent's legal advisors consider that the outstanding payments, amounting to 41,199 thousand euros (Note 26), which are recognised on the liability side of the consolidated statement of financial position, will not have to be made.

22. 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 260,658 thousand and 229,206 thousand euros, respectively, in 2011 and 2010. The breakdown by geographic segment is as follows:

Rental business (Note 6)	Thousands of euros	
	2011	**2010**
Spain	77,607	85,761
International	151,599	174,897
	229,206	**260,658**

Revenue in 2010 and 2011 includes the effect of deferring grace periods and rent reset clauses throughout the term elapsing between the start of the lease and the first option for renewing the lease agreements. These accruals increased 2011 revenue by 10,081 thousand euros (and reduced 2010 revenue by 1,010 thousand euros).

At 31 December 2010 and 2011, 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:

	Thousands of euros	
	Nominal amount	
Minimum operating lease payments collectible	**31 December 2011**	**31 December 2010**
Within one year	206,367	200,152
Spain	*72,865*	*78,448*
International	*133,502*	*121,704*
Between two and five years	462,407	415,520
Spain	*125,366*	*145,639*
International	*337,041*	*269,881*
After five years	171,247	94,883
Spain	*51,867*	*43,793*
International	*119,380*	*51,090*
Total	**840,021**	**710,555**
Spain	***250,098***	***267,881***
International	***589,923***	***442,674***

b) Other operating income

This heading reflects mainly property services rendered. This source of income totalled 3,419 thousand and 8,031 thousand euros in 2011 and 2010, respectively.

c) Employee benefits expense

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

	Thousands of euros	
	2011	**2010**
Wages and salaries	15,152	15,412
Social security costs	4,676	5,040
Other personnel expenses	1,057	966
Termination benefits	498	2,036
Total	**21,383**	**23,454**
Spain	***7,614***	***8,856***
International	***13,769***	***14,598***

“Other personnel expenses” in the table above includes 867 thousand euros corresponding to the cost accrued during the year under the SFL long-term bonus scheme and SFL stock option plan detailed in Note 23.

Group headcount at 31 December 2010 and 2011, as well as the average headcount in 2011, employed in continuing operations, broken down by job category and gender:

	Employees at 31 December				Average headcount, 2011		Average headcount, 2010	
	2011		2010					
	Men	Women	Men	Women	Men	Women	Men	Women
General and area managers	14	5	11	3	19	8	12	3
Technical graduates and middle managers	14	8	13	8	24	19	17	11
Clerical staff	34	81	39	84	16	68	41	90
Other	1	1	1	1	1	2	1	1
	63	**95**	**64**	**96**	**60**	**97**	**71**	**105**

Group headcount at 31 December 2010 and 2011, as well as the average headcount in 2011, employed in discontinued operations, broken down by job category and gender is as follows:

	Employees at 31 December				Average headcount, 2011		Average headcount, 2010	
	2011		2010					
	Men	Women	Men	Women	Men	Women	Men	Women
General and area managers	22	6	18	4	28	9	20	5
Technical graduates and middle managers	25	13	33	15	37	24	32	16
Clerical staff	44	95	58	107	25	84	61	114
Other	5	1	5	2	5	2	8	3
	96	**115**	**114**	**128**	**95**	**119**	**121**	**138**

d) Other operating expenses

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

	Thousands of euros	
	2011	**2010**
External and other expenses	7,781	16,545
Taxes other than income tax	23,006	24,132
Total	**30,787**	**40,677**

e) Net change in impairment losses on trade receivables

The movement in “Impairment losses on trade receivables” was as follows:

	Thousands of euros	
	2011	**2010**
Opening balance	157,701	154,634
Net change (*)	587	3,067
Closing balance	**158,288**	**157,701**

(*) In 2010 the Group recognised an impairment of 1,441 thousand euros (Note 13) under “Impairment of financial assets“ in the consolidated statement of comprehensive income.

The breakdown by nature of the impairment charges recognised under “Net gain/(loss) on change in value of assets and net impairment charges” in the consolidated statement of comprehensive income is provided in the next table:

	Thousands of euros	
	2011	**2010**
Goodwill impairment (Note 7)	(69,079)	(247,051)
Impairment of properties for own use (Note 9)	(8,182)	6,590
Derecognitions of replaced assets (Notes 10 and 26)	(41,325)	(35,414)
Net gain/(loss) on change in value of assets and net impairment charges	**(118,586)**	**(275,875)**

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

The next table breaks down Group gains from asset sales (Notes 10 and 26):

	Thousands of euros					
	Sale price		**Costs to sell**		**Net gain (loss) on sale**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Spain	25,675	114,650	24,635	130,797	1,040	(16,147)
International	50,000	297,072	42,331	330,931	7,669	(33,859)
Total	**75,675**	**411,722**	**66,966**	**461,728**	**8,709**	**(50,006)**

Asset sales in 2010 in the international segment include the impact of the assets contributed by Group subsidiary SFL to SIIC de Paris in exchange for a 29.99% equity interest in the latter company (Note 2.g). The balances corresponding specifically to this transaction were a sale price of 286,000 thousand euros (Note 11) and costs to sell of 320,286 thousand euros (Note 10).

The breakdown of changes in the fair value of investment properties in 2010 and 2011 is as follows:

	Thousands of euros	
	2011	**2010**
Change in fair value by statement of financial position heading		
Investment property (Note 10)	105,090	54,126
Non-current assets held for sale - Investment property (Note 26)	(12,528)	(35,341)
Changes in the fair value of investment properties recognised in the statement of comprehensive income	**92,561**	**18,785**

Note 6 discloses the breakdown by geographic segment.

g) Finance income and cost

The breakdown of net finance cost in 2010 and 2011 is as follows:

	Thousands of euros	
	2011	**2010**
Finance income:		
Revenue from equity investments	1,736	1,918
Other interest and similar income	5,386	3,101
Income from financial derivatives (Note 17)	16,673	894
Share of profit (loss) of equity-accounted investments (Note 11)	18,703	13,327
Total finance income	**42,498**	**19,240**
Finance expense:		
Interest and similar expense	(134,411)	(126,169)
Debt arrangement expenses	(9,996)	(9,841)
Capitalised borrowing costs (Note 4.e)	9,248	15,301
Impairment of financial assets	(119)	(5,504)
Expense on financial derivatives (Note 17)	(26,209)	(11,521)
Total finance cost	**(161,487)**	**(173,735)**
Net finance income (expense)	**(118,989)**	**(154,495)**

h) Related party transactions

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

	Thousands of euros	
	Interest income (cost)	**Building leases and other income**
Royal Bank of Scotland	(13,637)	-
Crédit Agricole	(15,238)	12,108
Commerzbank	(11,543)	-
Goldman Sachs	-	-
Coral Partners	(10,826)	-
La Caixa	(1,803)	2,695
Gas Natural, SDG, S.A.	-	5,728
TOTAL	**(53,047)**	**20,531**

The main related party transactions undertaken in 2010 were as follows:

	Thousands of euros					
	Interest income (cost)	**Building leases and other income**	**Interest on convertible bonds**	**Equity raise to service convertible bonds held by related parties**	**Interest related to equity increases**	**Non-monetary contribution to capital**
Royal Bank of Scotland	(19,070)	-	2,519	277,215	9,128	411,722
Crédit Agricole	(22,126)	16,167	2,519	277,215	8,880	400,536
Commerzbank	(19,705)	-	2,519	277,215	9,127	411,679
Goldman Sachs	(145)	-	2,519	277,215	-	-
Coral Partners	(12,086)	-	-	-	8,856	399,423
La Caixa	(5,725)	2,622	1,866	205,338	787	46,958
Banco Popular	(473)	-	904	99,463	965	57,771
Gas Natural, SDG, S.A.	-	5,893	-	-	-	-
TOTAL	**(79,330)**	**24,913**	**12,846**	**1,413,661**	**37,743**	**1,728,089**

In addition, some of the Parent Company's shareholders received dividends from Group company SFL in 2010 and 2011.

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**	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
Inmobiliaria Colonial, S.A.	(76,546)	(451,123)	-	-	(76,546)	(451,123)
Torre Marenostrum, S.A	2,971	1,538	(1,331)	(692)	1,640	846
SFL subgroup	186,374	177,012	(94,069)	(87,046)	92,305	89,966
Riofisa subgroup	(532)	(83,407)	532	4,195	-	(79,212)
Desarrollos Urbanísticos Entrenúcleos 2009 S.L.U.	-	(8,062)	-	-	-	(8,062)
Asentia Project, S.L.U (formerly Colren, S.L.U.)	-	(285,956)	-	-	-	(285,956)
Abix Service, S.L.U.	(2,483)	(4,731)	-	-	(2,483)	(4,731)
Asentia Invest, S.L.	(1)	-	-	-	(1)	-
Asentia Gestión, S.L.U (formerly Acrostic Invest, S.L.U.)	(1)	(1)	-	-	(1)	(1)
Inmocaral Servicios, S.A.U.	-	(989)	-	-	-	(989)
Total	**109,782**	**(655,719)**	**(94,868)**	**(83,543)**	**14,914**	**(739,262)**

23. STOCK OPTION PLANS

Long-term incentive plan linked to the price of Inmobiliaria Colonial, S.A.'s shares

At 31 December 2010, the Parent had a long-term share-based incentive plan of which Mr. Juan José Brugera Clavero and Mr. Pedro Viñolas Serra were beneficiaries, subject to remaining in their posts of chairman of the board and chief executive officer, respectively, of the Parent. The maximum duration of this plan was seven years and the beneficiaries were allowed to exercise their rights, once only, three years after the date of approval of the plan at the general shareholders' meeting held on 21 November 2008.

	Juan José Brugera Clavero	Pedro Viñolas Serra
Date of approval of the plan	21.11.2008	
End of exercise period	21.11.2015	
Strike price per share	0.25	
Options granted in 2008	1,000,000	1,300,000

This plan was rendered null by the approval of a long-term bonus scheme tied to delivery of several management indicators approved at the general meeting of 21 June 2011.

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

In 2011, the Parent Company 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 elapsing between 1 January 2011 and 1 January 2015. At 31 December 2011, 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 617 thousand euros (Note 22.c). As this scheme is payable in Parent Company shares, the balancing entry for this expense in recognised directly in Group equity (Note 4.m).

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

The 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 the course of April 2011, on the basis of the number of shares into which its share capital is divided following the share aggregation outlined in Note 15.

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.).

Stock option plan on SFL shares

At 31 December 2011, 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.

	Subscription options	Purchase options (*)		
Date of approval of stock option plan	06.04.2000	21.03.2002	25.04.2003	13.03.2007
End of exercise period	05.04.2010	20.03.2012	24.04.2013	12.03.2015
Strike price per share	27.59	27.78	26.41	62.60
Options at 1 January 2009	26,673	3,000	35,000	258,000
Shares subscribed for in 2009	3,375	-	-	4,000
Options at 31 December 2009	23,298	3,000	35,000	254,000
Shares subscribed for in 2010	23,298	-	-	-
Shares cancelled in 2010	-	-	-	25,000
Shares granted in 2011	-	63	719	4,748
Shares subscribed for in 2011	-	-	250	-
Number of outstanding options at 31 December 2011	-	3,063	35,469	233,748

(*) SFL holds treasury shares in the amount needed to service these stock option plans (Note 15).

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

24. YEAR-END BALANCES WITH RELATED PARTIES AND ASSOCIATES

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 16)**	**Lines of credit Received (Note 16)**	**Other loans received (Note 16)**	**Interest on borrowings (Note 16)**	**Net derivatives (Note 17)**
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**

At 31 December 2010, the Group had the following balances outstanding with related parties and associates:

	Thousands of euros				
(Asset) / Liability Company	**Syndicated loans (Note 16)**	**Lines of credit Received (Note 16)**	**Other loans received (Note 16)**	**Interest on borrowings (Note 16)**	**Net derivatives (Note 17)**
Royal Bank of Scotland	397,665	-	40,800	139	(1,678)
Crédit Agricole	477,778	16,270	79,543	601	1,410
Commerzbank	365,099	-	-	135	(551)
Coral Partners	354,171	-	-	146	-
La Caixa	-	-	51,718	189	(1,459)
Banco Popular	-	-	-	-	(293)
TOTAL	**1,594,713**	**16,270**	**172,061**	**1,210**	**(2,571)**

25. DIRECTOR AND SENIOR MANAGEMENT COMPENSATION AND OTHER BENEFITS

Compensation of Board members-

In 2011, the Parent Company recorded an expense of 2,197 thousand euros in relation to wages and salaries, bonuses, 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:	**853**	**-**	**853**
Per diem allowances:	**341**	**108**	**449**
Per diem allowances: Directors	321	72	393
Additional per diems for the Chairman	20	36	56
Fixed compensation:	**895**	**-**	**895**
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 Appointments and Remuneration Committee	110	-	110
Total	**2,089**	**108**	**2,197**
Remuneration for Executive Directors:	1,114	72	1,186

Director compensation accrued in 2010 was 3,233 thousand euros, with 1,297 thousand euros earned by the executive directors, 646 thousand euros in per diems and 1,290 thousand euros in fixed remuneration.

At 31 December 2010 and 2011, the Parent had a civil liability insurance policy covering all of its directors, executives and staff for a total of 864 thousand euros. In 2009, the Parent took out an insurance policy on the convertible bonds (Note 15) maturing in 5 years at a cost of 412 thousand euros.

The Group has not granted any loans and had 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 2011, 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 2011, 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	-	-	-
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	-	-	-

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

In 2011 and 2010 the senior management team earned 967 thousand and 1,190 thousand euros, respectively, in wages and salaries. In addition, 1,282 thousand euros was paid in termination benefits in 2010 to one of the members of the senior management team who formerly served on the Board of Directors as executive director.

At 31 December 2011 and 2010, 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.

26. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

As indicated in Note 1, the Parent Company has completed the subsidiarisation of its land and development business, as stipulated in the Framework Refinancing Agreement, structured so as to limit creditor claims on Inmobiliaria Colonial. Against this backdrop, and since the Parent Company plans to sell all the assets and liabilities of the Asentia Project subgroup en bloc and in a single transaction (Note 4.g), the Parent Company 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". At 31 December 2011, the assets recognised in this respect amounted to 1,719,943 thousand euros while the related liabilities recognised totalled 1,706,375 thousand euros. At 31 December 2010, these amounts were 1,739,613 thousand and 1,712,127 thousand euros, respectively.

The movements on this heading in the years ended 31 December 2010 and 2011 were as follows:

	Thousands of euros		
	Investment property (Note 4.g)	**Assets of the Asentia Project subgroup**	**Total**
Balance at 31 December 2009	**385,823**	**932,158**	**1,317,981**
Additions	3,524	-	3,524
Retirements or decreases	(112,534)	(111,864)	(224,398)
Transfers	(57,517)	1,071,791	1,014,274
Impairment	(35,341)	(152,472)	(187,813)
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	(12,528)	-	(12,528)
Balance at 31 December 2011	**145,242**	**1,719,943**	**1,865,185**

At 31 December 2011, the Group had taken out several mortgages in an aggregate amount of 573,090 thousand against various assets held for sale, with a net carrying amount at year-end of 719,068 thousand euros (Note 16). At 31 December 2010, these mortgages totalled 600,671 thousand euros and were held against assets held for sale with a net carrying amount at year-end of 768,951 thousand euros.

Investment property (Note 10)-

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

<u>Changes in 2011</u>

Retirements in 2011 related primarily to:

- Sale of part of the Centro Norte property (Madrid), triggering the derecognition of 23,633 thousand euros and recognition of an associated gain of 1,049 thousand euros (Note 22.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 22.f).

- The derecognition of certain assets replaced (Note 4.e) that were included in a refurbished property in the amount of 3,936 thousand euros (Note 22.e).

Changes in 2010

Retirements in 2010 related primarily to:

- The sale of the property known as Pavillon Henry IV and the investment in the development known as T8 de Paris by Group company SFL for an aggregate sale price of 11,072 thousand euros (Note 22.f), giving rise to a net gain of 528 thousand euros.
- The sale of the Sor Ángela de la Cruz property (Madrid) and the Sancti Petri complex in Cadiz (made up of a hotel and short stay apartments), for a combined sale price of 87,000 thousand euros (Note 22.f), giving rise to a net loss of 15,970 thousand euros.
- The sale of the Claudio Cuello property for 3,150 thousand euros (Note 22.f), generating a net loss of 327 thousand euros. This sale is part of the agreements for the sale of assets to banks to reduce the Parent Company's debt (Note 4.q).

The transfers correspond primarily to the reclassification of SFL's Capucines and Hanovre properties to "Investment property" in a combined amount of 57,827 thousand euros (Note 10).

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

The next 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 2011**	**31 December 2010**	**LIABILITIES**	**31 December 2011**	**31 December 2010**
Intangible assets	23	58			
P,P&E held under concession and concession work in progress	111,266	112,110			
Property, plant and equipment	437	627			
Investment property	52,399	76,769	Bank borrowings and other financial liabilities	944,147	1,023,679
Non-current financial assets	15,062	26,036	Non-current deferred tax liabilities	16,799	17,676
Non-current deferred tax assets	47,158	47,487	Non-current provisions	20,384	32,038
Other non-current assets	5	6	Other non-current liabilities	4,257	9,222
NON-CURRENT ASSETS	**226,350**	**263,093**	**NON-CURRENT LIABILITIES**	**985,587**	**1,082,615**
Inventories	1,388,675	1,333,736			
Trade and other receivables	25,628	22,322			
Current financial assets	14,404	16,699			
Tax receivables	2,605	3,332	Bank borrowings and other financial liabilities	541,868	445,712
Cash and cash equivalents	62,281	100,431	Trade payables	167,141	179,742
Non-current assets held for sale	-	-	Taxes payable	11,779	4,058
CURRENT ASSETS	**1,493,593**	**1,476,520**	**CURRENT LIABILITIES**	**720,788**	**629,512**
TOTAL ASSETS	**1,719,943**	**1,739,613**	**TOTAL LIABILITIES**	**1,706,375**	**1,712,127**

The main changes in 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, including expenses passed on to tenants, of 13,845 thousand and 13,996 thousand euros, respectively, in 2011 and 2010.

Investment property -

This heading includes a number of properties leased by the Riofisa subgroup. These assets generated rental income of 1,790 thousand and 1,878 thousand euros, respectively, in 2010 and 2011.

In 2011, Riofisa sold two properties to banks within the framework the debt restructuring process, triggering derecognitions of 23,338 thousand euros and an associated gain of 5,164 thousand euros.

Inventories-

The movements under this heading in the years ended 31 December 2010 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 2009	**599,895**	**217,236**	**-**	**87,963**	**55,530**	**(408,860)**	**551,764**
Additions and provisions	379	98	-	105	-	(210,818)	**(210,236)**
Retirements	(48,941)	(87)	-	(11,606)	-	49,273	**(11,361)**
Transfers	111,122	(75,268)	-	(681)	-	(22,819)	**12,354**
Transfers to non-current assets held for sale (Note 4.g)	1,563,277	-	669	91,725	5,616	(670,072)	**991,215**
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**

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.

In 2010, Group subsidiary Asentia Project sold 136 units (130 apartments and 6 premises), 131 parking spaces and 89 storage rooms, giving rise to the derecognition of 37,962 thousand euros. It also sold three plots of land in Valdebebas, giving rise to the derecognition of 21,399 thousand euros and a net loss of 2,693 thousand euros, along with another two sites (in Castellar del Vallès and Hospitalet) under the scope of an agreement with a financial institution, resulting in the derecognition of 49,683 thousand euros and a combined loss of 14,951 thousand euros (Note 4.q). Also, the Riofisa subgroup sold 80 units (73 business premises and offices, 6 warehouses and 1 apartment) and 154 parking spaces, resulting in the derecognition of 13,344 thousand euros and a net loss of 2,366 thousand euros.

At 31 December 2011 and 2010, the Group had recognised accumulated impairment losses of 1,085,155 and 1,263,296 thousand euros, respectively, to reduce the carrying amount of certain sites, plots, developments under construction, completed developments and advances to their net realisable value, measured in accordance with the criteria outlined in Note 4.i. At year-end 2010 this balance also included an additional impairment loss of 152,472 thousand euros recognised by the Parent Company's directors in order to correct the carrying amount of the investment in Asentia Project to reflect the fact that this business is no longer considered a core business (Note 4.g). At 31 December 2011, this impairment charge stood at 9,360 thousand euros.

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

	Thousands of euros					
	31 December 2011			**31 December 2010**		
	Cost	**Impairment charge**	**Net amount**	**Cost**	**Impairment charge**	**Net amount**
Zoned land and lots	2,187,998	(1,011,271)	1,176,727	2,225,731	(1,132,380)	1,093,351
Developments under construction	203,135	(63,809)	139,326	141,979	(63,430)	78,549
Construction in progress	-	-	-	669	-	669
Completed developments	80,572	(7,950)	72,622	167,507	(10,363)	157,144
Advances	2,125	(2,125)	-	61,146	(57,123)	4,023
Total	**2,473,830**	**(1,085,155)**	**1,388,675**	**2,597,032**	**(1,263,296)**	**1,333,736**

Bank borrowings and other financial liabilities -

At 31 December 2011 and 2010, 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 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 (Note 17)	-	-	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	**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	**13,336**	**620**	**620**	**620**	**620**	**10,468**	**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**

31 December 2010	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	5,493	20,887	762	23,791	-	-	45,440	50,933
Third parties	*5,493*	*9,914*	*762*	*23,791*	-	-	*34,467*	*39,960*
Related parties	-	*10,973*	-	-	-	-	*10,973*	*10, 973*
Loans	16,121	203,220	54,833	75,860	48,074	158,867	540,854	556,975
Third parties	*16,121*	*81,196*	*54,833*	*75,860*	*48,074*	*158,867*	*418,830*	*434,951*
Related parties	-	*122,024*	-	-	-	-	*122,024*	*122,024*
Syndicated loans (Note 17)	-	-	-	827,679	-	-	827,679	827,679
Third parties	-	-	-	*216,272*	-	-	*216,272*	*216,272*
Related parties	-	-	-	*611,407*	-	-	*611,407*	*611,407*
Interest	6,549	-	-	552	-	-	552	7,101
Third parties	*4,911*	-	-	*144*	-	-	*144*	*5,055*
Related parties	*1,638*	-	-	*408*	-	-	*408*	*2,046*
Debt arrangement expenses	(301)	(78)	(78)	(78)	(78)	(175)	(487)	(788)
Total	**27,862**	**224,029**	**55,517**	**927,804**	**47,996**	**158,692**	**1,414,038**	**1,441,900**
Concession debt	378	577	577	577	577	11,031	13,339	13,717
Derivative financial instruments	1	-	-	-	-	4,677	4,677	4,678
Other	-	-	-	-	-	9,096	9,096	9,096
Total	**379**	**577**	**577**	**577**	**577**	**24,804**	**27,112**	**27,491**
Total at 31 December 2010	**28,241**	**224,606**	**56,094**	**928,381**	**48,573**	**183,496**	**1,441,150**	**1,469,391**

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.o.

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 16).

The breakdown of the syndicated loan by tranche at 31 December 2011 and 2010 is provided in the next table:

	Thousands of euros			
	31 December 2011		**31 December 2010**	
	Limit	**Nominal amount drawn down**	**Limit**	**Nominal amount drawn down**
Asentia Project Syndicated Loan -				
Term Loan Facility	501,020	501,020	515,325	515,325
Convertible Facility	275,000	275,000	275,000	275,000
Total	**776,020**	**776,020**	**790,325**	**790,325**

This loan accrues interest at Euribor plus 400 basis points which is capitalised within the nominal value of the loan (Note 16).

At 31 December 2011 and 2010, Asentia Project had recognised 81,308 and 37,354 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 calls for compliance with certain financial ratios from 31 December 2010, as well as with other financial reporting requirements. 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 Convertible Facility into an equity loan	Mandatory for the creditor banks
If Loan to Value is > 100% or the Net Loan to Value ratio is < 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 total net debt, without considering the equity loans generated by the accrual of interest, divided by the Gross Asset Value of Asentia and 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.

In addition, the syndicated loan, which is totally non-recourse to Inmobiliaria Colonial, S.A., can be called in before maturity in the event of a change of control at the Parent Company.

At 31 December 2011 and at the date authorising these consolidated financial statements for issue, none of the syndicated loan covenants had been breached.

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 in the event 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.

Cash and cash equivalents

The balance of “Cash and cash equivalents” at 31 December 2011 and 2010 stood at 18,703 thousand and 29,043 thousand euros, respectively.

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 2011		**31 December 2010**	
	Current	**Non-current**	**Current**	**Non-current**
Trade and other payables	91,746	-	111,338	-
Advances	14,194	-	6,600	-
Payables for the purchase of properties and land	4,320	-	8,640	-
Guarantees and deposits received	-	3,623	-	3,466
Other liabilities	56,881	634	53,164	5,756
Total	**167,141**	**4,257**	**179,742**	**9,222**

“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 in 2007 in the town of Dos Hermanas (Seville) as established in the purchase agreements for these sites, totalling 51,516 thousand euros at 31 December 2011 (55,862 thousand euros at year-end 2010). The Parent’s directors believe actual costs incurred will not deviate significantly from the provision recognised.

“Other liabilities” includes the 41,199 thousand euro balance pending payment for the acquisition of the land located in Roquetas de Mar (Note 21).

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.g):

	Thousands of euros				
	Payments made and payments outstanding at year-end				
	2011			**2010**	
	Amount	**%**	**As a % of the total number of invoices**	**Amount**	**%**
Paid within the legal deadline	45,021	74%	83%	(1)	(1)
Other	13,386	26%	17%	(1)	(1)
Total amounts paid in the year	**58,407**	**100%**	**100%**	(1)	(1)
Weighted average days past due – payments made after legal deadline	132			(1)	(1)
Weighted average days past due – payments made within legal deadline	41			(1)	(1)
Amounts past due at the reporting date by more than the legally permitted term (*)(**)	1,905			(1)	(1)

(1) These disclosures are not required for 2010 due to the first-time application rule. As a result, this information is only provided for 2011.

(*) Law 15/2010, of 5 July 2010, 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.

Consolidated statement of comprehensive income breakdown for discontinued operations-

	Thousands of euros	
	2011	**2010**
Revenue	35,749	117,806
Cost of sales	(30,546)	(122,262)
Other income	2,096	16,323
Employee benefits expense	(5,605)	(7,588)
Other operating expenses	(15,253)	(22,593)
Depreciation and amortisation expense	(3,312)	(3,486)
Net change in provisions	(4,818)	(5,060)
Net gain / (loss) on sales of assets	5,164	(1,892)
Operating loss	**(16,525)**	**(28,752)**
Change in fair value of investment property	(994)	(9,258)
Net gain/(loss) on change in value of assets and net impairment charges	79,234	(292,590)
Finance income	1,939	2,833
Finance expense	(63,736)	(59,294)
Losses before taxes	**(82)**	**(387,061)**
Income tax expense (Note 20)	(451)	8,647
Consolidated net loss from continuing operations	**(533)**	**(378,414)**
Consolidated net profit (loss) from discontinued operations	-	-
Consolidated net loss	**(533)**	**(378,414)**
- attributable to equity holders of the Parent (Note 5)	-	(374,219)
- attributable to non-controlling interests	(533)	(4,195)
Basic loss per share	**-**	**(2.849)**
- from discontinued operations (Note 5)	**-**	(2.849)

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

	Thousands of euros	
	2011	**2010**
Impairment of assets held under concession	(575)	(1,665)
Impairment of inventories	(63,303)	(138,453)
Impairment of the investment in Asentia Project (Note 4.g)	143,112	(152,472)
Net gain/(loss) on change in value of assets and net impairment charges	**79,234**	**(292,590)**

The breakdown of net finance expense in 2010 and 2011 is as follows:

	Thousands of euros	
	2011	**2010**
Finance income:		
Revenue from equity investments	1	-
Other interest and similar income	1,770	2,833
Income from financial derivatives	168	-
Total finance income	**1,939**	**2,833**
Finance expense:		
Interest and similar expense	(68,645)	(63,675)
Capitalised borrowing costs (Note 4.i)	4,909	4,550
Financial derivative expense	-	(169)
Total finance expense	**(63,736)**	**(59,294)**
Net finance income (expense)	**(61,797)**	**(56,461)**

27. AUDITORS' FEES

Fees for auditing services in 2010 and 2011 provided to the various companies comprising the Colonial Group by the principal auditor and other auditors are set forth below:

	Thousands of euros	
	Principle auditor	**Other auditors**
2010 -		
Audit services	920	356
Non-audit services	363	212
Total 2010	**1,283**	**568**
2011 -		
Audit services	900	354
Non-audit services	162	218
Total 2011	**1,062**	**573**

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.

28. EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

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

APPENDIX I

Fully consolidated companies

At 31 December 2010 and 2011, fully consolidated subsidiaries and related information are as follows:

	% shareholding					
	Direct		Indirect		Shareholder	Line of business
	31.12.10	31.12.11	31.12.10	31.12.11		
Torre Marenostrum, S.L. Avda. Diagonal 532 08006 Barcelona (Spain)	55%	55%	-	-		Real estate
Asentia Project, S.L.U (antes Colren, 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)	-	100%	-	-		Real estate
Asentia Gestión, S.L.U. (antes Acrostic Invest, 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	Sale of real estate and services
Locaparis, SAS 40, rue Washington 75008 Paris (France)	-	-	100%	100%	Segpim	Sale of real estate and services
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
	31.12.10	31.12.11	31.12.10	31.12.11		
SCI Washington 40, rue Washington 75008 París (France)	-	-	66%	66%	SFL	Real estate
SCI 5 de Vigny (Cofimmo) 40, rue Washington 75008 París (France)	-	-	Merged	Merged	SFL	Real estate
SNC Fly Tolbiac 40, rue Washington 75008 París (France)	-	-	Merged	Merged	SFL	Real estate
SCI 103 Grenelle 40, rue Washington 75008 París (France)	-	-	100%	100%	SFL	Real estate
SCI Paul Cézanne 40, rue Washington 75008 París (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. Ctra. Fuencarral a Alcobendas M-603 28108 Alcobendas, Madrid (Spain)	-	-	50.10%	50.10%	Riofisa, S.A.U.	Real estate
Necsa, Nuevos Espacios Comerciales,S.A. Ctra. Fuencarral a Alcobendas M-603 28108 Alcobendas, Madrid (Spain)	-	-	60%	60%	Riofisa, S.A.U.	Real estate
Nuevas Estaciones del Ferrocarril, S.A. Ctra. Fuencarral a Alcobendas M-603 28108 Alcobendas, Madrid (Spain)	-	-	60%	60%	Riofisa, S.A.U.	Real estate
Riofisa Espacios Inmobiliarios, S.L.U. Ctra. Fuencarral a Alcobendas M-603 28108 Alcobendas, Madrid (Spain)	-	-	100%	100%	Riofisa, S.A.U.	Real estate
Principe Pío Gestión, S.A. Ctra. Fuencarral a Alcobendas M-603 28108 Alcobendas, Madrid (Spain)	-	-	Sold	Sold	Riofisa, S.A.U.	Real estate
Riofisa Internacional, S.L. Ctra. Fuencarral a Alcobendas M-603 28108 Alcobendas, Madrid (Spain)	-	-	99.99% 0.01%	99.99% 0.01%	Riofisa, S.A.U. Riofisa Desarrollos Internacionales, SL	Real estate
Riofisa Sema, S.L. Ctra. Fuencarral a Alcobendas M-603 28108 Alcobendas, Madrid (Spain)	-	-	99.98% 0.02%	100% -	Riofisa Internacional, S.L. Riofisa Desarrollos Internacionales, S.L.	Real estate
Riofisa Desarrollos Internacionales,S.L. Ctra. Fuencarral a Alcobendas M-603 28108 Alcobendas, Madrid (Spain)	-	-	0.25% 99.75%	- 100%	Riofisa Sema, S.L. Riofisa Internacional, S.L.	Real estate
Riofisa Real Estate, S.R.L. Sector 1, World Trade Centre Bucharest, Piata Montreal, Nr 10 Bucarest (Rumania)	-	-	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. SL	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. Ctra. Fuencarral a Alcobendas M-603 28108 Alcobendas, Madrid (Spain)	-	-	69.30%	69.30%	Riofisa, S.A.U.	Real estate

At 31 December 2010 and 2011, the proportionately consolidated subsidiaries and related information are as follows:

	% participación					
	Direct		Indirect		Shareholder	Line of business
	31.12.10	31.12.11	31.12.10	31.12.11		
UTE La Dehesa (Vias y Construcciones, S.A.) Av. Luis de Morales, 32 41018 Sevilla (Spain)	-	-	50%	50%	Inmocaral Servicios, S.A.	Construction
SAS Parholding 40, rue Washington 75008 París (France)	-	-	50%	50%	SFL	Holding company
SC Parsherbes 40, rue Washington 75008 París (France)	-	-	Merged	Merged	SAS Parholding	Real estate
SC Parchamps 40, rue Washington 75008 París (France)	-	-	50%	50%	SAS Parholding	Real estate
SC Pargal 40, rue Washington 75008 París (France)	-	-	50%	50%	SAS Parholding	Real estate
SC Parhaus 40, rue Washington 75008 París (France)	-	-	50%	50%	SAS Parholding	Real estate
SC Parchar 40, rue Washington 75008 París (France)	-	-	50%	50%	SAS Parholding	Real estate
Atlantys Espacios Comerciales, S.L. Ctra. Fuencarral a Alcobendas M-603 28108 Alcobendas, Madrid (Spain)	-	-	Sold	Sold	Riofisa, S.A.U.	Real estate
Goldale Real Estate, S.R.L 24-26 Nordului Road, 5th Floor Room 2 Bucarest (Rumania)	**-**	**-**	50%	50%	Riofisa Internacional, S.L.	Real estate
Masterange Imobiliare SRL 24-26 Nordului Road, 5th Floor Room 14, District 1 Bucarest (Rumania)	-	-	50%	50%	Riofisa Internacional, S.L.	Real estate
Riofisa Este, S.L. (antes Riofisa Procam, S.L.) Ctra. Fuencarral a Alcobendas M-603 28108 Alcobendas. Madrid (Spain)	-	-	100%	100%	Riofisa, S.A.U.	Real estate

At 31 December 2010 and 2011, the companies consolidated using the equity method and related information are as follows:

	% shareholding					
	Direct		Indirect		Shareholder	Line of business
	31.12.10	31.12.11	31.12.10	31.12.11		
SIIC de Paris. S,A, 24, Place Vendôme 75001 Paris (France)	-	-	29.99%	29.99%	SFL	Real estate

At 31 December 2010 and 2011, 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.

APPENDIX II

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

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-**
UTE La Dehesa (Vias y Construcciones, S.A.)	50%	-	-	-	-	-
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

The financial information for joint ventures at 31 December 2010 and the year then ended:

	Thousands of euros					
	% shareholding	**Income and expenses**	**Non-current assets**	**Current assets**	**Non-current liabilities-**	**Current Liabilities-**
UTE La Dehesa (Vias y Construcciones, S.A.)	50%	-	-	-	-	-
SAS Parholding	50%	(23)	22,675	85,078	85,364	3,125
SC Parchamps	50%	2,659	35,371	5,070	36,645	3,051
SC Pargal	50%	6,548	99,617	15,756	105,185	12,419
SC Parhaus	50%	6,942	88,985	5,044	91,665	8,417
SC Parchar	50%	269	6,056	336	6,430	304
Goldale Real Estate, S.R.L	50%	(3,889)	-	16,645	257	22,356
Masterange Imobiliare SRL	50%	(1,014)	-	12,319	-	19,546

INMOBILIARIA COLONIAL, S.A. AND SUBSIDIARIES CONSOLIDATED MANAGEMENT REPORT 2011

1. Business performance and Group situation

Macroeconomic environment

Global economy

2011 closed on a worrying note, leaving heightened concern regarding the economic outlook for 2012. Last year's events showed that the recovery will be slower and more uneven than hoped due to successive problems unfolding in the advanced economies. In emerging markets, on the other hand, growth slowed somewhat. Although this deceleration may continue in 2012, the pace of growth is forecast at over 5%.

The US economy recovered in the second half of the year, although not robustly enough to prompt upward revisions to forecasts for 2012.

US growth is nevertheless consolidating, with the economy cementing what initially looked like a one-off bounce in 3Q11. The most recent indicators suggest that the US economy may have grown by more than 0.7% in the fourth quarter alone, well above forecasts only a month old, which would put the growth rate for 2011 at 1.8%. This does not mean, however, that the crisis has been resolved. The stronger outlook for internal demand in 2012 will be eroded by the impact of the European crisis and the anticipated rollback of fiscal stimulus measures, which is why growth is not expected to be much above 2.0%, a rate that is not sufficient to spell the end of weakness in the job and housing markets. Since the European Community's predecessor, the European Coal and Steel Community, was founded in the 1950s, the member states have marched in unison towards greater economic and political integration. The last European summit of 2011 (9 December) was no exception.

The key measures taken at this summit in the direction of forging greater unity included: 1) setting the maximum structural public deficit at 0.5% of gross domestic product (GDP) and the maximum conventional deficit at 3% of GDP (no change); 2) introducing the requirement that each member state legislate an automatic mechanism for restoring fiscal equilibrium in the event these limits are surpassed; 3) the empowering of the European Commission to supervise the annual budgets of member states presenting excessive deficits prior to approval by their respective parliaments; 4) the introduction of the requirement that member states whose public debt exceeds 60% of GDP present debt-cutting programs; 5) the introduction of automatic sanctions for countries breaching these rules, unless a qualified majority of members vetoes them; 6) the stipulation that the private sector will not have to bear the losses triggered by a default by a member state (i.e., the Greek scenario will not be repeated); 7) the launch of the permanent European Stability Mechanism (ESM) on 1 July 2012 with funding of €500 billion, which will replace the temporary European Financial Stability Facility (EFSF) and the European Financial Stability Mechanism (EFSM).

Eurozone

The future of the eurozone remains at the mercy of the sovereign debt crisis unleashed almost two years ago which has taken down several governments and jeopardised the incipient economic recovery. However, as grave as the crisis may seem and is today, the seriousness of the current predicament is nothing compared to the possibility that the crisis could do away with the single currency. Significant political changes are afoot in Greece, Italy and Spain.

The sovereign bond market stress, far from remitting, is touching upon a growing number of countries, including France, Austria and Belgium. The ultimate impact of this crisis on the real economy is an open question. However, the third-quarter GDP figures are not encouraging in this respect. The eurozone economies registered quarterly growth of 0.2%, to leave the annual year-on-year rate at 1.4%. However, leading economic indicators point to a slowdown in economic activity over the coming quarters.

In September, retail sales contracted by 1.3% year-on-year, adding to the third-quarter economic weakness. This contraction was mirrored by the consumer confidence reading which hit a new low of 19.9 points in October. Three factors are weighing on consumer sentiment: (i) political uncertainty; (ii) job destruction, as is evident in the rise in eurozone unemployment to 10.2% in September; and (iii) the reduction in household disposable income, as income is being outpaced by inflation.

Spain

A slowdown in GDP growth is looking increasingly likely, as is a new recession over the coming quarters. The double dip looks inevitable. Its scale and duration are unknown quantities. All signs point to a short-lived and mild recession but uncertainty remains extreme.

The Spanish economy's third-quarter growth figures were none too encouraging. As in recent quarters, internal demand continued to contract sharply. This time the contraction was led by a drop in private spending (down 0.1% quarter-on-quarter), giving back the ground gained in 2Q11. The re-estimation of the historic series also had a significant impact. The positive trend of late, with average quarterly growth of 0.4% between 4Q09 and 2Q11 was eroded to 0.1%.

Public consumption did not help either; to the contrary. The aggressive public spending cuts are beginning to translate into significant declines in public consumption. Indeed, public consumption shrank by 1.1% in 3Q11 to leave the year-on-year pace of contraction at 2.3%, 0.5% below the 2Q11 reading.

France

From the summer on, the economic climate also clouded in France against the backdrop of the sovereign debt crisis. The leading economic indicators released to date point to a substantial slowdown in growth in the fourth quarter, having registered growth of 0.4% in 3Q11. Economic sentiment continued to deteriorate in December, indicating an adverse outlook. As a result, GDP may be set to register fresh declines, in the wake of the contraction registered in 2Q11.

Market situation

Rental market

Barcelona

In the last quarter of 2011, office lets in Barcelona totalled 66,620m². In all of 2011, office lets were 267,003m², growth of 1% on 2010. As a result, absorption levels were flat in Barcelona, in spite of the economic conditions.

A total of 493 transactions closed in 2011. Analysis of the transactions closed shows that 58% entailed properties with surface areas of under 300m², 22% entailed properties between 300m² and 600m², 11% properties between 600m² and 1,000m² and 9% properties of over 1,000m².

The average vacancy rate in Barcelona dropped to 13.3%. The vacancy rate in the CBD was 9.0%. Demand for prime location office space is currently concentrated in high-quality, cost-efficient buildings; absent the right supply, tenants are opting to pay less in more peripheral locations.

Office rentals continued to trend lower in 4Q11, having held steady throughout the summer. At present, rents on prime location properties stand at around €18.50/m²/month. Prime rents have corrected by 32% since 2007.

Madrid

Office space let during 4Q11 in Madrid stood at over 88,000m², slightly topping initial forecasts. One-third of lets took place in the CBD (while each of the A-1 and A-2 markets accounted for close to 20%). The most sought-after buildings and investment classes are buildings located in the top prime and CBD locations. In more peripheral areas, there is demand for space within the M-30 ring road and the Las Rozas business park.

Vacant surface area surpassed the 2 million m² mark in Madrid in 4Q11 (between office space and high-tech friendly properties), for a vacancy rate of 10.8%. The vacancy rate in the CBD rose slightly as a result of a gradual flow of vacancies that were not offset by new lets. The CBD vacancy rate ended the year at 8.4 %.

Rents continued the downward trend initiated at the end of 2010, albeit declining only moderately. Prime location rents are €25.75/m²/month. Prime rents have corrected by 35% since 2007.

Paris

Office lets in Paris totalled 2,400,000m² in 2011, year-on-year growth of 14%. 2011 proved the strongest year of the last decade, with office take-up surpassing the 2,200,000m² of lets recorded in 2008. This healthy business volume is due primarily to the signing of several major deals (specifically 13 transactions encompassing a surface area of over 20,000m²).

The small and medium surface area segment was the most popular: demand for spaces of under 1,000m² was particularly strong, growing 6% year-on-year. Demand for medium-sized properties (between 1,000 and 5,000m²) was flat year-on-year, with lets of 1,400,000m².

The vacancy rate in the region of Paris stands at 6.9% (with 3,609,000m² available for immediate letting), broadly flat year-on-year; this narrows to 4.6% in the CBD (311,000m² available for immediate letting).

Average rents in the Paris CBD remain stable. In 4Q11 rents reached €759/m²/year, peaking at €775/m²/year in the so-called golden triangle.

Highlights

Introduction

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

- Revenue totalled 229.2 million euros, and was generated by the Group's recurring business, property rentals. The Group also earned 75.7 million euros on the disposal of investment assets.

- Operating profit before net valuation changes, depreciation and amortisation charges, provisions and interest was 207.9 million, including the Group's share of the profit of equity-accounted SIIC de Paris (€18.7 million).

- According to the independent appraisals carried out by CB Richard Ellis, Jones Lang Lasalle and Atis Real at year-end, the Group's investment property revalued by 92.6 million euros in the year. This revaluation masks an increase in valuations in France (+98.1 million euros) and a decline in valuations in Spain (-5.5 million euros) and reflects a net 2.9% increase in value in like-for-like terms of rental assets in operation with respect to December 2010 (-3.0% in Spain and +5.9% in France).

- The Group capitalised 9.2 million euros of borrowing costs related to investment property in progress.

- Net finance expense was 146.9 million euros.

- After subtracting profit attributable to non-controlling interests (94.9 million euros), profit after tax attributable to equity holders of the parent amounted to 14.9 million euros.

- The Group's assets were valued at 6,625 million euros at year-end, of which approximately 5,102 million 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 3.0% year-on-year gain in the total value of these assets on a like-for-like basis. The remaining 1,528 million euros corresponds to the Group's residential and commercial premises business, classified as a discontinued operation, which registered a 6.7% decline in value on 2010 on like-for-like terms.

Highlights by business area are as follows:

Rental business

- Rental revenue amounted to 229.2 million euros in 2011, of which 151.6 million euros, or 66%, related to the contribution by the Group's French subsidiary, SFL, while the remaining 77.6 million euros was generated in Spain.

- The bulk of revenue came from office buildings (83%) and shopping centres (15%). By geographical area, the main sources of revenue were spread across the Colonial Group's three largest markets (Paris 66%, Madrid 20% and Barcelona 14%).

- At the end of 2011, the Group had a portfolio of rental properties (currently rented and in 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 2011. The overall occupancy rate stood at 87.9% in December 2011.

- The commercial effort undertaken by the Group in 2011 led to new lettings (additions and renewals) representing a leasable area of over 147,000m² (79% in Spain and 21% in France).

- At the end of 2011, the Colonial Group had a portfolio of rental properties under development consisting of six office buildings. This excludes Riofisa, which is classified as an asset held for sale. In all these properties encompass a surface area of over 93,000m². Lettings on these properties will start between 2012 and 2015.

Residential business

- Revenue recognised on housing sales totalled €11.4 million in 2011. No land sales were concluded in 2011.

- Colonial forged ahead with its strategy of gradually lowering its exposure to the residential business: in 2011 the Group cut its stock of unsold homes substantially compared to 2010. The Company currently has 204 finished units (vs. 313 at year-end 2010). Of these, pre-sale contracts have been signed for three and sales of the remaining 201 are underway. At year-end 2011, the stock of housing pending delivery stood at 0.7 million euros.

- Commercial sales of homes and business premises in 2011 totalled 11.0 million euros, down from 31.0 million euros in 2010.

- The land bank stood at 1.7 million m² at the end of 2011. Fifty-three per cent of this land is located in Andalusia and the remaining 47% is located between Madrid and the eastern part of the peninsula (Catalonia/Levante/Palma).

2. Outlook

Rental business

Throughout 2011, office rents continued to trend lower, albeit at an increasingly slower pace. Gross lets were uneven, falling 42% in Madrid with respect to 1H10, while increasing by 5% in Barcelona over the same period. The slower pace of new properties coming onto the market left vacancy rates largely stable, ticking a mere 3% higher in Madrid and falling 2% in Barcelona.

3. Risk management policies and objectives

The Colonial Group operates in the following core business segments:

Rental business:

Colonial's core business is the rental and management of premium office space, largely in the central business districts of three of the most important markets in the eurozone: Paris, Madrid and Barcelona. As part of this business, Colonial follows an active rental asset investment and disposal strategy, while maintaining a portfolio of properties under construction/refurbishment.

This business is the Group's core and strategic business line.

Property development and land - Discontinued operation

Under the umbrella of the debt restructuring agreements signed by Colonial in February 2010, and as a result of the Parent's decision to focus strategically on the rental business, the entire property development and land business that Colonial had been carrying on has been classified as a discontinued activity.

However, the prevailing market conditions mean that it is possible that the assets relating to this business line may take some time to sell, which is why Colonial plans to continue to actively and efficiently manage the properties assigned to this business.

The main risks to which the Group is exposed are:

- Risks associated with the property sector in general
- Risks associated with Colonial's business segments
- Compliance risks associated with specific legislation and regulations
- Colonial-specific risk factors

Risk control systems to prevent identified risks:

Risks associated with the property sector in general

i) The property sector is cyclical – Prevailing slump in the Spanish property market:

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, noticeably worsened from the second half of 2007 onwards, marked by low or very low business volumes for all of 2008, 2009 and 2010. In Spain, this slowdown also continued for all of 2011. 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 highly adverse, 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.

To mitigate 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.

ii) The property sector is Spain is highly competitive:

Despite the severe slump in real estate activity in Spain, under normal circumstances and during cyclical upswings, the sector is highly competitive and fragmented, characterised by low barriers to entry for newcomers. Colonial's competitors are normally local or national companies, although it also competes with international entities, which can be larger and better funded. Sector competition could lead to a glut of property for sale or to a drop in prices, as has happened in recent years. Recently, competition has intensified with the advent of the financial institutions as property players, as these entities are being forced to take on large portfolios of properties due to non-performing customer loans. These factors could have a material adverse impact on Colonial's business and financial performance and financial position.

In addition, competition in the property sector can impede asset acquisition. Colonial's competitors may adopt rental, marketing or property development business models targeting properties similar to those owned by Colonial. This could reduce the company's competitive edge and significantly affect its business activity, earnings and financial position.

In order to mitigate the potential impact of intense competition in the property sector, Colonial maintains highly-specialised asset management and investment property selection teams and procedures. Moreover, its long-standing strong reputation in its operating markets (France, Spain) gives it a competitive advantage with respect to its competitors.

iii) Impairment of property assets:

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 holdings 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 it verifies related legal and technical requirements, there can be no assurance that material risk factors unforeseen at the acquisition date will not materialise after properties are acquired (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 the Group's properties and have a material adverse impact on Colonial's business and financial performance and on its financial position.

To mitigate this risk factor, Colonial engages independent experts to appraise all of its core business assets on a six-monthly basis. Colonial also obtains appraisals of the assets classified as available 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 the prices of these assets on the market, were Colonial to decide to sell them. Nor should the appraisals be deemed an estimate or indication of the price at which the Parent Company's shares will trade.

iv) Relative illiquidity of real estate investments

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.

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 fitting out its properties with the latest technology and bringing them up to 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 associated with Colonial's business segments

i) Rental property management risks:

One of Colonial's main activities is the rental of offices and commercial premises in buildings it owns. The value of the assets earmarked to the rental business account for 76% of the value of Colonial's overall property portfolio factoring in the properties included in the discontinued line of business.

In this business, one of the main risks is that properties will remain unleased if not managed properly. If Colonial were not able to get its current tenants to renew their leases at expiry or arrange new leases to replace them, revenue could fall. In addition, in the French market, annual rents can, in some cases, be subject to downward revisions based on changes in certain benchmark indices. In certain instances, if the market rent falls by 25% or more with respect to the initial lease price, the tenant has the right to a rent reduction in line with market rates. This situation would have an adverse effect on Colonial's earnings performance.

In addition, in property rental: (i) there is risk that tenants will prove insolvent or lack liquidity, which could cause a failure to collect the agreed rental prices; and (ii) the acquisition or construction of properties for lease entails considerable upfront investment that might not be compensated in the event of unexpected cost increases and/or reductions in forecast rental income.

Colonial has all the required procedures and mechanisms in place to adequately manage its rental property assets. This asset management policy is reviewed regularly and monitored internally so that all operating procedures are integrated within a single information system. Colonial has also established internal procedures to monitor tenant default risk and diversifies its clients across various sectors of the economy.

ii) Property financing:

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 4,738 million euros (including the borrowings associated with assets held for sale) by 31 December 2011.

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 and the sale of non-core assets; 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, in which case Colonial would be forced to refinance again. This could have a material adverse impact on the Colonial's business and financial performance and on its financial position.

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.

iii) Cash flow interest rate risk:

Colonial operates in a sector that requires a significant level of investment. The Colonial Group finances its property investments through bank loans, mortgage financing and debt and equity issues. If it does not have access to financing or cannot obtain financing on favourable terms, then Colonial's growth opportunities could be limited. This would have negative consequences on the results of its commercial operations and, ultimately, its business.

The greatest risk facing the Group's business activities is the ability to fund the various projects undertaken by Colonial and to maintain this financing during property cycle lows. Against the backdrop of the sharply recessive property market in Spain, and like all real estate companies, Colonial is exposed to interest-rate trends. Higher rates would increase its costs of financing and could have an adverse impact on its financial performance and position.

All of the loans taken on by Colonial carry floating interest tied to EURIBOR. Any upward movement in this benchmark rate has an immediate impact on the Group's income statement. Colonial has written a series of derivatives in order to sufficiently mitigate its interest rate risk. At 31 December 2011, 96.6% of its debt was hedged. The maximum average interest rate on these hedged borrowings is accordingly capped at 3.39%.

iv) Risks associated with property development and land management – Discontinued operation:

Colonial has been gradually reducing its stock of residential land through land sales and it has not been acquiring any new land in recent years in order to concentrate exclusively on its property rental and management business, with a focus on the premium office segment.

All of the property development and land business carried on by Colonial has been classified as a discontinued operation. The value of the assets encompassed by this discontinued operation accounts for 24% of the total value of Colonial's property portfolio.

Since the prevailing market conditions mean that assets may take some time to sell, Colonial plans to continue to actively and efficiently manage properties in this business. There follows a description of the risk factors associated with the property development business.

These risks include the possibility of construction work cost overruns and delays with respect to initial forecasts. Delays can trigger penalty payments to buyers and may also mean that not all of planned sales will be realised.

Before real estate developments generate revenue, heavy upfront investments are made to acquire the land, secure the various permits and licenses and construct major elements of infrastructure, services and sales offices.

Accordingly, if it takes longer than expected to obtain permits and licenses, projected costs may rise, and projects underway may be delayed or even suspended, impairing the value of Colonial's assets or its ability to generate income.

To this end, Colonial's technical department hires external project management specialists to provide consultancy services and supervise the project before the development phase and the technical execution of the developments, ensuring compliance with legal and urban planning requirements.

Compliance risks associated with specific legislation and regulations

i) Environmental risks:

Local government corporations, regional and central governments in Spain, as well as various French and EU authorities and agencies regulate and impose certain environmental restrictions that apply to Colonial's activities.

Prevailing Spanish environmental regulations, while empowering the regional governments to regulate certain environmental issues, contains basic regulation applicable state-wide establishing that the contaminating party is in principle liable for cleaning up contaminated territory. However, in the event that land owned by Colonial were contaminated and the persons responsible for the contamination could not be identified, Colonial could be held liable on account of the subsidiary liability clauses provided for in applicable state legislation.

In France, the Colonial Group, through SFL, a 53.45%-owned investee of Colonial, is subject to a range of environmental and public health regulations. Specifically, the Company is responsible for properly monitoring its properties for toxic substances and for cleaning up contaminated property or eliminating toxic substances as required. This liability extends to prior owners as well as current owners and even developers, in some instances. French law provides for severe sanctions, regardless of who is the contaminating party.

There can be no assurance that environmental regulations, or the interpretation thereof by the corresponding authorities or by the courts of justice of Europe, France or Spain, will not yield additional costs, which could have an adverse impact on the Colonial Group's financial performance and position.

Colonial has the resources to ensure due compliance with all prevailing environmental standards at all times, and contracts legal counsel to this end as needed.

ii) Loss by SFL of its status as a listed real estate investment company in France and changes in its favourable tax regime:

SFL is a French company, owned 53.45% by Colonial. SFL, as a listed real-estate investment company ("SIIC", for its initials in French), generates considerable benefits for Colonial, such as the obligatory distribution, as dividends, of 85% of profit on rental activities and 50% of capital gains on the sale of assets, as well as a tax emption for rental income and capital gains on real estate assets.

The possible loss of SIIC status by SFL due to changes in legislation or other reasons, or changes in the double taxation treaty currently in force between Spain and France, could have a material adverse effect on Colonial's financial performance and position.

iii) The real estate sector is a regulated sector and significant changes in applicable regulations could have a material adverse effect on Colonial:

The Colonial Group's properties are subject to numerous regulations governing safety and environmental standards, among other matters, principally in Spain and France. Local government corporations, regional and central governments in Spain, as well as the competent French and EU authorities, could levy fines on the Group if it is found to be in breach of applicable legislation. Significant changes in applicable regulations or in their interpretation by the corresponding authorities or the European, Spanish or French courts of justice could force Colonial to alter its development plans or incur unforeseen expenditures, with a material adverse impact on its business and financial performance and financial position.

Colonial attempts to ensure that all the materials used in building or refurbishing its properties comply with prevailing legislation. However, any change in these regulations could lead to a ban on the use of certain of the materials used and give rise to claims in this respect.

iv) Legal and out-of-court claims:

Colonial's business activities open it up to possible court and out-of-court claims with respect to the materials used in building or refurbishing its properties, including possible defects in assets sold deriving from actions or omissions by third parties hired by Colonial, such as architects, engineers and construction contractors or subcontractors. These claims or any other related to the company's business activities could have a material adverse impact on the activities, earnings and financial position of Colonial.

To mitigate this risk factor, Colonial takes out sufficient insurance cover against the potential damages and liabilities outlined above. Colonial hires experts to regularly review the status and suitability of its insurance cover in order to keep it continually updated.

v) Liability for actions by contractors and subcontractors:

Colonial contracts and subcontracts construction and renovation work to third parties for the majority of its projects. Depending on the type of work required and Colonial's capacity, these contracts are undertaken with large construction companies or specialist contractors, depending on the work in question (electricians, bricklayers, plumbers, etc.)

The contractors or subcontractors contracted by Colonial are companies of recognised prestige, offering competitive terms for their work. Normally, these companies are diligent and complete their work on time. Colonial supervises their activities. In the event that subcontractors hired by Colonial do not comply with their commitments, delay handing over finished constructions or encounter financial difficulties which prevent them from completing the works in the agreed period, Colonial could have to earmark additional funds to remedy these situations.

Although Colonial verifies that contractors comply with workplace health and safety, labour and Social Security regulations (i.e., that they are current on their Social Security payments and their employees have been duly hired), any shortcomings by its contractors in this respect could give rise to a liability for Colonial.

vi) Damage risk

Colonial's properties are exposed to generic risk of damage as a result of fires, flooding or other events. Colonial may also be held liable vis-à-vis third parties for accidents taking place in the properties it owns. The occurrence of any uninsured damages or of damages of an amount greater than covered by insurance or an increase in insurance premiums could cause Colonial to lose money on the affected investment property or to forego income from the same property. In addition, any accident deriving in court proceedings against any of the Colonial Group companies could harm its reputation. All of the foregoing could have a material adverse impact on Colonial's business and financial performance and on its financial position.

To mitigate this risk factor, Colonial takes out sufficient insurance cover against the potential damages and liabilities outlined above. Colonial hires experts to regularly review the status and suitability of its insurance cover in order to keep it continually updated.

Colonial business risks

i) A significant portion of the Colonial Group's total rental income is generated by a small number of customers.

A significant portion of the Colonial Group's total rental income is currently generated by a small number of large customers. At 31 December 2011, Colonial's top 20 customers represented 51% of total rental income on the basis of the leases in force at year-end. At 31 December 2011, the largest customer accounted for 7% of total Group rental income.

On occasion, Colonial opts to let an entire building to a single tenant. Although this strategy optimises operating expenses and enables higher rents, the concentration of rental income among a relatively small number of customers increases the risk of higher vacancy rates in the event that tenants of this nature move on.

ii) Risk of conflict of interest of majority shareholders and Directors

Some shareholders with seats on Colonial's Board of Directors are banks which are simultaneously 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 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.

In light of the Directors' ties with the Parent Company, Article 21 of the Board Regulations 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.

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 2011, Inmobiliaria Colonial, S.A. traded in treasury shares, leaving it with a net balance at 31 December 2011 of 299,236 shares, with a par value of 299,236 euros, representing 0.132% 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. (hereinafter, “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 2011 Annual Corporate Governance Report.

b) Restrictions on the transfer of securities

See section 2 of the Appendix to of the 2011 Annual Corporate Governance Report.

c) Significant direct and indirect shareholdings

See section A.2 of the 2011 Annual Corporate Governance Report.

d) Limitations on voting rights

See section A.10 of the 2011 Annual Corporate Governance Report.

e) Agreements between shareholders

See section A.6 of the 2011 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 2011 Annual Corporate Governance Report.

Modification of the Parent Company’s bylaws

See section 3 of the Appendix to of the 2011 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 2011 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 of the 2011 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 2011 Annual Corporate Governance Report and section 5 of the accompanying Appendix.

7. Annual Corporate Governance Report

For the purposes of article 526 of the Spanish Companies Law, it is hereby noted that the Annual Corporate Governance Report for 2011 forms part of this Group 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
11/10/2011	225,918,009.00	225,918,009	225,918,009

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
THE ROYAL BANK OF SCOTLAND GROUP, PLC	0	45,164,454	19.992
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. PARIS 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.	11,497,316	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.	10,389,969	0	4.599

Name or corporate name of indirect shareholder	Through: name or corporate name of direct shareholder	Number of direct voting rights	% of total voting rights
THE ROYAL BANK OF SCOTLAND GROUP, PLC	THE ROYAL BANK OF SCOTLAND PLC	45,152,974	19.986
COMMERZBANK, A.G.	EUROHYPO AG. SUCURSAL ESPAÑA	45,131,483	19.977
CREDIT AGRICOLE, S.A.	CREDIT AGRICOLE. CORPORATE INVESTMENT BANK. PARIS 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

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

Name or corporate name of shareholder	Transaction date:	Description of transaction
COMMERZBANK, A.G.	24/05/2011	Fell below 20% of share capital
CAIXAHOLDING, S.A.U.	01/08/2011	Exceeded 5% of share capital
KRETA IMMOBILIEN GMBH	01/06/2011	Exceeded 3% of share capital
EUROHYPO AG. SUCURSAL EN ESPAÑA	24/05/2011	Fell below 20% of share capital

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

Name or corporate name of director	Number of direct voting rights	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
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
MANUEL MENÉNDEZ LÓPEZ	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 directors:

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
THE ROYAL BANK OF SCOTLAND GROUP, PLC
COMMERZBANK, A.G.
CREDIT AGRICOLE, S.A.
CORAL PARTNERS (LUX) S.A.R.L.

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 bodies corporate currently exercise control or could exercise control over the company in accordance with article 4 of the Spanish 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
299,236	0	0.132

(*) Through:

Total	0

Give details of any significant changes during the year, in accordance with Royal Decree 1362/2007:

Notification date	Number of direct shares acquired	Number of indirect shares acquired	% of total share capital
21/07/2011	14,394	0	0.006

Gain/(loss) on treasury shares during the year (in thousands €)	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 75 and concordant provisions of the Ley de Sociedades Anónimas (LSA or Spanish Public Limited Companies 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 is granted for five years.
It was 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 employees of the companies in its Group, directly or as a consequence of them having exercised their option rights, within the framework of the remuneration schemes linked to the market value of the Company shares, duly approved.
To this end, the Board of Directors was authorised with the broadest powers to apply for as many authorisations and to enter as many agreements as deemed necessary or advisable to comply with prevailing legislation, in order to duly execute this resolution. It was expressly noted that these powers may be delegated to 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

Maximum percentage of voting rights a shareholder can exercise according to legal restrictions	0

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

NO

Limit in the bylaws on the percentage of voting rights a shareholder can exercise	0

Indicate whether 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	Representative	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	20/04/2010	VOTE AT SHAREHOLDERS' MEETING
ALBERTO IBÁÑEZ GONZÁLEZ	-	DIRECTOR	12/04/2010	20/04/2010	VOTE AT SHAREHOLDERS' MEETING
CARLOS FERNÁNDEZ-LERGA GARRALDA	-	DIRECTOR	19/06/2008	27/06/2008	VOTE AT SHAREHOLDERS' MEETING
JAVIER FAUS SANTASUSANA	-	DIRECTOR	20/04/2010	20/04/2010	VOTE AT SHAREHOLDERS' MEETING
JAVIER IGLESIAS DE USSEL ORDÍS	-	DIRECTOR	19/06/2008	27/06/2008	VOTE AT SHAREHOLDERS' MEETING
JEAN-LUC RANSAC	-	DIRECTOR	12/04/2010	20/04/2010	VOTE AT SHAREHOLDERS' MEETING
JOSÉ MARÍA SAGARDOY LLONIS	-	DIRECTOR	06/05/2008	27/06/2008	VOTE AT SHAREHOLDERS' MEETING
MANUEL MENÉNDEZ LÓPEZ	-	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.

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
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.
MANUEL MENÉNDEZ LÓPEZ	NOMINATION AND REMUNERATION COMMITTEE	CAJA DE AHORROS Y PENSIONES DE BARCELONA

Total number of executive 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 Master of European Studies from the University of Leuven (Belgium) and a Doctorate in Law from the Universidad Complutense de Madrid, as well as post-graduate courses specialising in Commercial Law from the Bank of Spain's Training Centre. He completed his studies in The Hague, 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 a Board member and Chairman of the Audit Committee for Abantia Corporación as well as a member of the Executive Committee of the Elcano Royal Institute and of the Executive Committee of the Fundación Euroamérica. He is currently a specially empowered director and the Chairman of the Appointment and Remuneration Committee of Gamesa Corporación, and a director and the Chairman of the Audit Committee of Société Foncière Lyonnaise. He is a trustee of the Fundaciones Consejo España/EEUU, Consejo España/China and Consejo España/India. He continues to practice law at his offices, Carlos Fernández-Lerga Abogados, mainly offering legal advice on civil and commercial law.

Name or corporate name of director	Profile
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 in Lloyds Bank International from 1974 to 1995 in London, Dubai, Brazil, Paraguay and Spain, such as 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.

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.

NO

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 directors, 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 Board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company:

Name or corporate name	Name of listed company	Post
ALBERTO IBÁÑEZ GONZÁLEZ	BANKIA, S.A.	DIRECTOR
CARLOS FERNÁNDEZ-LERGA GARRALDA	GAMESA CORPORACION TECNOLÓGICA, S.A.	DIRECTOR

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 stock	YES

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

a) In the reporting company:

Concept	In thousands €
Fixed remuneration	730
Variable remuneration	123
Per diems	341
Statutory compensation	895
Share options and/or other financial instruments	0
Other	0
Total	2,089

Other Benefits	In thousands €
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:

Concept	In thousands €
Fixed remuneration	0
Variable remuneration	0
Per diems	108
Statutory compensation	0
Share options and/or other financial instruments	0
Other	0
Total	108

Other Benefits	In thousands €
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	1,114	72
External proprietary	714	0
External independent	261	36
Other external	0	0
Total	2,089	108

d) Remuneration as percentage of profit attributable to the parent company:

Total remuneration received by directors (in thousands €)	2,197
Total remuneration received by directors/profit attributable to parent (%)	12.0

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
ALBERTO ALCOBER TEIXIDO	SENIOR MANAGER OF PROPERTY RENTALS
NURIA OFERIL COLL	SENIOR MANAGER OF LEGAL DEPARTMENT
CARMINA GANYET CIRERA	SENIOR MANAGER OF CORPORATE DEVELOPMENT
JUAN CEÑAL GONZALEZ-FIERRO	DEPUTY CHIEF EXECUTIVE OFFICER

Total remuneration received by senior management (in thousands €)	967

B.1.13 Identify, in aggregate terms, any indemnity or “golden parachute” clauses that exist for members of the 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

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.

   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.
3. 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.

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, whether professional or labour-based, in cash or in kind, payable to directors for any other executive or advisory duties they may carry out for the Company other than those assigned to them as directors, and they shall be subject to the legal system applicable thereto.
In this respect, shareholders at the General Shareholders' Meeting of 21 November 2008 approved, under Item Five of the agenda, and the General Shareholders' Meeting of 20 April ratified it in Resolution 12 on the agenda, the remuneration 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 of 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

Issues covered in the remuneration policy report

The Board of Directors submitted a report on the remuneration policy for directors at Inmobiliaria Colonial, S.A. for 2011 to advisory vote at the General Shareholders' Meeting held on 21 June 2011. The report was made available to all shareholders.

The main aspects of the report approved by the advisory vote of the shareholders at the General Shareholders' Meeting of 21 June 2011 are as follows:

To retain the remuneration components and amounts of remuneration for directors outlined in the 2010 report on the remuneration policy for directors, which had been approved at the Extraordinary General Shareholder's Meeting held on 20 April 2010, adding the following proposals in relation to the remuneration for the Chairman of the Board:

– Update to the annual fixed remuneration payable to the Chairman of the Board of Directors in line with the consumer price index.

– Additional and extraordinary remuneration for the Chairman of the Board was set at the sum equivalent to three years of fixed annual remuneration in consideration for executive duties, with a minimum of one million, two-hundred and fifty thousand euros (€1,250,000) which will be automatically updated each year in line with the consumer price index, should he be made redundant or resign following a change of control at the Company, thereby rendering null and void the previous incentive plan approved in November 2008.

– Approval of a new incentive plan entailing the delivery of shares to the Chairman of the Board of Directors, the CEO and the Company's Executive Committee, rendering null and void the previous incentive plan approved in November 2008.

In accordance with this, the remuneration awarded shall be as follows:

a) Remuneration of directors for performance of their duties.

(i) Directors shall receive a fixed annual sum of fifty thousand euros (€50,000) for the performance of their duties.

(ii) The Chairman of the Executive Committee shall also receive a fixed annual sum of fifty thousand euros (€50,000) while the other members of said Committee shall receive a fixed annual sum of twenty-five thousand euros (€25,000).

(iii) The Chairmen of the Audit and Control Committee and the Nomination and Remuneration Committee shall each receive a fixed annual sum of thirty-five thousand euros (€35,000) while the other members of said Committees shall receive a fixed annual sum of twenty-five thousand euros (€25,000).

(iv) In addition, the Chairman of the Board shall receive by way of an attendance fee for each Board Meeting, the sum of four thousand, eight hundred euros (€4,800) while the other directors shall receive three thousand euros (€3,000).

With the exception of the remuneration of the three executive directors for performance of their senior management duties, as broken down in the following section, the amounts shown in this section constitute the only remuneration which the Company's directors shall receive.

b) Additional remuneration of executive directors.

The only executive directors whose appointment is related to their executive duties pursuant to article 4 of the Regulations of the Board of Directors are:

– Juan José Brugera Clavero, Chairman of the Board of Directors, who performs certain executive duties.

– Pedro Viñolas Serra, CEO and the chief executive of the Company.

The basic criterion underpinning the remuneration policy for executive directors for performing their executive duties other than their duties of supervision and decision-making associated with their position as Board members, but which forms part of the actual activity of company administration, is to attract and retain top professionals qualified to fulfil the strategic goals of the Company given its situation and the current socio-economic climate.

(i) Annual fixed remuneration.

– Chief Executive Officer: between a minimum of four hundred and twenty-one thousand, one hundred and ten euros (€421,110.00) and a maximum of five hundred and seventy-four thousand, four hundred and forty euros (€574,440.00), to be determined by the Board of Directors and which may be reviewed annually on the basis of the consumer price index.

– Chairman of the Board: three hundred thousand euros (€300,000), reviewed annually on the basis of the consumer price index.

(ii) Additional Benefits.

The remuneration system for the Chief Executive Officer and the Chairman of the Board of Directors includes other benefits to be determined by the Board of Directors.

In particular, the Company will take out a civil liability insurance policy that covers any liability for the acts and conduct of Mr.Brugera and Mr. Viñolas arising out of the activities pertaining to their duties as Chairman and Chief Executive Officer, respectively.

(iii) Long-term incentive plan.

The executive directors, Mr. Brugera and Mr. Viñolas, have additional remuneration in the form of the delivery of a certain number of the Company's shares in accordance with the level of compliance with pre-set targets or benchmarks under the share delivery plan which was approved at the General Shareholders' Meeting held on 21 June 2011, rendering null and void the previous incentive plan approved at the General Shareholders' Meeting held on 28 November 2008.

(iv) Additional contingent remuneration

The Chairman of the Board and the Chief Executive Officer shall receive additional and special remuneration in the following amounts in the following cases:

a) For the Chairman of the Board: a sum equivalent to three years of fixed annual remuneration in consideration for executive duties, with a minimum of one million, two hundred and fifty thousand euros (€1,250,000) which will be automatically updated each year in line with the consumer price index, should he be made redundant or resign following a change of control at the Company or a relevant change in the composition of the Board of Directors.

b) For the Chief Executive Officer: in the event that he should leave or resign as a result of a change of control in the Company, significant change in the composition of the Board of Directors or for any of the other reasons established by the Board of Directors. In this case, the CEO shall receive an amount equivalent to three years of fixed annual remuneration in consideration for executive duties, with a minimum of one million five hundred thousand euros (€1,500,000), which will be updated each year in line with the consumer price index.

Both the report on the remuneration policy for directors of Inmobiliaria Colonial S.A. and the resolution of the General Shareholders' Meeting on the remuneration of directors are available on the Company's website.

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?	YES

Identity of external consultants
Aon Hewit

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	CREDIT AGRICOLE. S.A.	MANAGING DIRECTOR ADVISORYSERVICES- 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**
MANUEL MENÉNDEZ LÓPEZ	CAJA DE AHORROS Y PENSIONES DE BARCELONA	Manuel Menéndez is Deputy General Manager of 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

Shareholders at the General Shareholders' Meeting of Inmobiliaria Colonial on 21 June 2011 were informed of the changes to the Regulations of the Board of Directors in adherence with
(i) Royal Decree 1/2010, of 2 July, approving the consolidated text of the Corporate Enterprises Act;
(ii) Act 12/2010, of 30 June; and
(iii) the Sustainable Economy Act 2/2011, of 4 March.

The Board of Directors approved the amendments to its Regulations at its meeting on 12 May 2011; these changes largely entail:
- adapting the wording of articles 1, 12, 15, 16, 19, 20, 21, 22, 26, 37, 40, 42, 43 and 45 to the amendments introduced by Royal Decree 1/2010, of 2 July, approving the consolidated text of the Corporate Enterprises Act.
- adapting the wording of article 39 to the amendments introduced by Act 12/2010, of 30 June, amending Act 19/1988, of 12 July on the auditing of accounts, the Securities Market Act 24/1988, of 28 July and the consolidated text of the LSA approved by Royal Decree 1564/1989, of 22 December in order to adapt to EU legislation.
- adapting the wording of article 29 to the amendments introduced by the Sustainable Economy Act 2/2011, of 4 March.
- adapting the wording of articles 2, 4, 12, 13, 14, 15, 30, 32, 33, 34, 35 and 44, in order to introduce technical improvements. Articles 5 ("General functions and competencies of the Board"), 6 ("Representative functions"), 7 ("Functions relating to the annual financial statements and management report") and 8 ("Functions regarding the Securities Market") have been consolidated into article 5 ("General functions and competences of the Board"), while articles 9 ("Shareholder relations") and 10 ("Relations with institutional investors") have been consolidated into a single article, number 6 ("Shareholder relations"). Likewise, article 21 ("Conflicts of interest"), is now split into articles 16 ("Conflicts of interest") and 17 ("Related-party transactions"), with the latter also including the content of the previous article 11 ("Relations with significant shareholders"). Finally, articles 25 ("Indirect transactions") and 24 ("Business opportunities"), now comprise article 20 ("Banning the use of the Company's name and the taking advantage of business opportunities").

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 cooption, 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 cooption made by the Board itself, shall require a prior proposal or 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 merely 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 orientation programmes which shall provide new directors with rapid and adequate knowledge of the Company and its group, as well as corporate governance rules, also offering refresher courses 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 stipulates 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 subject to any of the circumstances of incompatibility or prohibition established pursuant to law.
2. When they cease to hold the positions, responsibilities or functions related to their appointment as executive directors.
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 it to a level that demands the reduction of the number of its 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 could negatively affect the running of the Board or the credit and reputation of the Company, and directors must inform the Board of criminal cases in which they appear as the accused, as well as any subsequent procedural events. In any event, if a director is subject to legal proceedings or is summonsed to appear at oral proceedings 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, providing a reasoned report on this decision in the Annual Corporate Governance Report.

The Board of Directors shall not propose the removal of external proprietary or independent directors before completion of the statutory period for which they were appointed, except for exceptional and just causes approved by the Board, following a report by the Nomination and Remuneration Committee. In particular, it shall be understood that there are reasonable grounds when directors have failed to perform the duties inherent in their position or have come under one of the circumstances described in article 4 of the Regulations which impede their appointment as an independent director.

In accordance with article 4 of the current Regulations, independent directors may also be asked to resign in response to changes in the Company's ownership structure.

When directors resign or leave the Board for any reason prior to completion of the appointed term, the director shall explain the reasons in a letter to all members of the Board. The removal may be reported to the CNMV as a significant event and the reason for the removal included 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 subject to any of the circumstances of incompatibility or prohibition established pursuant to law.

2. When they cease to hold the positions, responsibilities or functions related to their appointment as executive directors.

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 it to a level that demands the reduction of the number of its 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 could negatively affect the running of the Board or the credit and reputation of the Company, and directors must inform the Board of criminal cases in which they appear as the accused, as well as any subsequent procedural events. In any event, if a director is subject to legal proceedings or is summonsed to appear at oral proceedings in respect of any of the crimes laid down under article 124 of the LSA, the Board shall examine the case as soon as possible and, having regard to the particular circumstances, shall decide whether or not he or she should be called on to resign, providing a reasoned report on this decision 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 legal majorities, 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 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

No directors left the Board in 2011 and there were therefore no vacancies to be filled. Therefore, the Board of Directors is unchanged from 2010.

In this respect, it should 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 cooption and proposed appointments submitted to the General Shareholders' Meeting are based on purely professional criteria. The fact that no female directors have been appointed may not be attributed to any bias inherent in the procedure, impeding their selection.

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

Article 35.4 of the Regulations of the Board of Directors states that the Nomination and Remuneration Committee has the following function in particular: Ensuring that when vacancies arise on the Board, selection procedures are not subject to any implicit bias hindering the selection of women directors, such that the Company deliberately seeks and includes within potential candidates those women candidates who have the right professional profile, and the Board has a duty to explain, as applicable, through the Annual Corporate Governance Report, the reason why there are few or no women directors, and the initiatives launched 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). Proxy instruments 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	11
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 and Compliance Committee	7
Number of meetings of the Appointments and Remuneration committee	4
Number of meetings of the Appointments Committee	0
Number of meetings of the Remunerations 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	1
% of non-attendances of the total votes cast during the year	0.006

B.1.31 Indicate whether the individual and consolidated financial statements submitted for approval by the Board are certified previously:

YES

Identify, where applicable, the person(s) who certified the Company's individual and consolidated financial statements prior to their authorisation for issue 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 submitted to the General Shareholders' Meeting with a qualified audit report:

With respect to the audit report, article 8 of the Regulations of the Board of Directors established the following procedure:

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 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.

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 to 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. His/her appointment and removal shall be approved by the plenary Board subject to a report drawn up 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) comply with the letter and spirit of the laws and regulations, including those approved 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 rules; and (iii) take into consideration recommendations on good governance contained in the Company's Bylaws and Regulations.

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

Article 8 of the Regulations of the Board of Directors states the relationship between the Board of Directors and external auditors shall be channelled through the Audit and Control Committee, as provided for in the Bylaws and the Regulations of the Board of Directors.

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 informs the CNMV, as a significant event, of any change in auditor, accompanied by a declaration on any disagreements with the outgoing auditor and, if this is the case, their nature, and in the event of resignation of the external auditor examining the circumstances behind it.

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 other non-audit work for the company and/or its group. If so, state the amount of fees received for such work and the percentage they represent of the fees billed to the company and/or its group:

YES

	Company	Group	Total
Amount of other non-audit work (in thousands €)	122	40	162
Amount of other non-audit work as a % of total amount billed by audit firm	25.103	6.944	15.250

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 accounts as a percentage of the total number of years over which the financial statements have been audited:

	Company	Group
Number of consecutive years	5	5

	Company	Group
Number of years audited by current audit firm/Number of years the company accounts have been audited (%)	20.8	20.8

B.1.40 List any equity holdings of the members of the company's Board of Directors in other companies with the same, 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 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 advice necessary to carry out their responsibilities and, when necessary, advice at the cost of the Company from legal, accounting, financial or other types of experts.

The Board of Directors may oppose the hiring of external consultants on the following grounds:

1. That it is not necessary for the correct performance of the duties entrusted to the external directors;
2. That the cost is unreasonable in relation to the significance of the problem and Company's assets and income.
3. That the technical assistance to be received may be granted adequately by the Company's own experts and specialists.

B.1.42 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies.

YES

Details of 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 company'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, 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 subject to any of the circumstances of incompatibility or prohibition established pursuant to 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 could negatively affect the running of the Board or the credit and reputation of the Company, and directors must inform the Board of criminal cases in which they appear as the accused, as well as any subsequent procedural events. In any event, if a director is subject to legal proceeding or is summonsed to appear at oral proceedings in respect of any of the crimes laid down under article 213 of the Corporate Enterprises Act, the Board shall examine the case as soon as possible and, having regard to the particular circumstances, shall decide whether or not he or she should be called on to resign, providing a reasoned report on this decision in the Annual Corporate Governance Report.

The Board of Directors shall not propose the removal of external proprietary or independent directors before completion of the statutory period for which they were appointed, except for exceptional and just causes approved by the Board, following a report by the Nomination and Remuneration Committee. In particular, it shall be understood that there are reasonable grounds when the director has failed to perform the duties inherent in their position or comes under one of the circumstances described in article 4 of the Regulations of the Board of Directors which impede their appointment as an independent director.

B.1.44 Indicate whether any director has notified the company that he/she has been indicted or tried for any of the offences stated in article 124 of the LSA:

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	BOARD MEMBER	PROPRIETARY
ALBERTO IBÁÑEZ GONZÁLEZ	BOARD MEMBER	PROPRIETARY
JAVIER FAUS SANTASUSANA	BOARD MEMBER	PROPRIETARY
JEAN-LUC RANSAC	BOARD MEMBER	PROPRIETARY
PEDRO VIÑOLAS SERRA	BOARD MEMBER	EXECUTIVE

AUDIT AND CONTROL COMMITTEE

Name	Post	Type
CARLOS FERNÁNDEZ-LERGA GARRALDA	CHAIRMAN	INDEPENDENT
ALAIN CHETRIT	BOARD MEMBER	PROPRIETARY
JAVIER IGLESIAS DE USSEL ORDÍS	BOARD MEMBER	INDEPENDENT
JOSÉ MARÍA SAGARDOY LLONIS	BOARD MEMBER	PROPRIETARY

NOMINATION AND REMUNERATION COMMITTEE

Name	Post	Type
JAVIER IGLESIAS DE USSEL ORDÍS	CHAIRMAN	INDEPENDENT
ALBERTO IBÁÑEZ GONZÁLEZ	BOARD MEMBER	PROPRIETARY
JAVIER FAUS SANTASUSANA	BOARD MEMBER	PROPRIETARY
JEAN-LUC RANSAC	BOARD MEMBER	PROPRIETARY

B.2.2 Indicate whether the Audit Committee is responsible for the following:

To supervise the preparation process and monitoring the integrity of the financial information on the company and, if applicable, the group, and revising 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 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.	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 checking 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 term as a director ceases, or when thus agreed by the Board of Directors.

The Nomination and Remuneration Committee shall designate a Chairman from among its members, who must be an independent director, and a Secretary.

B) Competences

The Committee's functions include the following, among others:

1. Evaluating the skills, knowledge and experience necessary in the Board, defining, as a result, the functions and skills necessary in the candidates who are to cover each vacancy, and assessing the time and dedication necessary to carry out their responsibilities properly. Any director may ask the Nomination and Remuneration Committee to take into account, if considered appropriate, potential candidates to fill Board vacancies.

2. Examining or organising, in a way it deems appropriate, the succession of the Chairman and chief executive, and, as applicable, making proposals to the Board so that the handover can be ordered and well planned. In the event that the Chairman is also the chief executive, the above shall apply to the Chairman and the managing executive director(s).

3. Reporting on the appointments and removals of senior management proposed by the chief executive to the Board, proposing the persons or jobs that should be considered senior management of the Company, and drawing up proposed admonishments.

4. Ensuring that when vacancies arise on the Board, selection procedures are not subject to any implicit bias hindering the selection of directors who are women, such that the Company deliberately seeks and includes within potential candidates women candidates who have the right professional profile, with the Board having a duty to explain, as applicable, through the Annual Corporate Governance Report, the reason why there are few or no women directors, and the initiatives launched to address this situation.

5. Reporting, 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 cooption by the Board of Directors itself.

6. Proposing to the Board the members that should make up each of the Committees that are created.

7. 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 CEO, and other contractual conditions, and the basic conditions for contracts 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. Ensuring the transparency of salaries and the inclusion in the annual report of information on directors' remuneration.

C) Functioning

The Committee shall meet, at the discretion of its Chairman, as many times as necessary to carry out its responsibilities. It may also be convened when so requested by two of its members.

The Nomination and Remuneration Committee shall have access to all the information and documents required for the performance of its duties. Members of the Nomination and Remuneration Committee may be assisted, during their sessions, by persons who, in their capacity as advisors, and up to a maximum of two for each member of said Committee, are deemed appropriate.

EXECUTIVE OR DELEGATE COMMITTEE

The Board of Directors may establish an Executive Committee comprising members of the Board itself and which, in any event, 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 10 members.

The Board of Directors shall appoint the directors who are to make up the Executive Committee, ensuring that the participation structure for the different categories of directors is similar to that of the Board itself, and that its Secretary is the same as the Secretary of the Board of Directors. The appointment of directors to the Executive Committee shall require, to be valid, the vote in favour of two thirds of Board members.

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

The Executive Committee shall be convened by its Chairman, either on his or her 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 address or any place designated by the Chairman and indicated in the notice.

For the valid constitution of the Executive Committee, the meeting must be attended, as present or represented, by the majority of its members.

Those absent may be represented by another member of the Executive Committee, via a proxy addressed to its Chairman.

Deliberations shall be led by the Chairman, or, if the Chairman is absent, by a member elected, by majority, by the meeting participants.

Resolutions shall be adopted by absolute majority of the members of the Committee. In the event of a conflict of interest, the affected director shall refrain from participating in matters related to the conflict. Votes from directors affected by a conflict of interest and required to absent themselves shall be deducted from the calculation of the majority of votes necessary.

In the event of a tie, the matter shall be submitted to the Board of Directors, the convening of which shall be requested by the members of the Executive Committee pursuant to article 29 of the Company's Bylaws, unless a meeting of said body has already been convened to be held within the next thirty calendar days, in which case the Committee shall ask the Chairman of the Board to include the points for which there was a tie on the agenda of said meeting.

The Executive Committee, through its Chairman, shall inform the Board of the matters dealt with and decisions adopted by the Committee, issuing a copy of its minutes to all directors.

AUDIT 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 designate, from its members, its Secretary and its Chairman, the latter of which must, in any event, be an independent director and must be replaced every four years, but may be re-elected after one year has passed since leaving the position (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 of the preparation of the economic and financial information, its internal controls and the independence of the external auditor.

The Audit and Control Committee has the following functions, among others:

1. Informing the General Meeting of matters raised by shareholders within its area of responsibility.

2. Monitoring the efficiency of the Company's internal audit services which safeguard the correct functioning of the internal reporting and internal control systems, and if applicable, of the risk management systems, as well as discussing with the external auditor and auditing firms any significant internal control weaknesses encountered during their review. The head of the internal audit function is obliged to submit to the Committee its annual plan and directly notify any incidents in its implementation in addition to presenting an activities report at the end of each year.

3. Submitting to the Board, for approval, a report on the risk control and management policy which identifies at least:
(i) the different types of risk facing the Company, including financial and economic risks, contingent liabilities and other off balance sheet risks;
(ii) the establishment of the level of risk that the Company considers to be acceptable;
(iii) the measures provided to mitigate the impact of identified risks they should materialise; and
(iv) internal control and reporting systems to be used to control and manage the aforementioned risks, including contingent liabilities or off balance sheet risks.

4. Supervising the process of drawing up the individual and consolidated annual financial statements and management report, and regular financial information to be issued to the markets, ensuring compliance with legal requirements and correct application of generally accepted accounting principles and informing the Board, prior to approval, of the following considerations:
(i) financial information that, given its status as a listed Company, the Company must disclose on a regular basis, ensuring that interim financial statements are drawn up following the same accounting criteria as the annual financial statements and, to this end, considering the appropriateness of a limited review by the external Company auditor;
(ii) and the creation or acquisition of holdings in companies having a special purpose or domiciled in countries or areas deemed to be tax havens, as well as any other transactions or operations of a similar type that, due to their complexity, may negatively affect the transparency of Inmobiliaria Colonial.

5. With respect to internal control and reporting systems:
(i) supervising the process of drawing up, and the integrity of, financial information relating to the Company and, as applicable, its Group, reviewing compliance with regulatory requirements, the proper definition of the scope of consolidation and the proper application of accounting criteria;
(ii) regularly reviewing internal control and risk management systems, so main risks can be correctly identified, managed and notified;
(iii) monitoring the independence and efficacy of the internal audit function; proposing the selection, appointment, re-appointment and removal of the head of internal audit; proposing the department's budget; receiving regular report-backs on its activities and verifying that senior management are acting on the findings and recommendations of its reports;
(iv) and establishing and supervising a mechanism whereby employees can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the Company.

6. Acting 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) making recommendations to the Board for the selection, appointment, reappointment and removal of the external auditor, and the terms of his engagement;
(ii) receiving regular information from the external auditor on the progress and findings of the audit programme and checking that senior management are acting on its recommendations in accordance with applicable legislation;
(iii) ensuring the independence of the external auditor and, to this end, ensuring that the Company informs the CNMV, as a significant event, of any change in auditor, accompanied by a declaration on any disagreements with the outgoing auditor and, if this is the case, their nature, and, in the event of resignation of the external auditor, examining the circumstances behind it;
(iv) and urging the Group auditor to take on the auditing of all component companies.

7. Establishing the appropriate relations with the external auditor or auditing firm to receive information on any issues which may jeopardise the independence of the latter and which will be studied by the Committee, and any other information relating to the auditing procedure, as well as any other communications provided for in the legislation relating to auditing and the technical rules thereof. In any event, each year the external auditor or auditing firm must submit written confirmation stating their independence from the Company and any related companies as well as information on any additional services provided to those companies by the aforementioned auditor or auditing firm or any persons or entities related thereto as provided for in the legislation relating to auditing.

8. Issuing annually, prior to issuing the audit report, a report on the independence of the external auditor or auditing firms, and stating any additional services rendered as described above.

9. Issuing reports on related-party transactions as per article 17 of the Regulations.

10. Issuing 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. Proposing to the Board of Directors any other matters that it deems relevant in relation to those items within its area of responsibility.

12. Supervising 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 on a decision of its Chairman, who is responsible for convening it. The conclusions reached in each meeting shall be recorded by minutes reported to the plenary Board.

All managers or personnel of the Company or its subsidiaries so requested must attend Committee meetings and render assistance and access to the information they hold. In particular, executive directors of the Company must agree to provide information to the extent that the Committee itself decides. Likewise, the Committee may require the attendance at its sessions of the Company's auditor, as well as requiring the external services of attorneys and other independent professionals to help it better carry out its responsibilities.

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 to delegate associated with this Committee are detailed under heading B.2.3 above.

Committee name
EXECUTIVE OR DELEGATE COMMITTEE
Brief description
All advisory or consulting powers and powers to delegate associated with this Committee are detailed under heading B.2.3 above.

Committee name
AUDIT COMMITTEE
Brief description
All advisory or consulting powers and powers to delegate associated with this Committee are detailed under heading 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 articles 33 of the Bylaws and 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 that of the Chairman of the Board and the Chief Executive Officer, in order to fulfil the duties awarded 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 that of the Chairman of the Board and the Chief Executive Officer, in order to fulfil the duties awarded 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 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 that of the Chairman of the Board and the Chief Executive Officer, in order to fulfil the duties awarded 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, based on 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 €)
THE ROYAL BANK OF SCOTLAND GROUP, PLC	ASENTIA PROJECT. S.L.	Accrued interest	Finance cost	8,177
THE ROYAL BANK OF SCOTLAND GROUP, PLC	ASENTIA PROJECT. S.L.	Accrued interest	Finance income	35
THE ROYAL BANK OF SCOTLAND GROUP, PLC	ASENTIA PROJECT. S.L.	Repayment of debt	Repayment or cancellation of loans and lease agreements (lessee)	2,680
THE ROYAL BANK OF SCOTLAND GROUP, PLC	INMOBILIARIA COLONIAL. S.A.	Accrued interest	Finance cost	11,518
THE ROYAL BANK OF SCOTLAND GROUP, PLC	INMOBILIARIA COLONIAL. S.A.	Accrued interest	Finance income	292
THE ROYAL BANK OF SCOTLAND GROUP, PLC	NECSA. NUEVOS ESPACIOS COMERCIALES. S.A.	Accrued interest	Finance cost	2,192
THE ROYAL BANK OF SCOTLAND GROUP, PLC	NECSA. NUEVOS ESPACIOS COMERCIALES. S.A.	Repayment of debt	Repayment or cancellation of loans and lease agreements (lessee)	1,037
THE ROYAL BANK OF SCOTLAND GROUP, PLC	SOCIÉTÉ FONCIÈRE LYONNAIS	Accrued interest	Finance cost	2,412
COMMERZBANK, A.G.	ASENTIA PROJECT. S.L.	Accrued interest	Finance cost	8,176
COMMERZBANK, A.G.	ASENTIA PROJECT. S.L.	Repayment of debt	Repayment or cancellation of loans and lease agreements (lessee)	2,680
COMMERZBANK, A.G.	INMOBILIARIA COLONIAL. S.A.	Accrued interest	Finance cost	11,543
CREDIT AGRICOLE, S.A.	ASENTIA PROJECT. S.L.	Accrued interest	Finance cost	7,955
CREDIT AGRICOLE, S.A.	ASENTIA PROJECT. S.L.	Repayment of debt	Repayment or cancellation of loans and lease agreements (lessee)	2,607
CREDIT AGRICOLE, S.A.	INMOBILIARIA COLONIAL. S.A.	Accrued interest	Finance cost	11,177
CREDIT AGRICOLE, S.A.	SOCIÉTÉ FONCIÈRE LYONNAIS	Contractual	Leases	12,108
CREDIT AGRICOLE, S.A.	SOCIÉTÉ FONCIÈRE LYONNAIS	Repayment of debt	Repayment or cancellation of loans and lease agreements (lessee)	86,121
CORAL PARTNERS (LUX) S.A.R.L.	ASENTIA PROJECT. S.L.	Repayment of debt	Repayment or cancellation of loans and lease agreements (lessee)	2,600
CORAL PARTNERS (LUX) S.A.R.L.	ASENTIA PROJECT. S.L.	Accrued interest	Finance cost	7,933
CORAL PARTNERS (LUX) S.A.R.L.	INMOBILIARIA COLONIAL. S.A.	Accrued interest	Finance cost	10,826
CAJA DE AHORROS Y PENSIONES DE BARCELONA	ASENTIA PROJECT. S.L.	Accrued interest	Finance income	44
CAJA DE AHORROS Y PENSIONES DE BARCELONA	INMOBILIARIA COLONIAL. S.A.	Accrued interest	Finance income	136
CAJA DE AHORROS Y PENSIONES DE BARCELONA	INMOBILIARIA COLONIAL. S.A.	Contractual	Leases	2,695

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 €)
CAJA DE AHORROS Y PENSIONES DE BARCELONA	RIOFISA. S.A.	Accrued interest	Finance income	83
CAJA DE AHORROS Y PENSIONES DE BARCELONA	TORRE MARENOSTRUM S.L.U,	Accrued interest	Finance cost	1,980
CAJA DE AHORROS Y PENSIONES DE BARCELONA	TORRE MARENOSTRUM S.L.U,	Repayment of debt	Repayment or cancellation of loans and lease agreements (lessee)	2,243
CAJA DE AHORROS Y PENSIONES DE BARCELONA	TORRE MARENOSTRUM S.L.U,	Accrued interest	Finance income	42
BANCO POPULAR ESPAÑOL. S.A.	NECSA. NUEVOS ESPACIOS COMERCIALES. S.A.	Accrued interest	Finance income	10
BANCO POPULAR ESPAÑOL. S.A.	RIOFISA DEHESA. S.L.	Accrued interest	Finance cost	441
BANCO POPULAR ESPAÑOL. S.A.	RIOFISA SUR. S.L.	Accrued interest	Finance cost	724
BANCO POPULAR ESPAÑOL. S.A.	RIOFISA. S.A.	Accrued interest	Finance cost	1,663
BANCO POPULAR ESPAÑOL. S.A.	RIOFISA. S.A.	Accrued interest	Finance income	8

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 of the LSA:

YES

Name or corporate name of director
JOSÉ MARÍA SAGARDOY LLONIS
Description of conflict of interest
Refinancing of Riofisa.

Name or corporate name of director
JUAN JOSÉ BRUGERA CLAVERO
Description of the conflict of interest
Appraisal of the company's Chairman.
Share delivery plan for executive directors and managers.
Share delivery plan.
Director remuneration.

Name or corporate name of director
PEDRO VIÑOLAS SERRA
Description of the conflict of interest
Appraisal of the company's Chief Executive Officer.
Share delivery plan for executive directors and managers.
Share delivery plan.
Director remuneration.

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.

Article16 of the Regulations of the Board of Directors states that:
1. Directors must inform the Board of any situation that could lead to a conflict of interest with the interest of 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 inform the Company of the 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 same, analogous or similar 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.
The prior express authorisation of the Board of Directors is required, authorisation which cannot be delegated, and subject to a favourable report by the Audit and Control Committee, in the following cases:
- Provision 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, by 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 one covered by article 231 of the Corporate Enterprises Act.
- Transfer by companies of the Group to a director, by 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, by a 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 operations 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 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.

The Colonial Group operates in the following core business segments:

Rental business:

Colonial's core business is the rental and management of quality office space, largely in the CBDs of the three most important markets in the eurozone: Paris, Madrid and Barcelona. As part of this business, Colonial follows an active rental asset investment and disposal strategy, while maintaining a portfolio of properties under construction/refurbishment.

This business is the Group's core and strategic business line.

Property development and land - discontinued operation:

Under the umbrella of the debt restructuring agreements signed by Colonial in February 2010, and as a result of the decision by the directors of Colonial to focus strategically on the rental business, the entire property development and land business that Colonial had been carrying on has been classified as a discontinued activity.

However, the prevailing market conditions mean that it is possible that the assets relating to this business line may take some time to sell, which is why Colonial shall continue to actively and efficiently manage the properties assigned to this business.

The main risks to which the Group is exposed are:

- Risks associated with the property sector in general.

- Risks associated with Colonial's business segments.

- Compliance risks associated with specific legislation and regulations.

- Colonial-specific risk factors.

Risk control systems to prevent identified risks:

Risks associated with the property sector in general

i) The property sector is cyclical – Prevailing slump in the Spanish property market:

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, noticeably worsened from the second half of 2007 onwards, marked by low or very low business volumes for all of 2008, 2009 and 2010. In Spain, this slowdown also continued for all of 2011. 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.

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.

ii) The property sector in Spain is highly competitive:

Despite the severe slump in real estate activity in Spain, under normal circumstances and during cyclical upswings, the sector is highly competitive and fragmented, characterised by low barriers to entry for newcomers. Colonial's competitors are normally local or national companies, although it also competes with international entities, which can be larger and better funded. Sector competition could lead to a glut of property for sale or to a drop in prices, as has happened in recent years. Recently, competition has intensified with the advent of financial institutions as property players, as these entities are being forced to take on large portfolios of properties due to non-performing customer loans. These factors could have a material adverse impact on Colonial's business and financial performance and financial position.

In addition, competition in the property sector can impede asset acquisition. Colonial's competitors may adopt rental, marketing or property development business models targeting properties similar to those owned by Colonial. This could reduce the Company's competitive edge and significantly affect its business activity, earnings and financial position.

In order to mitigate the potential impact of intense competition in the property sector as much as possible, Colonial maintains highly-specialised asset management and investment property selection teams and procedures. Moreover, its long-standing strong reputation in its operating markets (France, Spain) gives it a competitive advantage with respect to its competitors.

iii) Impairment of property assets:

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 holdings 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, as well as verifying 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.

To mitigate this risk factor, Colonial engages independent experts to appraise all of its core business assets on 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.

iv) Relative illiquidity of real estate investments:

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.

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 associated with Colonial's business segments

i) Rental property management risks:

One of Colonial's main activities is the rental of offices and commercial premises in buildings it owns. The value of the assets earmarked to the rental business account for 76% of the value of Colonial's overall property portfolio factoring in the properties included in the discontinued line of business.

In this business, one of the main risks is the risk that properties will remain unleased if not managed properly. If Colonial were not able to get its current tenants to renew their leases at maturity or arrange new leases to replace them, revenue could fall. In addition, in the French market, annual rents can in some cases be corrected downward based on changes in certain benchmark indices. In certain instances, if the market rent falls by 25% or more with respect to the initial lease price, the tenant has the right to a rent reduction in line with market rates. This situation would have an adverse effect on Colonial's earnings performance.

In addition, in property rental: (i) there is a risk that tenants will prove insolvent or lack liquidity, which could cause a failure to collect the agreed rental prices; and (ii) the acquisition or construction of properties for lease entails considerable upfront investment that might not be compensated in the event of unexpected cost increases and/or reductions in forecast rental income.

Colonial has all the required procedures and mechanisms in place to adequately manage its rental property assets. This asset management policy is reviewed regularly and monitored internally so that all operating procedures are integrated within a single information system. Colonial has also established internal procedures to monitor tenant default risk and diversifies its clients across various sectors of the economy.

ii) Financing of property assets:

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 on 30 September 2008. The Group has since reduced its borrowings significantly: to €4,738 million (including the borrowings associated with assets held for sale) by 31 December 2011.

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 and the sale of non-core assets; 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, in which case Colonial would be forced to refinance again. This could have a material adverse impact on Colonial's business and financial performance and on its financial position.

In an attempt to prevent any possible difficulty in maintaining a sustainable capital structure, Colonial has drastically reduced 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.

iii) Interest rate risk in cash flows:

Colonial operates in a sector that requires a significant level of investment. The Colonial Group finances its property investments through bank loans, mortgage financing and debt issues and rights issues. If it does not have access to financing or cannot obtain financing on favourable terms, then Colonial's growth opportunities could be limited. This would have negative consequences on the results of its commercial operations and, ultimately, its business.

The greatest risk facing the Group's business activities is the ability to fund the various projects undertaken by Colonial and to maintain this financing during property cycle lows. Against the backdrop of the sharply recessive property market in Spain, and like all real estate companies, Colonial is exposed to interest-rate trends. Higher rates would increase its costs of financing and could have an adverse impact on its financial performance and position.

All of the loans taken on by Colonial carry floating interest tied to the EURIBOR rate. Any upward movement in this benchmark rate has an immediate impact on the Group's income statement. Colonial has written a series of derivatives in order to sufficiently mitigate its interest rate risk. The effective hedging ratio (hedges/floating rate debt) at 31 December 2011 was 96.6% of the total. The maximum average interest rate on these hedged borrowings is accordingly capped at 3.39%.

iv) Risks associated with property development and land management – discontinued operation:

Colonial has been gradually reducing its stock of residential land gradually through land sales and it has not been acquiring any new land in recent years in order to concentrate exclusively on its property rental and management business, with a focus on the high quality office segment.

All of the property development and land business carried on by Colonial has been classified as a discontinued operation. The value of the assets encompassed by this discontinued operation accounts for 24% of the total value of Colonial's property portfolio.

Since the prevailing market conditions mean that it is possible that the assets relating to this business line may take some time to sell, Colonial shall continue to actively and efficiently manage the properties assigned to this business. There follows a description of the risk factors associated with the property development business.

These risks include the possibility of construction work cost overruns and delays with respect to initial forecasts. Delays can trigger penalty payments to buyers and may also mean that not all of planned sales will be realised.

Before real estate developments generate revenue, heavy upfront investments are made to acquire the land, secure the various permits and licenses and construct major elements of infrastructure, services and sales offices.

Accordingly, if it takes longer than expected to obtain permits and licenses, projected costs may rise, and projects underway may be delayed or even suspended, impairing the value of Colonial's assets or its ability to generate income.

To this end, Colonial's technical department engages consultancy services from external project management specialists who supervise the project before the development phase and the technical execution of the developments, ensuring compliance with legal and urban planning requirements.

Compliance risks associated with specific legislation and regulations.

i) Environmental risks:

Local government corporations, regional and central governments in Spain, as well as various French and EU authorities and agencies regulate and impose certain environmental restrictions that apply to Colonial's activities.

Prevailing Spanish environmental regulations, while empowering the regional governments to regulate certain environmental issues, contains basic regulation applicable state-wide based on the principle that contaminating party is liable for cleaning up contaminated territory. However, in the event that land owned by Colonial were contaminated and the persons responsible for the contamination could not be identified, Colonial could be held liable on account of the subsidiary liability clauses provided for in applicable Spanish state legislation.

In France, the Colonial Group, through SFL, a 53.45%-owned investee of Colonial, is subject to a range of environmental and public health regulations. Specifically, the Company is responsible for properly monitoring its properties for toxic substances and for cleaning up contaminated property or eliminating toxic substances as required. This liability extends to prior owners as well as current owners and even developers. In some instances, French law provides for severe sanctions, regardless of who is the contaminating party. There can be no assurance that environmental regulations, or the interpretation thereof by the corresponding authorities or by the courts of justice of Europe, France or Spain, will not yield additional costs, which could have an adverse impact on the Colonial Group's financial performance and position.

Colonial has the resources to ensure due compliance with all prevailing environmental standards at all times, and contracts legal counsel to this end as needed.

ii) Loss by SFL of its status as a listed real estate investment company in France and changes in its favourable tax regime:

SFL is a French company, owned 53.45% by Colonial. SFL, as a listed real estate investment company ("SIIC" for its initials in French), generates considerable benefits for Colonial, such as the obligatory distribution as dividends of 85% of profit on rental activities and 50% of capital gains on the sale of assets, as well as a tax emption for rental income and capital gains on real estate assets.

The possible loss of SIIC status by SFL due to changes in legislation or other reasons, or changes in the double taxation treaty currently in force between Spain and France, could have a material adverse effect on Colonial's financial performance and position.

iii) The real estate sector is a regulated sector and significant changes in applicable regulations could have a material adverse effect on Colonial:

The Colonial Group's properties are subject to numerous regulations governing safety and environmental standards, among other matters, principally in Spain and France. Local government corporations, regional and central governments in Spain, as well as the competent French and EU authorities, could levy fines on the Group if it is found to be in breach of applicable legislation. Significant changes in applicable regulations or in their interpretation by the corresponding authorities or the European, Spanish or French courts of justice could force Colonial to alter its development plans or incur unforeseen expenditures, with a material adverse impact on its business and financial performance and financial position.

Colonial attempts to ensure that all the materials used in building or refurbishing its properties comply with prevailing legislation. However, any change in these regulations could lead to a ban on the use of certain of the materials used and give rise to claims in this respect.

iv) Legal and out-of-court claims:

Colonial's business activities open it up to possible court and out-of-court claims with respect to the materials used in building or refurbishing its properties, including possible defects in assets deriving from actions or omissions by third parties hired by Colonial, such as architects, engineers and construction contractors or subcontractors. These claims or any other related to the Company's business activities could have a material adverse impact on the activities, earnings and financial position of Colonial.

To mitigate this risk factor, Colonial takes out sufficient insurance cover against the potential damages and liabilities outlined above. Colonial hires experts to regularly review the status and suitability of its insurance cover in order to keep it continually updated.

v) Liability for actions by contractors and subcontractors:

Colonial contracts and subcontracts construction and renovation work to third parties for the majority of its projects. Depending on the type of work required and Colonial's capacity, these contracts are undertaken with large construction companies or specialist contractors, depending on the work in question (electricians, bricklayers, plumbers, etc.).

The contractors or subcontractors contracted by Colonial are companies of recognised prestige, offering competitive terms for their work. Normally, these companies are diligent and complete their work on time. Colonial supervises their activities. In the event that subcontractors hired by Colonial do not comply with their commitments, delay handing over completed work or encounter financial difficulties which prevent them from completing the works in the agreed period, Colonial could have to earmark additional funds to remedy these situations.

Although Colonial verifies that contractors comply with workplace health and safety, labour and Social Security regulations (i.e. that they are current on their Social Security payments and their employees have been duly hired), any shortcomings by its contractors in this respect could give rise to a liability for Colonial.

vi) Damage risk:

Colonial's properties are exposed to generic risk of damage as a result of fires, flooding or other events. Colonial may also be held liable vis-à-vis third parties for accidents taking place in the properties it owns. The occurrence of any uninsured damages or of damages of an amount greater than covered by insurance or an increase in insurance premiums could cause Colonial to lose money on the affected investment property or to forego income from the same property. In addition, any accident deriving in court proceedings against any of the Colonial Group companies could harm its reputation. All of the foregoing could have a material adverse impact on Colonial's business and financial performance and on its financial position.

To mitigate this risk factor, Colonial takes out sufficient insurance cover against the potential damages and liabilities outlined above. Colonial hires experts to regularly review the status and suitability of its insurance cover in order to keep it continually updated.

Colonial-specific risk factors:

i) A significant portion of the Colonial Group's total rental income is generated by a small number of large customers.

A significant portion of the Colonial Group's total rental income is currently generated by a small number of large customers. At 31 December 2011, Colonial's top 20 customers represented 51% of total rental income on the basis of the leases in force at year-end. At 31 December 2011, the largest customer accounted for 7% of total Group rental income.

On occasion, Colonial opts to have a single tenant per building. Although this strategy optimises operating expenses and enables higher rents, the concentration of rental income among a relatively small number of customers increases the risk of higher vacancy rates in the event that tenants of this nature move on.

ii) Risk of conflict of interest with majority shareholders and directors:

Some shareholders with seats on Colonial's Board of Directors are banks which are simultaneously 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.

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.

D.2 Indicate whether the company and/or group has been exposed to different types of risk (operational, technological, financial, legal, reputational, fiscal…) during the year.

YES

If so, indicate the circumstances and whether the established control systems worked adequately.

Risks occurring in the year
The risk factor described as "Relative illiquidity of real estate investments"

Circumstances responsible for this occurrence
In 2011, 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.

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.

Risks occurring in the year
The risk factor described as "Rental property management risks"

Circumstances responsible for this occurrence

In 2011, the occupancy rate across Colonial's rental properties fell to some extent. The adverse economic backdrop, in Spain and elsewhere in Europe, is having the effect of lengthening the time needed to negotiate, renew and turn over lease agreements, driving the portfolio vacancy rate somewhat higher.

Operation of control systems

Colonial continues to actively manage its portfolio from the marketing standpoint in order to maximise building occupancy rates which, it should be noted, remain above the sector average.

D.3 Indicate whether there is a committee or other governing body in charge of 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 Board of Directors is to monitor and control risk and to this end the managers of the various operating units collaborate in its identification and correction.

In addition, the Company's Audit and Control Committee, Compliance Department and Internal Audit Function help reinforce this objective.

The Audit and Control Committee has the following functions, among others:

- Submitting to the Board, for approval, a report on the risk control and management policy which identifies at least:

    i. the different types of risk facing the Company, including financial and economic, contingent liabilities and other off balance sheet risks;

    ii. the establishment of the level of risk that the Company considers to be acceptable;

    iii. the measures provided to mitigate the impact of identified risks if they should materialise; and

    iv. internal control and reporting systems to be used to control and manage the aforementioned risks, including contingent liabilities or off balance sheet risks.

- Supervising the process of drawing up the individual and consolidated annual financial statements and the management report, and regular financial information to be issued to the markets, ensuring compliance with legal requirements and correct application of generally accepted accounting principles.

- Supervising the process of drawing up, and the integrity of, financial information relating to the Company and, as applicable, its Group.

- Regularly reviewing internal control and risk management systems, so main risks can be correctly identified, managed and notified;

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 function 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 and 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.

Colonial is currently developing its Compliance Department, through its Legal Services and Internal Audit areas, which is expected to be operational in 2012.

This business unit 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. In any event, each area within the Company has a protocol that establishes the procedure to be followed in pursuing its respective activity, thus ensuring compliance with applicable sector-specific regulations. The Compliance Department shall assume responsibility for these protocols.

E GENERAL SHAREHOLDERS' MEETINGS

E.1 Indicate the quorum required for constitution of the General 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 at first call	0	0
Quorum required at 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 presentation at the registered office or to any bodies indicated in the notice of the meeting of the corresponding certificate of status or attendance card issued by the Company or organisations 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, this is without prejudice to the right of shareholders to participate in the discussions of the General Meeting and, in addition, the Board of Directors may take such comments or suggestions.

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 the 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. For this purpose, there is provision for the cooperation of the Board itself and the active participation of the Company's Planning and Control Department with regard to exercising this right before the Meeting itself.
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 remote communications media deemed appropriate).
c) The adoption of audiovisual media and simultaneous translation to improve sessions.
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 session 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 oldest Vice-Secretary from amongst those appointed by the Board of Directors. In the absence of the aforementioned persons, the officers shall be those shareholders who are elected in each case by shareholders present at the meeting.

Article 1 of the consolidated text of the Regulations, which were approved at the General Shareholders' Meeting of 5 June 2007, states that the purpose of the Regulations is to lay down the rules for the organisation and conduct of the General Meeting of Shareholders in accordance with the provisions of the law and 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 last amendment to the Regulations of the General Shareholders' Meeting was approved at the General Shareholders' Meeting of 21 June 2011. The purpose of the amendment was to adapt the wording of articles 1, 2, 4, 5, 6, 7, 10, 11, 12, 13, 14, 16, 17, 22 and 25 to the wording of the consolidated text of the Corporate Enterprises Act introduced by Royal Decree 1/2010, of 2 July, and to introduce various technical improvements aimed at ensuring the proper conduct and development of the General Meeting. The following issues were affected by these amendments:

- The Regulations of the General Shareholders' Meeting must be registered with the Companies Register (article 2 "Effectiveness and Interpretation").
- The responsibilities of the General Meeting have been extended (article 5 "Responsibilities").
- The rules governing the publication and content of the notice for the General Meeting were amended (article 7 "Procedure and time limits").
- Regulations on the Electronic Shareholder Forum were introduced (article 11 "Participation of shareholders in preparation of the Meeting").
- The rules applicable to the public request for proxies in the event of a conflict of interest were extended (article 14 "Public request for proxies").
- Cases in which a reinforced constitution quorum is necessary were added (article 16 "Quorum for General Meetings").
- The rules governing the officers and secretary of General Meetings were extended (article 17 "Chairman, Secretary and Officers of General Meetings").
- Certain aspects of the voting system in place at the General Meeting were reviewed and certain resolutions requiring a majority vote were added (article 22 "Adoption of Resolutions").
- New mention was included of the efficiency and execution of resolutions requiring notarial record of the Meeting (article 25 "Notarial Record of the Meeting").

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**	
21/06/2011	10.805	79.727	0.000	0.000	90.532

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 2010.

Ratified with 99.9983% votes in favour.

Second.- Examination and, if applicable, adoption of the proposed appropriation of profit or loss for the Company year ended 31 December 2010.

Ratified with 99.9983% votes in favour.

Third.- Examination and, if applicable, adoption of the individual and consolidated Management Reports, — also covering subsidiaries — and discharge of the Board of Directors' management of the Company for the year ended 31 December 2010.

Ratified with 99.9980% votes in favour.

Four.- Reappointment of the statutory auditor of Inmobiliaria Colonial, S.A.

Ratified with 99.9982% votes in favour.

Five.- Examination and, if applicable, adoption of a €1,452,627,516.31 capital decrease, reducing the par value of all shares outstanding from €0.12 per share to €0.0557 per share and cancelling 10 shares held as treasury stock, all with the purpose of restoring a balanced capital structure, having used the voluntary reserves to offset prior-year losses. Subsequent amendment of article 5 of the Bylaws. Delegation of powers.

Ratified with 99.9973% votes in favour.

Six.-Examination and, if appropriate, approval of the share aggregation and cancellation of 22,591,407,700 shares comprising the Parent Company's share capital, exchangeable into new shares to be issued at a rate of one new share for every 100 formerly outstanding, increasing the nominal value of the new-issue shares as necessary in accordance with the exchange ratio. Subsequent amendment of article 5 of the Bylaws and delegation of powers to execute the share aggregation.

Ratified with 99.995% votes in favour.

Seven.- Examination and, if appropriate, approval of the €1,032,427,331.89 capital decrease by means of reducing the nominal value of all shares representing the share capital, with a view to endowing restricted reserves of €15,982,617.33 and voluntary reserves of €1,016,444,714.56 and the subsequent amendment to the Bylaws.

Ratified with 99.9971% votes in favour.

Eight.- In accordance with article 297.1.b) of the consolidated text of the Corporate Enterprises Act, the granting of authorisation to the Board of Directors to, within no more than five years of the meeting's decision, if it deems appropriate, increase share capital by up to half the existing amount of share capital, , in the form of cash contributions in one or several stages, when and for the amounts deemed appropriate, including the power to waive preemptive subscription rights, rendering null and void Resolution 14 ratified at the Extraordinary General Shareholders' Meeting held on 20 April 2010.

Ratified with 89.097% votes in favour.

Nine.- Amendment of the Bylaws in order to carry out the Company's corporate purpose as well as adjusting these to the legal amendments introduced by i) Royal Decree 1/2010 of 2 July, approving the consolidated text of the Corporate Enterprises Act and ii) Act 12/2010, of 30 June, amending Act 19/1988, of 12 July on the auditing of accounts, the Securities Market Act 24/1988, of 28 July and the consolidated text of the LSA approved by Royal Decree 1564/1989, of 22 December, in order to adapt to EU legislation.

Ratified with 99.9981% votes in favour.

Ten.- Adapting the wording of articles 1, 2, 4, 5, 6, 7, 10, 11, 12, 13, 14, 16, 17, 22 and 25 of the Regulations of the General Shareholders' Meeting to the amendments introduced by Royal Decree 1/2010, of 2 July, approving the consolidated text of the Corporate Enterprises Act.

Ratified with 99.9979% votes in favour.

Eleven.- Informing shareholders at the General Meeting of the amendments made to the Regulations of the Board adjusting these to the legal amendments introduced by i) Royal Decree 1/2010 of 2 July, approving the consolidated text of the Corporate Enterprises Act; ii) Act 12/2010, of 30 June, amending Act 19/1988, of 12 July on the auditing of accounts, the Securities Market Act 24/1988, of 28 July and the consolidated text of the LSA approved by Royal Decree 1564/1989, of 22 December, in order to adapt to EU legislation; and iii) the Sustainable Economy Act 2/2011 of 4 March.

Ratified with 99.0844% votes in favour.

Twelve.- Conditional and restricted share delivery plan for executive directors and managers.

Ratified with 87.798% votes in favour.

Thirteen.- Directors' remuneration. Adoption of the consultative report on the remuneration policy for directors of Inmobiliaria Colonial, S.A. for 2011.

Item 13.1. regarding the Chairman's remuneration was ratified with 87.798% votes in favour.

Item 13.2. regarding the directors' remuneration was ratified with 98.9453% votes in favour.

Fourteen.- Delegation of powers. Ratified with 99.9978% votes in favour.

E.9 Indicate whether the bylaws impose any minimum requirement on the number of shares required to attend the General Meeting.

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 shareholder or by a member of the Board of Directors. The proxy must be granted in writing and specifically for each meeting, in the terms and conditions and with the scope laid down in the LSA.

Proxies may be revoked at any time. The attendance of the principal at the meeting shall revoke the proxy.

The proxy may also be granted by correspondence, 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 other means of remote communication provided that such means have specifically 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 means of any of the aforementioned remote correspondence channels must be received by the Company at least five (5) hours before the time and date scheduled for the General Meeting to take place at first call. Failing this, the proxy shall be deemed not to have been granted.

The Chairman and 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.- Public request for proxies.- 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 and the Spanish Securities Market Act and the 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 that, although not provided for on the Agenda included in the notice of the meeting, may by law be dealt with at the meeting, and may also provide for the replacement of the director acting as proxy by another director or shareholder attending the meeting where the original director is in a situation of conflict of interest preventing that Board member 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.

It shall be understood that a proxy request has been made when one person holds proxies for more than three shareholders.

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 mode of accessing corporate governance content on your company's website

http://www.inmocolonial.com

Once you have connected to the website, go to the Information for Shareholders and Investors menu and from here click on the Corporate Government link. All corporate information relating to this issue can be found here, in accordance with current legislation .

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 dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;
b) The mechanisms in place to resolve possible conflicts of interest.

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 the authorisation of the General Shareholders' Meeting, since such transactions may require rapid decision-making processes for opportunity purposes and already benefit from wide-ranging legal mechanisms for the protection of partners and the Company. However, the Board of Directors does periodically inform shareholders and the markets of these transactions.

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 Shareholders' 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 groups 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 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 or 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 service.

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 on the basis of 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 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 members and Independents 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:

1st. In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.

2nd. 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. The said 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 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 independents 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, independents 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

Not applicable

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 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 or 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 sum total 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 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 annual accounts 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 director 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 those listed above, of whatever nature and provenance within the group, especially when it may be accounted 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.

Partially compliant

Although the Company 2010 report did not include all the disclosures listed in this recommendation, this information was included in the report on the remuneration policy for directors of Inmobiliaria Colonial, S.A. for 2011 which was approved by the Company's shareholders at the General Shareholders' Meeting of 21 June 2011. In addition, section B.1.16 of this Report itemises the nature and amounts of remuneration paid to each director and executive director.

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. The Secretary of the Board should also act as secretary to the Executive Committee.

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 mandatory 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 minuted and a copy of the minutes 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 function, under the supervision of the Audit Committee, to ensure the proper operation of internal reporting and control systems.

Compliant

48. The head of internal audit 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, …) 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 on the company and, if appropriate, the group, checking for compliance with legal provisions, the adequate demarcation of the consolidated perimeter, and correct application of accounting principles.
b) Review internal control and risk management systems, so that main risks are correctly identified, managed and disclosed.
c) Monitor the independence and efficacy 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.
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 firm.

2. With respect to the external auditor:

a) Make recommendations to the Board for the selection, appointment, reappointment and removal of the external auditor, and the terms 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 annual accounts 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 four members, all of which are external directors, including one independent director. Moreover, this committee is chaired by an independent director.

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. The number of direct and indirect voting rights included in section A.2, with the exception of those pertaining to Caja de Ahorros y Pensiones de Barcelona, have been calculated by the Company based on the latest notifications received from its shareholders. The number of voting rights has been adjusted following the share aggregation (1x100 shares) carried out in 2011. In calculating the total percentage of voting rights we have taken into account the number of rights notified to us at 31 December 2011. Therefore the number of voting rights may not coincide exactly with the number of voting rights held by each shareholder.

2. 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 2010.

3. It is expressly noted that section B.1.12. was completed pursuant to the definition of senior management included in the Unified Good Governance Code for listed companies, exclusively, and therefore no other definitions of senior management referred to in the current 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 adopted by the Company's Board of Directors at its meeting held on:

28/02/12

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 2011

The Sustainable Economy Act 2/2011 was passed on 4 March 2011. Among other aspects, it modified the existing legal regime incorporating new disclosure requirements for listed companies.

In particular, 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 2011 ACGR must now include a description of the main characteristics of the internal control over financial reporting and risk management systems (hereinafter ICFR systems).

In preparing this 2011 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 attaching to it.

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 restrict 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 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, a country with nil tax payment 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 Text of the 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 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 decreases 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 the 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 Shareholders' Meeting, *which stipulates that for a General Meeting held at first call to pass valid resolutions on capital increases and decreases, 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 or 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 Shareholders' *Meeting regarding the adoption of resolutions states that adoption of resolutions by the General Meeting on capital increase and reduction, amendment of the Bylaws, the issue of debentures, the removal or limitation of the pre-emptive rights to acquire new shares, as well as the conversion, merger, spin-off or global assignment of assets and liabilities of the Company and the transfer of the registered office abroad, shall require a two-thirds majority of the share capital present or represented at the Meeting when, at second call, at least twenty-five but less than fifty per cent of the subscribed capital with voting rights is in attendance.*

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 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 Text of the Corporate Enterprises Act and the Mercantile Registry Regulations.

4. Significant agreements to which the company is a party and which come into force, are modified or terminate upon a change in ownership control of the company as a result of 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 or 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.

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.

Background

Colonial, following the introduction of the Sustainable Economy Act 2/2011, of 4 March and ICFR system disclosure requirements for listed companies, began to assess and amend its existing internal control over financial reporting and risk management system in order to bring it into line with the proposals of the Internal Control Working Group and the best practices for corporate governance models.

For this process, Colonial has engaged the services of Deloitte as external expert. Work began in the first half of 2011 and is expected to conclude in the first half of 2012.

Most of the aspects to be developed have concerned the preparation and documentation of the ICFR and risk management model as the activities carried out to date were unclear.

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; (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) Approving 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 stock policy, the corporate governance policy 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) Guaranteeing the quality of the information disclosed to shareholders and the markets concerning significant transactions and deciding 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) Supervising Board committees, including the Audit and Control Committee.

4) Approving 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 Model, approved by the Audit and Control Committee, establishes the mechanism which the Board, and by delegation the Audit and Control Committee, deems effective and sufficient to guarantee the completeness, reliability, correct presentation and validity of Colonial's financial information.

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) Submitting to the Board, for approval, a report on the risk control and management policy which identifies at least: (i) the different types of risk facing the Company, including financial and economic risks, contingent liabilities and other off-balance-sheet risks; (ii) the establishment of the level of risk that the Company considers to be acceptable; (iii) the measures to mitigate the impact of identified risks should they materialise; and (iv) internal control and reporting systems to be used to control and manage the aforementioned risks, including contingent liabilities or off balance sheet risks.

2) With respect to internal control and reporting systems: (i) supervising the process of drawing up, and the integrity of, financial information relating to the Company and, as applicable, its Group, reviewing compliance with regulatory requirements, the proper definition of the consolidation scope and the proper application of accounting criteria; (ii) regularly reviewing internal control and risk management systems, so that the main risks can be correctly identified, managed and reported appropriately; (iii) monitoring the independence and efficacy of the internal audit function; proposing the selection, appointment, re-appointment and removal of the head of internal audit; proposing the department's budget; receiving regular report-backs on its activities and verifying that senior management are acting on the findings and recommendations of its reports; and (iv) establishing and supervising a mechanism whereby employees can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the Company.

3) Acting 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: receiving regular information from the external auditor on the progress and findings of the audit programme and checking that senior management is acting on its recommendations in accordance with applicable legislation.

4) The conclusions of each meeting will be minuted 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.

The internal audit function is responsible for drawing up the Internal Audit Plan, which includes the necessary tests to verify compliance with ICFR manuals, procedures and policies.

The internal auditor shall carry out these tests and report on the conclusions to the Audit and Control Committee, including any internal control weaknesses identified, recommendations for improvement and the general conclusions of the annual audit plan which specifically includes 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 ICFR organisational structure at Colonial and are the two departments which are most involved in the preparation and subsequent monitoring of the financial information to be disclosed.

Nevertheless, all departments involved to a lesser or greater degree in preparing the financial information must be answerable for correctly carrying out the tasks, processes and controls in which they are involved.

Colonial's ICFR System's organisational structure is based on two differentiated areas:

a) The general control environment, where the main ICFR guidelines, as well as the senior roles and responsibilities, are developed.

b) Specific ICFR controls, where the related operational procedures regarding preparing financial information are developed.

Colonial's ICFR System is structured in the following way:

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 the Colonial's key business processes, to obtain a list of business processes to be monitored.

c) For those risks identified in the relevant processes, mitigating controls are implemented to reduce these risks to acceptable levels. Key documentation regarding the identified processes, risks and controls is drawn up. The affected departments are responsible for adequately implementing these procedures.

d) The internal audit function and the Audit and Control Committee are responsible for monitoring the ICFR System to guarantee it functions effectively.

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 it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

Colonial's Board of Directors approved its Code of Ethics on 28 September 2011.

This Code of Ethics reiterates Colonial's commitment to the principles of corporate ethics and transparency, and establishes a series of basic principles to which all Colonial personnel, partners and suppliers must adhere at all times, as their behaviour may affect Colonial's reputation.

Specifically, and with regard to financial information, article 6.5 of the Code establishes the following:

“Colonial assumes as a guiding principle for its corporate behaviour with its shareholders, investors, analysts and the market in general, to disclose true, complete information which expresses the true and fair view of the Company and the Group, its corporate activities and its business strategies.

This disclosure shall always be carried out according to the regulations and within the timeframes established by prevailing legislation. The corporate actions and the strategic decisions of Colonial focus 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 annual report submitted by the Audit and Control Committee.

- ‘**Whistle-blowing’ channel, for the reporting to the audit committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.**

Colonial’s Regulations of the Board of Directors, and, specifically, the section 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) establishing and supervising a mechanism whereby employees can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the Company”.

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 complaints 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 both financial and accounting and tax regulations, as well as receiving, distributing and analysing documentation from external advisors regarding regulatory updates.

In addition, the Legal Advisory 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 particular relevance to the Company's financial or accounting departments, the Operations-Finance Department proposes the need for specific training.

Colonial plans to offer internal training sessions once the new ICFR System and risk identification model currently being implemented has been fully rolled out.

6.2. Risk assessment in financial reporting. Report, the following, at least:

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 is to monitor and control risk and to this end the managers of the various operating units collaborate in identifying and correcting risk.

In addition, the Company has an Audit and Control Committee to reinforce this objective. This body performs the following duties, among others:

a) Submitting to the Board, for approval, a report on the risk control and management policy which identifies at least:

   1) the different types of risk facing the Company, including financial and economic, contingent liabilities and other off balance sheet risks;

   2) the establishment of the level of risk that the Company considers to be acceptable;

   3) the measures provided to mitigate the impact of identified risks should they materialise;

   4) internal control and reporting systems to be used to control and manage the aforementioned risks, including contingent liabilities or off balance sheet risks.

b) Supervising the process of drawing up the individual and consolidated annual financial statements and the management report, and regular financial information to be issued to the markets, ensuring compliance with legal requirements and the correct application of generally accepted accounting principles.

c) Supervising the process of drawing up, and the integrity of, financial information relating to the Company and, as applicable, its Group.

d) Regularly reviewing internal control and risk management systems, so that the main risks can be correctly identified, managed and reported appropriately.

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 risks:

1) Completeness: Transactions, events, assets, liabilities or equity interests that are not identified and, consequently, are not included in the Company's financial statements. Data entries not captured in the largest entries or data entries which have been refused. Disclosures not identified and, consequently, not included in the notes to the financial statements or deliberately omitted.

2) Existence: Unauthorised transactions which are input 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 derived from an asset or of 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 vs. short maturity...).

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 the internal audit function's 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 corresponding to 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) Supervising the process of drawing up, and the integrity of, financial information relating to the Company and, as applicable, its Group, reviewing compliance with regulatory requirements, the proper definition of the consolidation scope and the proper application of accounting criteria..."

In this regard, Colonial has a consolidation process which stipulates, as a basic procedure, the determination, in every accounting close, of the Group's scope of consolidation.

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 we have noted above, one of the basic functions of the Board of Directors is to monitor and control risk and to this end the managers of the various operating units collaborate in its identification and correction.

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 corresponding to 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, … (ii) regularly reviewing internal control and risk management systems, so that the main risks can be correctly identified, managed and reported appropriately".

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 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 to be disclosed to the markets, stating who is responsible in each case.**

As we have mentioned above, the Audit Committee is responsible for supervising the preparation and disclosure of reliable financial information to the market. In this regard, the Committee has approved a manual for disclosure of statutory information which regulates the procedure for preparing and approving this information.

Colonial's Internal Control and Risk Management Manual establishes the criteria 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.

Colonial's ICFR organisation model is based on two differentiated areas:

a) The general control environment, where the main ICFR guidelines, as well as the roles and responsibilities of senior management, are developed.

b) Specific ICFR controls, where the related operating procedures for the preparation of financial information are developed.

In addition, Colonial has a 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 the internal audit function 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 and Internal Audit Departments 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 antifraud policy.

The processes identified at Colonial relating to ICFR 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 realisation 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.

As we have explained above, Colonial has established in writing the critical ICFR processes. The following are documented at present: closing of accounts, including a review of critical judgements, estimates, evaluations and projections; consolidation and reporting at subsidiaries; recognition of revenue, asset valuation (determination of the fair value of Colonial's property investments and the net realisation value of inventories); treasury, debt and derivatives; manual for disclosure of statutory information and procedure for maintaining accounting policies; and the Group accounting policies manual. The rest of the procedures are currently being documented and will be finished during the first half of 2012.

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 matrixes.

The risk and control matrixes offer a detailed vision of the risks and controls related to the critical procedures.

The matrixes 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 processes documented in the internal control model shall be responsible for ensuring that the procedures and controls are correctly applied and documented for each accounting period.

In this regard, a checklist has been provided to verify the following of the processes, which will be documented for each accounting period and may be subject to review by the internal audit function once the current process of developing and introducing the ICFR System has concluded.

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 we have 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, 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 in which third parties participate significantly 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.

The internal audit function'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 Operations-Finance Department is responsible for maintaining Colonial's accounting policies and the group accounting policies manual, as well as settling doubts or disputes over their 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 ICFR.

Colonial has a standard IT tool which supports all the needs for the preparation and capture of financial information, both at an individual level at each Group company and for the consolidation process. This tool supports not only administrative functions, but also a large number of commercial transactions, thereby guaranteeing the completeness of the 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. For those companies or subgroups whose tool, despite being the same as the corporate one, is not fully integrated, all financial information is entered into the corporate system via electronic files.

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 number of the details required to prepare this financial information is obtained directly from the IT tool, as it has been customised to do this. For those cases where information must be prepared without this tool, Colonial has in place control mechanisms to ensure the completeness and reliability of the information as well filing it physically in an internal repository with access limited to the staff involved in preparing the financial information.

There is not a specific tool for managing the ICFR system, although Colonial has designed 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 ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

As we have mentioned above in the Background section of this Appendix to the ACGR for 2011, Colonial drew up the formal documentation regarding its ICFR system in 2011 with the aim of concluding it in the first half of 2012.

In this regard, the main activities carried out by the Audit and Control Committee in relation to the ICFR system have involved heading up the development process and approving the main control and monitoring policies and procedures, which include:

1. The ICFR organisational and monitoring structure.

2. The Internal Control and Risk Management Manual.

3. The Code of Ethics and complaints channel.

4. The manual for disclosure of statutory information.

5. The Group accounting policies manual.

For this reason the Committee has not engaged in its own ICFR monitoring and evaluation activities.

Likewise, the Audit and Control Committee has held the necessary meetings with the internal audit function and with the external auditors in order to ascertain 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 2012 action plan and its 2012 audit plan, which include, once Colonial's internal control model has been fully developed, 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) monitoring the independence and efficacy of the internal audit function; proposing the selection, appointment, re-appointment and removal of the head of internal audit; proposing the department's budget; receiving regular report-backs on its activities and verifying that senior management are acting on the findings and recommendations of its reports.

In July 2009, the Audit and Control Committee approved the 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 2012 audit plan.

The following activities were included in the 2011 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.

2. In relation to Control and Risk Management:

    a. Monitoring of compliance with external regulations applicable to the Company.

    b. Follow-up of the control and risk management policy.

    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 2011, the internal audit function also collaborated in developing and introducing the ICFR system, Code of Ethics and the complaints channel, although, for the reasons mentioned above, monitoring and evaluation activities were not carried out.

6.5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Audit Committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

Article 8 of the Regulations of the Board of Directors states that the relationship of the Board with the external auditors will 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. Acting 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) receiving regular information from the external auditor on the progress and findings of the audit programme and checking that senior management are acting on its recommendations in accordance with applicable legislation.

2. Establishing the appropriate relations with the external auditor or auditing firm to receive information on any issues which may jeopardise the independence of the latter and which will be studied by the Committee, and any other information relating to the auditing procedure, as well as any other communications provided for in the legislation relating to auditing and the technical rules thereof.

Likewise, and in relation to the internal audit function, the functions of the Audit and Control Committee include:

1. Monitoring the efficiency of the Company's internal audit services which safeguard the correct functioning of the internal control and reporting systems, and, if applicable, of the risk management systems, as well as discussing with the external auditor and auditing firm any significant internal control weaknesses encountered during their review. The head of the internal audit function is obliged to submit to the Committee its annual plan and directly notify any incidents in its implementation in addition to presenting an activities report at the end of each year.

The Board and the Audit and Control Committee carry out these monitoring activities throughout the year and these are 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. State 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.

As we have mentioned above, Colonial began to draw up the formal documentation regarding its ICFR system in 2011 with the aim of concluding it in the first half of 2012.

Section 6.5.1 of this ACGR appendix describes the main activities carried out in 2011 by the Audit and Control Committee with regard to ICFR.

In this regard, and taking into account that the ICFR system has not been formally implemented at the date of this report, the Company has deemed it unnecessary to request a review by the external auditor.