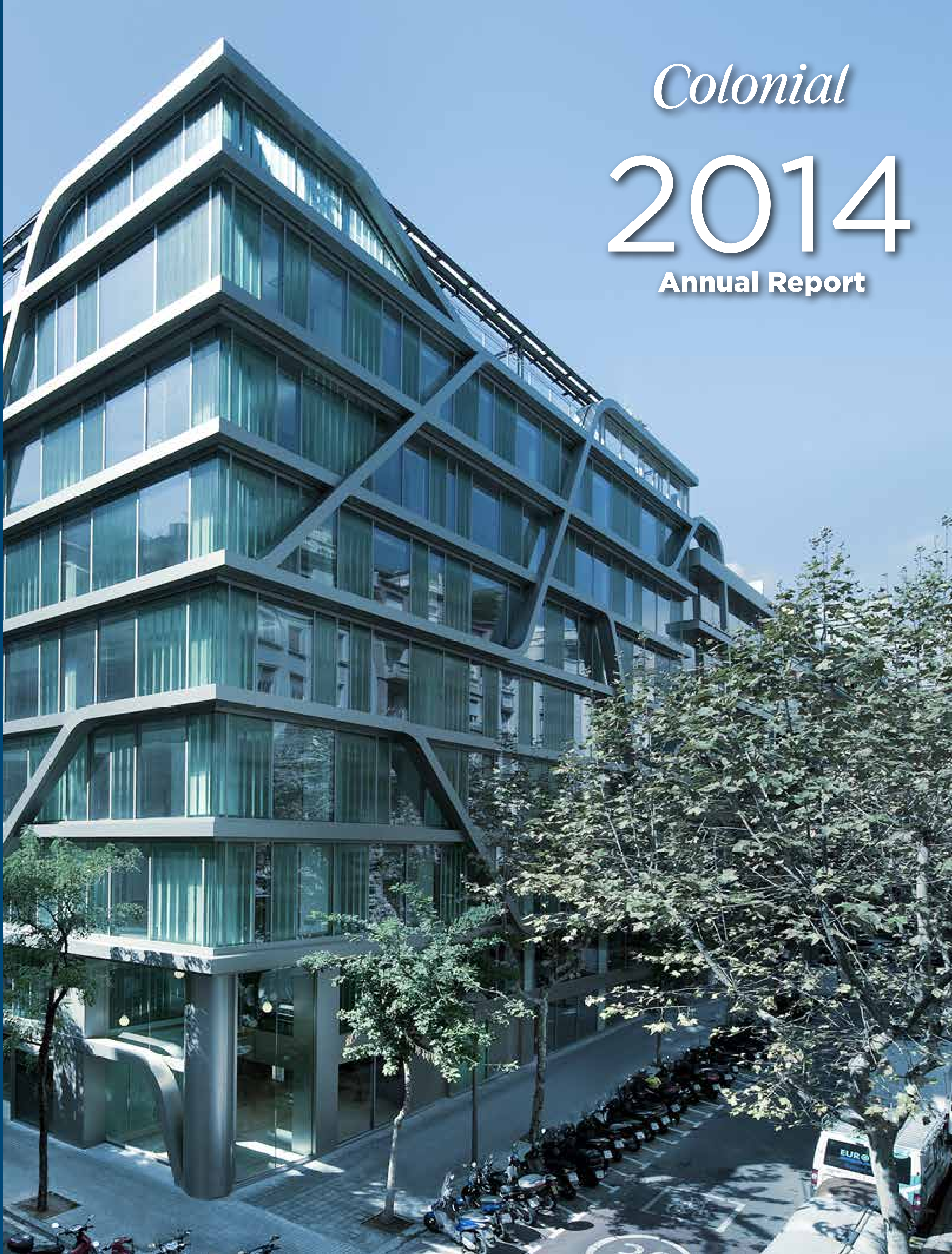
Colonial

2014
Annual Report



Colonial

2014

Annual report

GAV
€5,757M
+9.6% LIKE FOR LIKE

MARKET CAPITALIZATION
€2,012M

82%
ENERGETIC CERTIFICATION

NAV
47.7
CTS OF EURO/SHARE
+6.3%
(6 MONTHS)

FINANCIAL OCCUPANCY (1)
87%

LTV (2)
38%

INVESTMENTS
€369M

PERSONNEL
61% WOMEN
39% MEN
12 AVERAGE SENIORITY

EPRA Performance Measures		
As at 31 December (€m)	**2014**	**2013**
EPRA Earnings	435	(518)
EPRA NAV	1,521	238
EPRA NNNAV	1,408	277
As at 31 December (%)	**2014**	**2013**
EPRA Net Initial Yield	3.7%	4.0%
EPRA "topped-up" Net Initial Yield	4.0%	4.3%
EPRA vacancy rate	14.9%	18.8%
EPRA Cost ratio (incl. vacancy costs)	25.1%	23.3%
EPRA Cost ratio (excl. vacancy costs)	20.9%	19.9%

(1) Occupied surfaces x the market prices/surfaces in operation at market prices

(2) Net debt Holding excluding committed cash/GAV Holding

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

Summary

Additional information in electronic form:

1. Appendix
   - 1.1 Rental portfolio: Classification by surface area and market value
   - 1.2 Financial Statements
   - 1.3 Consolidated balance sheet
   - 1.4 Debt details
   - 1.5 Legal structure
   - 1.6 Historical Series
2. Consolidated Annual Accounts 2014
3. Annual Corporate Governance Report 2014

Letter from the Chairman

Juan José Brugera Clavero

Dear shareholders,

Once again it is a great pleasure for me to present and submit for your approval, on behalf of the Board of Directors of Inmobiliaria Colonial, S.A., the Annual Accounts and Management Report for 2014, and share with you the Company's main courses of action, both currently and in the immediate future.

MACROECONOMIC CONTEXT

In 2014, the global economy closed with a general trend of accelerated growth. Despite the fact the international markets suffered the impacts of new setbacks - the drop in oil prices, the crisis of the ruble and the instability in Greece - the year 2014 closed with a global growth of 3.2%.

The eurozone continues to recover, albeit slowly, with differences between countries. On the one hand, a growing economic activity can be observed and the factors that have boosted this reactivation seem to show a future continuity; private consumption is recovering and the effects of the euro depreciation and the decrease in oil prices will have a significant impact in 2015. However, the remaining outlook is less reassuring: political risks (instability in Greece), economic risks (the recovery rates are too slow and disperse between countries), as well as extraordinary risks deriving from the current situation of low inflation.

The Spanish economy continues with its positive growth. Although the main European economies have reported results which were lower than expected and in some cases even worrying, the Spanish economy shows signs of recovery which are gradually gaining strength. On the other hand, regarding inflation, Spain continues to be in the area of falling prices (although this striking fact is greatly the result of the decrease in oil prices). According to analysts, the GDP growth in Spain for 2014 was 1.4% and a growth of 2.3% is expected for 2015, positioning it above the average growth for the eurozone (1.3% in 2015).

In France, growth has been weak. The main indicators confirm this weak recovery, although an improvement is expected in 2015. Analysts confirm a GDP growth of 0.4% in 2014 and 0.8% in 2015.

OFFICE MARKET

The office take-up in Barcelona in 2014 amounted to 258,137 sq m (up 40% compared to 2013), confirming the gradual improvement in the sector. The last quarter of 2014 was the most active with an office take-up of 103,316 sq m, an increase of almost 100% on the previous quarter. The vacancy rate in the fourth quarter of the year was below 13%, and the CBD vacancy rate decreased to 7.8%.

In Madrid, during the last quarter of 2014, the take-up of office space amounted to over 97,000 sq m, the best figure registered for a fourth quarter since 2009. However, the total take-up rate for 2014 is similar to the previous year's figure, reaching 328,967 sq m. The vacancy rate of offices was 12.1%, and in the CBD area, the vacancy rate remained unchanged at 8.9%.

The take-up in the Paris region at the end of 2014 reached more than 2,100,000 sq m, an increase of 13% compared to the same period of the previous year.

The available office space at the end of 2014 was 4 million sq m, which represents a vacancy rate of 7.6% for the Paris region.

However, in the CBD area, supply is scarce and the vacancy rate remained stable at levels around 5.6%.

Regarding the evolution of the investment market, in Barcelona, 2014 closed with prime yields in the Paseo de Gracia/Diagonal area of 5.5%, and even lower levels may be obtained if the assets fully meet the parameters sought by core investors. In Madrid, the prime yields in the CBD area stood at 5.00%, which consolidates the trend of yield compression, reaching a new minimum level since the beginning of the crisis. It should be mentioned that in both markets transactions in secondary and peripheral areas stood out.

In Paris, the cumulative investment total for 2014 was more than €14,000m, an increase of more than 30% vs. the previous year. Prime yields continued to decrease reaching the range of 3.75-4.25%.

HIGHLIGHTS

In May 2014, the company successfully completed its capital increase of €1,263m, with the long term support of international renowned investors, which led to the recapitalisation of the company and the creation of a leading group of prime offices in the listed European Property market. In addition, the company signed a new, long term syndicate loan of €1,040m with top tier lenders.

The first year of the "new" Colonial was defined by very significant progress on all performance indicators of its business.

The Colonial Group obtained net attributable results of €492m in 2014, mainly due to the extraordinary positive impact of the "deconsolidation" of Asentia and the revaluation of its assets.

The operating result was positive and reached €161m with a positive recurring net profit of €17m.

The rental revenues of the Colonial Group increased by 3.2% like-for-like. The portfolio in Spain had positive growth of 0.5% like-for-like, thanks to the positive performance of the Madrid portfolio (+5.4%). In Paris, the rental revenues increased by 4.3% like-for-like.

During 2014, the Colonial Group signed rental contracts for 107,881 sq m (71% in Spain and 29% in France).

The financial occupancy (financial occupancy according to the calculation recommended by the EPRA) for Colonial's office portfolio at the end of 2014 reached 85%, 87% for the entire portfolio.

On 23 July 2014, Colonial's subsidiary, SFL, completed the sale of its minority stake in SIIC de Paris. This transaction represented the disposal of an asset at maximum price levels, after capturing its full value creation potential generating an attractive return for the Colonial Group and making funds available for new investments.

Colonial invested €135m in refurbishments and projects to optimise the positioning of the property portfolio. In Spain, it is worth emphasizing the properties of Travessera de Gràcia/Amigó, Diagonal 409, Paseo los Tilos and Alfonso XII. In France, the 90 Champs Élysées, IN/OUT & Cloud projects are highlighted.

In addition, Colonial carried out two acquisitions for a total volume of €234m. In Barcelona, it acquired an office building located in Plaza Europa, a business district in expansion with excellent transportation links, 100% occupied by Gallina Blanca with a long term contract. In Paris, Colonial acquired, through its subsidiary Société Foncière Lyonnaise (SFL), an office building located in Rue Condorcet in district 9, also rented on a long term contract by the company Gaz Réseau Distribution France.

The Gross Asset Value of the Colonial Group was €5,757m at the close of 2014, resulting in a +9.6% increase in like-for-like terms versus the previous year.

The EPRA NAV of the Colonial Group amounted to €1,521m at 31 December 2014, equivalent to 47.7 cents of a €/share, an increase of +6.3% in 6 months.

STRATEGY

Colonial's strategy is to firmly position itself as the main listed property company in Spain in the prime offices market with properties in Barcelona, Madrid and Paris. In particular, we aim to strengthen our unique positioning in the prime offices market with a long term investment strategy and prudent capital structure.

The Colonial Group's main pillars for creating value in the short and medium term are as follows:

I. Increase profit and recurring cash flow based on improving the occupancy back to more normalised levels and implementing new projects, taking advantage of the recovery in the cycle, especially in Spain.

II. Maximisation of value creation of the current property portfolio based on "Prime Factory" repositioning strategy that permits to capture superior uplifts in rents and value creation.

III. New acquisitions with value creation potential through repositioning and identification of market segments with growth potential.

IV. Active management of the balance sheet to optimise financing costs, maintaining a prudent debt profile with top tier lenders.

CONCLUSION

In summary, 2014 has been defined by the transformation of our company into a listed office platform, with the ability to generate rents above market average.

- The recapitalisation has allowed the company to position itself as the largest listed property company in the real estate sector in Spain.

- We have obtained very positive results in all performance indicators of the business.

- We have achieved a significant market share of new lettings in all markets.

- We have obtained strong results compared to our peers.

Dear shareholders, here I have tried to summarise the most prominent highlights in the company, our current strategy, and our prospects for future growth. I would once again like to pass on my gratitude to you for maintaining your trust in Colonial, at such an important time for the future of the company.

I would like to extend this gratitude to our shareholders and partners, as well as all the employees of the Colonial Group, whose professionalism and daily effort have led to this new stage of the company which will enable it to maximise value creation for all shareholders of the Group.

CEO interview

Pere Viñolas Serra

2014 was a pivotal year for Colonial. What are the main milestones you would like to highlight?

Firstly, we were able to recapitalise the Company in May 2014, obtaining almost €1,300m from the capital markets and more than €1,000m for a new syndicate loan.

Today, Colonial is a leading company in prime offices with very prudent leverage levels and top tier shareholders.

In addition, in Spain we are the largest property company in terms of stock market capitalisation and we have a broad free float with a high average daily trading volume.

Regarding the operating business, we are proud to close the year with a positive performance on all indicators. We have increased the occupancy of our portfolio, which reached 87% at December 2014. The rental revenues increased by 3.2% in like-for-like terms, reaching €211m and the recurring EBITDA increased by 4% in like-for-like terms up to €161m euros.

The gross asset value of the Colonial Group was over €5,700m, which represents an increase of 9.6% in 12 months, and the net asset value of the shares at December 2014 amounted to 47.7 cents of a euro per share, resulting in an increase of 6.3% in six months.

Lastly, it is worth mentioning that in 2014 we made investments of €369m: €135m in repositioning assets in our current portfolio and €234m in new acquisitions, in particular the building in Rue Condorcet in Paris and a small property in plaza Europa in Barcelona.

All of these milestones clearly show the success of our strategy of focussing on the European prime offices segment, which enables us to obtain results above the market average.

Following the recapitalisation of the company, what are the main objectives for next year?

Regarding the operating business, our priority is to improve occupancy. We closed last year with a high volume of new signed contracts and we hope to be able to continue this trend in the coming months to reach more normalised occupancy levels as soon as possible.

In addition, we will continue working on repositioning our asset portfolio in order to maximise cash flow and the value of the portfolio. These types of actions that we call internally “Prime Factory Investments” are those which really give us a competitive advantage over our competitors. We create prime products, which are always above the market average in all performance indicators.

We will also continue analysing and carrying out new acquisitions, always applying the highest standards of financial discipline with the aim of creating long-term value for our shareholders.

Regarding our capital structure, we are very comfortable with the current, very prudent leverage ratios. In this field we will analyse all possibilities in the capital and debt markets that allow us to optimise our average financing cost, as we already successfully proofed in France at the end of last year.

The year 2014 marked a significant change in the offices markets. What are your main views on this?

It was certainly a year with very important investment volumes in the office markets. This applies to the Paris market as well as to the Madrid and Barcelona markets.

In the current environment of low interest rates, investors recognise that an investment in prime offices provides very attractive returns with limited risk. In addition, in Spain, investors expect significant recovery of the rents in the coming years.

However, allow me to add a specific comment: Regarding the rental market, there is a clear difference in the behaviour of top quality assets in prime locations compared to properties in secondary and peripheral areas. Tenants are willing to pay superior prices for prime assets, and improvements in occupancy and rental prices have been seen already. Assets in secondary and peripheral areas, however, remain with high vacancy levels. There is a huge amount of over-supply in this secondary locations and therefore there is no clear visibility regarding rental prices in the medium term in this second tier markets.

In this setting, what is the strategy of the Colonial Group in the short and medium term?

The Colonial Group is fully committed to becoming the leader in high quality office properties in prime markets with growth potential in the medium term.

Our organic growth will be based on two different types of investment. On one hand, core assets with a recurring cash flow in established areas and with the potential for improvement in the medium term, either through repositioning or due to market potential.

On the other hand, we will carry out “Prime Factory” investments. In other words, we will acquire properties which through real state workout can be converted into prime product. We believe an important competitive advantage of the Colonial Group consists in creating the prime supply that is currently scarce in the market. Here is where we can clearly offer added value.

Our strategy is long term oriented with clear positioning in quality products financed through a prudent capital structure.

Additionally, our medium term objective consists in offering our shareholders attractive returns based on two elements: a recurring return via dividends combined with value creation generated in our property portfolio and through new acquisitions.

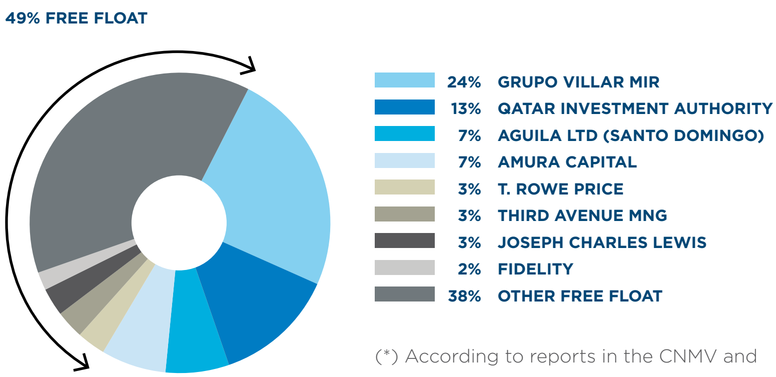
Company Shareholders structure & Corporate governance

COMPANY SHAREHOLDERS STRUCTURE & CORPORATE GOVERNANCE

Company shareholder structure

Colonial has a shareholder structure with renowned investors and a broad free float of around 50%.

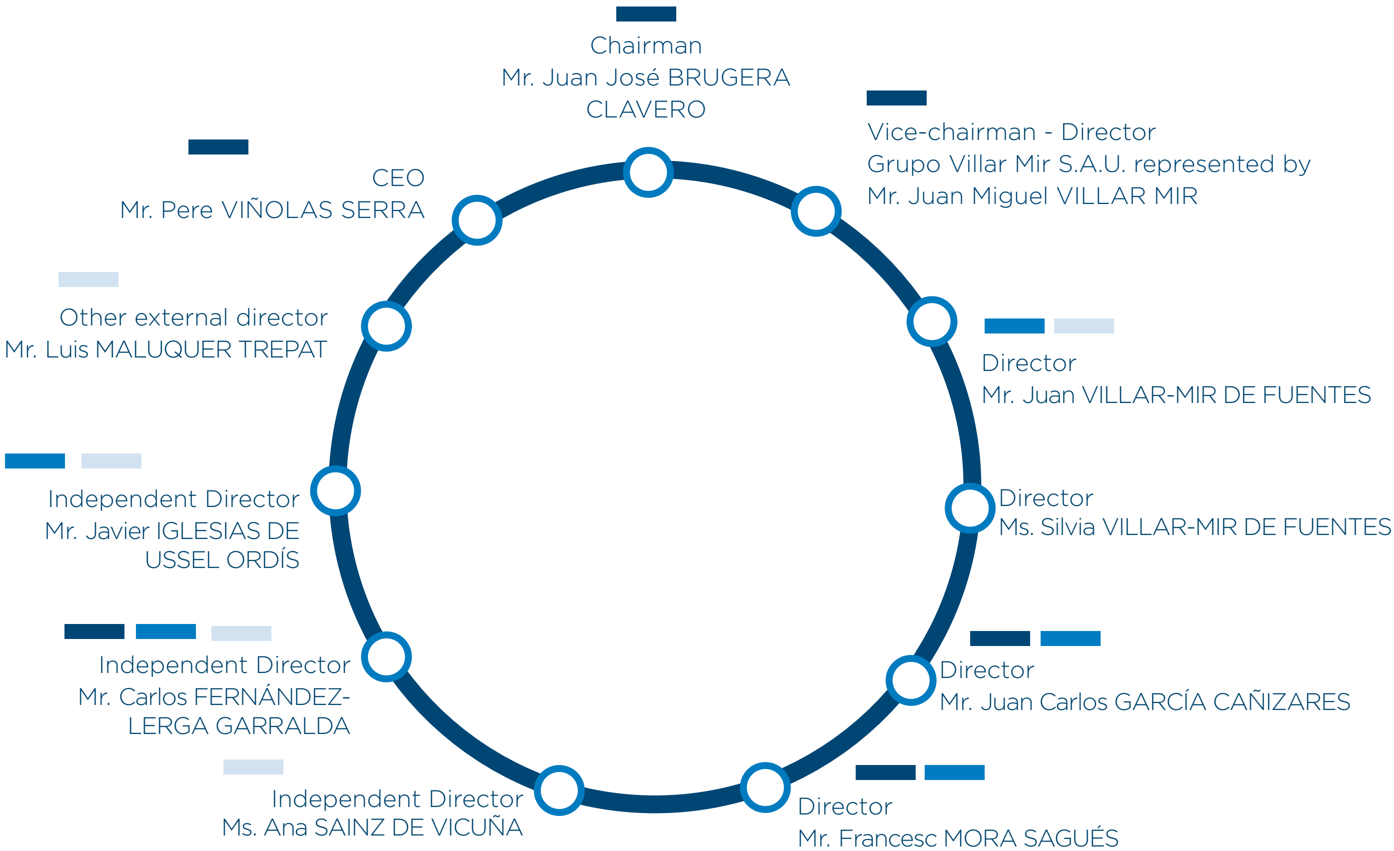
SHAREHOLDER STRUCTURE AT 2/02/2014 (*)



(*) According to reports in the CNMV and notifications received by the company

CORPORATE GOVERNANCE

BOARD OF DIRECTORS



Secretary - Non Director: Mr. Francisco PALÁ LAGUNA
Vice-Secretary - Non Director: Ms. Nuria OFERIL COLL

Executive Committee
Nominations & Remunerations Committee
Audit & Control Committee


L.&C.HARDTMUTH
L.&C.HARDTMUTH

MANAGEMENT TEAM

Botton row left to right:
ALBERT ALCOBER: Chief Operating Officer
CARMINA GANYET: Corporate General Manager
PERE VIÑOLAS: Chief Executive Officer
ÀNGELS ARDERIU: Chief Financial Officer

Top row left to right:
JOSÉ MARTÍNEZ: Chief Human Resources and Internal Audit Officer
CARLOS KROHMER: Chief Corporate Development Officer
JUAN JOSÉ BRUGERA: Chairman
NÚRIA OFERIL: Chief Legal Officer
JUAN MANUEL ORTEGA: Commercial and Investment Director.

Business performance

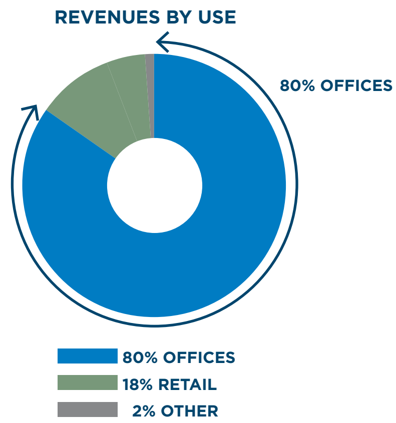
RENTAL REVENUES AND EBITDA OF THE PORTFOLIO

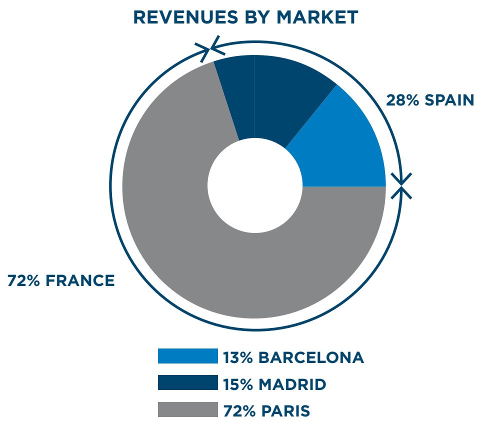
- The rental revenues reached €211m, 1% lower than the rents of the previous year. This decrease is mainly due to assets divested during 2013, in particular Torres Agora in Madrid and the Mandarin Hotel in Paris.

In like-for-like terms, adjusting for investments, disposals and variations in the project and refurbishment portfolio and other exceptionals, the rental revenues of the Group increased by 3.2% like-for-like.

In Paris, the rental revenues increased by 4.3% like-for-like. In Spain, the rental revenues rose by 0.5% like-for-like, mainly due to the Madrid portfolio, which went up by 5.4%.

The like-for-like increase in rental revenues mainly corresponds to the new contracts signed in 2013 and 2014, for the Martínez Villergas, Recoletos, Edouard VII, Washington Plaza and Hanovre assets.





• Rental EBITDA reached €191m, a 4% increase in like-for-like terms, with an EBITDA margin of 90%.

PROPERTY PORTFOLIO - DECEMBER CUMULATIVE - €M

	2014	**2013**	**Var. %**	***Like-for-like%***
Rental revenues Barcelona	28	28	(3%)	(5%)
Rental revenues Madrid	32	35	(8%)	5%
Rental revenues Paris	152	149	1%	4%
Rental revenues	**211**	**213**	**(1%)**	**3%**
EBITDA rents Barcelona	23	25	(8%)	(8%)
EBITDA rents Madrid	28	30	(9%)	7%
EBITDA rents Paris	139	137	2%	6%
EBITDA rents	**191**	**192**	**(1%)**	**4%**
EBITDA/ Rental revenues Barcelona	*85%*	*89%*	*(4.2 pp)*	
EBITDA/ Rental revenues Madrid	*85%*	*86%*	*(0.4 pp)*	
EBITDA/ Rental revenues Paris	*92%*	*92%*	*0.5 pp*	
EBITDA/ Rental revenues	**90%**	**90%**	**(0.2 pp)**	

pp: percentage points

PORTFOLIO LETTING PERFORMANCE

- **Breakdown of the current portfolio by surface area:** At the end of 2014, the Colonial Group's portfolio totalled 1,026,598 sq m (725,341 sq m above ground), focused mainly on office assets.

At 31 December 2014, 87% of the portfolio was in operation and 13% corresponded to an attractive portfolio of projects and refurbishments, which is explained in more detail in the projects section.

- **Signed contracts.** Throughout 2014, the Group signed a total of 107,881 sq m of contracts (71% in Spain and 29% in France).

  New contracts: Out of the total commercial effort, 67% (71,914 sq m) related to surfaces of new contracts. This figure almost tripled the volume of new contracts signed throughout the whole of 2013 (28,041 sq m).

Renewals: Contract renewals were carried out for 35,967 sq m. The new rental prices relating to these contracts resulted in a decrease of 8% with respect to previous rents.

However, the prices signed on the new contracts in the portfolio, both in Spain and in France, have an average in line with the market prices estimated by independent appraisers as at December 2014.

LETTING PERFORMANCE - December cumulative - sq m

	2014	% New rents vs. previous	Average maturity
Renewals & revisions - Barcelona	12,554	*(17%)*	6
Renewals & revisions - Madrid	17,020	*(9%)*	2
Renewals & revisions - Paris	6,393	*(3%)*	6
Total renewals & revisions	**35,967**	***(8%)***	**4**
New lettings Barcelona	20,110		6
New lettings Madrid	26,988		4
New lettings Paris	24,816		5
New lettings	**71,914**	**na**	**5**
Total commercial effort	**107,881**	**na**	**5**

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

MAIN ACTIONS

	Building	Tenants	Surface (sq m)
BARCELONA	Torre BCN	Technology Company & others	7,434
	Paseo de los Tilos	Abertis Infraestructuras	5,143
	Berlín - Numancia	Infojobs, Alcatel & Audi Retail	4,387
	Av. Diagonal, 609-615 (DAU)	Oracle Ibérica & others	2,933
MADRID	Capitán Haya, 53	Loterias y Apuestas del Estado & others	12,970
	Alfonso XII	Aecom Inocsa and Financial institutions	10,847
	Martínez Villergas, 49	Leading company in power generation	6,425
	Miguel Ángel, 11	Adveo Group International, Hill International & others	2,837
PARIS	Edouard VII	Comgest, Ashurst+Flusin & others	8,331
	Louvre Saint Honoré	Fast Retailing France & others	7,520
	90 Av. Champs Élysées	Premier consulting firm & others	6,019
	Cézanne Saint Honoré	Apax Partners, Sumitumo Mitsui Banking & others	3,899
	Washington Plaza	SPB, VTG France & others	3,162

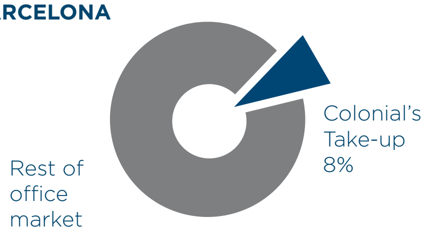
CÉZANNE SAINT HONORÉ. PARIS

Colonial has captured a take-up share higher than its share on the total office stock in Barcelona, Madrid and the Paris CBD.

This demonstrates the high capacity of Colonial's portfolio to attract demand, due to its well-positioned buildings that offer high quality facilities and maximum energy-efficiency in attractive locations.

TAKE-UP SHARE

BARCELONA



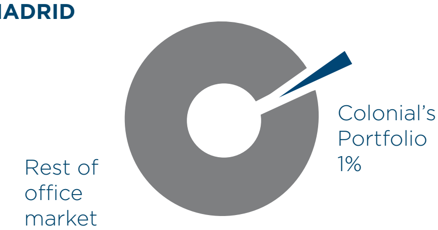
MADRID

PARIS CBD

SHARE ON THE TOTAL OFFICE STOCK

BARCELONA

MADRID



PARIS CBD

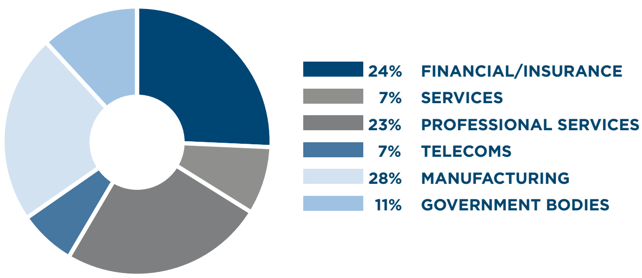
- **Analysis of tenant portfolio:** Colonial counts on a solvent and diversified client base.

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

Regarding the number of rental renewals in the contract portfolio, 29,574 sq m of renewals were signed in Spain, and 6,393 sq m were signed in France.

This high volume of renewals shows the capacity of the Colonial Group to retain clients. This fact is also reflected in the length of time the tenants stay, as 60% of the main tenants have been clients of the Group for more than 5 years.

TOP TENANTS - BREAKDOWN BY ECONOMIC SECTOR



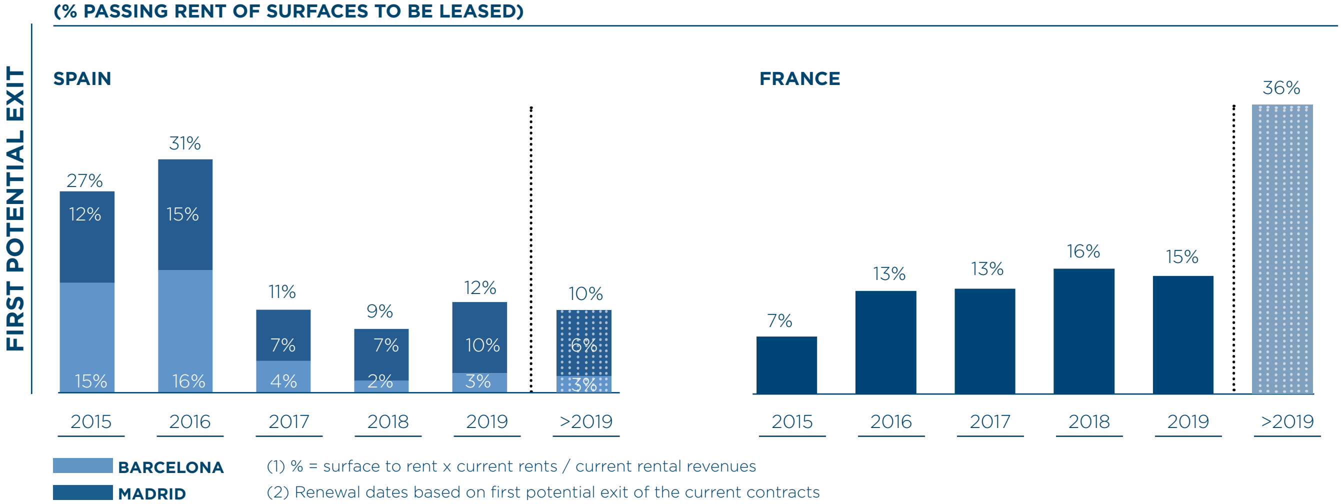
RANKING OF THE MOST IMPORTANT TENANTS (47% OF RENTAL INCOME)

RK	Tenant	City	% s/total income	% cumul.	Age - Years
1	NATIXIS IMMO EXPLOITATION	Paris	6%	6%	11
2	GAZ RÉSEAU DISTRIBUTION FR,	Paris	5%	10%	150
3	FRESHFIELDS BRUCKHAUS DERINGER	Paris	4%	14%	11
4	ZARA FRANCE	Paris	3%	18%	2
5	GAS NATURAL SDG	Barcelona	3%	21%	9
6	TV5 MONDE SA	Paris	3%	24%	9
7	KLEPIERRE MANAGEMENT	Paris	3%	26%	1
8	LA MONDIALE GROUPE	Paris	2%	29%	7
9	GRUPO CAIXA	Barcelona	2%	31%	22
10	GRUPO COMUNIDAD DE MADRID	Madrid	2%	33%	19
11	HENNES & MAURITZ / H & M	Paris	2%	35%	5
12	ESMA	Paris	2%	37%	4
13	SOCIEDAD ESTATAL LOTERÍAS Y APUESTAS DEL ESTADO	Madrid	2%	39%	10
14	CITIBANK INTERNATIONAL LTD	Paris	2%	40%	10
15	AYUNTAMIENTO DE MADRID	Madrid	1%	42%	11
16	IBERIA. LÍNEAS AÉREAS DE Spain	Madrid	1%	43%	2
17	SIMOSA -SERV, INTEGRALES MANTENIMIENTO	Madrid	1%	44%	2
18	CASINO DE JUEGO GRAN MADRID	Madrid	1%	45%	2
19	AJUNTAMENT DE BARCELONA	Barcelona	1%	46%	18
20	MELIÁ HOTELS INTERNATIONAL	Madrid	1%	47%	12

- **Commercial lease expiry:** The following graphs show the contractual rent roll for the coming years in the portfolios in Spain and France.

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

COMMERCIAL LEASE EXPIRY DATES IN ECONOMIC TERMS (1) - FIRST POTENTIAL EXIT (2)
(% PASSING RENT OF SURFACES TO BE LEASED)

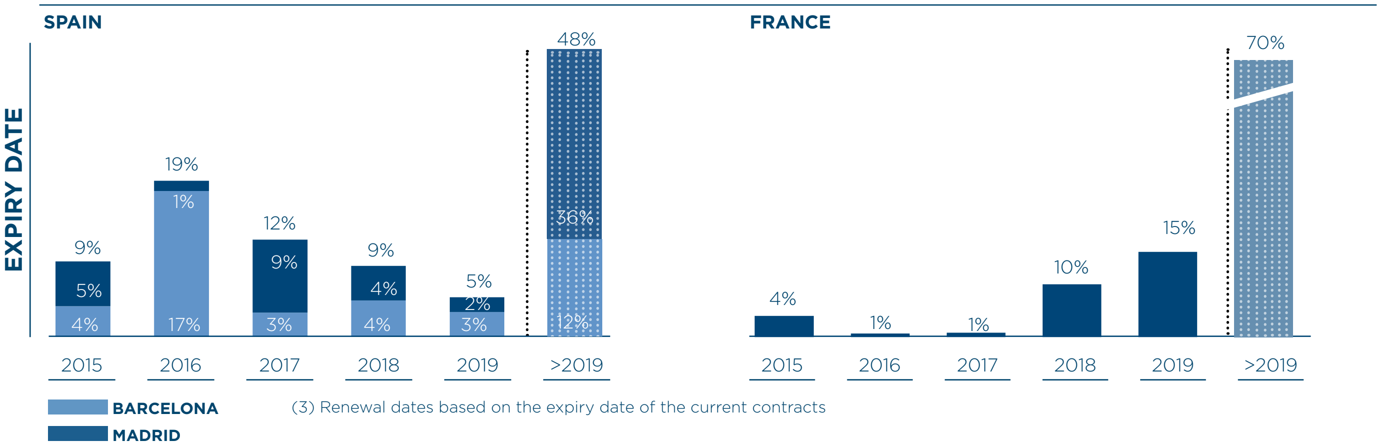


(1) % = surface to rent x current rents / current rental revenues
(2) Renewal dates based on first potential exit of the current contracts

In such cases, in the Spanish portfolio, contract renewals of between approximately 27% and 31% per year could take place in the next two years, which in the case of a recovery of the cycle, could allow the company to benefit from possible uplifts in rents. In France, the contract structure is longer term, in line with the behaviour of the players in that market.

The second graph reflects the profile of the contract portfolio if the tenants remain until the contract expires, the contract structure in Spain being more short-term than in France.

COMMERCIAL LEASE EXPIRY DATES IN ECONOMIC TERMS - EXPIRY DATE(3)
(% PASSING RENT OF SURFACES TO BE LEASED)



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

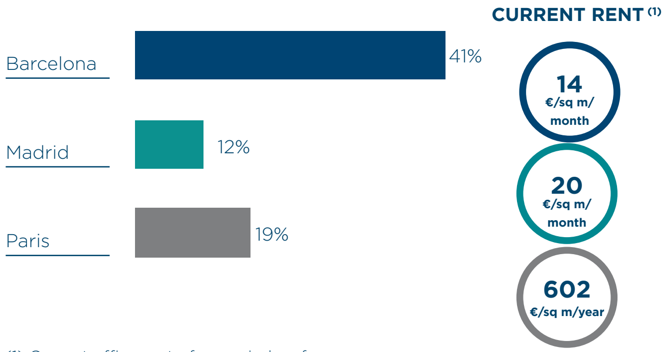
- **Reversionary Potential.** The Colonial Group's contract portfolio has an important reversionary potential.

  This growth potential is the result of comparing the rental revenues of the current contracts (contracts with current occupancy and rents) with the rental revenues that would result from letting the total surface at the market prices estimated by the independent appraisers at December 2014 (not including the potential rents from the projects and significant refurbishments underway, which are analysed in the projects section).

  The organic growth potential of the Group's rental portfolio at the end of 2014 was +41% in Barcelona, +12% in Madrid and +19% in Paris.

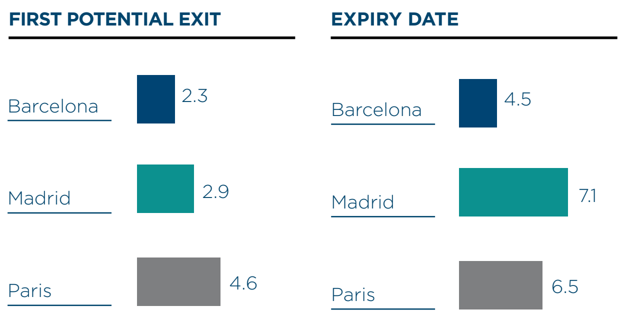
FIGURES AT DECEMBER 2014

GROWTH POTENTIAL-RENTAL INCOME



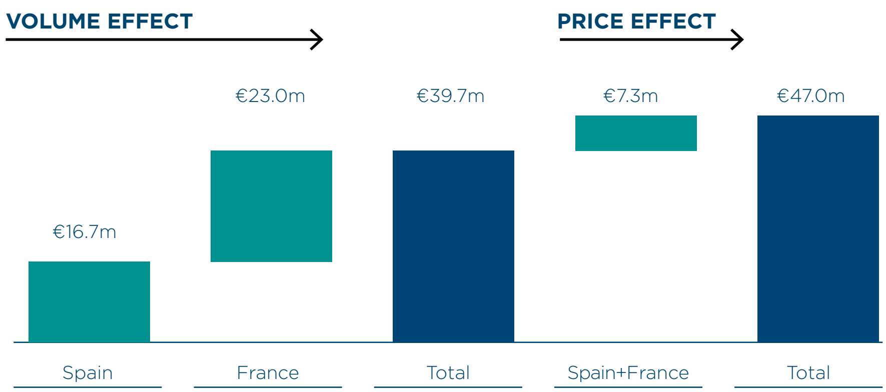
(1) Current office rent of occupied surfaces

AVERAGE MATURITY OF THE CONTRACTS (YEARS)



Specifically, the growth potential in the current portfolio would result in approximately €47m in additional annual rental revenues.

GROWTH POTENTIAL-RENTAL INCOME



OCCUPANCY

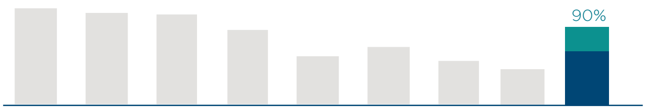
- The Colonial Group's financial occupancy [2] for the office portfolio reached 85% at the end of 2014. Including other uses, financial occupancy [2] reached 87%.

OFFICE OCCUPANCY[1]
EVOLUTION OF COLONIAL'S PORFOLIO

OFFICE FINANCIAL[2] OCCUPANCY 2014 | TOTAL FINANCIAL[2] OCCUPANCY 2014

TOTAL

OCCUPANCY - SURFACE

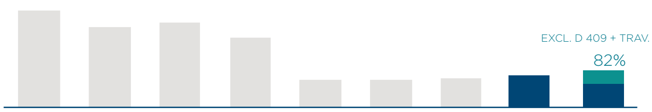


2006	2007	2008	2009	2010	2011	2012	2013	2014
98%	97%	96%	92%	84%	87%	83%	80%	84%

Office financial occupancy 2014: 85% / 93%
Total financial occupancy 2014: 87% / 94%

BARCELONA

OCCUPANCY - SURFACE

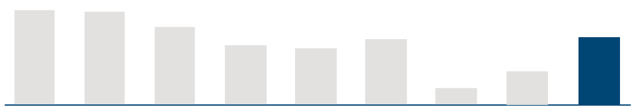


2006	2007	2008	2009	2010	2011	2012	2013	2014
99%	94%	95%	91%	78%	78%	79%	80%	77%

Office financial occupancy 2014: 78% / 83%
EXCL. D 409 + TRAV./AMIGÓ
Total financial occupancy 2014: 79% / 84%

MADRID

OCCUPANCY - SURFACE

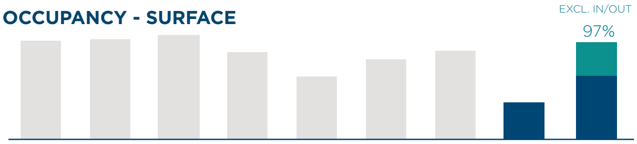


2006	2007	2008	2009	2010	2011	2012	2013	2014
99%	99%	94%	89%	88%	90%	75%	80%	89%

Office financial occupancy 2014: 90%
Total financial occupancy 2014: 88%

PARIS

OCCUPANCY - SURFACE



2006	2007	2008	2009	2010	2011	2012	2013	2014
97%	97%	98%	94%	87%	92%	94%	80%	85%

Office financial occupancy 2014: 86% / 95%
EXCL. IN&OUT
Total financial occupancy 2014: 88% / 96%

(1) Occupied surfaces/Surfaces in operation

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

The office portfolios in Madrid and Barcelona reached a financial occupancy of 90% and 78%, respectively.

In Madrid, the office occupancy increased mainly due to the new contracts signed in various assets, as is the case with Martínez Villergas, Alfonso XII, Miguel Ángel, López de Hoyos and Recoletos (asset at 100% occupancy).

In Barcelona, the office occupancy decreased mainly due to the entry into operation of the Travessera de Gràcia/Amigó building, an energy-efficient office complex located in the heart of the prime area, with the highest quality finishings and LEED Gold certification, as well as the Diagonal 409 building with LEED Silver certification. If we exclude these properties, financial occupancy of the Barcelona office portfolio reaches 83%.

It should be mentioned that at the end of the year, the commercialisation of these new assets was progressing satisfactorily, given the positive response to the new deliveries in the rental market, in particular the Diagonal 409 building, which is at 64% occupancy as at the date of this report.

In Paris, the office portfolio reached a financial occupancy of 86%, a higher figure than that at the end of 2013.

This increase was mainly due to new rentals for the Edouard VII and Washington Plaza properties. The office portfolio occupancy in Paris is affected by the entry into operation of the IN/OUT office complex, currently in an advanced commercialisation phase. Excluding this effect, financial occupancy of the Paris office portfolio is at 95%.

The table below shows an analysis of the vacant office surfaces by city. Approximately 56% of the vacant surfaces correspond to projects and refurbishments that have come into operation.

VACANCY SURFACE OF OFFICES (Surface above ground (sq m))

	Entries into operation (1)	BD area and others	CBD area	December 2014	OFFICE VACANCY EPRA 2014 (2)
Barcelona	18,826	11,285	10,059	40,170	22%
Madrid	3,655	4,333	8,579	16,567	10%
Paris	28,873	647	6,256	35,776	14%
TOTAL	51,354	16,265	24,894	92,513	15%

(1) Projects and refurbishments that have entered into operation

(*) EPRA vacancy rate: financial vacancy according to the calculation recommended by EPRA (vacant surfaces multiplied by the market prices/surfaces in operation at market prices).

NEW INVESTMENTS & ASSET MANAGEMENT OF THE PORTFOLIO

During 2014, the Colonial Group actively managed its portfolio, disposing of mature assets and carrying out new investments and acquisitions, in order to maximize value for the shareholders.

1. Asset Management of the portfolio – Disposal of SIIC de Paris

On 23 July 2014, Colonial's subsidiary, SFL, completed the sale of its minority stake in SIIC de Paris, at a price of €23.88/share (€304m) after deducting the dividend received in July 2014. The price obtained was in line with the NAV at December 2013 (including the dividends received in May and July 2014).

This transaction represented the disposal of an asset at maximum price levels, after capturing its full value creation potential. The sale price resulted in a premium of 29% above the acquisition price (€18.48/share) and, together with the dividends received, offered an attractive return for the Colonial Group.

EDOUARD VII. PARIS

2. Prime Factory investments – Optimization of the positioning of Colonial's portfolio

During 2014, €135m were invested in the Colonial Group's refurbishments and projects to optimize the positioning of the property portfolio.

In Spain, it is worth highlighting the properties of Travessera de Gràcia/ Amigó, Diagonal 409, Paseo los Tilos and Alfonso XII. The main characteristics are shown as follows:

TRAVESSERA/AMIGÓ (TGA)

- Office complex of 8,095 sq m
- Leed Gold Certification in Barcelona CBD
- Delivered on 9/2014
- Commercialization underway
- 365 sq m let to a fund manager

DIAGONAL 409

- Office complex of 4,531 sq m
- Leed Gold Certification in Barcelona CBD
- Delivered in 2Q 2014
- 64% occupied at reporting date
- Top tier tenants with prime retail on ground floor

PASEO DE LOS TILOS

- Office complex of 5,143 sq m
- Leed Silver Certification in Barcelona CBD
- 100% pre-let before the start of the project
- 10-year contract with top tier tenant –Abertis-

ALFONSO XII

BREEAM® ES

- Office building 13,135 sqm
- Breeam Certification in Madrid CBD
- Delivered in 1Q 2014
- 86% occupied at reporting date

In France, the 90 Champs Élysées, IN/OUT & Cloud projects are highlighted.

These investments have attracted and will continue to attract top tier rental demand, optimizing the cash flow profile and valuation of the asset.

90 CHAMPS ÉLYSÉES

- Office complex of 9,700 sq m
- Breeam Certification in Paris CBD
- To be released in 2015
- Pre-let in February 2014 to top tier consulting firm

IN & OUT

- Office complex of 37,700 sq m, an outstanding urban complex
- HQE, Breeam & Leed Platinum Certifications in París
- Released in 4Q 2013
- Asset in marketing and commercialization process

#CLOUD

- Office complex of 33,200 sq m
- Breeam & HQE Certification in Paris CBD
- To be released in 2H 2015
- A unique three-building complex, situated in CBD Opera

3. Project portfolio and refurbishments
Currently, the company has a project portfolio of more than 55,000 sq m above ground, entering into operation between 2015 and 2018. The Colonial Group's project portfolio pipeline is the following::

Projects	Entry into operation	% Group	Market	Use	Surface above ground (sq m)(1)
Parc Central 22@ A.1.6 - A.1.7 - A.1.2	>2016	100%	Barcelona	Offices	14,737
Spain					**14,737**
90. Av. des Champs Élysées	1S 2015	100%	Paris	Offices	7,500
#Cloud (rue Richelieu)	2S 2015	100%	Paris	Offices	33,200
France					**40,700**
Total					**55,437**
Yield on cost(2)					**5.8%**

(1) Surface area of completed project
(2) Yield on cost: market rent 100% rented/market value at start of project net of important in value + capex

PARC CENTRAL 22@ BARCELONA

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

#CLOUD (RUE RICHELIEU) PARIS

Building acquired by SFL in April 2004, located just a few paces from the Palais Brongniart in the "Cité Financière" (Financial District) and which was let in the past by a large French Bank. During the third quarter of 2012, refurbishments began on the property. This office complex is undergoing a complete renovation project called #Cloud, which will involve the creation of 33,200 sq m of individual offices for top tier clients in central Paris. This complex holds the Breeam and HQE energy certification and will enter into operation in the second half of 2015. Currently the start of the commercialisation process is generating a lot of interest.

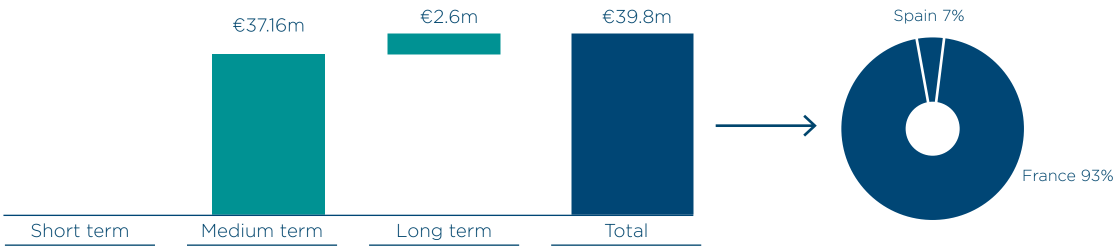
90 CHAMPS ÉLYSÉES - PARIS

An office complex that has a surface area of more than 7,000 sq m above ground under refurbishment, located on top of the Champs-Élysées shopping centre. This property has high potential for value creation and it is expected to come into operation in 2015. It is currently pre-let by an important consulting firm.

In addition to the above-mentioned project portfolio, the Colonial Group is carrying out substantial refurbishment projects on certain properties with the aim of optimizing the positioning of these assets in the market. It is important to mention the substantial refurbishments on the Louvre des Antiquaires, Washington Plaza and Cézanne St. Honoré buildings, among others.

- **Rental potential of the project portfolio.** The project portfolio of the Colonial Group will generate additional rental revenues of approximately €40m(*) per year in the coming years, which is broken down in the following graph:

ADDITIONAL RENTAL INCOME OF PROJECTS AND SIGNIFICANT REFURBISHMENTS



*Rents estimated at current market prices

WASHINGTON PLAZA. PARIS

4. New acquisitions

During the second half of 2014, Colonial carried out two acquisitions for a total volume of €234m (price excluding acquisition costs).

In Barcelona, Colonial acquired an office building located in Plaza Europa for €10.4m. The main characteristics of this transaction are the following:

PLAZA EUROPA, 42-44 BUILDING

INVESTMENT METRICS

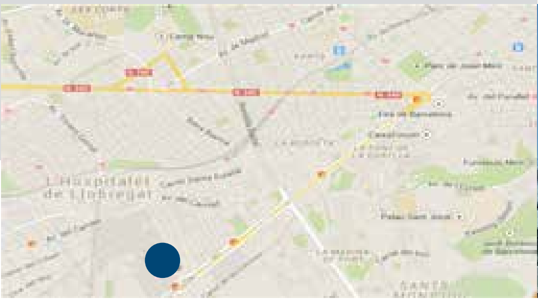
HQ Gallina Blanca – Multinational
Barcelona – Plaza Europa

Price (excl. acquis. costs)	€10.4m
Sq m	4,869 sq m
Occupancy	100%
Maturity	2024

A CORE ASSET WITH A AAA CLIENT IN A GROWING OFFICE MARKET

- Price of €1,822/sq m (excl. parking)
- 100% let asset to AAA tenant
- Headquarter of Spanish Multinaltional "Gallina Blanca"
- Solid cash flow stream with attractive return
- Market segment with future growth potential –New business area–

Enhancement of the cash flow profile of the Barcelona portfolio



In Paris, through its subsidiary Société Foncière Lyonnaise (SFL), Colonial acquired an office building located in Rue Condorcet in district 9 in Paris, for €224m. The main characteristics of this transaction are the following:

RUE CONDORCET 4-8

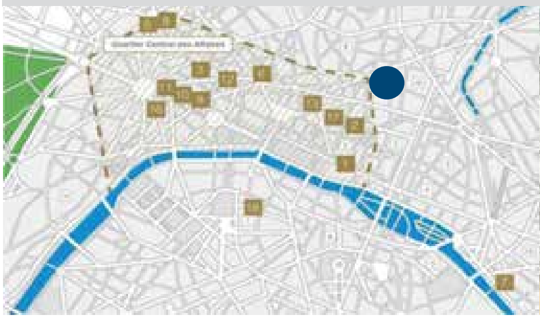
INVESTMENT METRICS

Gaz Réseau Distribution France (GrDF)	
Paris Centre – 9th district	
Price (excl. acquis. costs)	€224m
Sq m	24,970 sq m
Occupancy	100%
Maturity	2024

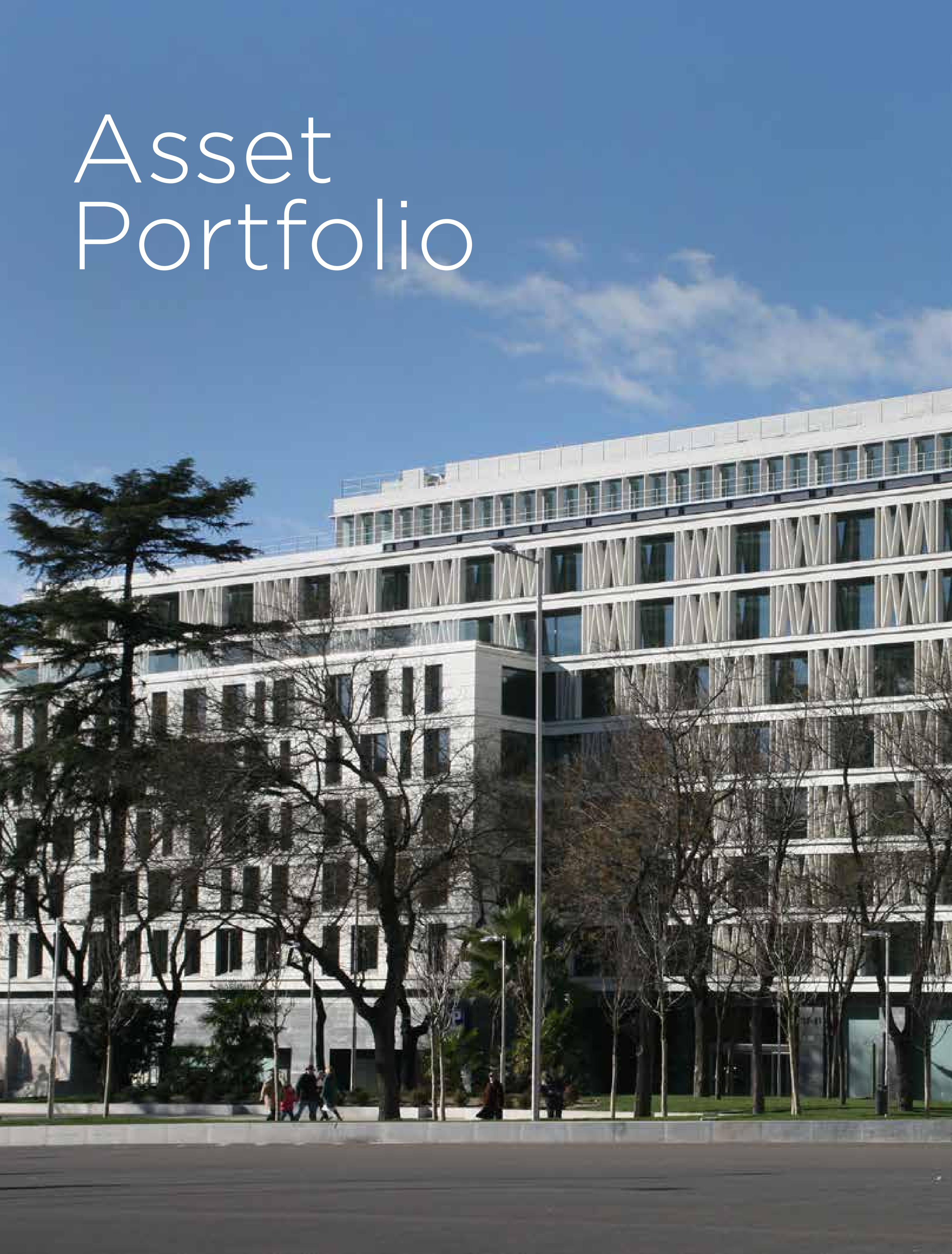
A "TROPHY ASSET" WITH A AAA CLIENT IN AN ATTRACTIVE LOCATION

- 25,000 sq m on 10,000 sq m of land, with redevelopment opportunities
- Four buildings on an office campus
- Proximity to the first Paris European railway station and major hub (Gare du Nord)
- Blue Chip Tenant – Head Office of GrDF Group for 150 years
- Recent renewal until 2024 (10 years)
- Solid cash flow stream
- Growth potential of the 9th district

Prime Asset with perfect fit to the Group's strategy



Asset Portfolio



BARCELONA
17 BUILDINGS
202,134 sq m ABOVE GROUND

MADRID

15 BUILDINGS
171,464 sq m ABOVE GROUND

The entire Paris portfolio has energy certifications

breeam NF HQE LEED

PARIS
19 BUILDINGS
351,743 sq m ABOVE GROUND

VALUATION OF THE ASSETS

• At the end of 2014, the assets of the Colonial Group were valued at €5,757m (€6,033m including transfer costs), by Jones Lang LaSalle, CB Richard Ellis, and BNP Paribas Real Estate. The appraisal figures are updated half-yearly, following the best market practices.

ASSET VALUES - EXCLUDING TRANSFER COSTS

Asset valuation (€m)	31-dec-14	30-jun-14	31-dec-13	dec 14 vs jun 14		dec 14 vs dec 13	
				Total	Like-for-like (1)	Total	Like-for-like (1)
Barcelona	582	526	518	10.6%	2.7%	12.2%	4.2%
Madrid	687	634	565	8.5%	8.5%	21.7%	12.9%
Paris	4,025	3,832	3,640	5.0%	2.8%	10.6%	7.8%
Portfolio in operation (2)	**5,294**	**4,992**	**4,723**	**6.1%**	**3.6%**	**12.1%**	**8.1%**
Projects	**454**	**284**	**304**	**59.6%**	**14.1%**	**49.0%**	**25.0%**
Others	10	11	12	(13.4%)	(12.5%)	(14.7%)	(13.6%)
Property business	**5,757**	**5,287**	**5,039**	**8.9%**	**4.5%**	**14.3%**	**9.6%**
SIIC de Paris		295	308	(100.0%)		(100.0%)	
Colonial Group	**5,757**	**5,582**	**5,347**	**3.1%**	**4.5%**	**7.7%**	**9.6%**
Spain	1,292	1,206	1,165	7.1%	6.2%	10.9%	10.0%
France	4,466	4,376	4,182	2.0%	3.9%	6.8%	9.5%

ASSET VALUES - INCLUDING TRANSFER COSTS

Asset Values (€m)	31-dec-14	30-jun-14	31-dec-13	dec 14 vs jun 14		dec 14 vs dec 13	
				Total	Like-for-like (1)	Total	Like-for-like (1)
Colonial Group	**6,033**	**5,824**	**5,600**	**3.6%**	**4.6%**	**7.7%**	**9.8%**
Spain	1,330	1,242	1,199	7.1%	6.2%	10.9%	10.0%
France	4,703	4,582(3)	4,401(3)	2.6%	4.1%	6.9%	9.7%

(1) Portfolio in comparable terms

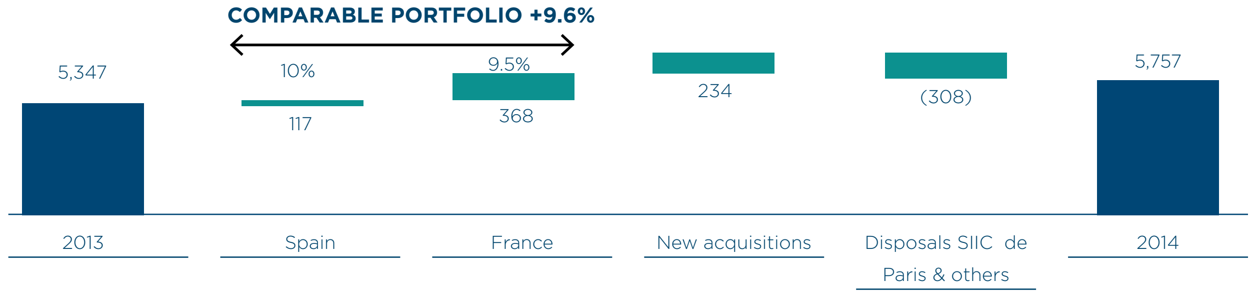
(2) Portfolio in operation: current rental portfolio as well as new entries into operation of completed projects (excluding surfaces under refurbishment)

(3) Includes stake in SIIC de París

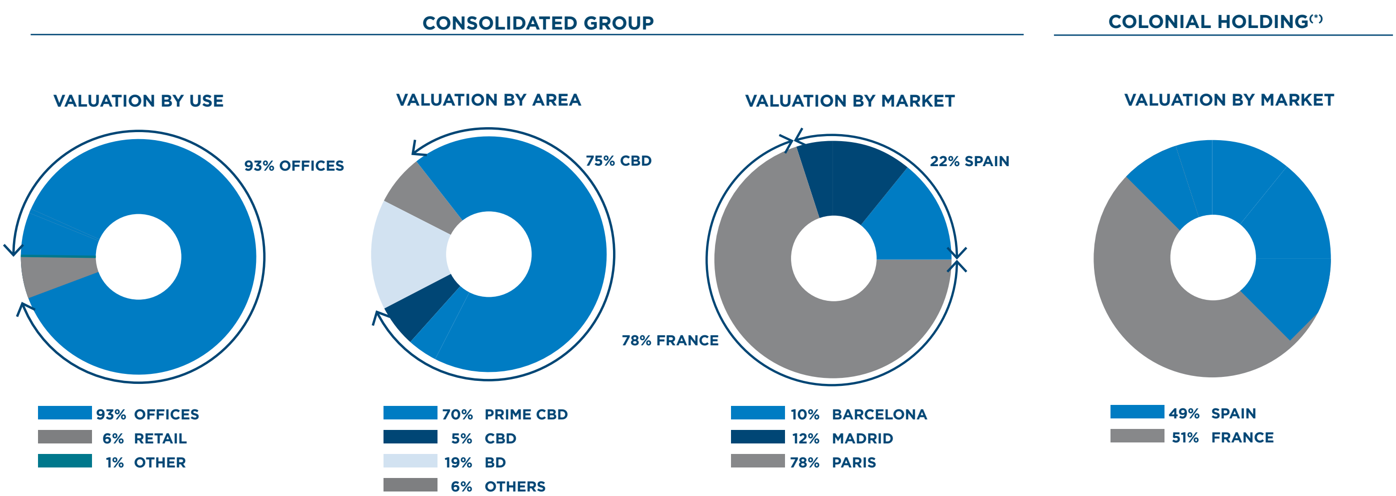
- The valuation of the Colonial Group's assets at December 2014 rose by +9.6% in like for like terms compared to December 2013 (+4.5% vs. June 2014).

  The asset portfolio in Spain increased by 10% in like-for-like terms in the last 12 months (6.2% in 6 months). This increase is mainly due to a yield compression given the growing interest of investors for prime assets in Madrid and Barcelona, as well as the positive effects of repositioning the properties. The asset value in Paris has increased by 9.5% in like-for-like terms in the last 12 months (3.9% in 6 months). This increase in value is a consequence of the progressive repositioning of the property portfolio with positive impacts on rents and yields, in the context of an investment market with high interest in prime offices in Paris.

VARIANCE ANALYSIS - VALUE - €M



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



(*) France= SFL shares valued at NAV.
Spain = GAV of directly hold assets + NAV 55% stake TM SPV

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

MAIN PARAMETERS OF ASSET VALUATION

Portfolio in operation	€m	sq m above ground (*)	€/sqm (*)	Valuation Yield	
Barcelona	582	187,297	3,105	6.3%	Gross Yields
Madrid	687	159,079	4,321	5.8%	Gross Yields
Paris	4,025	352,397	11,421	4.5%	Net Yields

When comparing the valuation parameters of Colonial's appraisal values with market data, the following must be taken into consideration:
1. In Spain consultants publish in their market reports gross yields (Gross yield = gross rent/value excl. transfer costs).
2. In France consultants publish in their market reports net yields (Net yield = net rent/value incl. transfer costs).

(*) In Barcelona, the sq m for the calculation of the capital value correspond to the surface above ground of all the assets excluding the project of Parc Central and 100 sq m of non-core retail assets.

In Madrid, the sq m correspond to the surface above ground of all the assets.

In France, the sq m correspond to the surface above ground of the entire portfolio, excluding the Richelieu project and the 90 Champs Élysées asset, and additionally including specific rentable surfaces below ground in the portfolio (43,574 sq m). The rest of the surfaces below ground mainly correspond to parking units.

• 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 at the date of preparing the statement of financial position.

For 2013 and 2014 the independent experts in charge of colonial's investment property market value have been Jones Lang LaSalle in Spain, and CB Richard Ellis Valuation, Jones Lang LaSalle and Atis Real, in France so that fair values for investment property items reflect prevailing market conditions.

The properties were assessed individually, considering each of the lease agreements in force at the end of the reporting period. Buildings with unlet floor space were valued on the basis of future estimated rentals, net of an estimated letting period. The estimated yields are mainly determined by the type, age and location of the properties, by the technical quality of the asset, as well as the type of tenant and occupancy rate, among others.

The fees of the valuer's services are independent of the valuation results. The rate is based upon the numbers of the valuations performed.

ASSET PORTFOLIO - DETAILS

RENTAL PORTFOLIO BARCELONA (sq m)

	Offices	Retail	Floor space above ground	Floor space below ground	Total surface	Parking units
AV. DIAGONAL, 409	4,531		4,531		4,531	
AV. DIAGONAL, 530	11,781		11,781	5,273	17,054	99
AV. DIAGONAL, 609-615 (DAU)	21,252		21,252	18,839	40,091	438
AV. DIAGONAL, 682	8,622		8,622	1,948	10,570	43
PEDRALBES CENTRE		5,558	5,558	1,308	6,866	
AUSIAS MARC/LEPANT	6,430		6,430	1,521	7,951	64
BERLÍN, 38-48/NUMÀNCIA. 46	11,308		11,308	3,793	15,101	99
GLÒRIES - DIAGONAL	11,672		11,672	536	12,208	40
GLÒRIES - LLACUNA	20,451		20,451	13,620	34,071	480
TILOS	5,143		5,143	2,852	7,995	79
VIA AUGUSTA, 21-23	4,838		4,838		4,838	
TRAVESSERA DE GRÀCIA, 11	4,515		4,515	1,994	6,509	55
AMIGÓ	3,580		3,580	1,766	5,346	70
PLAZA EUROPA, 42-44	4,869		4,869	2,808	7,677	68
TORRE BCN	9,035		9,035	3,398	12,433	88
TORRE MARENOSTRUM	22,750		22,750	19,370	42,120	609
SANT CUGAT NORD	27,904		27,904	20,627	48,531	690
SINGULAR BUILDINGS	**178,681**	**5,558**	**184,239**	**99,653**	**283,892**	**2,922**
OTHERS		103	103		103	
PORTFOLIO IN OPERATION	**178,681**	**5,661**	**184,342**	**99,653**	**283,995**	**2,922**
PARC CENTRAL	14,737		14,737	14,737	29,474	184
BERLIN, 38-48/NUMÀNCIA, 46	1,509		1,509	12	1,521	
AV. DIAGONAL, 609-615 (DAU)	744		744	150	894	
TORRE BCN	800		800		800	
OTHERS	2		2	536	538	
REFURBISHMENT	**17,792**		**17,792**	**15,435**	**33,227**	**184**
TOTAL BARCELONA	**196,473**	**5,661**	**202,134**	**115,088**	**317,222**	**3,106**

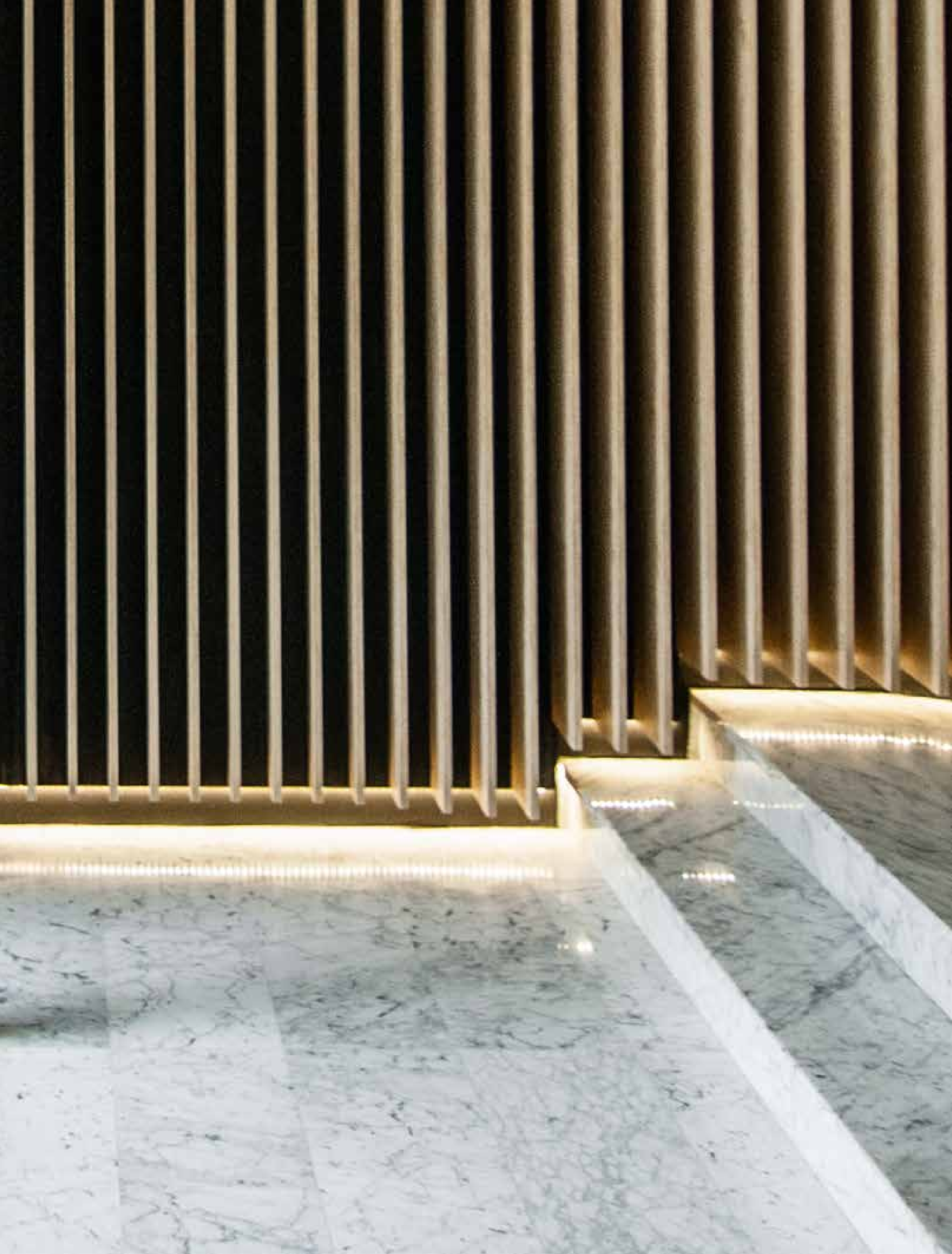
RENTAL PORTFOLIO MADRID AND REST OF SPAIN (sq m)

	Offices	Retail	Hotel	Floor space above ground	Floor space below ground	Total surface	Nº Places aparca-ment
P. CASTELLANA, 52	7,523			7,523	2,615	10,138	49
RECOLETOS, 37	17,202			17,202	5,340	22,542	175
CASTELLANA, 43	5,998			5,998	2,442	8,440	81
MIGUEL ÁNGEL, 11	6,300			6,300	2,231	8,531	81
JOSÉ ABASCAL, 56	12,325			12,325	6,437	18,762	219
ALCALÁ, 30-32	9,088			9,088	1,700	10,788	52
ALFONSO XII, 62	13,135			13,135	2,287	15,422	78
FRANCISCO SILVELA, 42	5,725			5,725	3,654	9,379	105
ORTEGA Y GASSET 100	7,792			7,792	2,563	10,355	96
CAPITÁN HAYA	16,015			16,015	9,668	25,683	295
LÓPEZ DE HOYOS, 35	7,140			7,140	4,105	11,245	111
CENTRO NORTE	6,657			6,657	2,557	9,213	159
CENTRO NORTE HOTEL			8,458	8,458	11,089	19,547	
MARTÍNEZ VILLERGAS, 49	24,135			24,135	14,581	38,716	437
RAMÍREZ DE ARELLANO, 37	5,988			5,988	4,923	10,911	160
SINGULAR BUILDINGS	**145,022**		**8,458**	**153,480**	**76,192**	**229,672**	**2,098**
ORENSE, 46-48		5,010		5,010	1,295	6,305	51
REST OF SPAIN		866		866	350	1,216	
PORTFOLIO IN OPERATION	**145,022**	**5,876**	**8,458**	**159,357**	**77,836**	**237,193**	**2,149**
HOTEL MARINA DE LA TORRE			11,519	11,519		11,519	
OTHERS	588			588	911	1,499	
REFURBISHMENT	**588**		**11,519**	**12,107**	**911**	**13,018**	
TOTAL MADRID AND REST OF SPAIN	**145,610**	**5,876**	**19,977**	**171,464**	**78,747**	**250,210**	**2,149**

RENTAL PORTFOLIO FRANCE (sq m)

	Offices	Retail	Resid.	Hotel	Floor space above ground	Floor space below ground	Total surface	Parking units
CALL-LDA	23,272	861		2,134	26,268	5,730	31,998	236
EDOUARD 7	27,730	15,998	4,509	4,237	52,474	10,145	62,619	523
HANOVRE LB	3,325				3,325	1,246	4,571	
CONDORCET	20,376		1,562	1,301	23,239	2,457	25,696	50
C. ÉLYSÉES 8288		4,252			4,252	3,789	8,041	125
C. ÉLYSÉES 90	1,148	981			2,129		2,129	99
C. ÉLYSÉES 92 (OZONE)	4,110	3,089			7,199		7,199	
CÉZANNE SAINT HONORÉ	23,369	1,849			25,218	3,337	28,555	128
PRONY-WAGRAM	7,100			449	7,549	3,119	10,668	124
IENA	7,505				7,505	4,711	12,217	264
108-112 WAGRAM	4,470	892			5,362	546	5,908	29
WASHINGTON PLAZA	33,637	460		2,241	36,338	13,271	49,609	662
HAUSS, 104-110	11,683	791			12,474	2,650	15,124	104
NEUILLY	5,749	389			6,138	2,739	8,876	145
QUAI LE GALLO (IN/OUT)	28,873				28,873	14,567	43,440	581
ISSY LES MOULINEAUX	6,026				6,026	2,321	8,347	124
RIVES DE SEINE	20,270			1,760	22,030	6,589	28,619	366
103 GRENELLE	15,176	258		1,052	16,486	1,872	18,357	100
SAINT DENIS			60		60	16	76	1
PORTFOLIO IN OPERATION	**243,819**	**29,819**	**6,132**	**13,174**	**292,944**	**79,106**	**372,050**	**3,661**
WASHINGTON PLAZA	5,568				5,568	2,678	8,246	
CALL-LDA	5,230	5,820			11,050	8,462	19,513	
CÉZANNE SAINT HONORÉ	1,043				1,043	1,504	2,546	
C. ÉLYSÉES 90	7,604				7,604	1,609	9,213	
ILOT RICHELIEU (#CLOUD)	33,187				33,187	1,609	34,796	99
OTHERS		347			347	12,454	12,801	
REFURBISHMENT	**52,632**	**6,167**			**58,799**	**28,316**	**87,115**	**99**
TOTAL FRANCE	**296,452**	**35,986**	**6,132**	**13,174**	**351,743**	**107,422**	**459,165**	**3,760**
COLONIAL GROUP	**638,535**	**47,523**	**6,132**	**33,151**	**725,341**	**301,257**	**1,026,598**	**9,015**

Financial and Economic Situation



FY 2014 RESULTS

The rental revenues of the Colonial Group increased by 3.2% like-for-like. The portfolio in Spain had positive growth of 0.5% like-for-like, thanks to the positive performance of the Madrid portfolio (+5.4%), which compensated for the 4.6% decrease in the Barcelona portfolio. In Paris, the rental revenues increased by 4.3% like-for-like.

The like-for-like increase in rental revenues mainly relates to the new contracts signed in 2013 and 2014 on the Martínez Villergas, Recoletos, Edouard VII, Washington Plaza and Hanovre assets.

The recurring EBITDA amounts to €161m, a figure 2% lower than the previous year. In like-for-like terms, this figure increased by 4.1%, mainly due to higher comparable rental revenues.

The recurring net income(2) is positive and amounts to €16.7m, an increase of €13m, compared to the same period the previous year, due to lower recurring financial expenses(4).

The net results attributable to the Group were positive and amounted to €492m, mainly due to the positive extraordinary impact of the "deconsolidation" (5) of Asentia.

RESULTS ANALYSIS - €M

	2014	2013	Var.	Var. % (1)
Rental revenues	211	213	(2)	(1%)
Net operating expenses (3) & other income	(19)	(17)	(2)	(14%)
Overheads	(32)	(32)	0	(1%)
Recurring EBITDA	161	165	(4)	(2%)
Results associated to SIIC de Paris - recurring	4	11	(7)	(62%)
Recurring financial result	(102)	(124)	22	18%
Income tax expense & others - recurring result	(8)	(8)	(0)	(1%)
Minority interest - recurring result	(39)	(41)	2	4%
Recurring net profit - post company-specific adjustments (2)	**16.7**	**3.6**	**13**	**-**
EPRA Earnings	**435**	**(518)**	**953**	**-**
Profit attributable to the Group	**492**	**(547)**	**1,039**	**-**

(1) Sign according to the profit impact

(2) Recurring net profit= EPRA Earnings + company specific adjustments, in particular the adjustment of the discontinued operations (Asentia)

(3) Invoiceable costs net of costs invoiced + non invoiceable operating costs

(4) It is important to highlight that the impact of Colonial's restructuring and the new capital structure is effective as of May 2014

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

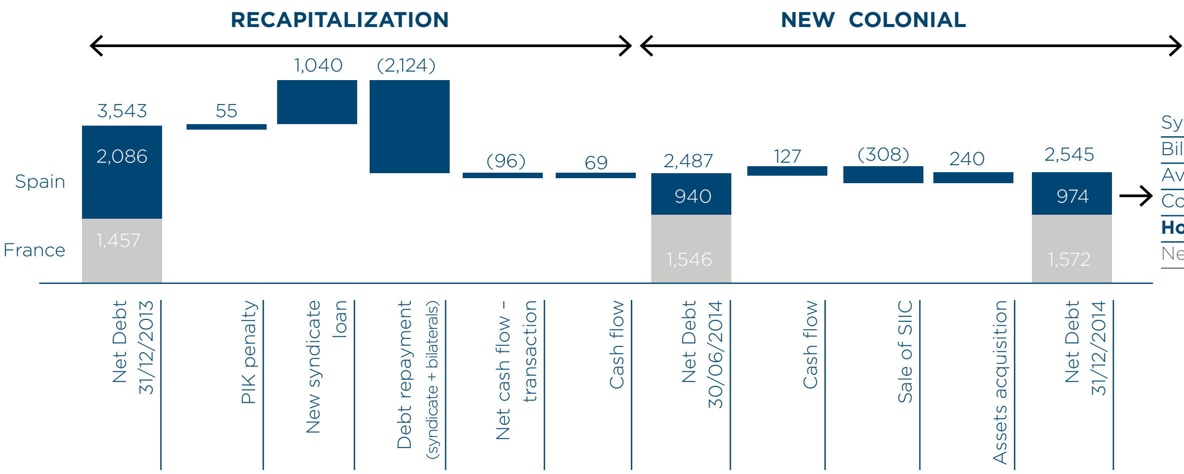
DEBT

Group financial net debt stood at €2,545m at 31 December 2014.

The consolidated net debt of the Colonial Group decreased by practically €1,000m (-28.2%) throughout 2014, thanks to Colonial's recapitalization process which enabled it to reduce its net debt by €1,111m (-53.3%). In France, however, the debt increased €114m (+7.8%) mainly due to the investments in assets.

The evolution of Colonial's debt during 2014 was the following:

NET DEBT MOVEMENTS (€m) - DECEMBER 2014



Syndicated debt	1,040
Bilateral debt	1
Available cash	(71)
Committed cash	(34)
Holding net debt	**936**
Net debt SPV TMN	38

The Colonial Group has a well-diversified mix of debt sources, with long-term maturities which will allow it to take advantage of future growth opportunities.

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

TYPE OF LENDER 31/12/2014

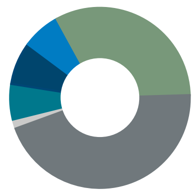
SPAIN

- 17% NATIONAL BANKS
- 44% INTERNATIONAL BANKS
- 4% INSTITUTIONAL FUNDS
- 16% SOVEREIGN WEALTH FUNDS
- 19% INSURANCE COMP.

FRANCE

- 76% BONDS
- 24% INTERNATIONAL BANKS

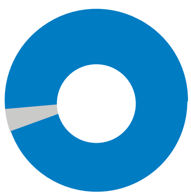
GROUP



- 32% INTERNATIONAL BANKS
- 45% BONDS
- 2% INSTITUTIONAL FUNDS
- 6% SOVEREIGN WEALTH FUNDS
- 8% INSURANCE COMP.
- 7% NATIONAL BANKS

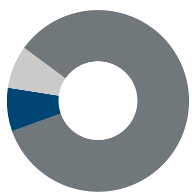
TYPE OF DRAWN DEBT 31/12/2014

SPAIN



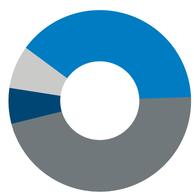
- 96% SYNDICATE
- 4% MORTGAGE DEBT

FRANCE



- 75% BONDS
- 15% MORTGAGE DEBT
- 10% OTHER DEBT

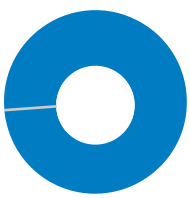
GROUP



- 39% SYNDICATE
- 45% BONDS
- 10% MORTGAGE DEBT
- 6% OTHER DEBT

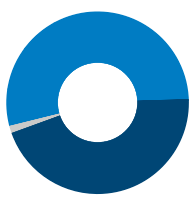
MATURITY OF CONTRACTED DEBT 31/12/2014

SPAIN



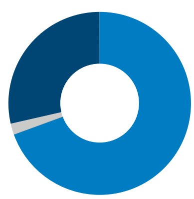
- 99% MORE THAN 3 YEARS
- 1% LESS THAN 3 YEARS

FRANCE



- 55% MORE THAN 3 YEARS
- 42% 1-3 YEARS
- 3% LESS THAN 1 YEAR

GROUP



- 69% MORE THAN 3 YEARS
- 29% 1-3 YEARS
- 2% LESS THAN 1 YEAR

Spain	
Spread	387 b.p.
Average life of drawn down debt (years)	4.1
Average life of the contracted debt (years)	4.1
Contracted debt	1,083 €m

France	
Spread	205 b.p.
Average life of drawn down debt (years)	3.8
Average life of the contracted debt (years)	3.9
Contracted debt	2,188 €m

Total	
Spread	278 b.p.
Average life of drawn down debt (years)	3.9
Average life of the contracted debt (years)	3.9
Contracted debt	3,271 €m

Active management of the balance sheet – Liability Management

During November, SFL, the Colonial Group's subsidiary in Paris, successfully implemented two transactions within the framework of the policy of actively managing the balance sheet. Specifically, the following two liability management transactions were carried out in France:

1. The bond issue of an amount of €500m, with a maturity of 7 years (11/2021) and a fixed coupon of 1.875%

2. The partial repurchase of existing bonds for an amount of €300m

Taking advantage of a window of opportunity in the capital markets, these transactions have improved the average maturity of the Group's debt, reducing its average financial cost at the same time.

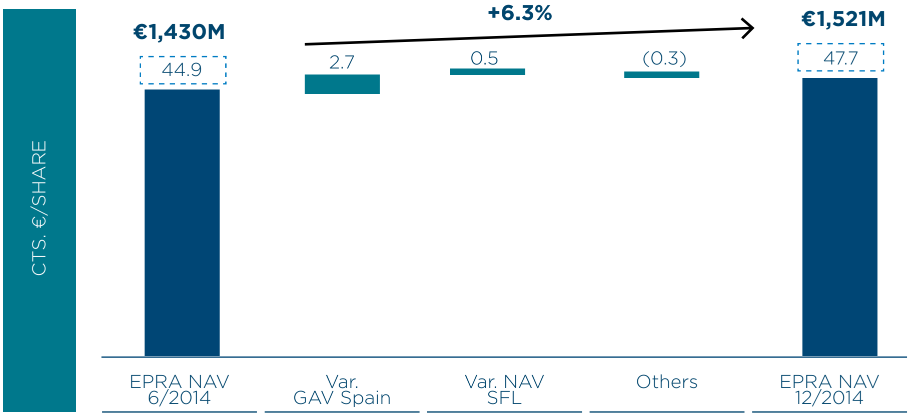
AUSIAS MARC. BARCELONA

EPRA Net Asset Value (NAV)

The EPRA NAV of the Colonial Group stood at €1,521m at 31 December 2014, which is equivalent to 47.7 cents of a €/share, an increase of +6.3% in 6 months.

The main variations of the NAV at 31 December 2014 vs. the NAV at 30 June 2014 are shown in the graph below:

EPRA NAV COLONIAL



The increase in the asset value has resulted in an increase of 3.2 cents of the EPRA NAV (2.7 cents correspond to Spain and 0.5 cents to France). On the other hand, provisions and other effects have resulted in a negative impact of 0.3 cents of a € on the EPRA NAV.

The share price at 23 of February 2015 was 63 cents of a €/share and the target price of the analyst consensus was 61 cents of a €/share.

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

EPRA NET ASSET VALUE (€M)

	12/2014	6/2014	12/2013
NAV per the Consolidated financial statements	**1,423**	**1,476**	**409(1)**
Include:			
(i.a) Revaluation of investment properties (if IAS 40 cost option is used)	4	4	4
(i.b) Revaluation of investment property under construction (IPUC) (if IAS 40 cost option is used)	na	na	na
(i.c) Revaluation of other non current investment	11	11	13
(ii) Revaluation of tenant leases held as finance leases	na	na	na
(iii) Revaluation of trading properties	na	na	na
Exclude:			
(iv) Fair value of financial instruments	9	10	10
(v.a) Deferred tax	73	67	63
(v.b) Tax credits on balance	-	(143)	(143)
Include/exclude:			
Adjustments (i) to (iii) above in respect of joint ventures interests	na	5	3
EPRA NAV - €m	**1,521**	**1,430**	**238**
EPRA NAV - Euro cents per share	**47.7**	**44.9**	**94.9**
Nº of shares (m)	*3,189*	*3,189*	*251*

(1) NAV per consolidated financial staments after adjusting the consolidation impacts from discontinued activities and from other activities without recourse to Colonial

Calculation of the EPRA NAV: Following the EPRA recommendations and starting from the consolidated equity of €1,423m, the following adjustments were carried out:

1. Revaluation of investments: corresponding to latent capital gains (not accounted for on the balance sheet) of specific assets registered at book value, amounting to €4m.
2. Revaluation of other investments: corresponding to latent capital gains (not accounted for on the balance sheet) of other investments.
3. Adjustment of accounted for MTM: in order to determine the EPRA NAV. the net value of the MTM ("mark-to-market") of the hedging instruments registered on the balance sheet was adjusted (+€9m).
4. Adjustment of deferred taxes: adjustment of the amount of deferred taxes associated with the revaluation of the property assets (+€73m), registered on the balance sheet.

EPRA NNNAV amounted to €1,408m at December 2014, which corresponds to 44.2 cents of a €/share.

EPRA TRIPLE NET ASSET VALUE (NNNAV) (€M)

	12/2014	6/2014	12/2013
EPRA NAV	**1,521**	**1,430**	**238**
Include:			
(i) Fair value of financial instruments	(9)	(10)	(10)
(ii) Fair value of debt	(32)	(43)	(34)
(iii) Deferred tax	(71)	(65)	(61)
(iv) Tax credits on balance	na	143	143
EPRA NNNAV - €m	**1,408**	**1,455**	**277**
EPRA NNNAV - Euro cents per share	**44.2**	**45.6**	**110.4**
Nº of shares (m)	*3,189*	*3,189*	*251*

For its calculation, the following items have been adjusted in the EPRA NAV: the fair market value of the financial instruments (-€9m), the fair market value of the debt (-€32m), and the taxes that would be accrued with the sales of the assets at their market value (-€71m), applying tax benefits for reinvestments.

The Colonial Group has tax credits for an amount of €1,019m, associated with negative taxable bases, pending to be offset by future generated income. This means that the corporate tax generated in the future will be partially offset by the aforementioned tax credits, which, with the new tax reform, will have no time limit to be completely offset with future profits.

Share price performance

Colonial has positioned itself as the first listed Spanish property company in terms of market capitalization.

MARKET CAPITALIZATION €M (*)

Colonial	2,012
Peer 1	1,486
Peer 2	628
Peer 3	377
Peer 4	274

AVERAGE DAILY TRADING VOLUME €M (30 DAYS)

Colonial	10.8
Peer 1	9.0
Peer 2	2.5
Peer 3	1.7
Peer 4	1.1

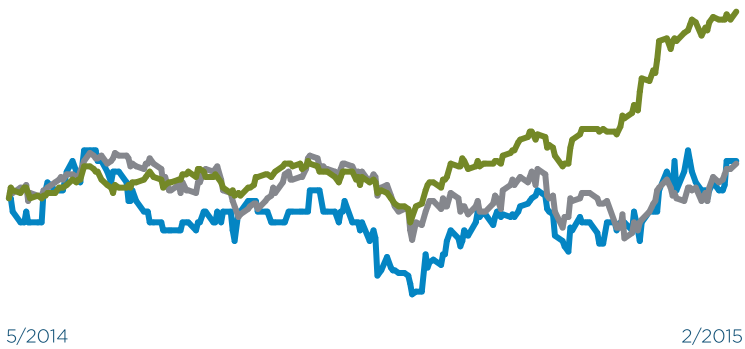
(*) As of 23 February, 2015. Companies with an average daily trading volume > €0.5m

Colonial has been included in two EPRA indices: the FTSE EPRA/NAREIT Developed Europe and the FTSE EPRA/NAREIT Developed Eurozone of the Global Property Index 250 (GPR 250 Index) as well as the Ibex Medium Cap index.

These indices are benchmark property indices for international listed companies.

In addition, Colonial is part of the Investment Property Databank (IPD) index, a global property profitability benchmark index.

The evolution in the share price value since the recapitalization in May 2014 is shown as follows:



+31% EPRA

+6% IBEX 35

+6% COLONIAL

Corporate Social Responsibility

CORPORATE SOCIAL RESPONSIBILITY

In 2015, the Colonial Group publishes the first Corporate Social Responsibility Report in order to meet the expectations of all its stakeholders.

The stakeholders of the Colonial Group are defined as the set of individuals who have contributed to the progress of the company and are considered part of the organization, being in turn responsible for the business development of the Group. These are represented by shareholders and investors, financial lenders, clients, employees, suppliers and society as a whole.

2014 Annual Report responds to the concerns and expectations of these stakeholders, including in this chapter those aspects related to suppliers, employees and eco-efficiency as part of society.

For more information, see Corporate Social Responsibility Report for 2014.

The Colonial Group's Sustainability Model

1. A clear strategy of generating cash flows through proactive real estate management.
2. Attractive low-risk returns.
3. Premium portfolio of top-quality energy-efficient buildings.
4. Excellent service provision.
5. Transparent and immediate relationship with all stakeholders.

Supplier Relationship Management

The Group also promotes and offers partnerships with suppliers and contractors that approve social, environmental and ethical standards in keeping with its own. In 2014, Inmobiliaria Colonial worked with a total of 720 suppliers and SFL with a total of 994, of which 83% and 98.8% respectively, are local suppliers. All of the Group's business suppliers (defined as providers of services to its buildings) are subject to approval, and also undergo an assessment, in order to ensure both legal compliance and fulfillment with the Code of Ethics of the Company.

Professional Team

The purpose of HR management is to foster the professional and human potential by developing the employees of the organization. The Group seeks to offer stable beneficial employment to achieve the targets of the Group's strategic plan and guarantee the satisfaction of its employees. The action taken to date by Human Resources reflects the Group's commitment to a customer-orientated growth strategy which has the full support of its employees.

At the end of 2014 the Group had 145 employees, 51% of which worked at SFL and the other 49% at Inmobiliaria Colonial, with a gender diversity of 61% female and 39% male.

Eco-efficiency

The Colonial Group has a commitment to be as environmentally friendly as possible in the course of its business, and to minimise environmentally adverse impacts that might be caused by Group companies. It seeks to establish best practices, involving clients, employees and suppliers to obtain maximum efficiency in the buildings and reduce their impact on the environment. The objective is to produce a portfolio of high-efficiency buildings that consume fewer resources, reducing emissions of CO_2, as well as bringing down consumption of materials, the amount of waste produced and the quantity of water used.

Management approved a general policy which would contribute the resources required to achieve those objectives and goals. Moreover, energy audits were used as the basis of the initial energy review (under the terms of ISO 50001), establishing areas where there is significant energy use and identifying opportunities to improve energy efficiency.

ENERGY AND EMISSIONS 2014

Sustainability indicators	Measurement unit	Number of buildings*	Value
Energy consumed and emissions at wholly-owned offices (Diagonal 530, Castellana 52 and Washington Plaza)			
Electricity consumed (G4-EN3) (EPRA Elec-Abs)	MWh	3	**1,069**
CO_2 emissions (G4-EN15) (EPRA GHG-Dir-Abs)	Teq CO_2	3	**330.8**
Energy consumed and emissions at leased offices*. (Consumption managed by Colonial Group)			
Total energy consumed ·Electricity consumed ·Fuel consumed ·Heating and cooling used (G4-EN4) (EPRA Fuels-Abs. Elec-Abs. DH&CAbs)	MWh	32	**89,329**
CO_2 emissions (G4-EN17) (EPRA GHG-Indir-Abs)	Teq CO_2	32	**15,484**
Water consumed in both wholly-owned and leased offices*			
Water consumption (G4-EN8) (EPRA Water-Abs)	M^3	30	**244,305**

* Buildings with control over energy and water management in either the whole building or part of it. For further information see Corporate Social Responsibility Report of Colonial Group for 2014.

HEADCOUNT AT THE COLONIAL GROUP AT 31/12/2014

Category	Women	Men
Management	5	12
Middle management	19	28
Administrative staff	64	17
Age (years)		
Under 30	2	3
30-50	60	39
Over 50	26	15
Total Headcount	**88**	**57**
Employees at the Colonial Group, total	**145**	
Employees' commitment		
Average lenght of service (years)	**12**	

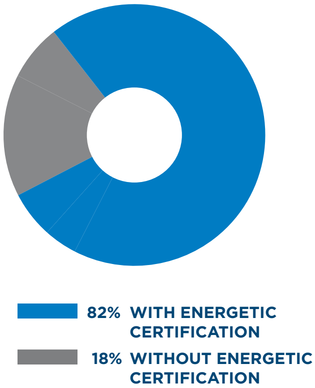
TOTAL TRAINING IN 2014

	Participants	Hours of training
Total	**110**	**4,027**
Investment (€)	251,436	

Certification

The Colonial Group is working to increase energy efficiency by obtaining energy certification and, subsequently, implement schemes for continual improvement in its buildings. The portfolio has buildings which have obtained certification from five different organisations: ISO 50001, ISO 14001, BREEAM, LEED and HQE. Moreover, the company also provides specific energy efficiency certifications that are mandatory in Spain.

At present 50.9% of buildings have some form of certification (81.8% of the total portfolio value), and a certification target has been set for 2015 to certify a further 17 properties (none of them is certified in 2014), bringing the number of certified buildings to 83% by 2015.



ALFONSO XII. MADRID

Our properties

OUR PROPERTIES

Barcelona

TORRE BCN

Torre BCN (BCN Tower), which consists of a ground floor lobby and 12 floors of offices, sits on Plaza Cerdà, at the border between Barcelona and the municipality of L'Hospitalet de Llobregat. The location is special, not only because it can be seen from Gran Via, a main artery into Barcelona, but also thanks to its easy access to the city centre, the airport and the main exhibition centres.

PASEO DE LOS TILOS

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

AV. DIAGONAL, 682

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

AV. DIAGONAL, 609-615

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

BERLÍN, 38 - 48 / NUMÀNCIA, 46

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

,

TGA

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

AV. DIAGONAL 530-532

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

AV. DIAGONAL, 409

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

Barcelona

VIA AUGUSTA, 21- 23

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

TORRE MARENOSTRUM

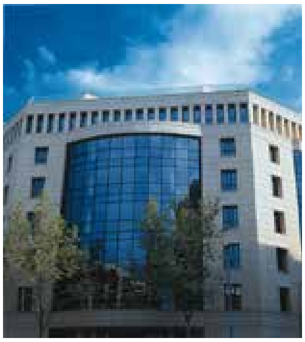
The Marenostrum Tower is one of the most outstanding and important buildings to have been built in the city. It is a very spectacular office building, both for its location on the city seafront and for its conception in sinuous and modern architecture, inspired as a rocky and glassy form beaten by wind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

AUSIÀS MARC, 148

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

DIAGONAL GLÒRIES

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



PARC CENTRAL 22@ – BARCELONA

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

The materials and finishings will be top quality and the design philosophy is to perfectly integrate the complex into its surroundings. There will be 136 parking spaces, all located in the same building.

OFFICES COMPLEX ILLACUNA

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

OFFICES COMPLEX SANT CUGAT NORD

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

PLAZA EUROPA 40-42

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

Madrid

BREEAM® ES

ALFONSO XII

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

ALCALÁ, 30-32

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

PASEO DE RECOLETOS, 37-41

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

PASEO DE LA CASTELLANA, 43

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

MIGUEL ÁNGEL, 11

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

JOSÉ ABASCAL, 56

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

CAPITÁN HAYA, 53

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

AGUSTÍN FOXÁ, 29

Exclusive office building located in a well-established area close to Castilla Square and opposite the Chamartín railway station. The building has a curtain wall exterior finished in bronze-colored aluminum. The building has a lobby floor, a mezzanine and 11 above-ground floors, each having 575 sq m of completely exterior-walled leasable space. Directly accessible by public or private transport. The complex in which the building is located boasts its own parking lot.

Madrid

HOTEL TRYP CHAMARTÍN

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

RAMÍREZ DE ARELLANO, 37

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

MV 49 BUSINESS PARK

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

LÓPEZ DE HOYOS, 35

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

PASEO DE LA CASTELLANA, 52

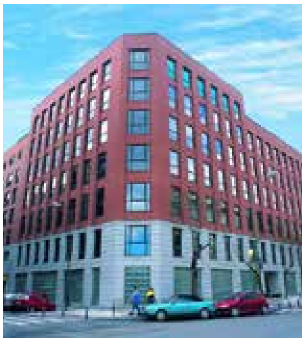
The unusual façade, with its neo-classical style and simple, striking lines, helps give this building its unique personality. Its street-corner position provides for abundant interior natural lighting. Located on Paseo de la Castellana, within the city's main business district, the building offers a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

FRANCISCO SILVELA, 42

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

ORTEGA Y GASSET, 100

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



Paris

The entire Paris portfolio has energy certifications

WASHINGTON PLAZA

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

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

ÉDOUARD VII

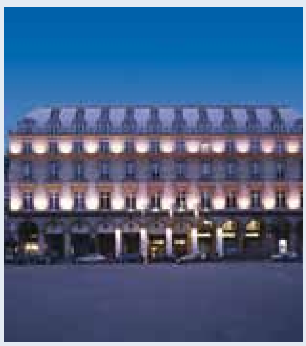
Spanning a surface area of a hectare and a half, the Haussmann "Édouard VII" building is situated between Opéra Garnier, la Madeleine and boulevard des Capucines. Its location in the heart of one of the most vibrant quarters of Paris, coupled with its architectural prestige, the fruit of a meticulous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

CÉZANNE SAINT-HONORÉ

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

LOUVRE SAINT-HONORÉ

Enjoying an upmarket location just opposite the Louvre, this building offers vast functional areas spanning 5,400 sq m/floor. Constantly striving to improve the service offering and the comfort for its users, SFL has carried out a total refurbishment of the offices providing an expertise that complies with best international and high-end service standards : 24/7 security, inter-company restaurant facilities. The artist François Morellet has enhanced the building through the architectural integration design called "Great Waves" a work in progress until 2016.



The entire Paris portfolio has energy certifications

OZONE
C. ÉLYSÉES 92

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

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

112 WAGRAM

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

176 CHARLES-DE-GAULLE

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

#CLOUD
ILOT RICHELIEU

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

Paris

The entire Paris portfolio has energy certifications

6 HANOVRE

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

131 WAGRAM

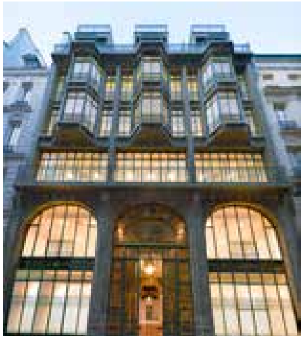
Located equidistantly from Monceau park and Place de l'Étoile, this building is at the corner of rue de Prony. Enjoying a terrace and an interior garden space, it is composed of 9 levels of office space over 5 basement areas. This includes light-filled space of approximately 800 sq m, with flexible lay-outs,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

RIVES DE SEINE

Set on the banks of the Seine within a stone's throw of the Gare de Lyon and a cluster of public transport systems, this building is one of a group of renovations of the East Parisian business quarter. Built in 1974, its 16 storeys benefit from a vast entrance overlooking the Seine. The building underwent significant renovation work completed in 2001. This allowed for the creation of modern illuminated and flexible 1,200 sq m areas. Natixis renewed its lease in 2013.

HAUSSMANN SAINT-AUGUSTIN

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



The entire Paris portfolio has energy certifications

LE VAISSEAU

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

GALERIE CHAMPS ÉLYSÉES

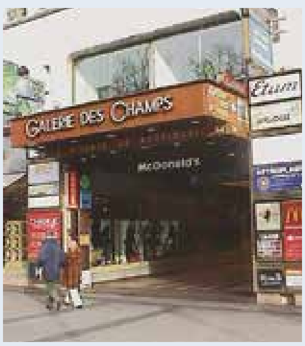
The epitome of one of the most prestigious locations in Paris, set on the even numbered side of the most frequented section of the Champs-Élysées, this gallery has undergone serious renovation work. Completely redesigned by Jean Nouvel, it has regained its pride and elegance. This new classic Haussmann-style scheme, stripped bare, offers hints of modernism with its light fixtures and black metal escalators. The gallery houses the H&M global flagship, spanning almost 2,800 sq m of floor space.

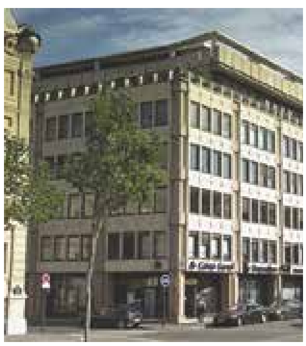
96 IÉNA

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

103 GRENELLE

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





Paris

The entire Paris portfolio has energy certifications

90 CHAMPS ÉLYSÉES

Located above the Champs-Élysées gallery, this contemporary building boasts a cut-stone facade used in the most beautiful Haussmann buildings and has more recently been transformed by Jean Nouvel. The building has been renovated and offers beautifully light-filled spaces of 1,200 sq m. SFL has signed a pre-commercialisation lease with a large international consultancy management firm which will start in spring 2015.

IN/OUT

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

4-8 RUE CONDORCET

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

The quality of the buildings is enhanced by the historic staircase of central building and the large accessible inner courtyard. Constructed in 1863 under the architect Léon-Armand Darru, the building benefits from a rich architectural heritage and is the historical site of the GDF Group which has occupied it since its construction.

EPRA Ratios

EPRA RATIOS

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

EPRA PERFORMANCE MEASURES - SUMMARY TABLE	12/2014		12/2013	
	€m	Cents per share	€m	Cents per share
EPRA Earnings	435	14	(518)	(229)
EPRA NAV	1,521	48	238	95
EPRA NNNAV	1,408	44	277	110
EPRA Net Initial Yield		3.7%		4.0%
EPRA "topped-up" Net Initial Yield		4.0%		4.3%
EPRA vacancy rate		14.9%		18.8%
EPRA Cost ratio (including vacancy costs)		25.1%		23.3%
EPRA Cost ratio (excluding vacancy costs)		20.9%		19.9%

1) EPRA EARNINGS

EPRA EARNINGS - FULL YEAR 2014 - €M

	12/2014	12/2013
Earnings per IFRS Income statement	**492**	**(546)**
Earnings per IFRS Income statement - Euro cents per share	**15**	**(242)**
Adjustments to calculate EPRA Earnings, exclude:		
(i) Changes in value of investment properties, development properties held for investment and other interests	(332)	(39)
(ii) Profits or losses on disposal of investment, development properties held for investment and other interests	(8)	9
(iii) Profits or losses on sales of trading properties including impairment changes in respect of trading properties	na	na
(iv) Tax on profits or losses on disposals	na	na
(v) Negative goodwill / goodwill impairment	120	na
(vi) Changes in fair value of financial instruments and associated close-out costs	33	-(1)
(vii) Acquisition costs on share deals and non controlling joint venture interests	na	na
(viii) Deferred tax in respect of EPRA adjustments	26	27
(ix) Adjustments (i) to (viii) above in respect of joint ventures (unless already included under proportional consolidation	6	(9)
(x) Minority interests in respect of the above	98	41
EPRA Earnings	**435**	**(518)**
EPRA Earnings - Euro cents per share	***14***	***(229)***
Company specific adjustments:		
(a) Discontinued operations	(701)	404
(b) Extraordinary expenses	49	27(1)
(c) Non recurring financial result	90	89(1)
(d) Tax credits	143	-
Recurring Net Income post company specific adjustments	**16.7**	**3.6**
Recurring Net Income per Share post company specific adjustments - Euro cents per share	***0.5***	***1.6***

(1) Note: 2013 figures restated according to the latest update of EPRA Best Practices Recommendations

2) EPRA NAV

EPRA NET ASSET VALUE - €M

	12/2014	12/2013
NAV per the Consolidated financial statements	**1,423**	**409**(1)
Include:		
(i.a) Revaluation of investment properties (if IAS 40 cost option is used)	4	4
(i.b) Revaluation of investment property under construction (IPUC) (if IAS 40 cost option is used)	na	na
(i.c) Revaluation of other non current investment	11	13
(ii) Revaluation of tenant leases held as finance leases	na	na
(iii) Revaluation of trading properties	na	na
Exclude:		
(iv) Fair value of financial instruments	9	10
(v.a) Deferred tax	73	63
(v.b) Tax credits on balance	-	(143)
Include/exclude:		
Adjustments (i) to (iii) above in respect of joint ventures interests	na	3
EPRA NAV - €m	**1,521**	**238**
EPRA NAV - Euro cents per share	***47.7***	***94.9***
Nº of shares (m)	***3,189***	***251***

(1) NAV per consolidated financial staments after adjusting the consolidation impacts from discontinued activities and from other activities without recourse to Colonial

3) EPRA NNNAV

EPRA TRIPLE NET ASSET VALUE (NNNAV) - €M

	12/2014	12/2013
EPRA NAV	**1,521**	**238**
Include:		
(i) Fair value of financial instruments	(9)	(10)
(ii) Fair value of debt	(32)	(34)
(iii) Deferred tax	(71)	(61)
(iv) Tax credits on balance	na	143
EPRA NNNAV - €m	**1,408**	**277**
EPRA NNNAV - Euro cents per share	44.2	110.4
Nº of shares (m)	**3,189**	**251**

EPRA
EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

4) EPRA YIELD & TOPPED-UP YIELD

EPRA NET INITIAL YIELD AND "TOPPED-UP" NET INITIAL YIELD (€M)

		Barcelona	Madrid	Paris	Total 2014	Total 2013
Investment property – wholly owned		594	697	4,466	5,757	5,039
Investment property – share of JVs/ Funds		na	na	na	na	na
Trading property (including share of JVs)		na	na	na	na	na
Less developments		(13)	(10)	(575)	(597)	(551)
Completed property portfolio	**E**	**582**	**687**	**3,891**	**5,160**	**4,488**
Allowance for estimated purchasers' costs		19	18	214	252	208
Gross up completed property portfolio valuation	**B**	**601**	**706**	**4,105**	**5,412**	**4,697**
Annualised cash passing rental income		26	35	153	215	200
Property outgoings		(4)	(4)	(8)	(15)	(13)
Annualised net rents	**A**	**23**	**31**	**146**	**199**	**187**
Add: notional rent expiration of rent free periods or other lease incentives		2	0	14	16	14
"Topped-up" net annualised rent	**C**	**24**	**31**	**159**	**215**	**201**
EPRA Net Initial Yield	**A/B**	**3.8%**	**4.4%**	**3.5%**	**3.7%**	**4.0%**
EPRA "Topped-Up" Yield	**C/B**	**4.1%**	**4.4%**	**3.9%**	**4.0%**	**4.3%**
Gross Rents 100% Occup.	F	37	41	176	254	241
Property outgoings 100% Occup.		(1)	(2)	(5)	(8)	(8)
Annualised net rents 100% Occup.	**D**	**36**	**39**	**171**	**246**	**233**
Net Yield 100% Occupancy	**D/B**	**6.0%**	**5.5%**	**4.2%**	**4.6%**	**5.0%**
Gross Yield 100% Occupancy	**F/E**	**6.3%**	**6.0%**	**4.5%**	**4.9%**	**5.4%**

5) EPRA VACANCY RATE

EPRA OFFICES VACANCY RATE (€M)

	12/2014	12/2013	Var.%
BARCELONA			
Vacant space ERV	0.6	0.4	
Portfolio ERV	2.5	2.2	
EPRA Vacancy Rate Barcelona	**22%**	**17%**	**4.8 pp**
MADRID			
Vacant space ERV	0.3	0.4	
Portfolio ERV	2.7	2.4	
EPRA Vacancy Rate Madrid	**10%**	**18%**	**(7.4 pp)**
PARIS			
Vacant space ERV	1.9	2.3	
Portfolio ERV	13.2	12.1	
EPRA Vacancy Rate Paris	**14%**	**19%**	**(4.7 pp)**
TOTAL PORTFOLIO			
Vacant space ERV	2.8	3.1	
Portfolio ERV	18.4	16.7	
EPRA Vacancy Rate Total Portfolio	**15%**	**19%**	**(3.8 pp)**

EPRA
EUROPEAN PUBLIC
REAL ESTATE ASSOCIATION

6) EPRA COST RATIOS

EPRA COST RATIOS (€M)

		12/2014	12/2013
(i) Administrative/operating expense line per IFRS income statement		35	34
(ii) Net service charge costs/fees		21	20
(iii) Management fees less actual/estimated profit element		(1)	0
(iv) Other operating income/recharges intended to cover overhead expenses less any related profits		(0)	(2)
(v) Share of Joint Ventures expenses		2	3
Exclude (if part of the above):			
(vi) Investment Property depreciation		na	na
(vii) Ground rent costs		na	na
(viii) Service charge costs recovered through rents but not separately invoiced		(2)	(3)
EPRA Costs (including direct vacancy costs)	**A**	**54**	**53**
(ix) Direct vacancy costs		(9)	(8)
EPRA Costs (excluding direct vacancy costs)	**B**	**45**	**45**
(x) Gross Rental Income less ground rent costs - per IFRS		211	213
(xi) Less: service fee and service charge costs components of Gross Rental Income (if relevant)		(3)	(6)
(xii) Add: share of Joint Ventures (Gross Rental Income less ground rent costs)		9	21
Gross Rental Income	**C**	**217**	**228**
EPRA Cost Ratio (including direct vacancy costs) (A/C)	**A/C**	**25.1%**	**23.3%**
EPRA Cost Ratio (excluding direct vacancy costs) (B/C)	**B/C**	**20.9%**	**19.9%**

(1) 2014: €32.3m refer to administrative expense and €2.2m refer to extraordinary operating expenses
2013: €32.3m refer to administrative expense and €1.9m refer to extraordinary operating expenses

Additional information in electronic form


N DE FOXA
29

1. APPENDIX

1.1 RENTAL PORTFOLIO

A Prime asset portfolio

RENTAL PORTFOLIO - CLASSIFIED BY AREA (SQ M) - 2014

	SURFACE IN OPERATION							
	Office Buildings		Shopping centres		Others		Total Rental Portfolio	
Paris	322,925	31%	29,819	3%	19,306	2%	372,050	36%
Barcelona	278,334	27%	5,661	1%	-	-	283,995	28%
Madrid	222,508	22%	5,010	0%	8,458	1%	235,977	23%
Rest of Spain	350	0%	866	0%	-	-	1,216	0%
TOTAL	**824,118**	**80%**	**41,357**	**4%**	**27,764**	**3%**	**893,238**	**87%**

RENTAL PORTFOLIO - CLASSIFIED BY MARKET VALUE (€m) - 2014

	SURFACE IN OPERATION							
	Office Buildings		Shopping centres		Others		Total Rental Portfolio	
Paris	3,703	64%	322	6%	-	-	4,025	70%
Barcelona	553	10%	29	1%	-	-	582	10%
Madrid	664	12%	-	-	23	0%	687	12%
Rest of Spain	-	-	1	0%	9	0%	10	0%
TOTAL BUSINESS	**4,919**	**85%**	**352**	**6%**	**32**	**1%**	**5,304**	**92%**

RENTAL PORTFOLIO

€5,757M
TOTAL ASSETS VALUE

725,341 SQ M
SURFACE ABOVE GROUND

93%
OFFICES BUILDINGS [1]

75%
CBD[1]

(1) Calculated over value

PROJECTS IN THE PIPELINE							
Office Buildings		Shopping Centres		Others		Total Portfolio	
80,948	8%	6,167	1%	-	-	459,165	45%
33,227	3%	-	-	-	-	317,222	31%
1,499	0%	-	-	-	-	237,475	23%
-	-	-	-	11,519	1%	12,735	1%
115,674	**11%**	**6,167**	**1%**	**11,519**	**1%**	**1,026,598**	**100%**

PROJECTS IN THE PIPELINE							
Office Buildings		Shopping Centres		Others		Total Portfolio	
441	8%	-	-	-	-	4,466	78%
13	0%	-	-	-	-	594	10%
-	-	-	-	-	-	687	12%
-	-	-	-	-	-	10	0%
454	**8%**	**-**	**-**	**-**	**-**	**5,757**	**100%**

1.2 FINANCIAL STATEMENTS

CONSOLIDATED PROFIT & LOSS ACCOUNT - December cumulative - €m

	2014	2013	Var.	Var.%[1]
Rental revenues	**211**	**213**	**(2)**	**(1%)**
Net operating expenses [3]	(21)	(21)	(0)	(1%)
EBITDA rents	**191**	**192**	**(2)**	**(1%)**
Other income	2	4	(2)	(50%)
Overheads	(32)	(32)	0	1%
EBITDA recurring business	**161**	**165**	**(4)**	**(2%)**
Like-for-like EBITDA	**149**	**143**	**6**	**4%**
Results associated to SIIC de Paris	**6**	**21**	**(15)**	**(70%)**
Rental asset disposals	0	388	(388)	-
Cost of sales	(0)	(397)	397	-
EBITDA - asset sales	**(0)**	**(9)**	**9**	**-**
Exceptional items	(7)	(27)	(34)	-
Operating profit before revaluation, amortizations and provisions and interests (incl. Results associated to SIIC de Paris)	**161**	**149**	**12**	**8%**
Change in fair value of assets	332	37	295	-
Amortizations & provisions	(164)	1	(165)	-
Financial results	(225)	(213)	(12)	(6%)
Profit before tax	**103**	**(25)**	**128**	**513%**
Income tax	(176)	(35)	(141)	(405%)
Gain/ loss on discontinued operations	701	(405)	1,106	-
Minority Interests	(136)	(82)	(54)	(66%)
Profit attributable to the Group	**492**	**(547)**	**1,039**	**-**

Results analysis - €m	**2014**	**2013**	**Var.**	**Var.%[1]**
Recurring EBITDA	161	165	(4)	(2%)
Results associated to SIIC de Paris - recurring	4	11	(7)	(62%)
Recurring financial result	(102)	(124)	22	18%
Income tax expense & others - recurring result	(8)	(8)	(0)	(1%)
Minority interest - recurring result	(39)	(41)	2	4%
Recurring net profit - post company-specific adjustments [2]	**16.7**	**3.6**	**13**	**-**
EPRA Earnings	**435**	**(518)**	**953**	**-**
Profit attributable to the Group	**492**	**(547)**	**1,039**	**-**

(1) Sign according to the profit impact

(2) Recurring net profit= EPRA Earnings + company specific adjustments, in particular the adjustament of the discontinued operations (Asentia)

(3) Invoiceable costs net of costs invoiced + non invoiceable operating costs

Recurring operating resultt

- At the end of 2014, the Group reached a recurring EBITDA of €161m, 2% lower than the same period the previous year.

  Like-for-like[(1)] recurring EBITDA was at €149m, a figure 4% higher than the previous year.

- The operating result of the property portfolio (EBITDA rents) increased by 4% in like-for-like terms.

  This increase is mainly due to higher rental revenues, in like-for-like terms, in the Madrid and Paris portfolios.

  These increases compensate for the decrease in rents in the Barcelona portfolio. This variance is analysed in detail in the 'Business Performance' section of this report.

OPERATING RESULTS - December cumulative - €m

	2014	2013	Var.%[(1)]
EBITDA rents like-for-like	**180**	**173**	**4%**
EBITDA - overheads	(32)	(32)	1%
EBITDA - other like-for-like income	1	3	(54%)
EBITDA - recurring like-for-like	**149**	**143**	**4%**
Non-comparable EBITDA	12	21	(44%)
EBITDA - recurring	**161**	**165**	**(2%)**

(*) Sign according to the profit impact

Non-recurring operating profit

The extraordinary results were mainly due to the positive impact of the "deconsolidation"[(2)] of Asentia with a positive impact of €701m. Additionally, due to the tax reform on the use of negative taxable bases, the company has fully reverted the capitalized tax credit on the balance sheet.

(1) Like-for-like EBITDA, adjusting for disposals, variances in the project portfolio and other extraordinary effects

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

Financial results

- On 4 April 2014, Colonial signed a new syndicate loan for €1,040m which, together with the capital increase of €1,263m, allowed for the total repayment of the syndicated debt on 6 May 2014, as well as practically all of its bilateral loans, positioning its Holding LTV at close to 40% (38.4% at 31 December).

- On 20 November 2014, SFL issued bonds for an amount of €500m with a maturity of 7 years and a fixed coupon of 1.875%. Subsequently, on 27 November 2014, SFL carried out a partial repurchase of existing bonds maturing in 2016 and 2017, for the amounts of €200m and €100m. With this transaction, the Colonial Group has extended the maturity dates of its debts and reduced its financial expenses.

- The total financial results of the Group up to 31 December amounted to €(225)m, of which €(102)m corresponded to recurring financial result and €(123)m to non-recurring financial expenses.

- The recurring financial expenses of the Group amounted to €(109)m, 21% less than the previous year, due to the reduced volume of debt following the recapitalization.

Financial Result - December cumulative - €m	**ESP**	**FR**	**2014**	**2013**	**Var[1]**
Recurring financial income	1	0	1	3	(74%)
Recurring financial expenses - Spain	(47)	0	(47)	(74)	(36%)
Recurring financial expenses - France	0	(62)	(62)	(64)	(3%)
Capitalized interest expenses	0	7	7	11	(36%)
Recurring Financial Result (excluding equity method)	**(46)**	**(55)**	**(102)**	**(124)**	**(18%)**
Non-recurring financial income	0	0	0	5	(100%)
Non-recurring financial expenses	(90)	(24)	(114)	(76)	50%
Change in fair value of financial instruments	(1)	(8)	(9)	(18)	(50%)
Financial Result (excluding equity method)	**(137)**	**(87)**	**(225)**	**(213)**	**5%**

(1) Sign according to the profit impact

- The capitalized borrowing expenses during the year amounted to €7m, and correspond to the financing of a project in France.

- 80% of the non-recurring financial expenses are concentrated in Spain and mainly correspond to the accounting record for the capitalizable interests of 686 bp over the principal of Colonial's previous syndicate loan (€41m), to the cancellation of accrued hedging instruments and expenses associated with this loan (€13.5m), and to the expenses associated with the completion of Colonial's new financing (€31.8m).

- In France, the non-recurring financial expenses correspond to the transaction cost of the repurchasing of bonds described above (€22.3m). The variances in value of the financial instruments mainly correspond to the impact of the anticipated cancellation by SFL of non-IAS-compliant hedging transactions.

- The Group's financial cost of debt is broken down in the chart below. It is important to keep in mind that the change in Colonial's financial structure is effective as from 6 May 2014.

December cumulative - €m	**SP**	**FR**	**2014**	**2013**	**Var**
Average cost of debt	3.53%	3.54%	3.54%	3.23%	31pb
Drawdown fees	0.00%	0.44%	0.22%	0.20%	2pb
Arrangement fees	0.00%	0.43%	0.22%	0.17%	5pb
Cost of debt - % total	**3.53%**	**4.41%**	**3.98%**	**3.60%**	**38pb**
Average spread (without comissions)	**290pb**	**205pb**	**247pb**	**182pb**	**65pb**

- The average credit spread of the Group for 2014 is 247 basis points over the Euribor (290 basis points in Spain and 205 basis points in France). Including the commissions, the average credit spread is 291 basis points (290 basis points in Spain and 292 basis points in France).

1.3 CONSOLIDATED BALANCE SHEET

€M	12/2014	12/2013
ASSETS		
Consolidated goodwill	0	120
Investment property - In operation	*5,345*	*4,602*
Investment property - Work in progress, advances and provisions	*318*	*314*
Property investments	5,663	4,916
Equity method	0	302
Other non-current assets	47	216
Non-current assets	**5,710**	**5,554**
Debtors and other receivables	71	66
Other current assets	128	57
Assets available for sale	17	843
Current assets	**215**	**966**
TOTAL ASSETS	**5,925**	**6,520**
LIABILITIES		
Share capital	*797*	*226*
Other reserves	*154*	*36*
Profit (loss) for the period	*492*	*(547)*
Others	*(20)*	*(59)*
Equity	1,423	(344)
Minority interests	1,376	1,273
Net equity	**2,799**	**929**
Bond issues and other non-current issues	1,196	996
Non-current financial debt	1,401	547
Deferred tax	197	169
Other non-current liabilities	124	121
Non-current liabilities	**2,918**	**1,833**
Bond issues and other current issues	9	14
Current financial debt	68	2,057
Creditors and other payables	93	88
Other current liabilities	39	62
Liabilities associated to assets available for sale	0	1,538
Current liabilities	**209**	**3,758**
TOTAL EQUITY & LIABILITIES	**5,925**	**6,520**

MARKET VALUE RECONCILIATION (€m)

Tangible fixed assets-own use (1)	30
Real estate investment (w/o advances on fixed assets) (2)	5,657
Non- current assets held for sale - Investment properties (3)	17
Value accounted on balance	**5,703**
Unrealised capital gains - own use	11
Not appraised	0
Rent free periods	44
Adjustments	**54**
Appraisal value according to external appraisers	**5,757**

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

1.4 DEBT DETAILS

Group financial net debt stood at €2,545m at 31 December 2014, as shown in the table below:

BREAKDOWN OF THE CONSOLIDATED NET FINANCIAL DEBT (€m)

	December 2014			December 2013			Var.
	SP	**FR**	**Total**	**SP**	**FR**	**Total**	**Total**
Syndicate loan	1,040	0	1,040	1,759	50	1,809	(769)
Mortgage debt/leases	43	232	275	299	237	536	(261)
Subordinated debt	0	0	0	42	0	42	(42)
Unsecured debt and others	0	156	156	11	199	210	(54)
Bonds	0	1,200	1,200	0	1,000	1,000	200
Total Gross debt	**1,083**	**1,588**	**2,671**	**2,111**	**1,486**	**3,597**	**(926)**
Cash & cash equivalents (*)	(109)	(17)	(126)	(25)	(29)	(54)	(72)
Group Net Debt	**974**	**1,572**	**2,545**	**2,086**	**1,457**	**3,543**	**(998)**
Average maturity of drawn debt (years)	4.1	3.8	3.9	1.3	2.8	2.7	1.2
Cost of debt % (without arrangement fees)	3.53%	3.98%	3.76%	3.02%	4.05%	3.43%	33pb

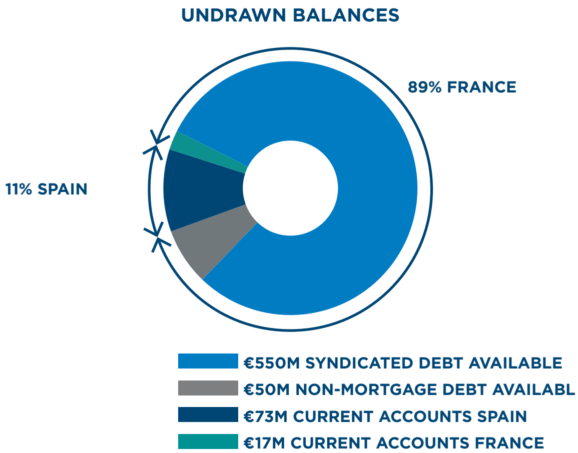
(*) without excluding committed cash for a total amount of €36m

Main leverage ratios and liquidity

The Holding net debt at December 2014 amounted to €936m (€970m excluding committed cash) and the Group net debt amounted to €2,545m (€2,581m excluding committed cash).
The LTV (Loan to Value) leverage ratios are 38.4% for the Holding LTV(1) and 44.8% for the Group(2). When considering the asset value before deducting acquisition costs (value including transfer costs), the LTV ratios are 36.3% and 42.8%, respectively, as shown in the table below:

MAIN LEVERAGE RATIOS (DECEMBER CUMULATIVE - €m)

	Holding	Group
GAV incl. Transfer costs	2,670	6,033
GAV excl. Transfer costs	2,523	5,757
Net debt - excluding commited cash	970	2,581
LTV incl. Transfer costs	**36.3%**	**42.8%**
LTV excl. Transfer costs	**38.4%**	**44.8%**



Undrawn balances of the Colonial Group at 31 December 2014 amounted to €690m, distributed as shown in the graph above.

(1) Calculated as financial debt Holding excluding committed cash/GAV Holding
(2) Calculated as consolidated net debt excluding committed cash/consolidated GAV

Hedging portfolio

The breakdown of the hedging portfolio at 31 December 2014 is the following:

31 December 2014 Financial instrument - €m	Description	Spain	France	Total	%	MTM (Ex-coupon)
SWAP	From floating to fixed rate	119	185	304	28%	(13)
CAP	Floating rate with a maximum	780	0	780	72%	0
Total hedging portfolio (Variable - Fixed)		**899**	**185**	**1,084**	**100%**	**(13)**
Maturity (years)		**4.1**	**2.7**	**3.8**		
% Hedging portfolio / Gross debt (*)		**83%**	**48%**	**74%**		
% Fixed rate or hedged debt vs/ Gross debt (*)		**83%**	**87%**	**85%**		

(*) In the case of Colonial, only the new CAPs (€780m) to hedge the new syndicate loan have been considered

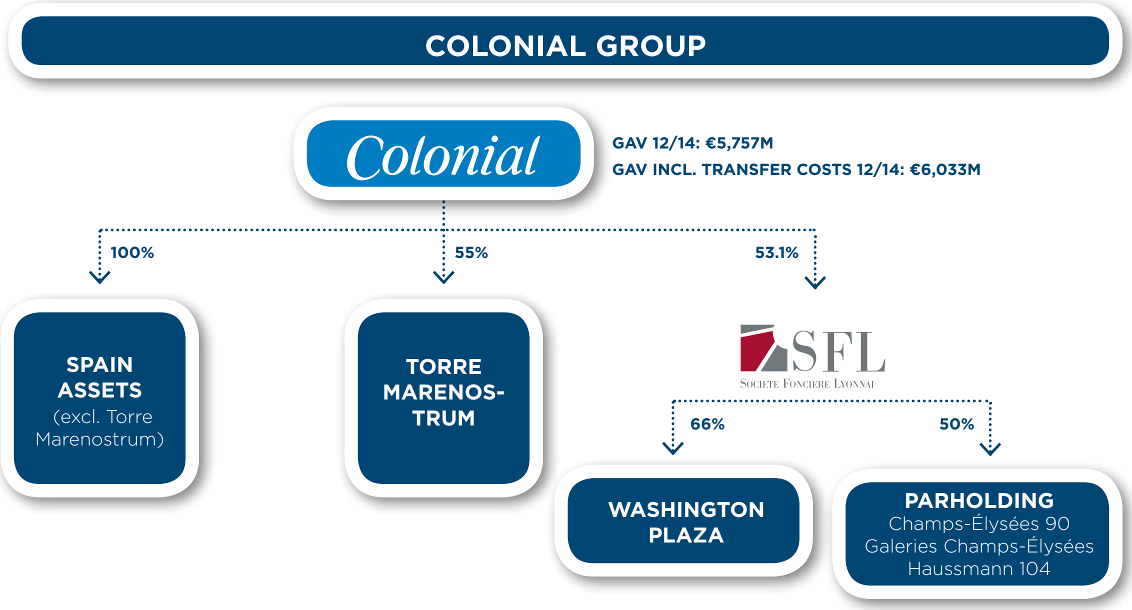
- The objective of the risk management policy is to maintain an appropriate global cost of debt. To achieve this, the Group uses derivative financial instruments that enable it to manage its exposure to interest rate fluctuations. In addition, the policy of the Group is to contract instruments that comply with the requirements established under the IFRS 39, allowing the variance in the market value (MTM) to be registered directly in net equity. Accordingly, on 9 May 2014, Colonial proceeded to contract CAPs for €780m, with a strike or hedging level of 1.25%, maturing on 31 December 2018, with the intention to cover 75% of the principal of the new syndicate loan.

- The effective hedging ratio at 31 December 2014 (hedges/debt at floating rates) stood at 74% (83% in Spain and 48% in France).

- At 31 December 2014, the total percentage of debt hedged or at a fixed rate over the total debt stood at 85% due to the effect of the SFL bonds at a fixed rate (83% in Spain and 87% in France).

1.5 LEGAL STRUCTURE

Legal structure



1.6 HISTORICAL SERIES

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

2

Inmobiliaria Colonial, S.A. and Subsidiaries

2014

Consolidated Financial Statements for the year ended 31 December 2014, prepared in accordance with International Financial Reporting Standards and Consolidated Management Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 27). In the event of a discrepancy, the Spanish-language version prevails.

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

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Inmobiliaria Colonial, S.A.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Inmobiliaria Colonial, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the consolidated statement of financial position at 31 December 2014 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.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

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.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of Inmobiliaria Colonial, S.A. and Subsidiaries as at 31 December 2014, and their consolidated results and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated directors' report for 2014 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 2014. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of Inmobiliaria Colonial, S.A. and Subsidiaries.

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

Francesc Ganyet

26 February 2015

COL·LEGI
DE CENSORS JURATS
DE COMPTES
DE CATALUNYA

Membre exercent:

DELOITTE, S.L.

Any 2015 Núm. 20/15/00100
CÒPIA GRATUÏTA

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2014 (Thousands of Euros)

ASSETS	Note	31 December 2014	31 December 2013
Goodwill	7	-	120,000
Intangible assets	-	2,486	2,035
Property, plant and equipment	8	32,985	32,952
Investment property	9	5,663,309	4,916,066
Non-current financial assets	10	10,070	309,750
– Investments accounted for using the equity method		-	302,341
– Other financial assets		10,070	7,409
Non-current deferred tax assets	18	1,422	142,592
Other non-current assets	11	126	30,709
NON-CURRENT ASSETS		**5,710,398**	**5,554,104**
Trade and other receivables	12	58,008	47,476
Current financial assets	-	63	951
Current tax assets	18	14,513	20,995
Cash and cash equivalents	14	125,956	53,557
Non-current assets held for sale	24	16,539	842,748
CURRENT ASSETS		215,079	965,727
TOTAL ASSETS		**5,925,477**	**6,519,831**

The accompanying Notes 1 to 27 and Appendix I are an integral part of the consolidated statement of financial position for the year ended 31 December 2014.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2014 (Thousands of Euros)

EQUITY AND LIABILITIES	Note	31 December 2014	31 December 2013
Share capital		797,214	225,919
Share premium		560,606	109
Reserves of the Parent		1,165,187	1,083,485
Prior years' losses at the Parent		(944,584)	(837,243)
Reserves in consolidated companies		(621,819)	(193,463)
Valuation adjustments recognised in equity - financial instruments		(6,368)	(18,358)
Other equity instruments		1,904	2,488
Treasury shares		(21,291)	(59,945)
Profit/(loss) for the year		491,994	(546,928)
Equity attributable to shareholders of the Parent		**1,422,843**	**(343,936)**
Non-controlling interests		**1,376,108**	**1,272,765**
EQUITY	13	**2,798,951**	**928,829**
Bank borrowings and other financial liabilities	14 & 15	1,479,951	627,895
Bonds and similar securities issued	14	1,195,564	995,587
Non-current deferred tax liabilities	18	203,750	184,776
Non-current provisions	17	13,611	767
Other non-current liabilities	16	24,891	23,643
NON-CURRENT LIABILITIES		**2,917,767**	**1,832,668**
Bank borrowings and other financial liabilities	14 & 15	73,468	2,059,521
Bonds and similar securities issued	14	8,775	13,619
Trade payables	16	104,302	101,220
Current tax liabilities	18	16,035	25,507
Current provisions	17	6,179	20,609
Liabilities relating to assets held for sale	24	-	1,537,858
CURRENT LIABILITIES		**208,759**	**3,758,334**
TOTAL EQUITY AND LIABILITIES		**5,925,477**	**6,519,831**

The accompanying Notes 1 to 27 and Appendix I are an integral part of the consolidated statement of financial position for the year ended 31 December 2014.

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEARENDED 31 DECEMBER 2014 (Thousands of Euros)

STATEMENT OF COMPREHENSIVE INCOME	Note	2014	2013
Revenue	20	211,477	213,111
Other income	20	2,606	4,095
Staff costs	20	(25,432)	(18,789)
Other operating expenses	20	(54,333)	(39,997)
Depreciation and amortisation charge		(1,444)	(1,490)
Net change in provisions		(17,941)	(17,682)
Net gain/(loss) on sales of assets	20	(27)	(9,056)
Operating profit		**114,906**	**130,192**
Change in fair value of investment property	20	331,953	37,430
Impairment charges and net gains/(losses) on assets	20	(124,579)	(649)
Finance income	20	19,402	22,861
Share of profit/(loss) of companies accounted for using the equity method	20	(2,176)	20,969
Finance costs	20	(232,366)	(235,723)
Impairment of financial assets		(3,733)	(107)
Profit/(loss) before tax		**103,407**	**(25,027)**
Income tax expense	18	(175,783)	(34,817)
Consolidated net loss from continuing operations		**(72,376)**	**(59,844)**
Profit/(loss) from discontinued operations	24	700,861	(405,052)
Consolidated net profit/(loss)		**628,485**	**(464,896)**
Net profit/(loss) for the year attributable to the Parent		491,994	(546,928)
Net profit attributable to non-controlling interests	13	136,491	82,032
Basic earnings per share (€)	5	0.228	(2.439)
Diluted earnings per share (€)	5	0.228	(2.439)
Other comprehensive income			
Consolidated net profit/(loss)		**628,485**	**(464,896)**
Other components of comprehensive income recognised directly in equity		**3,955**	**37,883**
Net gain/(loss) on hedging instruments	15	4,329	44,884
Tax effect on prior years' profit or loss		(374)	(7,001)
Transfers to comprehensive income		**10,742**	**6,844**
Net gain/(loss) on hedging instruments	15	10,742	6,844
Consolidated comprehensive income/(loss)		**643,182**	**(420,169)**
Comprehensive income/(loss) for the year attributable to the Parent		503,984	(515,079)
Comprehensive income/(loss) attributable to non-controlling interests		139,198	94,910
Comprehensive basic earnings per share (euros)		0.234	(2.297)
Comprehensive diluted earnings per share (euros)		0.234	(2.297)

The accompanying Notes 1 to 27 and Appendix I are an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2014.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014 (Thousands of Euros)

	Note	Share capital	Share premium	Reserves of the Parent	Prior years' losses at the Parent	Reserves in consolidated companies	Valuation adjustments recognised in equity - financial instruments	Treasury shares	Other equity instruments	Profit/ (loss)	Non-controlling interests	Total
Balance at 31 December 2012	**13**	**225,918**	**102**	**1,083,591**	**-**	**48,822**	**(1,008)**	**(60,047)**	**3,955**	**(1,129,005)**	**1,219,637**	**1,391,965**
Total recognised income and expense for the period		-	-	-	-	-	31,849	-	-	(546,928)	94,910	**(420,169)**
Capital increase		1	7	(42)	-	-	-	-	(8)	-	-	**(42)**
Allocation of 2012 loss		-	-	-	(837,243)	(291,762)	-	-	-	1,129,005	(49,084)	**(49,084)**
Issuance of other equity instruments		-	-	(89)	-	-	-	-	89	-	-	**-**
Treasury share portfolio		-	-	-	-	-	-	102	-	-	90	**192**
Share-based payment transactions		-	-	-	-	-	-	-	(1,548)	-	267	**(1,281)**
Changes in scope of consolidation and other changes		-	-	25	-	49,477	(49,199)	-	-	-	6,945	**7,248**
Balance at 31 December 2013	**13**	**225,919**	**109**	**1,083,485**	**(837,243)**	**(193,463)**	**(18,358)**	**(59,945)**	**2,488**	**(546,928)**	**1,272,765**	**928,829**
Total recognised income and expense for the period		-	-	-	-	-	11,990	-	-	491,994	139,198	**643,182**
Capital increase		740,734	558,492	(49,977)	-	-	-	-	(2,025)	-	-	**1,247,224**
Capital reduction		(169,439)	-	169,439	-	-	-	-	-	-	-	**-**
Allocation of 2013 loss		-	-	-	(107,341)	(439,587)	-	-	-	546,928	(49,288)	**(49,288)**
Issuance of other equity instruments		-	2,005	(15)	-	-	-	-	15	-	-	**2,005**
Treasury share portfolio		-	-	(35,267)	-	(524)	-	38,654	-	-	(132)	**2,731**
Share-based payment transactions		-	-	-	-	-	-	-	1,426	-	207	**1,633**
Changes in scope of consolidation and other changes		-	-	(2,478)	-	11,755	-	-	-	-	13,358	**22,635**
Balance at 31 December 2014	**13**	**797,214**	**560,606**	**1,165,187**	**(944,584)**	**(621,819)**	**(6,368)**	**(21,291)**	**1,904**	**491,994**	**1,376,108**	**2,798,951**

The accompanying Notes 1 to 27 and Appendix I are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2014.

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

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014 (Thousands of Euros)

CASH FLOWS FROM CONTINUING OPERATIONS	Note	2014	2013
1. CASH FLOWS FROM OPERATING ACTIVITIES			
Operating profit		114,906	130,192
Adjustments to profit			
Depreciation and amortisation (+)		1,444	1,490
Net change in provisions (+/-)	20	17,941	17,682
Other	20	(8,025)	(1,281)
Gains/(losses) on disposal of investment property (+/-)	20	27	9,056
Adjusted profit		126,293	157,139
Taxes paid (-)		8,883	(21,040)
Dividends received from associates (+)	10	7,279	9,066
Increase/(decrease) in current assets and liabilities			
Increase/(decrease) in receivables (+/-)		(24,765)	3,110
Increase/(decrease) in payables (+/-)		(2,774)	(8,293)
Net cash generated by operating activities		**114,916**	**139,982**
2. CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in (-)			
Intangible assets		(1,027)	(1,079)
Property, plant and equipment	8	(88)	(151)
Investment property	9	(375,186)	(146,486)
Financial assets		-	-
		(376,301)	(147,716)
Disposals of (+)			
Property, plant and equipment	8	121	-
Financial assets	10	303,351	17,514
Investment property	9	-	381,105
		303,472	398,619
Net cash generated by/(used in) investing activities		**(72,829)**	**250,903**
3. CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid (-)	13	(49,288)	(49,084)
Repayment of bank borrowings (-)	14	(2,188,969)	(250,078)
Interest paid (+/-)	20	(189,284)	(107,449)
Cancellation of derivative financial instruments (-)	20	(22,384)	(17,620)
		(2,449,925)	(424,231)
New bank borrowings obtained (+)	14	1,209,206	85,604
Capital increase (+)	13	1,263,338	-
Expenses associated with capital increases	13	(49,977)	-
Treasury share transactions (+/-)	13	2,731	55
Other proceeds/(payments) for current financial assets and other (+/-)		54,939	(15,245)
		2,480,237	70,414
Net cash generated by/(used in) financing activities		**30,312**	**(353,817)**
4. NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS			
Net cash for the year generated by continuing activities		**72,399**	**37,068**
Cash and cash equivalents at beginning of year	**14**	**53,557**	**69,017**
Cash transferred to discontinued operations		**-**	**(52,528)**
Cash and cash equivalents at end of year	**14**	**125,956**	**53,557**
CASH FLOWS FROM DISCONTINUED OPERATIONS			
1. Net cash generated by continuing operations		-	52,528
2. Net cash generated by operating activities		-	3,237
3. Net cash used in investing activities		-	(8,043)
4. Net cash used in financing activities		-	(58,791)
NET CASH USED IN DISCONTINUED OPERATIONS	**24**	**-**	**(11,069)**

The accompanying Notes 1 to 27 and Appendix I are an integral part of the consolidated statement of cash flows at 31 December 2014.

1. Colonial Group business activity

Group activity

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

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

Until the date of its exclusion from the consolidated Asentia subgroup (Note 2-f), the Group also developed land and housing in Spain through its subsidiaries Asentia Project, S.L.U. (hereinafter, “Asentia” or “Asentia Project”) and Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. (hereinafter, “DUE”), and the development and management of shopping centres and business parks in Spain, Bulgaria and Romania through the group of which Riofisa, S.A.U. is the parent (hereinafter, the “Riofisa subgroup” or “Riofisa” for the subsidiary).

Inmobiliaria Colonial, S.A. is listed 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, maintenance and the preservation of its property portfolio.

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

These consolidated financial statements have been prepared under the International Financial Reporting Standards (IFRSs) as adopted by the European Union, taking into account all mandatory accounting policies and rules and measurement bases, the Spanish Code of Commerce, the Spanish Limited Liability Companies Law, the Spanish Securities Markets Law and other applicable company law, as well as regulations laid down by the Spanish National Securities Market Commission (CNMV), to present a true and fair view of the Colonial Group’s consolidated equity and financial position at 31 December 2014 and of the comprehensive income from its operations, the changes in consolidated equity and the consolidated cash flows for the year then ended.

The consolidated financial statements of Inmobiliaria Colonial, S.A. and Subsidiaries for the year ended 31 December 2014 were prepared on the basis of the accounting records kept by the Parent and by the other companies comprising the Colonial Group and were authorised for issue by the Parent’s directors at the Board meeting held on 25 February 2015.

However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements at 31 December 2014 may differ from those used by certain Group companies, the required adjustments and reclassifications were made on consolidation to unify the policies and bases used and to make them compliant with International Financial Reporting Standards.

In order to present the various items that make up the consolidated financial statements on a consistent basis, the accounting policies and measurement bases used by the Parent were applied to all the companies included in the scope of consolidation.

The Group's consolidated financial statements for the year ended 31 December 2013 were approved by the shareholders of the Parent at the General Meeting held on 30 June 2014.

b) Adoption of International Financial Reporting Standards

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

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

Standards and interpretations effective in 2014

New accounting standards became effective in 2014 and were accordingly taken into account in preparing these consolidated financial statements. The new standards are as follows:

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS		Mandatory application for annual periods beginning on or after
IFRS 10 Consolidated Financial Statements (issued in May 2011)	Replaces the parts of IAS 27 that deal with consolidated financial statements	1 January 2014 (1)
IFRS 11 Joint Arrangements (issued in May 2011)	Replaces IAS 31 Interests in Joint Ventures	1 January 2014 (1)
IFRS 12 Disclosure of Interests in Other Entities (issued in May 2011)	Single disclosure standard applicable to entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities	1 January 2014 (1)
IAS 27 (Revised) Separate Financial Statements (issued in May 2011)	The standard has been revised because, following the issuance of IFRS 10, it will now only include the separate financial statements of an entity	1 January 2014 (1)
IAS 28 (Revised) Investments in Associates and Joint Ventures (issued in May 2011)	This revision is parallel to the issuance of IFRS 11 Joint Arrangements	1 January 2014 (1)
Transition rules: Amendments to IFRS 10, 11 and 12 (issued in June 2012)	Clarification on the transition rules applying to these standards	1 January 2014 (1)
Investment entities: Amendments to IFRS 10, IFRS 12 and IAS 27 (issued in October 2012)	Provides an exemption from consolidation for parent companies meeting the definition of investment entity	1 January 2014
Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities (issued 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	1 January 2014
Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets (issued in May 2013)	Clarifies certain disclosure requirements and requires additional information when the recoverable amount is based on fair value less costs of disposal.	1 January 2014 (2)
Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting (issued June 2013)	Determine the cases where and criteria under which there would be no need to discontinue hedge accounting if a hedging derivative was novated	1 January 2014

(1) The European Union delayed the date of mandatory application by one year. The original application date of the IASB was 1 January 2013.

(2) These amendments to IAS 36 were applied early by the Group, effective as of 1 January 2013.

The application of the aforementioned new regulations described did not have a significant impact on the consolidated financial statements.

Standards and interpretations issued but not yet effective

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

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS		Mandatory application for annual periods beginning on or after
Approved for use in the European Union		
IFRIC 21 Levies (issued in May 2013)	Guidance on when to recognise a liability for levies charged for participation in a market on a specified date	17 June 2014 (1)
Not approved for use in the European Union		
IFRS 9 Financial Instruments (last phase issued in July 2014)	Replaces the rules for the classification and measurement of financial assets and liabilities and for derecognition established in IAS 39	1 January 2018
IFRS 14 Regulatory Deferral Accounts	Financial reporting requirements for regulatory deferral account balances that arise when an entity provides goods or services to customers at a price or rate subject to rate regulation	1 January 2016
IFRS 15 Revenue from Contracts with Customers (issued in May 2014)	New standard for the recognising revenue (substitutes IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC 31)	1 January 2017
Amendments to IAS 19 Defined Benefit Plans: Employee Contributions (issued in November 2013)	The amendments permit contributions to be recognised as a reduction in the service cost in the period in which payment for the related service is made, if certain requirements are met	1 July 2014
Improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle (issued in December 2013)	Minor amendments to a series of standards	1 July 2014
Amendments to IAS 16 and IAS 38 Acceptable Methods of Depreciation and Amortisation (issued in May 2014)	Clarifies acceptable methods of depreciation for property, plant and equipment and amortisation for intangible assets	1 January 2016
Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (issued in May 2014)	Specifies how to account for the acquisition of interest in a joint operation that constitutes a business	1 January 2016
Improvements to IFRSs 2012-2014 Cycle (issued in May 2014)	Minor amendments to a series of standards	1 January 2016
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (issued in September 2014)	Clarification regarding the results of these transactions if they are businesses or assets	1 January 2016
Amendments to IAS 27 Equity Method in Separate Financial Statements (issued in August 2014)	An investor may now be accounted for using the equity method in separate financial statements	1 January 2016
Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants (issued in June 2014)	Bearer plants will now be recognised at cost, instead of at fair value	1 January 2016

(1) The European Union endorsed IFRIC 21 (EU Bulletin 14 June 2014), replacing the original date of entry into force established by the IASB (1 January 2014) with that of 17 June 2014.

The application of new standards, amendments and interpretations will be considered by the Group once they have been ratified and adopted, where appropriate, by the European Union.

The Parent's directors have reviewed the potential impacts of the future application of these standards and consider that their entry into force will not have a significant effect on the consolidated financial statements.

c) Functional currency

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

d) Responsibility for the information provided and estimates and judgements made

The information in these consolidated financial statements is the responsibility of the Parent's directors. Management of the Parent has made estimates based on objective data in order to quantify certain assets, liabilities, income, expenses and commitments reported herein. These estimates and criteria relate to the following:

- The market value of investment property (Note 4-c).
- The measurement and impairment of goodwill (Notes 4-a and 7).
- The recoverability of tax credits in respect of tax loss carryforwards and deferred tax assets recognised (Notes 4-m and 18).
- The market value of certain financial assets, including derivative financial instruments (Note 15).
- Evaluation of lawsuits, obligations and contingent assets and liabilities at year-end (Notes 17 and 19).

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

e) Basis of consolidation

The main consolidation principles applied by the Parent's directors in preparing these consolidated financial statements were as follows:

1. The accompanying consolidated financial statements were prepared from the accounting records of Inmobiliaria Colonial, S.A. and its subsidiaries, whose financial statements were prepared by each Group company's management. The Parent is considered to have effective control in the circumstances outlined in point 6 below.

2. The results of the subsidiaries acquired or sold during the year are included in consolidated earnings from the effective date of acquisition or until the effective date of disposal, as appropriate.

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

4. Where necessary, the financial statements of the subsidiaries are adjusted to ensure uniformity with the accounting policies applied by the Group's Parent.

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

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

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

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

Full consolidation

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

– Accordingly, Asentia Project, S.L.U. was fully consolidated at 31 December 2013 because the possibility of converting the participating loan into shares in the company was only exercisable by the banks for a period of 30 days from the day on which Asentia Project, S.L.U. issued the certificate evidencing the Loan to Value and Net Loan to Value ratios. At 31 December 2013, the potential voting rights were not exercisable. Therefore, given that the carrying amount was negative, the items from the Asentia subgroup continued to be included.

– Subsidiaries are accounted for using the purchase method. The acquisition cost is the fair value of the assets delivered, the equity instruments issued and the liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and identifiable liabilities and contingencies incurred in a business combination are measured initially at fair value at the acquisition date, regardless of the effect of non-controlling interests. When the acquisition cost is higher than the fair value of the Group's interest in the identifiable net assets acquired, the difference is recognised as goodwill. If the acquisition cost is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income (see Appendix I for details of companies consolidated at 31 December 2014 and 2013).

The equity method.

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

- Associates are entities in which the Colonial Group has significant influence but not control. Significant interest is generally evidenced by an interest of between 20% and 50% in the voting shares of a company.

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

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

7. The accompanying consolidated financial statements do not include the tax effect, if any, of transferring the reserves of the consolidated companies to the Parent's equity, since it is considered that these reserves will be used to finance the operations of each company and any potential distributions will not represent a significant additional tax cost.

8. The assets and liabilities of foreign operations are translated using the exchange rates prevailing at the reporting date. Income and expenses are translated at the average exchange rates for the period, while other equity items are translated at the historical exchange rate. Any translation differences arising are classified as equity. Translation differences are recognised as income or expenses in the period in which the investment is realised or disposed of.

f) Changes in the scope of consolidation

The following changes occurred in the scope of consolidation in 2014.

- On 25 February 2014, Asentia Project, S.L. increased its share capital by 13 thousand euros through the issuance of 12,800 shares of 1 euro par value each. This capital increase was fully assumed through the conversion of debt into equity by three creditors of Asentia. As a result of such capital increase, Colonial's equity interest in the share capital of this company which, to date, had been 100%, was reduced to 18.99%.

  Likewise, on the same date, the shareholders at Asentia's General Shareholders' Meeting approved the modification of the Company's Board of Directors, replacing the Sole Director with a Board of Directors and appointing four directors, none of which is a representative of Colonial.

  Subsequently, various capital increases were carried out, which were subscribed in full through the conversion of debt into equity by various creditors of Asentia, and reduced Colonial's interest to 3.79% at 31 December 2014.

  Consequently, Colonial lost its control over Asentia, whose ownership interest was recognised in the statement of financial position as an available-for-sale financial asset, recognising the investment in the financial statements at 0 euros. Also, and as a result of the aforementioned loss of control, the effect of the financial deposits delivered on account of the Asentia Group was recognised (Note 17).

  The impact of the change in the scope of consolidation on the main items of the consolidated statement of financial position at 31 December 2014 is as follows:

ASSETS	31 December 2014	LIABILITIES	31 December 2014
		Reserves in consolidated companies	3,530
		Valuation adjustments recognised in equity - financial instruments (Note 13)	5,317
		Profit for the year (Note 5)	700,740
		Non-controlling interests (Note 13)	13,695
		EQUITY	**723,282**
		Non-current provisions (Note 17)	26,065
		NON-CURRENT LIABILITIES	**26,065**
Non-current assets held for sale (Note 24)	(788,511)	Liabilities relating to assets held for sale (Note 24)	(1,537,858)
CURRENT ASSETS	**(788,511)**	**CURRENT LIABILITIES**	**(1,537,858)**
TOTAL ASSETS	**(788,511)**	**TOTAL EQUITY AND LIABILITIES**	**(788,511)**

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

	Thousands of Euros
	December 2014
Derecognition of assets and liabilities of non-controlling interests (Note 24)	735,531
Recognition of financial guarantees (Note 17)	(26,065)
Recycling to the statement of comprehensive income of the derivative reserve (Note 13)	(5,317)
Other recycling to the statement of comprehensive income	(3,289)
Profit from discontinued operations	**700,861**
Attributable to shareholders of the Parent	700,740
Attributable to non-controlling interests (Note 13)	121

"Recognition of financial guarantees" includes the non-current provisions recognised for the financial guarantees delivered on account of the Asentia Group when control over this company was lost.

- 12,535 thousand euros corresponding to the value granted by Colonial to the Asentia warrants, valuing them at the consideration paid (shares of the Parent), and which were executed on 30 December 2014 (Notes 10 and 13), and

- 13,530 thousand euros corresponding to the development costs pending execution in the Entrenúcleos EU-1, under the agreements reached with BBVA in the refinancing of DUE signed on 20 June 2013. The funds to meet this obligation are deposited in an account pledged in favour of BBVA.

- On 23 July 2014, SFL transferred all of the shares (29.63%) it held in the share capital of SIIC de Paris. This interest was accounted for using the equity method. The sale price, net of transfer costs, amounted to 303,557 thousand euros, generating an accounting gain of 8,485 thousand euros (Note 24).

- On 1 October 2014, and effective for accounting purposes as of 1 January 2014, the assets and liabilities of the subsidiary Abix Service, S.L.U. (hereinafter, "Abix") were transferred en bloc to the Parent, without this transaction having any impact on the consolidated financial statements at 31 December 2014.

- On 4 December 2014, SFL acquired 100% of the share capital of the French subsidiaries SNC Condorcet Holding and SNC Condorcet Propco, owners of a property located in Rue Condorcet in Paris. The share capital was acquired for 229,438 thousand euros (Note 9).

  The changes in the scope of consolidation in 2013 were as follows:

  - The Parent's interest in SFL was reduced from 53.451% to 53.142% as a result of the debt refinancing agreement reached with the subsidiary DUE's financial institution. The outcome of this agreement was the sale of 143,765 shares in SFL for a total of 6,513 thousand euros.

At 31 December 2014 and 2013, the subsidiaries Colonial Invest, S.L.U. (formerly, Asentia Invest, S.L.U.), Colonial Tramit, S.L.U. (formerly, Asentia Gestión, S.L.U.), Maud SAS (formerly, SB1 SAS), SB2 SAS, SB3 SAS y SCI SB3 were dormant.

g) Financial position. Recapitalisation and refinancing of the Parent

The directors prepared the 2013 consolidated financial statements in accordance with the going-concern principle of accounting, considering the resolutions adopted at the Extraordinary General Shareholders' Meeting on 21 January 2014, which authorised the members of Colonial's Board of Directors to execute the recapitalisation and refinancing of the Parent. All of this on the basis of the existence of three individual and binding investment commitments of the investment groups the Villar Mir Group, the Santo Domingo Group and the Amura Capital Group (linked to Mora Banc), subject to certain conditions.

The recapitalisation and obtainment of new financing was successfully completed with the performance of the following operations in the first half of 2014.

- On 17 February 2014, the capital reduction of 169,439 thousand euros was registered in the Barcelona Mercantile Register in order to increase restricted voluntary reserves by decreasing the par value of all shares from 1 euro to 0.25 euros per share (Note 13).

- On 25 February 2014, Asentia increased its share capital, which was subscribed in full through the capitalisation of loans by three of its creditors. As a result of such capital increase, Colonial's equity interest which, to date, had been 100%, was reduced to 18.99% of share capital. Share capital was subsequently reduced to 3.79%, following three new loan capitalisations, as described in Note 2-f.

- On 4 April 2014, Colonial and Crédit Agricole Corporate and Investment Bank, acting as the correspondent bank, and other financial entities, signed a new syndicated loan (Note 14) for 1,040,000 thousand euros, and the drawdown of funds was mainly subject to increasing share capital by a minimum amount of 1,240,000 thousand euros, giving a maximum loan to value ratio of 43%.

- On 6 May 2014, the Parent's share capital was increased through the issue and placement of 2,937,995,853 new shares of 0.25 euros par value each, plus a share premium of 0.18 euros each. This capital increase was filed in the Barcelona Mercantile Register (Note 13). The total amount of the capital increase was 1,263,338 thousand euros.

The funds obtained from the new syndicated loan and from the capital increase were used by the Parent to repay the previous syndicated loan early, to write off virtually all the bilateral loans held by the Parent and by Abix, and to finance costs of the financial restructuring process and the capital increase.

3. Allocation of loss of the Parent

In light of the loss in the Parent's 2014 income statement, there was no proposal to distribute profit.

4. Accounting policies

The main accounting policies used to prepare the consolidated financial statements, in accordance with International Financial Reporting Standards (IFRSs) and the interpretations in force when these consolidated financial statements were prepared, 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 which meet the criteria for recognition under IFRS 3 at fair value. The excess of the cost of a business combination over the acquiree's allocated assets, liabilities and contingent liabilities is recognised as goodwill, which, accordingly, represents advance payments made by the Colonial Group for future economic benefits generated by the assets of the acquiree that are not individually and separately identifiable and recognisable.

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

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

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

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

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

- First, the goodwill allocated to the CGU is reduced and, where the impairment loss exceeds this amount.
- The impairment loss is distributed over the CGU's remaining assets in proportion to their respective carrying amounts.

Impairment losses recognised for goodwill may not be reversed subsequently.

b) Property, plant and equipment (Note 8)

Property for own use

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

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

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

Other property, plant and equipment

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

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

Group companies depreciate their property, plant and equipment for own use and other items of property, plant and equipment using the straight-line method at annual rates based on the years of estimated useful life. The years of estimated useful life for property for own use located in Spain and France are as follows:

	Years of estimated useful life	
	Spain	France
Properties		
Buildings	50	50
Fixtures	10 to 15	10 to 50
Other installations	5 to 20	10 to 50
Other property, plant and equipment	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 20-d).

c) Investment property (Note 9)

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, and are recognised under "Change in fair value of investment property" in the consolidated statement of comprehensive income. These gains or losses are not included in operating profit as the changes in valuation are not directly within the control of the Group's management.

Assets are transferred from investment property in progress to investment property when they are ready for use.

When the Group recognises in the carrying amount of an asset the cost of a replacement for part of an investment property, it derecognises the carrying amount of the replaced part, recognising the impact under "Impairment charges and net gains/(losses) on assets" in the consolidated statement of comprehensive income. If the fair value of the assets replaced cannot be reliably determined, the cost of the replacement is included in the carrying amount of the property, whose fair value is later reassessed periodically on the basis of appraisals performed by independent experts.

In accordance with IAS 40, the Group calculates the fair value of its investment property on a regular basis. Fair value is determined based on the valuations made by independent experts (Jones Lang LaSalle in Spain and CB Richard Ellis Valuation, Jones Lang LaSalle and Atis Real in France, in both 2014 and 2013) at the date of preparing the consolidated statement of financial position, so that the year-end fair values for investment property items reflect prevailing market conditions. The valuation reports prepared by independent experts contain only the standard warnings and disclaimers concerning the scope of the findings of the appraisals carried out, referring basically to the comprehensiveness and accuracy of the information provided by the Group.

The methodology used to determine the market value of the Group's investment property in 2014 and 2013 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 end of the reporting period. Buildings with unlet floor space were valued on the basis of future estimated rentals, net of an estimated letting period.

The key inputs in this valuation method are the determination of net income, the period of time over which they are discounted, the estimated realisable value at the end of each period and the target internal rate of return used to discount the cash flows.

The estimated yields are mainly determined by the type, age and location of the properties, by the technical quality of the asset, as well as the type of tenant and occupancy rate, among others.

The yields and other assumptions used in determining future cash flows in 2014 and 2013 are set out in the tables below.

Yields (%) – Offices	Gross 31 December 2014	Gross 31 December 2013	Net 31 December 2013
Barcelona – Prime Yield			
Leased out	6.31	6.65	6.39
Total portfolio	6.32	6.65	6.39
Madrid – Prime Yield			
Leased out	5.80	6.48	6.20
Total portfolio	5.80	6.51	6.24
Paris – Prime Yield			
Leased out	4.54	5.12	5.12
Total portfolio	4.54	5.13	5.13

ASSUMPTIONS MADE
AT 31 DECEMBER 2014

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

ASSUMPTIONS MADE
AT 31 DECEMBER 2013

Rental increases (%) - Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona					
Leased out	2.5	2.5	2.5	2.5	2.5
Total portfolio	2.5	2.5	2.5	2.5	2.5
Madrid					
Leased out	2.5	2.5	2.5	2.5	2.5
Total portfolio	2.5	2.5	2.5	2.5	2.5
Paris					
Leased out	0.2	2.3	2.0	2.3	2.3
Total portfolio	0.2	2.3	2.0	2.3	2.3

A change of one-quarter of one point in yields would have the following impact on the valuations used by the Group at 31 December 2014 and 2013 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 2014	5,757,247	+307,574	-302,901
December 2013	5,039,038	+266,354	-241,224

Note: the effect detailed in the above table refers to the assets of the Group's property rental segment. It does not include the sensitivity in respect of investment property in progress.

The table below details the borrowing costs capitalised in 2014 and 2013 (Note 20-g):

	Thousands of Euros	
	Amount capitalised during the period	Average interest rate
2014		
SFL subgroup	7,473	3.52%
Total 2014	**7,473**	**-**
2013		
Inmobiliaria Colonial, S.A.	48	2.97%
SFL subgroup	10,937	3.59%
Total 2013	**10,985**	**-**

The rental income earned in 2014 and 2013 from the lease of investment properties amounted to 211,477 thousand and 213,111 thousand euros, respectively (Note 20-a), and is recognised under “Revenue” in the accompanying consolidated statement of comprehensive income.

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

Assets held under finance leases

The rights of use and purchase options arising from property, plant and equipment and investment properties classified as finance leases are recorded at the asset’s cash value at acquisition, according to the underlying asset whenever the lease terms transfer substantially all the risks and benefits incidental to ownership of the leased item to the Group. At 31 December 2014 and 2013, all these rights related to investment property and are therefore measured at market value and are not depreciated.

“Bank borrowings and other financial liabilities” (Note 14), both current and non-current, in the consolidated statement of financial position include the total liability from lease payments at their present value less deferred expenses. Financial transaction expenses are charged to the consolidated statement of comprehensive income each time a lease payment is made throughout the life of the lease in accordance with financial criteria.

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

d) Impairment of property, plant and equipment

At each reporting date, the Colonial Group assesses the carrying amounts of its property, plant and equipment to determine if there are indications that the assets have been impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash inflows that are independent of those from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount; however, the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

e) Financial instruments (excluding derivative financial instruments)

Financial assets (Notes 10 and 12)

Initial measurement

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

Classification and subsequent measurement

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

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

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

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

- Loans and receivables include the credit facilities granted to third parties and associates. They are measured at their nominal value and classified according to maturity. This heading also includes non-current deposits and guarantees granted, primarily in relation to deposits made with official entities in connection with security deposits collected from lessees, in accordance with prevailing legislation.

- Non-derivative financial assets include current and non-current fixed-income securities which are generally held until maturity and measured at amortised cost. Short-term fixed income securities are recognised under "Current financial assets" in the consolidated statement of financial position. Interest income is calculated in the year in which it accrues on a time proportion basis.

Financial liabilities (Note 14)

Financial liabilities consist primarily of loans from banks and are recognised at amortised cost.

Accounts payable are initially recognised at the fair value of the consideration received, adjusted for directly attributable transaction costs, and subsequently measured at amortised cost.

Financial liabilities are derecognised when the obligations giving rise to them cease to exist. When a debt instrument swap takes place between the Group and a third party, as long as these instruments have substantially different conditions, the Group derecognises the original financial liability and recognises the new financial liability. The difference between the carrying amount of the original liability and the payment received, including any attributable transaction costs, is recognised in the consolidated statement of comprehensive income.

The Group considers that the terms of the financial liabilities are substantially different if the present value of the discounted cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, differs by at least 10% from the present value of the remaining discounted cash flow from the original financial liability.

f) Receivables (Note 12)

Receivables are carried at recoverable value, i.e., net, where applicable, of the provisions recognised to cover past-due balances where circumstances warrant their consideration as bad debts.

At 31 December 2014 and 2013, the Group had no significant receivables past due but not impaired.

g) Cash and cash equivalents (Note 14)

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

h) Own equity instruments (Note 13)

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

Equity instruments issued by the Parent are recognised in equity at the proceeds received, net of direct issue costs.

Any Parent shares acquired during the year are recognised as a deduction from equity at the value of the consideration paid. Any gains or losses on the purchase, sale, issue or cancellation of own equity instruments are recognised directly in equity and not in the consolidated statement of comprehensive income.

i) Provisions and contingent liabilities (Notes 17 i 19)

In preparing the consolidated financial statements, the Parent's directors distinguish between.

- Provisions: credit balances covering obligations arising as a consequence of past events which could give rise to liabilities at the Group companies, the nature of which is certain but the amount and timing of which cannot be determined, and

- Contingent liabilities: possible obligations arising as a consequence of past events, depending on the occurrence of one or more future events over which the consolidated companies do not have control.

The consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled (Note 17). Contingent liabilities are not recognised, but are disclosed in Note 19.

The provisions, which are quantified taking into consideration the best information available concerning the consequences of the events on which they are based, and which are revised at each reporting close, are recognised in order to cover the specific and likely risks for which they were originally recognised, and are fully or partially reversed if and when said risks cease to exist or are reduced.

j) Employee benefits

Termination benefits

Under current legislation, the Group is required to pay severance to employees terminated under certain conditions. Severance payments which can be reasonably quantified are recorded as an expense in the year in which the decision to terminate the contract is taken and a valid expectation regarding termination is transmitted to third parties. At 31 December 2014, the Parent recorded a provision in this connection for 277 thousand euros.

Pension obligations (Note 17)

At 31 December 2014, the SFL subgroup had several defined-benefit pension plans. Defined benefit obligations are calculated periodically by independent actuarial experts. The actuarial assumptions currently used to calculate these liabilities are adapted to applicable French legislation, in accordance with IAS 19. The actuarial cost recorded in the consolidated statement of comprehensive income in relation to said plans is the sum of the service costs for the period, interest expense and actuarial gains and losses.

Share-based payments (Note 21)

The Group recognises the goods and services received as an asset or an expense, depending on their nature, when they are received, along with an increase in equity if the transaction is settled using equity instruments or the corresponding liability if the transaction is settled at an amount based on the value of the equity instruments.

In the case of transactions settled with equity instruments, both the services rendered and the increase in equity are measured at the grant-date fair value of the equity instruments delivered. If, on the other hand, they are settled in cash, the goods and services received and the corresponding liability are recognised at the fair value of the goods and services received as of the date on which the recognition requirements are met.

k) Derivative financial instruments (Note 15)

The Group uses financial derivatives to manage its exposure to variations in interest rates. All derivative financial instruments, whether or not designated as hedging instruments, are carried at fair value: market value in the case of listed securities, or according to option valuation methods or discounted cash flow analysis for non-listed securities. The fair value of the derivative financial instruments is determined based on the valuations made by independent experts (Solventis in 2014 and 2013).

The following valuation criteria have been applied:

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

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

In accordance with IFRS 13, the Group estimated the credit risk in the measurement of its derivative portfolio.

Hedge accounting is discontinued when a hedging instrument expires or is sold or exercised, or when the hedge no longer qualifies for hedge accounting. Gains or losses on hedging instruments accumulated directly in equity remain in equity until the related transaction materialises. Once the related cash flow occurs, any cumulative gain or loss recognised in equity is transferred to the consolidated statement of comprehensive income for the year. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to profit or loss for the period.

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

l) Current / non-current

The normal operating cycle is understood to be the period of time between the acquisition of assets that form part the Group's various business activities and the realisation of the finished assets in the form of cash or cash equivalents.

The Group's main activity is the rental business, the normal cycle of which is considered to correspond to the calendar year; consequently, assets and liabilities maturing in one year or less are classified as current and those maturing thereafter as non-current.

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

m) Income tax (Note 18)

General regime

The expense for Spanish corporate income tax and analogous taxes applicable to consolidated foreign operations is recognised in the consolidated statement of comprehensive income, except when the tax expense is generated by a transaction the gains on which are taken directly to equity, in which case the corresponding tax is also recognised in equity.

Income tax expense is the sum of the tax payable on profit for the year and the variation in recognised deferred tax assets and liabilities.

Corporate income tax expense for the year is calculated based on taxable profit for the year, which differs from the net profit or loss presented in the consolidated statement of comprehensive income because it excludes certain taxable income and deductible expenses from prior years, as well as other exempt items. The Group's current tax liabilities are calculated using tax rates that have been enacted or substantively enacted by the reporting date.

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Also, unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that they will be recovered through future taxable profits. In accordance with IAS 12, changes in deferred tax assets and liabilities caused by changes in tax rates or tax laws are recognised in the consolidated statement of comprehensive income for the year in which these changes are approved.

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

SIIC regime – SFL subgroup

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

This regime affects only real estate activities, and is not applicable to companies engaged in sales and services, such as Segpim, S.A. and Locaparis SAS in the SFL subgroup, to properties under finance leases (unless the lease is cancelled early) or to the subgroups and joint ventures.

This regime affords the SFL subgroup an exemption from taxes on earnings generated by the rental business and on capital gains generated by the sale of properties, provided that 85% of profit from that activity and 50% of the capital gains obtained on property sales of companies availing themselves of such arrangement are distributed each year in the form of dividends. From 1 January 2014, these percentages rose to 95% and 60%, respectively.

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

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

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

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

At 31 December 2007, the Parent notified SFL that dividends distributed from 1 July 2007 would be taxed in Spain at a rate of over 11.11% as a result of the partial application of the deduction for double taxation of these dividends. As a result, the 20% withholding described above is not being applied.

n) Recognition of revenue and expenses (Note 20)

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

As a result of the application of IFRSs, the Group recognises all accrued revenue and associated expenses. Revenue from goods sold is recognised when the goods have been delivered and ownership transferred.

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

Operating leases

Leases are classified as finance leases whenever their terms imply that substantially all the risks and rewards incidental to ownership of the leased asset have been transferred. All other leases are classified as operating leases. At 31 December 2014 and 2013, all of the Group's leases qualified as operating leases, except for the finance leases indicated in Note 9.

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

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

o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of property developments (Note 4-c), which are assets that require preparation during a significant period of time for their intended use or sale, are capitalised until these assets are substantially in condition for their intended use or sale (Note 9).

p) Consolidated statement of cash flows (indirect method)

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

- Cash flows: inflows and outflows of cash and cash equivalents, which are highly liquid short-term investments subject to an insignificant risk of changes in value.
- Operating activities: principal revenue-producing activities and other activities that are not investing or financing activities.
- Investing activities: the acquisition or disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of the contributed equity and borrowings that are not operating activities.

q) Costs passed on to lessees

In accordance with IFRSs, the Group does not consider costs passed on to lessees of its investment property as revenue. In 2014 and 2013, the Group invoiced 40,616 thousand and 42,860 thousand euros, respectively, in connection with costs passed on to lessees, recognising them as a reduction in the related expense heading in the consolidated statement of comprehensive income.

Direct operating expenses associated with investment properties which generated rental income during the years ended 31 December 2014 and 2013, included under “Operating profit” in the accompanying consolidated statements of comprehensive income, amounted to 61,374 thousand and 63,309 thousand euros, respectively. Expenses incurred in connection with investment properties that did not generate rental income were not material.

r) Related party transactions

The Group’s transactions with related parties are all carried out at market prices. Furthermore, the transfer prices applied are fully documented and supported and the Parent’s directors therefore do not consider that transfer prices pose a significant risk that could give rise to a material liability in the future.

s) Non-current assets held for sale and discontinued operations (Note 24)

s.1) *Non-current assets held for sale*

Non-current assets held for sale are measured at the lower of their carrying amount in accordance with applicable measurement rules and fair value less costs to sell.

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale rather than through continuing use. This condition is met when the sale of the asset is considered highly probable, the asset is in condition to be sold immediately and the sale is expected to be fully realised within a period of no more than twelve months from its classification as a held-for-sale asset.

The Colonial Group classifies non-current assets as assets held for sale when the Board of Directors or Executive Committee has officially approved the disposal and the sale is considered highly probable within a period of twelve months. The accompanying consolidated statement of financial position includes under this heading all the assets which at the date of authorising these consolidated financial statements for issue met all the requirements for classification as held for sale.

s.2) *Discontinued operations*

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

- represents a separate major line of business or geographical area of operations,
- is part of an individual coordinated plan to dispose of a separate major line of business or geographical area of operations, or
- is a subsidiary acquired exclusively with a view to resale.

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

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

At 31 December 2013, the Parent carried its interest in the subgroup, the parent of which is Asentia Project, S.L.U., as a non-current asset held for sale and the activity of its land and development business segment as a discontinued operation.

As indicated in Note 2-f, on 25 February 2014 the interest in Asentia Project, S.L.U. was no longer included in Colonial's scope of consolidation.

t) Fair value hierarchy

Assets and liabilities measured at fair value are classified according to the following hierarchy established in IFRS 7 and IFRS 13:

- Level 1: Inputs are based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: Inputs are based on quoted prices for similar assets or liabilities in active markets (not included in level 1), prices quoted for identical or similar assets or liabilities in markets that are not active, techniques based on valuation models for which all relevant inputs are observable in the market or can be corroborated by observable market data.

- Level 3: In general, inputs are unobservable and reflect estimates based on market assumptions to determine the price of the asset or liability. Unobservable data used in the valuation models are significant in the fair values of the assets and liabilities.

In accordance with IFRS 13, the Group estimated the bilateral credit risk in order to reflect both its own risk, as well as counterparty risk in the fair value of its derivatives (Note 4-k). Credit risk at 31 December 2014 was not considered to be material.

The detail of the Group's asset and liabilities measured at fair value according to the aforementioned levels at 31 December 2014 is as follows:

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

(*) At 31 December 2014, the fair value of the derivative financial instruments did not differ significantly from the carrying amount recognised in the accompanying consolidated balance sheet (Note 15).

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

5. Earnings per share

Basic earnings per share are calculated by dividing earnings for the year attributable to shareholders of the Parent (after tax and non-controlling interests) by the weighted average number of 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. At 31 December 2014, all the outstanding bonds at 31 December 2013, amounting to 15,184, were converted into shares of the Parent (Note 13).

	Thousands of Euros	
	31 December 2014	31 December 2013
Consolidated profit/(loss) for the year attributable to shareholders of the Parent	**491,994**	**(546,928)**
- from continuing operations	(208,746)	(164,324)
- from discontinued operations	700,740	(382,604)
	No. of shares	No. of shares
	2,156,420	224,209
Weighted average number of ordinary shares (in thousands)	-	80
Number of potential ordinary shares resulting from the conversion of bonds (in thousands)	2,156,420	224,209
Weighted average number of ordinary shares diluted (in thousands)		
	Euros	Euros
Basic and diluted earnings per share	**0.228**	**(2.439)**
- from continuing operations	(0.097)	(0.733)
- from discontinued operations	0.325	(1.706)

6. Segment reporting

Segmentation criteria

Segment reporting is organised, firstly, on the basis of the Group's business segments, and, secondly, by geographical segment.

The business segments described below have been defined in line with the Colonial Group's organisational structure at 31 December 2014, which has been used by the Group's management to analyse the financial performance of the various operating segments.

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

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

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

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

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

Basis and methodology for business segment reporting

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

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

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

Segment assets and liabilities are those directly related to that business' activities and operations. They include the share of assets/liabilities of proportionately consolidated joint ventures. The Group has no set criteria for allocating borrowings or equity by business segment. Borrowings are attributed in full to the "Corporate Unit".

Segment information for these businesses is as follows:

2014 segment reporting

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

There were no significant inter-segment transactions in 2014.

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

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

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

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

2013 segment reporting

								Thousands of Euros
					Rentals	Develo-pment & land	Corpora-te Unit	Total Grup
	Barcelona	Madrid	Paris	Other	Total rentals			
Revenue	28,653	36,730	151,823	-	217,206	-	-	**217,206**
Revenue (Note 20-a)	28,359	35,437	149,315	-	213,111	-	-	**213,111**
Other income (Note 20-b)	294	1,293	2,508	-	4,095	-		**4,095**
Net gain/(loss) on sales of assets (Notes 20-f)	(1,855)	(5,024)	(2,177)	-	(9,056)	-	-	**(9,056)**
Operating profit/(loss)	22,041	27,895	136,229	(108)	186,057	-	(55,865)	**130,192**
Change in fair value of investment property (Note 20-f)	(49,344)	(60,739)	147,291	222	37,430	-	-	**37,430**
Impairment charges and net gains/(losses) on assets (Note 20-e)	-	-	-	-	-	-	(649)	**(649)**
Financial loss (Note 20-g)	-	-	-	-	-	-	(192,000)	**(192,000)**
Loss before tax	-	-	-	-	-	-	(25,027)	**(25,027)**
Consolidated net loss from continuing operations	-	-	-	-	-	-	(59,844)	**(59,844)**
Profit/(loss) from discontinued operations (Note 24)	6	(8,265)	-	(24,419)	(32,678)	(363,964)	(8,410)	**(405,052)**
Consolidated net loss	-	-	-	-	-	-	(464,896)	**(464,896)**
Net profit attributable to non-controlling interests (Notes 20-i)	-	-	-	-	-	-	82,032	**82,032**
Net loss attributable to shareholders of the Parent (Note 5)	-	-	-	-	-	-	(546,928)	**(546,928)**

There were no significant inter-segment transactions in 2013, except for the commitments arising from the debt restructuring of Desarrollos Urbanísticos Entrenúcleos, S.L.U., a company that belongs to the Asentia subgroup, which is not currently included in the scope of consolidation (Note 2-f).

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

	Thousands of Euros							
	Rentals					Develo-pment & land	Corpora-te Unit	Total Grup
	Barcelona	Madrid	Paris	Other	Total rentals			
Assets								
Goodwill (Note 7)	-	-	120,000	-	120,000	-	-	**120,000**
Intangible assets, property, plant and equipment and investment property (Notes 8 and 9)	542,987	556,881	3,818,212	-	4,918,080	-	32,973	**4,951,053**
Financial assets	36,279	(874)	4,813	-	40,218	-	21,699	**61,917**
Investments accounted for using the equity method (Note 10)	-	-	302,341	-	302,341	-	-	**302,341**
Other non-current assets	-	-	-	-	-	-	173,301	**173,301**
Trade receivables and other current assets	-	-	-	-	-	-	68,471	**68,471**
Non-current assets held for sale (Note 24)	-	43,082	-	11,155	54,237	788,511	-	**842,748**
Total	**579,266**	**599,089**	**4,245,366**	**11,155**	**5,434,876**	**788,511**	**296,444**	**6,519,831**

	Thousands of Euros							
	Rentals					Develo-pment & land	Corpora-te Unit	Total Grup
	Barcelona	Madrid	Paris	Other	Total rentals			
Liabilities								
Bank borrowings and other financial liabilities (Note 14)	-	-	-	-	-	-	2,687,416	**2,687,416**
Bonds and similar securities issued (Note 14)	-	-	-	-	-	-	1,009,206	**1,009,206**
Trade liabilities (suppliers and payables)	-	-	-	-	-	-	101,220	**101,220**
Other disclosures								
Investments in intangible assets, property, plant and equipment and investment property	4,964	6,732	143,152	-	154,848	-	283	**155,131**

	Thousands of Euros							
	Rentals					Develo-pment & land	Corpora-te Unit	Total Grup
	Barcelona	Madrid	Paris	Other	Total rentals			
Other disclosures								
Depreciation and amortisation charge	(1)	-	(434)	-	(435)	-	(1,055)	(1,490)
Expenses that do not entail outflows of cash other than the depreciation and amortisation charge for the year								
Changes in provisions	(60)	1,117	367	-	1,424	-	(19,106)	(17,682)
Change in fair value of investment property (Note 20-f)	(49,344)	(60,739)	147,291	222	37,430	-	-	37,430
Impairment charges and net gains/(losses) on assets (Note 20-e)	-	-	-	-	-	-	(649)	(649)

7. Goodwill

The changes in “Goodwill” in the consolidated statement of financial position in 2014 and 2013 were as follows:

	Thousands of Euros
Balance at 31 December 2012	**120,000**
Impairment	-
Balance at 31 December 2013	**120,000**
Impairment	(120,000)
Balance at 31 December 2014	**-**

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

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

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

The basic assumptions used for the impairment test at 31 December 2013 (Note 4-a) are shown in the table below:

	2013
Projection period (years)	10
Asset rotation rate, %	5% annual
France	
Discount rate	5.80%
Nominal growth rate ("g")	1.50%
Yield on investment, % (Note 4-c)	6.00%

In June 2014, the Parent's directors re-assessed the recoverability of goodwill, considering mainly the effect of the sale of the interest held in SIIC de Paris, which materialised in July 2014 (Notes 2-f and 24) and the positive trend in the value of SFL's property assets (Note 6). This eliminated the difference between the recoverable amount of SFL's assets considered in the impairment test and their fair value, determined based on the assessments carried out by independent third parties, and gave rise to a gain of 227,542 thousand euros as a result of changes in value of SLF's investment property in 2014 (Note 20-f). As a result of this verification, the impairment on all this goodwill was recognised under "Impairment charges and net gains/(losses) on assets" in the consolidated statement of comprehensive income and amounted to 120,000 thousand euros (Note 20-e).

8. Property, plant and equipment

The movement in property, plant and equipment in 2014 and 2013 was as follows:

	Thousands of Euros								
	Immobles per a ús propi			Altre immobilitzat		Total			
	Cost	Accumulated depreciation	Impairment	Cost	Accumulated depreciation	Cost	Accumulated depreciation	Impairment	Total
Balance at 31 December 2012	**43,095**	**(6,697)**	**(8,299)**	**10,500**	**(4,330)**	**53,595**	**(11,027)**	**(8,299)**	**34,269**
Additions or charges	-	(289)	(649)	152	(819)	152	(1,108)	(649)	(1,606)
Decreases	-	-	-	(166)	166	(166)	166	-	-
Transfers	-	-	-	288	-	288	-	-	288
Balance at 31 December 2013	**43,095**	**(6,986)**	**(8,948)**	**10,774**	**(4,983)**	**53,869**	**(11,969)**	**(8,948)**	**32,952**
Additions or charges	15	(273)	-	73	(832)	88	(1,105)	-	(1,017)
Decreases	-	-	340	(82)	59	(82)	59	340	317
Transfers	-	-	-	789	(56)	789	(56)	-	733
Balance at 31 December 2014	**43,110**	**(7,259)**	**(8,608)**	**11,554**	**(5,812)**	**54,664**	**(13,071)**	**(8,608)**	**32,985**

At 31 December 2014 and 2013, the Group used two floors of the building located at Avenida Diagonal, 530, in Barcelona, one floor of the building located at Paseo de la Castellana, 52, in Madrid, and one floor of the building located at 42 rue Washington in Paris for its own use, while the rest of these buildings are rented out. The value of buildings used for the Group's own purposes is recognised in "Property for own use".

At 31 December 2014, the need to recognise a reversal of the asset impairment charge recognised in previous years in the amount of 340 thousand euros was evidenced by the appraisals performed by independent experts (Note 20-e). In 2013, an impairment loss of 649 thousand euros was recognised.

9. Investment property

The changes in this heading of the consolidated statement of financial position in 2014 and 2013 were as follows:

	Thousands of Euros			
	Investment property	Investment property in progress	Prepayments	Total
Balance at 31 December 2012	**4,391,272**	**386,119**	**4,746**	**4,782,137**
Additions	13,647	132,304	8,000	**153,951**
Decreases	-	(6)	(6,077)	**(6,083)**
Transfers	120,930	(201,308)	-	**(80,378)**
Changes in fair value (Note 20-f)	76,542	(10,103)	-	**66,439**
Balance at 31 December 2013	**4,602,391**	**307,006**	**6,669**	**4,916,066**
Additions	261,767	120,981	3,095	**385,843**
Decreases	(5,067)	-	(3,184)	**(8,251)**
Transfers	149,837	(115,357)	-	**34,480**
Changes in fair value (Note 20-f)	336,034	(863)	-	**335,171**
Balance at 31 December 2014	**5,344,962**	**311,767**	**6,580**	**5,663,309**

Changes in 2014

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

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

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

Changes in 2013

Additions in 2013 primarily relate to development and renovation projects, mainly in properties of the SFL subgroup, in the amount of 142,507 thousand euros. The Parent made investments totalling approximately 12,531 thousand euros.

During the year, two of the Parent's properties were transferred from "Investment property" to "Investment property in progress" for a total of 62,291 thousand euros. Two properties were also transferred from "Investment property in progress" to "Investment property" upon completion of the corresponding refurbishment work for a total of 33,970 thousand and 182,873 thousand euros, respectively. One pertains to the Parent and the other to SFL.

Moreover, a property expected to be completed in the near term as part of the agreement reached with one of the Group's credit institutions was transferred to "Non-current assets held for sale" for an amount of 99,007 thousand euros. A further property was transferred from "Non-current assets held for sale" to "Investment property – Investment property in progress" in the amount of 18,200 thousand euros.

"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 2014 and 2013 of 335,171 thousand and 66,439 thousand euros, respectively (Note 20-f). These changes reflect the changes in the fair value of the Group's investment properties evidenced by the independent property appraisals dated 31 December 2014 and 2013 (Note 4-c).

Other disclosures

The total surface area (above and under-ground) of investment property and projects under development at 31 December 2014 and 2013 is as follows:

	Total surface area (m^2) of investment property, continuing operations					
	For rental		Projects under development		Total	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Barcelona	283,995	252,370	33,227	49,617	317,222	301,987
Madrid	229,579	184,281	1,499	15,434	231,078	199,715
Rest of Spain	458	458	-	-	458	458
Paris (*)	372,050	353,947	87,115	76,781	459,165	430,728
	886,082	**791,055**	**121,841**	**141,832**	**1,007,923**	**932,888**

(*) Including 100% of the floor space of Washington Plaza (a property owned by SCI Washington, a Group company 66%-owned by SFL) and of the Haussmann, Champs Élysées, 82-88 and Champs Élysées, 90 buildings (owned by the Parholding subgroup, in which SFL holds a 50% interest (Note 2-f)).

At 31 December 2014, the Group pledged assets as collateral for mortgage loans, the carrying amount of which is 836,351 thousand euros (1,024,001 thousand euros at 31 December 2013).

The Parent also provided investment property as collateral for the new syndicated loan (Note 14), the carrying amount of which is 1,145,483 thousand euros. At 31 December 2014, the mortgage on the asset acquired by the Parent on 30 December had yet to be provided.

At 31 December 2014 and 2013, the Group had one property held under finance leases, the Prony – Wagram property owned by SFL. The following table shows the information relating to this lease:

PRONY WAGRAM	Average lease term (years)	Average number of years elapsed	Thousands of Euros		
			Asset's net carrying amount	Payments outstanding	
				Non-current	Current
31 December 2014	7	5.5	30,061	27,271	2,790
31 December 2013	7	4.5	32,851	30,061	2,790

10. Non-current financial assets

The changes in this heading of the consolidated statement of financial position in 2014 and 2013 were as follows:

	Thousands of Euros				
	Balance at 31 December 2013	Acquisitions and charges	Disposals or decreases	Transfers to assets held for sale	Balance at 31 December 2014
Investments accounted for using the equity method (Notes 4-e and 24)	302,341	1,980	(9,455)	(294,866)	-
Deposits and guarantees given	7,409	2,661	-	-	10,070
Total	**309,750**	**4,641**	**(9,455)**	**(294,866)**	**10,070**

	Thousands of Euros			
	Balance at 31 December 2012	Acquisitions and charges	Disposals or decreases	Balance at 31 December 2013
Investments accounted for using the equity method (Note 2-e)	286,560	24,847	(9,066)	302,341
Prepayments on investments (Note 19)	80,000	-	(80,000)	-
Financial instruments (Note 15)	84	-	(84)	-
Deposits and guarantees given	8,270	90	(951)	7,409
Impairment	(80,000)	-	80,000	-
Total	**294,914**	**24,937**	**(10,101)**	**309,750**

At 31 December 2014, the Parent held collection rights with Asentia and DUE for a nominal amount of 275,000 thousand (Note 13) and 72,451 thousand euros, respectively, each of which were valued at 0 euros. The DUE collection right relates to the obligations acquired by the Parent within the framework of the refinancing carried out in 2013 by this company, which at the time was fully controlled by the Group.

At 31 December 2014 and 2013, SFL had an ownership interest in the Vendôme-Rome Group of 1,071 thousand euros, which was fully impaired.

Investments accounted for using the equity method

The movement in "Investments accounted for using the equity method" in 2014 and 2013 is as follows:

	Thousands of Euros
	SIIC de Paris, S.A.
Balance at 31 December 2012	**286,560**
Acquisitions or share of profit	24,847
Disposals or dividends received	(9,066)
Balance at 31 December 2013	**302,341**
Acquisitions or share of profit	1,980
Disposals or dividends received	(9,455)
Changes in the scope of consolidation (Note 2-f)	(294,866)
Balance at 31 December 2014	**-**

In the first half of 2014, and prior to their transfer to "Non-current assets held for sale", the carrying amount of the interest held in SIIC de Paris fell by 7,279 thousand euros, the amount dividends received by SFL from SIIC de Paris. Also, the amount of this ownership interest fell by 2,176 thousand euros as a result of the allocation of the losses attributable to the interest held by SFL in this company, and increased by 1,980 thousand euros recognised directly in the Group's equity.

In June 2014, SLF entered into an agreement with Eurosic for the sale of all its interest in the share capital of SIIC de Paris at a price of 23.88 euros per share (discounting the amount of any future dividend that may be paid after the agreement), conditional on the effective acquisition by Eurosic of the interest owned by Realia in SIIC de Paris.

On 23 July 2014, the shares were transferred and the sale price, net of transfer costs, amounted to 303,351 thousand euros, generating an accounting gain of 8,485 thousand euros (Note 20-g).

Deposits and guarantees given

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

11. Other non-current assets

“Other non-current assets” in the consolidated statement of financial position included the account receivable held with companies of a former shareholder of the Parent relating to the tax effect of the difference between the tax and accounting bases of the assets contributed in the equity issue dated 29 June 2006. This account receivable, which amounted to 61,001 thousand euros, had to be assumed by the former shareholders when the income tax was accrued. These receivables are secured by a first demand guarantee.

At 31 December 2013, the guaranteed receivable amounted to 30,501 thousand euros, following recognition of impairment therein in 2012.

Following the exclusion of Asentia from the scope of consolidation (Note 2-f), the assets that gave rise to the account receivable were also excluded from the group, which meant that the Group needed to evaluate whether or not any of the amounts guaranteed by the former shareholder could be collected. The Parent’s directors reassessed the recoverability of the receivable and determined that the majority of the balance could not be legally claimed and that the portion deemed recoverable by law would be difficult to recover taking into account the situation of the debtors, who are currently in the liquidation stage of insolvency proceedings. Accordingly, the Parent recognised an impairment loss of 30,501 thousand euros for the full amount of the receivable, which was recognised under “Changes in provisions” in the consolidated statement of comprehensive income.

12. Trade and other receivables

The breakdown of this current asset heading in the accompanying consolidated statement of financial position at 31 December 2014 and 2013 is as follows:

	Thousands of Euros	
	31 December 2014	31 December 2013
Trade receivables from sales and services	58,250	48,607
Other receivables	156,074	155,224
Impairment of trade receivables (Note 20-e)	(157,495)	(156,604)
Other current assets	1,179	249
Total trade and other receivables	**58,008**	**47,476**

Trade receivables from sales and services

"Trade receivables from sales and services" includes mainly the following:

- Accounts receivable from customers, primarily from the Group's rentals business in France, that are billed quarterly or half-yearly. No material sums for which provision had not been made were past due at either 31 December 2014 or 2013.

- The amount of the incentives in the operating lease agreements (grace periods, etc.) that the Group offers its customers, which are recognised in the consolidated statement of comprehensive income during the minimum operating lease term. At 31 December 2014 and 2013, these incentives totalled 43,614 thousand and 36,016 thousand euros, respectively.

Other receivables and impairment losses on trade receivables

The amounts owed by Nozar, S.A. and NZ Patrimonio, S.L.U., resulting from the cancellation of the purchase contracts entered into in July 2007 as a result of failing to comply with the conditions precedent, are recognised under "Other receivables", and totalled 152,189 thousand euros, including accrued interest (Note 20-e).

Nozar, S.A. and NZ Patrimonio, S.L.U. are currently in bankruptcy proceedings; consequently, at 31 December 2014 and 2013, the accompanying consolidated statement of financial position included an impairment loss for the entire amount of these companies' trade receivables.

13. Equity

Share capital

The Company's share capital at 31 December 2012 comprised 225,918,383 fully subscribed and paid up shares with a par value of 1 euro each.

In 2013 the Company agreed to increase share capital following a request to convert the convertible bonds into shares. As a result, 61 convertible bonds were redeemed and share capital and the share premium were increased by 8 thousand euros, through the issue of 307 new shares at a par value of 1 euro each plus a share premium of 24 euros per share. These shares are fully paid up.

As a result, the Company's share capital at 31 December 2013 was represented by 225,918,690 fully subscribed and paid up shares with a par value of 1 euro each.

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

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

- On 17 February 2014, the capital increase required to meet the last voluntary conversion of bonds convertible into shares of the Parent was registered in the Barcelona Mercantile Register, increasing the share capital by 0.5 thousand euros through the issue of 1,890 new shares with a par value of 0.25 euros.

- On 31 March 2014, the capital increase required to meet the ordinary redemption of all the outstanding bonds convertible into shares of the Parent was registered in the Barcelona Mercantile Register, increasing the share capital by 20 thousand euros through the issue of 79,101 new shares with a par value of 0.25 euros.

- On 6 May 2014, a capital increase for 734,499 thousand euros through the issuance of 2,937,995,853 new shares with a par value of 0.25 euros each was registered in the Barcelona Mercantile Register.

- On 8 May 2014, within the framework of the refinancing process, a capital increase for 486 thousand euros through the issuance of 1,944,444 new shares with a par value of 0.25 euros each was registered in the Barcelona Mercantile Register, each as a result of the exercise by the credit institution ING, of the warrants convertible into shares of the Parent, and which were delivered to guarantee the debt maintained by Abix Service, S.L.

- On 30 December 2014, a capital increase for 5,729 thousand euros through the issuance of 22,916,662 new shares with a par value of 0.25 euros each, was registered in the Barcelona Mercantile Register, each as a result of the exercise by the holding companies, of the warrants convertible into shares of the Parent, and which were delivered to guarantee the debt maintained by Asentia Project, S.L.U.

As a result, the Company's share capital at 31 December 2014 was represented by 3,188,856,640 fully subscribed and paid up shares with a par value of 0.25 euros each.

All shares are in book-entry form.

Based on the pertinent notifications regarding the number of company shares to the CNMV, the shareholders owning significant direct or indirect interests of 3% or more in the Parent at 31 December 2014 and 2013 are as follows:

31 December 2014

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

(*) Information dated 31 December 2014.

On 21 January 2015, Joseph Charles Lewis notified the CNMV that he had acquired a 3.012% interest in the Parent's share capital.

31 December 2013

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

(*) Information dated 31 December 2013.

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

Share premium

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

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

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

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

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

- On 30 December 2014, a capital increase was registered in the Barcelona Mercantile Register relating to the exercise of the Asentia warrants, through the issue of 22,916,662 new shares with a premium per share of 11.75 euros, thereby increasing the share premium by 269,671 thousand euros. With regard to exercising the warrants of Asentia, the Parent received a collection right vis-à-vis Asentia for a nominal value of 275,000 thousand euros as a consideration for the shares issued (Notes 2-f and 10). The valuation carried out by an independent expert, appointed by the Barcelona Mercantile Registry, placed the value of the collection right at 384 thousand euros and, therefore, the Parent recognised this collection right at 0 euros, reducing the amount of the share premium by 262,465 thousand euros. The net changes in the share premium therefore amounted to EUR 6,806 thousand.

Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

Voluntary reserves

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

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

Likewise, the aforementioned capital increases involved costs of 49,977 thousand euros, which were recognised under "Reserves of the Parent" in consolidated equity.

Valuation adjustments recognised in equity - financial instruments

This heading of the consolidated statement of financial position includes the net change in the fair value of financial derivatives designated as hedging instruments in cash flow hedges (Note 15).

The changes in this heading are as follows:

	Thousands of Euros	
	31 December 2014	31 December 2013
Opening balance	(18,358)	(1,008)
Changes in the fair value of hedges in the period	1,248	25,005
Transfer to the statement of comprehensive income	5,425	6,844
Transfer to reserves	-	(49,199)
Changes in the scope of consolidation (Note 2-f)	5,317	-
Closing balance	**(6,368)**	**(18,358)**

In 2014, as a result of the loss of control over Asentia, 5,317 thousand euros were transferred from the reserve to the statement of comprehensive income (Note 15).

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

Treasury shares of the Parent

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

Treasury shares of SFL

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

	31 December 2014	31 December 2013
No. of shares	426,695	439,531
Carrying amount (in thousands of euros)	21,291	21,665
% shareholding	0.92%	0.94%

In 2014, SFL acquired 146,625 shares for a total of 6,594 thousand euros and sold 159,461 shares at a cost of 7,297 thousand euros, recognising a loss of 524 thousand euros.

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

At 31 December 2014, the published net asset value of SFL was 49.4 euros per share.

Non-controlling interests

The movement in this heading of the consolidated statement of financial position is as follows:

	Thousands of Euros			
	Torre Marenostrum, S.L.	SFL subgroup	Riofisa subgroup	Total
Balance at 31 December 2012	**18,217**	**1,192,788**	**8,632**	**1,219,637**
Profit/(loss) for the year	84	104,396	(22,448)	82,032
Dividends and other	(631)	(47,635)	-	(48,266)
Changes in the scope of consolidation (Note 2-f)	-	6,484	-	6,484
Financial instruments	101	12,777	-	12,878
Balance at 31 December 2013	**17,771**	**1,268,810**	**(13,816)**	**1,272,765**
Profit/(loss) for the year	1,222	135,148	121	136,491
Dividends and other	(442)	(48,250)	-	(48,692)
Changes in the scope of consolidation (Note 2-f)	-	3,976	13,695	9,719
Financial instruments	(547)	(1,580)	-	(2,127)
Balance at 31 December 2014	**18,004**	**1,358,104**	**-**	**1,376,108**

The breakdown of the items included in “Dividends and other” at 31 December 2014 and 2013 is as follows:

	Thousands of Euros	
	31 December 2014	31 December 2013
Dividend paid by the SFL subgroup to non-controlling interests	(45,363)	(45,346)
Dividend paid by Washington Plaza to non-controlling interests	(3,483)	(3,107)
Dividend paid by Torre Marenostrum to non-controlling interests	(442)	(631)
Other	596	818
Total	**(48,692)**	**(48,266)**

14. Bank borrowings and other financial liabilities

In 2014, the Parent’s financial debt was restructured and share capital was increased (Note 2-g), which enabled the Parent to repay its previous syndicated loan early, amounting to 1,814,649 thousand euros (including interest), and to repay or restructure, by including the creditors in the new syndicated loan, virtually all the bilateral loans held by the Parent and Abix, for an aggregate amount of 308,072 thousand euros (including interest) (Note 20-g).

The breakdown by maturity of "Bank borrowings and other financial liabilities" at 31 December 2014 and 2013 is as follows:

	Thousands of Euros							
	Current	Non-current						
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total non-current	Total
Bank borrowings								
Lines of credit	56,340	-	-	-	-	-	-	56,340
Loans	6,076	6,340	199,977	3,188	103,483	25,800	338,788	344,864
Syndicated loans	-	-	-	1,040,000	-	-	1,040,000	1,040,000
Rights under finance leases (Note 9)	2,790	27,271	-	-	-	-	27,271	30,061
Interest	4,425	-	-	-	-	-	-	4,425
Debt arrangement expenses	(1,858)	(1,852)	(1,679)	(816)	(261)	(147)	(4,755)	(6,613)
Total bank borrowings	**67,773**	**31,759**	**198,298**	**1,042,372**	**103,222**	**25,653**	**1,401,304**	**1,469,077**
Other financial liabilities								
Current accounts with SCI Washington Plaza and SAS Parholding	-	70,169	-	-	-	-	70,169	70,169
Market value of financial instruments (Note 15)	5,315	-	4,013	1,657	-	2,808	8,478	13,793
Other financial liabilities	380	-	-	-	-	-	-	380
Total other financial liabilities	**5,695**	**70,169**	**4,013**	**1,657**	**-**	**2,808**	**78,647**	**84,342**
Total bank borrowings and other financial liabilities	**73,468**	**101,928**	**202,311**	**1,044,029**	**103,222**	**28,461**	**1,479,951**	**1,553,419**
Bonds and similar securities issued								
SFL bond issue	-	300,000	400,000	-	-	500,000	1,200,000	1,200,000
Interest	10,630	-	-	-	-	-	-	10,630
Arrangement expenses	(1,855)	(1,514)	(1,202)	(439)	(439)	(842)	(4,436)	(6,291)
Total bonds and similar securities issued	**8,775**	**298,486**	**398,798**	**(439)**	**(439)**	**499,158**	**1,195,564**	**1,204,339**
Total a 31 December 2014	**82,243**	**400,414**	**601,109**	**1,043,590**	**102,783**	**527,619**	**2,675,515**	**2,757,758**

	Current	Non-current						
								Thousands of Euros
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total non-current	Total
Bank borrowings								
Lines of credit	48,533	-	-	-	-	-	-	48,533
Third parties	*28,798*	-	-	-	-	-	-	*28,798*
Related parties (Note 22)	*19,735*	-	-	-	-	-	-	*19,735*
Loans	233,124	15,838	22,820	296,541	66,138	29,283	430,620	663,744
Third parties	*230,349*	*12,886*	*19,691*	*293,412*	*62,950*	-	*388,939*	*619,288*
Related parties (Note 22)	*2,775*	*2,952*	*3,129*	*3,129*	*3,188*	*29,283*	*41,681*	*44,456*
Subordinated debt	-	-	-	42,354	-	-	42,354	42,354
Third parties	-	-	-	*42,354*	-	-	*42,354*	*42,354*
Syndicated loans	1,759,323	-	-	-	50,000	-	50,000	1,809,323
Third parties	*1,030,792*	-	-	-	*40,950*	-	*40,950*	*1,071,742*
Related parties (Note 22)	*728,531*	-	-	-	*9,050*	-	*9,050*	*737,581*
Rights under finance leases (Note 9)	2,790	2,790	27,271	-	-	-	30,061	32,851
Third parties	*2,790*	*2,790*	*27,271*	-	-	-	*30,061*	*32,851*
Interest	22,382	-	-	5	-	-	5	22,387
Third parties	*13,723*	-	-	*5*	-	-	*5*	*13,728*
Related parties (Note 22)	*8,659*	-	-	-	-	-	-	*8,659*
Debt arrangement expenses	(9,637)	(2,597)	(1,771)	(1,402)	(426)	(207)	(6,403)	(16,040)
Third parties	*(9,637)*	*(2,597)*	*(1. 771)*	*(1,402)*	*(426)*	*(207)*	*(6,403)*	*(16,040)*
Total bank borrowings	**2,056,515**	**16,031**	**48,320**	**337,498**	**115,712**	**29,076**	**546,637**	**2,603,152**
Third parties	**1,296,815**	**13,079**	**45,191**	**334,369**	**103,474**	**(207)**	**495,906**	**1,792,721**
Related parties	**759,700**	**2,952**	**3,129**	**3,129**	**12,238**	**29,283**	**50,731**	**810,431**
Other financial liabilities								
Current account with SCI Washington Plaza	-	72,360	-	-	-	-	72,360	72,360
Market value of financial instruments (Note 15)	2,625	-	-	640	6,603	1,655	8,898	11,523
Other financial liabilities	381	-	-	-	-	-	-	381
Total other financial liabilities	**3,006**	**72,360**	**-**	**640**	**6,603**	**1,655**	**81,258**	**84,264**
Total bank borrowings and other financial liabilities	**2,059,521**	**88,391**	**48,320**	**338,138**	**122,315**	**30,731**	**627,895**	**2,687,416**
Bonds and similar securities issued								
SFL bond issue	-	-	500,000	500,000	-	-	1,000,000	1,000,000
Interest	15,632	-	-	-	-	-	-	15,632
Arrangement expenses	(2,013)	(2,013)	(1,446)	(954)	-	-	(4,413)	(6,426)
Total bonds and similar securities issued	**13,619**	**(2,013)**	**498,554**	**499,046**	**-**	**-**	**995,587**	**1,009,206**
Total at 31 December 2013	**2,073,140**	**86,378**	**546,874**	**837,184**	**122,315**	**30,731**	**1,623,482**	**3,696,622**

The bonds issued by SFL, which are traded on the Euronext Paris secondary market, have a market value of 1,251,121 thousand euros (a par value of 1,200,000 thousand euros) at 31 December 2014. The fair value of the borrowings held through syndicated loans, loans, credit facilities and rights under finance leases was determined taking into consideration that they may be renegotiated with the margins currently in force. The fair value of the derivatives was also calculated based on the present value of the future cash flows, applying the appropriate market discount rates established by an independent expert (Note 4-t).

New syndicated loan of the Parent and repayment of the previous syndicated loan

On 4 April 2014, the Parent entered into a new loan agreement, amounting to 1,040,000 thousand euros (the "New Loan Agreement"), with a group of financial entities, including Crédit Agricole Corporate and Investment Bank, Branch in Spain, acting as the correspondent bank, whose purpose is to repay early the previous syndicated loan and the bilateral loans existing via their inclusion in the new loan agreement.

The drawdown of the new loan was subject to compliance with certain conditions precedent, including the performance of the capital increase for a minimum amount of 1,240 million euros. These conditions were met on 6 May 2014, on which date, the loan agreement was executed in a public deed.

The main terms and conditions of the Parent's new syndicated loan are as follows:

- A single maturity date set for 31 December 2018.
- A fixed interest rate of EURIBOR plus 400 basis points paid quarterly.
- Voluntary partial or total early repayment in line with the terms of the New Loan Agreement, provided that a minimum amount of 10 million euros is repaid. Early repayment will not be permitted within the first year of entry into force of the New Loan Agreement.
- In the event of a loss of control at Colonial or the sale of all or a substantial part of the Colonial Group's assets, the debt of the New Loan Agreement will be repaid and written off early.
- Based on the loan to value (LTV) ratio, repayments for the full or partial amount of the income obtained from the following operations.
    - Transfer of property assets and collection of extraordinary dividends from SFL.
    - Sale of the SFL shares.
    - Gains from capital increases.
    - Gains from new debt commitments.
    - Cash flow surpluses. If the LTV ratio is equal to or more than 50%, any surplus cash flow.

- Income arising from insurance.

– Financial ratios: The main financial ratios requested quarterly are:

  - The LTV ratio[1], which should not exceed 58%.
  - The Global Loan To Value ratio[2], which should not exceed 58%.
  - The debt servicing coverage ratio[3] (interest cover ratio), which should not be less than x1,25 (both for the 12 months following and the 12 months prior to the calculation date).

– Cases of default: the New Loan Agreement envisages certain cases of default which are standard in this type of agreement, such as (i) non-payment of the debt; (ii) non-compliance with financial ratios (covenants); (iii) cross default (if other debts are not paid); (iv) insolvency proceedings; (v) discontinuation of activity; and (vi) circumstances which involve a substantial negative change. In any of these case, the creditors may essentially cancel all their commitments and terminate the New Loan Agreement early.

– Collateral.

  - Unconditional and irrevocable collateral from the guarantors, which are the subsidiaries wholly owned by Inmobiliaria Colonial, S.A. whose EBITDA represents more than 3% of the consolidated Group's EBITDA, as well as from the wholly owned investees of the Parent.
  - Senior pledges on the shares of SFL and Torre Marenostrum, S.L.
  - Senior mortgages on property assets with a market value of 1,156,484 thousand euros, included under "Investment property". At 31 December 2014, the senior mortgage on the asset acquired by the Parent had yet to be provided.
  - Pledge collateral on rent arising from leases and credit rights from insurance policies and bank accounts.

– Dividends: The Parent has assumed the commitment vis-à-vis the financial entities to not distribute dividends to its shareholders until the maturity date of the loan in the event the LTV ratio exceeds 45%. In addition, the new loan sets forth that dividends paid will not exceed the net gains for the year.

---

(1)Calculated as the quotient between the net debt and the market value of the Parent's property assets plus the NAV (Net Asset Value) of Colonial's subsidiaries (excluding SFL) and the SFL shares owned by Colonial at their NAV EPRA per share.

(2) Calculated as the quotient between (i) the sum of the net debt of the Parent plus the net debt of its subsidiaries (except SFL) at the percentage of each subsidiary owned by Colonial; and (ii) the sum of the market value of the property assets directly owned by Colonial plus the market value of the property assets owned by its subsidiaries at the percentage of each subsidiary owned by Colonial plus the SFL shares owned by Colonial at their NAV EPRA per share.

(3) Calculated as the quotient between the recurring cash flow for a period and the interest paid during such period.

At 31 December 2014, the Parent complied with all covenants.

The Company recognised the arrangement expenses, and other expenses associated with the new syndicated loan, amounting to 31,780 thousand euros, in the consolidated statement of comprehensive income. The impact of both charges is recognised under "Finance costs" in the consolidated statement of comprehensive income (Note 20-g).

SFL syndicated loan

The breakdown of the SFL's syndicated loans at 31 December 2014 and 2013 is as follows:

					Thousands of Euros
		31 December 2014		31 December 2013	
	Maturity	Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
SFL syndicated loan					
BNP Paribas loan facility	July 2018	400,000	-	400,000	-
BPCE loan facility	October 2019	150,000	-	350,000	45,000
Total SFL syndicated loan		**550,000**	**-**	**750,000**	**45,000**

The BPCE loan facility was novated in October 2014, reducing its limit from 350,000 thousand euros to 150,000 thousand euros and extending its maturity to October 2019. The facility earns interest at a fixed rate of EURIBOR plus a variable margin of between 140 and 170 basis points, depending on the LTV ratio.

Compliance with covenants

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

	Ratios
BNP-Paribas syndicated loan	LTV ratio <= 50%
	Interest coverage ratio >= 2
	Secured debt/equity value <= 20%
	Appraisal value of unmortgaged properties >= €2bn
BPCE syndicated loan	LTV ratio <= 50%
	Interest coverage ratio >= 2
	Secured debt/equity value <= 20%
	Appraisal value of unmortgaged properties >= €2bn

Note: €bn refers to billions of euros.

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

Other loans

At 31 December 2014 and 2013, in addition to the syndicated loan, the Group had the following mortgage loans, secured by its investment properties and non-current assets held for sale associated with its rentals business:

	Thousands of Euros			
	31 December 2014		31 December 2013	
	Mortgage debt	Market value of collateral	Mortgage debt	Market value of collateral
Investment property - rentals (Note 9)	273,941	840,710	534,017	1,030,228
Non-current assets held for sale (Note 24)	986	6,994	2,011	8,602
	274,927	**847,704**	**536,028**	**1,038,830**

The Parent has loans for a total amount of 986 thousand euros, of which 809 thousand euros was recognised under current borrowings at 31 December 2014.

SFL has a loan not secured by a mortgage in the amount of 150,000 thousand euros, of which 100,000 thousand euros were drawn down at 31 December 2014. This loan was novated in April 2014, extending its maturity to April 2019. The loan earns interest at a fixed rate of EURIBOR plus a variable margin of between 150 and 190 basis points, depending on the LTV ratio.

Compliance with covenants

At 31 December 2014, two of the Colonial Group's loans, with a total of 141,681 thousand euros drawn down (290,222 thousand euros at 31 December 2013), are subject to compliance with certain financial covenants. At that date, the Group was not in breach of any of the covenants stipulated in these loans.

Debt issuance (non-convertible bonds)

SLF issued the following non-convertible bonds with a face value of 100 thousand euros each.

				Thousands of Euros		
Issue	Term	Maturity	Fixed-rate coupon payable annually	Amount of the issue	31 December 2014	31 December 2013
17/05/2011	5 years	25 /05/2016	4.625%	500,000	300,000	500,000
28/11/2012	5 years	28/11/2017	3.50%	500,000	400,000	500,000
20/11/2014	7 years	20/11/2021	1.875%	500,000	500,000	-
Total issues				**1,500,000**	**1,200,000**	**1,000,000**

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

In November 2014, SFL carried out a new bonds issue amounting to 500,000 thousand euros, maturing in seven years, and with a fixed-rate coupon of 1.875%.

Subsequently, on 27 November 2014, SFL completed a transaction for partially repurchasing the bonds maturing in 2016 and 2017, amounting to 200,000 thousand and 100,000 thousand euros, respectively.

The interest accrued and outstanding on these bonds, recognised in the consolidated statement of financial position at 31 December 2014, amounted to 10,630 thousand euros.

Lines of credit

The Group has lines of credit of up to 56,340 thousand euros, which at 31 December 2014 were fully drawn down. These credit facilities mature in the short term. At 31 December 2013, the balance of fully drawn-down lines of credit held by the Group totalled 48,534 thousand euros.

At 31 December 2014, the Group also had two current accounts in the amount of 57,516 thousand euros and 12,500 thousand euros extended to two Group companies, SCI Washington and SAS Parholding, respectively. These current accounts accrue interest at a rate of three-month Euribor plus 60 basis points, in the case of SCI Washington, and three-month Euribor plus 150 basis points, for the account extended to SAS Parholding. The total interest accrued for both current accounts is 153 thousand euros. The total amount at 31 December 2013 was 72,360 thousand euros.

Guarantees given

At 31 December 2014, the Parent had granted to government bodies, customers and suppliers guarantees in the amount of 33,108 thousand euros, of which 21,799 thousand euros related to the bank guarantee provided in connection with the purchase of the building located at Francisco Silvela, 42 in Madrid (Note 13). Other than this, the main guarantees were.

- 5,097 thousand euros granted to secure obligations acquired by Asentia Project, S.L.U. The Parent and this subsidiary have an agreement in place whereby if any of the guarantees is enforced, Asentia Project, S.L.U. must compensate the Parent for any damage sustained within 15 days.

- 5,000 thousand euros granted to secure obligations acquired by Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. This subsidiary has pledged a current account as collateral to secure the guarantees provided by the Parent, the balance of which at 31 December 2014 was 3,232 thousand euros.

Finance leases

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

Cash and cash equivalents

At 31 December 2014 and 2013, amounts of 125,956 thousand and 53,557 thousand euros, respectively, were recognised under “Cash and cash equivalents”, of which 14,565 thousand and 2,500 thousand euros, respectively, were pledged. The Parent is obliged to make a payment of 21,798 thousand euros in relation to the execution of the guarantee for the purchase of the Francisco Silvela building (Note 13).

Costs and fees for loans and bond issues

At 31 December 2014 and 2013, the amount recognised in the consolidated statement of comprehensive income in this connection totalled 60,178 thousand and 13,374 thousand euros, respectively, of which 31,235 thousand euros relate to the Parent (fees for writing off the previous syndicated loan and entering into a new load), 28,852 thousand euros to SFL (relating mainly to fees for the new bond issue and the partial repurchase of the previous issues), and 91 thousand euros to Torre Marenostrum.

Interest rate on borrowings

The average interest rate paid by the Group in 2014 on borrowings allocated to continuing operations was 3.76%, or 3.98% including accrued fees. The average spread over Euribor paid by the Group in 2014 was 247 basis points (291 basis points including fees). The calculation of the average spread did not include the penalty of 686 basis points on the Parent’s previous syndicated loan. If it had been included, the interest rate on the borrowings would be 5.47%.

At 31 December 2014, the interest accrued on bank borrowings amounted to 4,425 thousand euros. At 31 December 2013, accrued interest amounted to 22,387 thousand euros.

Capital management: policies and objectives

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

The Colonial Group draws up annual cash budgets and monthly forecasts (with breakdowns and weekly updates) to manage its liquidity risk and meet its financing needs.

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

The financing granted to the Parent is long term and structured such that it is able to implement the business plan that supports it, including the amount yet to be paid for the acquisition of the Francisco Silvela property (Note 19) and the costs associated with the development work yet to be carried out on the EU-1 (Note 17).

SLF has various lines of credit yet to be drawn down and the bonds issued in November 2014 have allowed it to reduce the cost of the debt and also to extend its maturity period.

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

15. Derivative financial instruments

Risk management policy objectives

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

- Interest rate risk: the Group has taken out most of its debt at floating rates, except for the 1,200,000 thousand euros of bonds issued by SFL (Note 14). Therefore, 55% 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, interest rate hedges are arranged to hedge against possible fluctuations in finance 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 2014 and 2013, including financial instruments, to analyse the impact before non-controlling interests and the related tax effect on the Group's consolidated comprehensive income and on equity.

31 December 2014

	Thousands of Euros		
	Increase / (decrease)	Income / (expense)	
+/- basis point change in interest rate	Impact on equity	Impact on comprehensive income	% change in recognised expense
+25pb	2,060	(3,292)	3.01%
+50pb	3,676	(6,586)	6.02%
+75pb	5,277	(9,882)	9.03%
+100pb	8,720	(13,074)	11.95%

For 2014, sensitivity to negative changes is not shown, given that the resulting interest rates are negative.

31 December 2013

	Thousands of Euros		
	Increase / (decrease)	Income / (expense)	
+/- basis point change in interest rate	Impact on equity	Impact on comprehensive income	% change in recognised expense
+25pb	2,124	(3,777)	2.95%
+50pb	4,311	(7,559)	5.91%
+75pb	6,608	(11,345)	8.87%
+100pb	9,052	(15,135)	11.83%

For 2013, sensitivity to negative changes is not shown, given that the resulting interest rates are negative.

- 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 (Note 4-s).

- Liquidity risk: the restructuring of the Parent's financial debt (Note 14), together with the capital increase performed (Note 2-g), allowed the Parent to strengthen its long-term financial structure, reducing its debt and guaranteeing its debt servicing. The SFL subgroup also has syndicated loans not yet drawn down as described in Note 14.

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

Derivative financial instruments

The Group has arranged a series of fixed-to-floating interest rate hedging derivatives. The following table itemises these derivatives and states their fair values at 31 December 2014 and 2013.

Derivative financial instrument	Company	Counterparty	Interest rate	Maturity	Notional value (thousands of euros)	Fair value – Asset / (Liability)
Vanilla swap	Parhaus	Natixis	0.8825%	2017	24,525	(565)
Vanilla swap	Parchamps	Natixis	0.8825%	2017	9,065	(209)
Vanilla swap	Pargal	Natixis	0.8825%	2017	28,150	(648)
Vanilla swap	Parhaus	Nord/LB	0.8825%	2017	24,525	(565)
Vanilla swap	Parchamps	Nord/LB	0.8825%	2017	9,065	(209)
Vanilla swap	Pargal	Nord/LB	0.8825%	2017	28,150	(648)
Vanilla swap	Parhaus	Dekabank	0.8825%	2017	24,525	(565)
Vanilla swap	Parchamps	Dekabank	0.8825%	2017	9,065	(209)
Vanilla swap	Pargal	Dekabank	0.8825%	2017	28,150	(648)
Step-down swap	Colonial	BBVA	3.50%	2018	91,339	(5,852)
CAP	Colonial	CA-CIB	1.25%	2018	350,000	-
CAP	Colonial	ING	1.25%	2018	300,000	-
CAP	Colonial	Morgan Stanley	1.25%	2018	130,000	-
Vanilla swap	Torre Marenostrum	Caixabank	2.80%	2024	27,093	(3,675)
Total fixed-to-floating hedges at 31 December 2014					**1,083,652**	**(13,793)**

Derivative financial instrument	Company	Counterparty	Interest rate	Maturity	Notional value (thousands of euros)	Fair value – Asset / (Liability)
Vanilla swap	Parhaus	Natixis	0.8825%	2017	24,525	(112)
Vanilla swap	Parchamps	Natixis	0.8825%	2017	9,065	(42)
Vanilla swap	Pargal	Natixis	0.8825%	2017	28,150	(129)
Vanilla swap	Parhaus	Nord/LB	0.8825%	2017	24,525	(112)
Vanilla swap	Parchamps	Nord/LB	0.8825%	2017	9,065	(42)
Vanilla swap	Pargal	Nord/LB	0.8825%	2017	28,150	(129)
Vanilla swap	Parhaus	Dekabank	0.8825%	2017	24,525	(112)
Vanilla swap	Parchamps	Dekabank	0.8825%	2017	9,065	(42)
Vanilla swap	Pargal	Dekabank	0.8825%	2017	28,150	(129)
Step-down swap	Colonial	BBVA	3.30%	2018	125,233	(8,638)
CAP	Colonial	Banco Popular	3.25%	2014	30,000	-
CAP	Colonial	CA-CIB	3.25%	2014	140,000	-
CAP	Colonial	CA-CIB	1.875%	2014	150,000	1
CAP	Colonial	Hypotheken-bank	2.50%	2014	150,000	1
CAP	Colonial	RBS	1.875%	2014	150,000	1
CAP	Colonial	RBS	2.50%	2014	250,000	1
CAP	Colonial	RBS	3.25%	2014	140,000	-
CAP	Colonial	Caixabank	2.50%	2014	100,000	-
CAP	Colonial	Caixabank	3.25%	2014	140,000	-
CAP	Colonial	Caixabank	3.25%	2014	50,000	-
CAP	Abix	Caixabank	3.5%	2014	54,105	-
Vanilla swap	Torre Marenostrum	Caixabank	2.80%	2024	28,896	(2,040)
Total fixed-to-floating hedges at 31 December 2013					**1,693,454**	**(11,523)**
Third parties					460,453	(9,486)
Related parties (Note 22)					1,233,001	(2,037)

The Parent has various derivatives arranged associated with the previous syndicated loan, which were recognised as efficient hedges, giving rise to a reserve for the valuation of derivative financial instruments for an aggregate amount of 5,517 thousand euros. As a consequence of the write-off of the liability covered, the Parent transferred the amount recognised in the previous reserve to the consolidated statement of comprehensive income.

In 2013, SFL carried out the early cancellation of three interest rate swaps with a total nominal value of 250,000 thousand euros. Meanwhile, in 2012, it cancelled in advance eight interest rate swaps. The straight-line accrual of the finance cost on the early cancellation of these 11 interest rate swaps had an impact of 8,407 thousand euros on the consolidated statement of comprehensive income at 31 December 2014, under “Finance costs”.

At 31 December 2014, 92% of the notional value of the Group's derivatives portfolio was in compliance with the terms of IFRS 39; consequently, the mark-to-market (MtM) differences between periods are recognised in equity.

At 31 December 2014, the accumulated impact on equity of derivative hedge accounting was a debit of 6,368 thousand euros, net of the tax effect and consolidation adjustments (at 31 December 2013, a debit of 18,358 thousand euros).

The impact for 2014 and 2013 of accounting for derivatives qualifying for hedge accounting on the consolidated statement of comprehensive income was a net finance cost of 9,500 thousand and 18,448 thousand euros, respectively (Note 20-g), corresponding primarily to SFL.

The fair value of the derivatives was calculated by discounting estimated future cash flows based on forward interest and exchange rates and on assigned volatility at 31 December 2014.

At 31 December 2014, the net fair value of the derivatives gave rise to a financial liability of 13,793 thousand euros, including accrued interest payable of 435 thousand and a receivable of 24 thousand euros in credit risk (Note 14). The fair value of the derivatives at 31 December 2013 was 11,523 thousand euros.

At 31 December 2014, the notional amount for interest rate hedges was 1,083,652 thousand euros. Taking into account SFL bonds issues, 85% of total debt is hedged or at fixed rates, in the amount of 1,200,000 thousand euros.

The effective hedging ratio at year-end 2014 (floating rate hedges) was 74% (83% in Spain and 48% in France).

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.

16. Trade payables and other non-current liabilities

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

	Thousands of Euros			
	31 December 2014		31 December 2013	
	Current	Non-current	Current	Non-current
Trade and other payables	26,058	-	22,923	-
Advances	14,325	-	12,606	-
Payables for the purchase of properties and land	52,779	-	52,340	-
Guarantees and deposits received	1,515	24,311	1,515	23,468
Payable to Social Security	1,770	-	1,974	-
Deferred income (Note 20-a)	4,411	-	6,527	-
Other payables and current liabilities	3,444	580	3,335	175
Total	**104,302**	**24,891**	**101,220**	**23,643**

At 31 December 2014 and 2013, “Trade and other payables” included primarily the amounts payable by the Group for business-related purchases and costs associated with the property rental operating segment and the Corporate Unit.

“Advances” primarily reflects amounts paid upfront by lessees.

At 31 December 2014, “Payables for the purchase of properties and land” included borrowings for the acquisition of properties by SFL (Rue de Richelieu or Project Cardinal, and Quai Le Gallo, 46 or project In/Out), in the amount of 30,713 thousand euros, and the amount outstanding on the Parent’s acquisition of the Francisco Silvela property (Notes 14 and 19) of 21,799 thousand euros.

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

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

Average payment period to suppliers and trade creditors

In keeping with additional provision three “Disclosure requirements” of Law 15/2010, of 5 July 2010, amending Law 3/2004, which establishes measures to combat late payment in commercial transactions, and as provided in the related resolution issued by Spain’s Accounting and Audit Institute (ICAC) on 29 December 2010, the following table provides the required disclosures regarding “aggregate” balances with suppliers and trade creditors at 31 December 2014 and 2013 of the various Spanish companies included in the Group:

	Thousands of Euros					
	Payments made and payments outstanding at year-end					
	2014			2013		
	Provision for taxes	Provisions for employee benefits	Provisions for contingencies and other provisions	Provisions for contingencies and other provisions	%	% sobre nombre de factures
Paid within the legal deadline	32,417	56%	68%	17,702	54%	65%
Other	25,046	44%	32%	15,347	46%	35%
Total amounts paid in the year	57,463	**100%**	**100%**	33,049	**100%**	**100%**
Weighted average payment days	53			59		
Weighted average payment days – payments made after the legal deadline	84			94		
Weighted average days past due – payments	54			34		
Amounts past due at the reporting date by more than the legally permitted term	3,416			3,035		

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).

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

As regards payments made after the legally established period, Note that these are primarily payments relating to construction work and property refurbishment that are paid within the payment terms stipulated in the contracts signed with the various contractors. In this regard, at the date on which these financial statements were authorised for issue, the

Parent has notified all suppliers with contracts in force, and whose payment conditions included in said contracts were not in line with the maximum payment period of 60 days, that conditions would be changed in order to bring them into line with Law 11/2013.

17. Provisions

Changes in “Provisions” for 2014 and 2013 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 2012	**968**	**1,039**	**31**	**316**
Additions	-	-	20	20,293
Decreases	(968)	(323)	-	-
Balance at 31 December 2013	**-**	**716**	**51**	**20,609**
Amounts used	-	-	(13,738)	(20,126)
Additions	-	517	26,065	5,737
Decreases	-	-	-	(41)
Balance at 31 December 2014	**-**	**1,233**	**12,378**	**6,179**

Non-current provisions

The additions to non-current provisions include the recognition of 26,065 thousand euros relating to the financial obligations assumed by the Parent following the deconsolidation of Asentia (Note 2-f).

In 2014 the provision recognised in connection with the Asentía warrants (Note 13), which amounted to 12,535 thousand euros, was used in full, and the provision for the development costs pending execution in the Entrenúcleos EU-1 (Note 2-f), amounting to 1,203 thousand euros, after having received the related invoices, was partially used.

“Provisions for employee benefits” cover the retirement benefits and seniority bonuses of employees of SFL (Note 4-j).

Current provisions

Additions to current provisions include 5,737 thousand euros, reflecting an estimate of the Parent’s various future risks.

In 2014, after recognising the restructuring costs (Note 2-g) in the consolidated statement of comprehensive income by type, the Parent used the current provision recognised in 2013 amounting to 20,126 thousand euros. Following is a detail of the impacts of the recognition of these costs and of the reversal of the provision:

	Thousands of Euros
	2014
Staff costs (Note 20-c)	(4,247)
Other operating expenses	(22,023)
Net change in provisions	20,126
Operating profit	**(6,144)**

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

18. Tax matters

Inmobiliaria Colonial, S.A. is the head of a group of companies that has filed consolidated tax returns since 1 January 2008. This consolidated tax group includes only subsidiaries incorporated in Spain in which the Parent either directly or indirectly owns at least 75% (this threshold falls to 70% in the case of listed subsidiaries) and has the majority of the voting rights.

Following the reduction of the interest held by the Parent in Asentia, both Asentia and all the subsidiaries included in the tax group left the group effective as of 1 January 2014. Consequently, all companies of the Asentia subgroup which formed part of the tax group in 2013 went on to file individual tax returns as of 1 January 2014.

In addition to the Parent, this consolidated tax group for 2014 included Abix Service, S.L.U., Colonial Invest, S.L.U. and Colonial Tramit, S.L.U., with the following companies leaving the group with respect to 2013: Asentia Project, S.L.U., 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., Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. and Riofisa Este, S.L.

The exclusion from the tax group of the Asentia subgroup companies meant that the taxable profit of the 2013 tax group included the amount of all internal operation adjustments arising from these companies, and the distribution of tax losses and the tax credits and relief generated by the tax group in proportion to the extent to which these companies had contributed to their generation.

Corporate income tax expense for the year is calculated based on taxable profit for the year, which differs from the net profit or loss presented in the consolidated statement of comprehensive income because it excludes certain taxable income and deductible expenses from prior years as well as other exempt items. The Group's current tax liabilities are calculated using tax rates that have been approved at the date of the consolidated statement of financial position.

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

	Thousands of Euros			
	Current tax assets			
	Current		Non-current	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Tax refunds receivable	857	66	-	-
Deferred tax assets receivable	-	1,924	-	-
VAT refundable	13,656	19,005	-	-
Deferred tax assets	-	-	1. 422	142,592
Total tax receivables	**14,513**	**20,995**	**1,422**	**142,592**

	Thousands of Euros			
	Current tax liabilities			
	Current		Non-current	
	31 December 2014	31 December 2013	31 December 2014	31 December 2013
Income tax payable	6,463	4,099	-	-
Other taxes payable	2,927	7,970	-	-
Exit tax payable (SFL Group)	-	1,717	5,595	9,107
VAT payable	1,712	830	-	-
Tax deferrals payable	4,933	10,891	1,356	6,330
Deferred tax liabilities	-	-	196,799	169,339
Total taxes payable	**16,035**	**25,507**	**203,750**	**184,776**

Income tax

The breakdown of "Income tax expense" in the consolidated statement of comprehensive income for 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Corporate income tax expense	(9,550)	(18,214) (**)
Variation due to deferred and prepaid taxes, tax credits and tax relief	(166,233) (*)	(16,264)
Income tax expense	**(175,783)**	**(34,478)**
- from continuing operations	(175,783)	(34,817)
- from discontinued operations (Note 24)	-	339

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

(**) Of which 1,648 thousand euros relate to adjustments derived from uncontested additional tax assessments raised in inspections in the absorbed companies Dehesa de Valme, S.L. and Entrenúcleos Desarrollo Inmobiliario, S.L.

.

	Thousands of Euros		
2014	Continuing operations	Total	Tax effect – at the 30% national rate (*)
Profit/(loss) before tax	103,407	103,407	(31,022)
Effect of the adjustments to taxable profit for France (SIIC 4 effect and adjustments to the tax base)	(174,553)	(174,553)	52,365
Effects of the adjustments to taxable profit for Spanish companies and unrecognised tax credits generated in the year	192,518	192,518	(57,755)
Prior income tax expense (base)	**121,372**	**121,372**	**(36,412)**
Other			3,871
Derecognition of tax credits			(143,242)
Income tax expense			**(175,783)**

(*) (Expense) / Income.

2013	Continuing operations	Disconti-nued operations	Total	Tax effect – at the 30% national rate (*)
				Thousands of Euros
Profit/(loss) before tax	(22,361)	(404,591)	(426,952)	128,086
Effect of the adjustments to taxable profit for France (SIIC 4 effect and adjustments to the tax base)	(120,181)	-	(120,181)	36,054
Effects of the adjustments to taxable profit for Spanish companies and unrecognised tax credits generated in the year	253,105	403,461	656,566	(196,970)
Prior income tax expense (base)	**110,563**	**(1,130)**	**109,433**	**(32,830)**
Other				(1,648)
Income tax expense				**(34,478)**

(*) (Expense) / Income.

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

	Thousands of Euros	
	2014	2013
Accounting loss before tax (aggregate of individual expenses)	322,123	(592,926)
Permanent differences	(356,767)	(33,824)
Temporary differences	27,088	179,828
Aggregate tax loss before use of unused tax losses	**(7,556)**	**(446,922)**
Offset of tax losses	-	(49)
Aggregate tax loss	**(7,556)**	**(446,971)**
Recognised taxable profit	15,906	2,214
Unrecognised tax loss	(23,462)	(449,185)

At 31 December 2014 and 2013, the permanent differences recognised by the Group correspond primarily to the SFL subgroup –subject to the French SIIC regime (Note 4-m)– for a permanent negative difference in the amount of 254,874 thousand euros, and a dividend received from this company by the Parent, giving rise to a permanent negative difference of 49,444 thousand euros. In addition, 49,977 thousand euros were recognised in 2014 for the capital increase costs recognised directly in the Group's equity (Note 13), which were included in the tax base as a negative permanent adjustment.

At 31 December 2013, the permanent differences recognised by the Group correspond primarily to the SFL subgroup –subject to the French SIIC regime (Note 4-m)– for a permanent negative difference in the amount of 169,126 thousand euros, and a dividend received from this company by the Parent, giving rise to a permanent negative difference of 40,055 thousand euros.

Deferred tax assets

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

	Thousands of Euros			
	Recognised as assets			
Deferred tax assets	31 December 2013	Additions	Retirements	31 December 2014
Tax loss carryforwards	143,242	-	(143,242)	-
Fair value of financial instruments	558	420	-	978
Impairment of assets	(1,208)	178	1,474	444
	142,592	**598**	**(141,768)**	**1,422**

At 31 December 2013, the Parent recognised a tax loss carryforward in the amount of 143,242 thousand euros.

At that date, the Parent's directors evaluated its business plan and the expectations for the rental business in Spain over the medium and long term. The business plan primarily considered the results of the Parent's ordinary activities for the 18-year period (the period for offsetting tax loss carryforwards according to current tax legislation), which were projected on the basis of the Parent's portfolio of rental properties. The results of ordinary activities were estimated on the basis of the performance of rentals, as well as occupancy levels for each of the Parent's properties individually. The assessment of the recoverability of tax credits also took into account certain tax planning strategies that would allow for the exit of the Asentia subgroup if the disposal of this subgroup does not materialise (Note 2-g).

At 31 December 2014, all of these tax loss carryforwards were retired after reassessing the assumptions considered in the impairment test, in which the changes introduced by the new Corporate Income Tax Law approved on 27 November 2014, the permanent limit for tax loss carryforwards, the approved tax rate reduction and the time limit of ten years used in the impairment test calculation at 31 December 2014 had a significant impact. Although current tax legislation does not set a maximum limit for their recovery, the directors have chosen to set a finite period of 10 years for offsetting these tax credits. At 31 December 2013, the period for offset established was considered to be 18 years.

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

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

Prior years' tax loss carryforwards

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

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

	Thousands of Euros
Year	At companies that make up the consolidated tax group
2000	12,979
2001	5,468
2003	140
2004	38,515
2005	36
2006	25,053
2007	356,235
2008	1,272,908
2009	887,018
2010	657,648
2011	271,321
2012	415,817
2013	109,674
2014	23,462
Total	**4,076,274**

As indicated above, some of the Group companies form part of consolidated tax group 6/08, which means that certain transactions among companies included in the tax group are eliminated from the aggregate sum of the individual tax loss balances; they are not included in consolidated taxable profit until the gain or loss on the respective transaction is realised with third parties. In addition, the consolidated tax regime allows companies with taxable profit to make use of the tax losses generated by other companies within the same consolidated tax group.

Following the reduction of the interest held by the Parent in Asentia Project, S.L.U., the latter left the tax group, together with all the subsidiaries forming the tax group to date (Note 2-f). As mentioned above, the exclusion from the tax group takes effect from 1 January of the year in which it takes place, i.e. as of 1 January 2014.

The following table reconciles the aggregate of the individual tax losses and the consolidated tax loss for 2014, 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
Aggregate of the individual tax loss carryforwards	**4,076,274**
Adjustments for transactions among companies that make up the consolidated tax group	(550,073)
Adjustments for the offset of taxable profit and tax loss carryforwards among companies that make up the consolidated tax group	(9,789)
Total tax loss carryforwards of the tax group	**3,516,412**

Deferred tax asset for tax credit carryforwards

The nature and amount of unused tax credits at 31 December 2014 by the Group due to insufficient taxable profit in prior years, and the last years for offset are set out below:

Nature of the tax credit	Year of origin	Amount	Last year for use
			Thousands of Euros
Double taxation tax credit			
	2007	12,482	2014
	2008	8,612	2015
	2009	287	2016
	2010	273	2017
	2011	355	2018
	2012	333	2019
	2013	83	2020
	2014	162	2021
Tax credit for training			
	2008	1	2018
	2009	1	2019
	2010	1	2020
Tax credit for reinvestment			
	2002	458	2017
	2003	3,316	2018
	2004	1,056	2019
	2005	92	2020
	2006	1,314	2021
	2007	7,275	2022
	2008	1,185	2023
	2009	1,434	2024
	2010	713	2025
	2011	39	2026
	2012	123	2027
	2013	112	2028
	2014	23	2029
		39,730	

Reinvestment of extraordinary profit

Until 31 December 2014, prevailing legislation allowed a 12% tax credit to be taken on profit obtained on the sale of certain items of property, plant and equipment, intangible assets and investments of 5% or more in companies outside the tax group, so long as the profit is reinvested in full in assets of the same characteristics. Qualifying reinvestments must take place within the three years following the sale or in the year preceding the transaction.

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

	Thousands of Euros		
	2009	2010	2011
Profit on which tax credit for reinvestment was taken	11,236	3,106	251
Reinvestment commitments	154,283	24,500	25,000
Reinvested by the Company	136,423	7,382	19,250

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

	Thousands of Euros				
	2015	2016	2017	2018	2019
Reinvested by the Company	70,442	5,642	27,614	7,345	19,250
Associated profit	5,957	220	1,009	931	23

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

Deferred tax liabilities

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

	Thousands of Euros			
Deferred tax liabilities	31 December 2013	Additions	Retirements	31 December 2014
Asset revaluations	162,088	28,184	-	190,272
Deferral for reinvestment	7,251	-	(724)	6,527
	169,339	**28,184**	**(724)**	**196,799**

Deferred tax liability for asset revaluations

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

Other non-current tax liabilities

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

	Thousands of Euros	
Description	31 December 2014	31 December 2013
Deferrals	1,356	6,330
Exit tax SFL	5,595	9,107
	6,951	**15,437**

Tax extensions

At 31 December 2014, the Parent was 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., granted in 2008. This debt is secured by mortgages against various properties of Asentia Project, S.L.U. In 2013 the payment schedule was restructured, deferring amounts payable at that time for an additional three-year period.

- 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 secured by a mortgage against a property owned by Asentia Project, S.L.U. in favour of the tax authorities. In 2013 the payment schedule was restructured, deferring amounts payable at that time for an additional three-year period.

- Permission to defer over five years payment of a total of 14,844 thousand euros of stamp duty accrued as a result of the cancellation and re-grant of the mortgage on all of the rental properties owned by the Parent in Spain, provided as collateral as part of the 2010 syndicated financing agreement. 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 was secured by mortgages on various properties owned by Asentia Project, S.L.U.

The maturity schedule for the deferred payments, excluding interest, at 31 December 2014 and 2013 is as follows:

	Thousands of Euros				
	Current	Non-current			
31 December 2014	1 year	2 years	3 years	Total non-current	Total
VAT	1,056	-	-	-	1,056
Stamp duty Catalonia	510	-	-	-	510
Stamp duty Madrid	407	-	-	-	407
Income tax 2007	1,686	984	-	984	2,670
Total	**3,659**	**984**	**-**	**984**	**4,643**

	Thousands of Euros				
	Current	Non-current			
31 December 2013	1 year	2 years	3 years	Total non-current	Total
VAT	1,237	1,056	-	1,056	2,293
Stamp duty Catalonia	2,040	510	-	510	2,550
Stamp duty Madrid	2,442	407	-	407	2,849
Income tax 2007	1,686	1,686	983	2,669	4,355
Income tax 2008 (*)	1,612	-	-	-	1,612
Income tax 2010 (*)	48	-	-	-	48
Total	**9,065**	**3,659**	**983**	**4,642**	**13,707**

(*) Both deferrals ended in 2014 according to the established payment schedule.

At 31 December 2014 and 2013, accrued interest on the above deferrals amounted to 1,647 thousand and 3,515 thousand euros, respectively.

In 2014 and 2013, the tax authorities offset several tax credits for the amount of the aforementioned deferred payables.

Other tax issues

In 2011, tax audits were initiated at absorbed companies Dehesa de Valme, S.L. and Entrenúcleos Desarrollo Inmobiliario, S.L. with a focus on the 2006 and 2007 filings. In 2013, the Parent signed tax assessments on an uncontested basis in the amount of 1,648 thousand euros plus late payment interest of 430 thousand euros. The assessments primarily relate to discrepancies in timing differences for certain sales costs recognised in the income tax returns of the companies audited.

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

At 31 December 2014, tax audits were being carried out at certain SFL Group companies for sundry taxes for immaterial amounts. The Group does not expect material liabilities to arise as a result of these audits.

The Group has the last four years open for review by the tax inspection authorities for all applicable taxes in Spain and France, except income tax of Spanish companies with tax loss carryforwards or unused tax credits, in which case the period under review for this tax is extended to ten years. No additional material liability for the Group is expected to arise in the event of a new tax audit.

19. Contingent assets and liabilities

Guarantee commitments to third parties

On 24 November 2004, a share purchase agreement was signed between Inmobiliaria Colonial, S.A. and Prédica. In the shareholders agreement signed between both companies, the Parent undertook to purchase the aforementioned shares from Prédica, at the latter's request, under certain circumstances at the prevailing market value. In 2014, the Financial Markets Authority (AMF), the body responsible for the supervision and inspection of the French securities markets, was notified that the shareholders agreement entered into between the Parent and Prédica ended on 24 November 2014 and was not renewed.

Accordingly, the SFL subgroup has the following shareholders agreements with Prédica:

- Agreement in SCI Washington, in which SFL holds 66%. In the event of a change of control of SFL, Prédica may consent to the change of control, or acquire or sell all of the shares and current accounts held by SFL in the common subsidiary, at a price agreed between the parties or at market value.

- Agreement in Parholding, in which SFL holds 50%. In the event of a change of control of SFL, Prédica may consent to the change of control, or acquire or sell all of the shares and current accounts held by SFL in the common subsidiary, at a price agreed between the parties or at market value.

Contingent assets

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

- A corporate action for liability against certain former directors in relation to the purchase of assets by the Parent for reinvestment of the proceeds by the sellers in shares of the Company, as part of the 29 June 2006 equity issue or otherwise.

- A corporate action for liability against certain former directors in connection with the losses caused by the acquisition of shares of Riofisa in 2007.

- A corporate action for liability against certain former directors in connection with the purchase of treasury shares between March and December 2007, both months inclusive. In February 2015 and prior to the authorisation for issue of these consolidated financial statements, a ruling was handed down by the Supreme Court dismissing the claims filed by the Parent, which was ordered to pay costs. However, the Court upheld the grounds relating to the validity of the resolution for filing a corporate action for liability. The Parent's directors do not expect this ruling to have a significant impact on the consolidated financial statements, given that at 31 December 2014 the appropriate provision had been recognised to meet any possible costs (Note 17).

Other contingencies

Since February 1999, the Parent has been awaiting a ruling on various suits brought in connection with a purchase agreement signed for the acquisition of the building located at Francisco Silvela, 42 in Madrid for 21,799 thousand euros, which are recognised under "Trade payables". Inmobiliaria Colonial, S.A. has deposited a bank guarantee in court for the amount on which payment is pending (Note 16). On 19 March 2014, the Parent and the sellers signed an agreement setting out the formalisation of the purchase of the asset by the Parent and the related payment of the outstanding amount, thereby putting an end to the court proceedings. At the date of authorisation for issue of these consolidated financial statements, this agreement between the parties is pending approval by the court.

20. Income and expenses

a) Revenue

Revenue comprises basically rental income from the Group's rental properties which are concentrated in the cities of Barcelona, Madrid and Paris. Revenue amounted to 211,477 thousand and 213,111 thousand euros, respectively, at 31 December 2014 and 2013. The breakdown by geographical segments is as follows:

	Thousands of Euros	
Rental business	2014	2013
Spain	59,969	63,796
France	151,508	149,315
	211,477	**213,111**

Revenue in 2014 and 2013 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. Revenue also includes the accrued amounts received in connection to rights of entry. These accruals increased revenue during the year ended 31 December 2014 by 10,230 thousand euros (by 2,138 thousand euros in the year ended 31 December 2013).

At 31 December 2014 and 2013, the total minimum future lease payments receivable corresponding to the Group's non-cancellable operating leases, based on the leases currently in force, without taking into account the impact of common expenses, future increases in the CPI or future contractual lease payment revisions, was as follows:

	Thousands of Euros	
	Nominal amount	
Minimum operating lease payments	31 December 2014	31 December 2013
Within one year	214,989	199,813
Spain	*58,389*	*55,914*
France	*156,600*	*143,899*
Between one and five years	527,593	467,325
Spain	*85,603*	*86,606*
France	*441,990*	*380,719*
After five years	187,265	130,348
Spain	*26,551*	*29,712*
France	*160,714*	*100,636*
Total	**929,847**	**797,486**
Spain	***170,543***	***172,232***
International	***759,304***	***625,254***

b) Other operating income

This heading relates mainly to property services rendered, and amounted to 2,606 thousand and 4,095 thousand euros at 31 December 2014 and 2013, respectively.

c) Staff costs

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

	Thousands of Euros	
	2014	2013
Wages and salaries	14,058	15,381
Social security costs	5,019	5,027
Other employee benefit expenses	2,094	(1,428)
Extraordinary remuneration	4,247	-
Termination benefits	528	225
Internal reallocation	(514)	(416)
Total staff costs	**25,432**	**18,789**
Spain	***11,941***	***5,011***
International	***13,491***	***13,778***

"Other employee benefit expenses" includes 1,866 thousand euros corresponding to the cost accrued in 2014 under the Parent's long-term bonus scheme and SFL's share option plan detailed in Note 21. In 2013, the 1,850 thousand euros recognised by the Parent in prior years under the former long-term bonus scheme (Note 21) was reversed, and 175 thousand euros relating to the costs accrued under SFL's share option plan were recognised.

"Extraordinary remuneration" includes mainly the extraordinary bonus and contingent remuneration associated with the restructuring of the Parent's syndicated financial debt (Notes 17 and 23) paid after the transactions described in Note 2-f were carried out, once the process of restructuring the financial debt and the capitalisation of the Parent was successfully completed.

Group headcount at 31 December 2014 and 2013, as well as the average headcount in 2014, employed in continuing operations, broken down by job category and gender, was as follows:

	Number of employees				Average headcount, 2014	
	2014		2013			
	Men	Women	Men	Women	Men	Women
General and area managers	12	5	12	6	12	6
Technical graduates and middle managers	31	25	31	22	31	23
Clerical staff	13	57	13	59	13	58
Other	1	1	1	1	1	1
	57	**88**	**57**	**88**	**57**	**88**

At 31 December 2013, the Group had 16 men and 12 women employed in discontinued operations, who no longer formed part of the group after the Parent reduced its ownership interest in Asentia Project, S.L.U., as mentioned in Note 2-f.

d) Other operating expenses

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

	Thousands of Euros	
	2014	2013
External services and other expenses	13,870	14,950
Taxes other than income tax	40,463	25,047
Total	**54,333**	**39,997**

e) Net change in impairment of trade receivables

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

	Thousands of Euros	
	2014	2013
Opening balance	156,604	160,674
Net change	891	(4,070)
Closing balance	**157,495**	**156,604**

Of this total, 152,189 thousand euros related to the impairment of receivables from Nozar, S.A. and N.Z. Patrimonio, S.L.U. (Note 12).

During 2013, the Parent reached several agreements with lessees whereby the amounts provisioned in prior years could be reversed.

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

	Thousands of Euros	
	2014	2013
Impairment of goodwill (Note 7)	(120,000)	-
Impairment of property for own use (Note 8)	340	(649)
Derecognitions of replaced assets (Note 9)	(4,919)	-
Impairment charges and net gains/(losses) on assets	**(124,579)**	**(649)**

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

The following table breaks down the Group’s gains/(losses) from asset sales (Notes 9 and 24):

	Thousands of Euros					
	Sale price		Costs to sell		Net gain/(loss) on sale	
	2014	2013	2014	2013	2014	2013
Spain	93	97,862	120	104,741	(27)	(6,879)
France	-	290,371	-	292,548	-	(2,177)
Total	**93**	**388,233**	**120**	**397,289**	**(27)**	**(9,056)**

The breakdown of changes in the fair value of investment properties in 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Change in fair value by statement of financial position heading		
Investment property (Note 9)	335,171	66,439
Non-current assets held for sale – Investment property (Note 24)	(3,218)	(29,009)
Change in fair value of investment property recognised in the statement of comprehensive income	**331,953**	**37,430**
Spain	***104,411***	***(109,861)***
International	***227,542***	***147,291***

g) Finance income and costs

The breakdown of finance income and costs in 2014 and 2013 is as follows:

	Thousands of Euros	
	2014	2013
Finance income		
Revenue from equity instruments (Notes 11 and 24)	8,614	5,263
Other interest and similar income	817	3,456
Income from derivative financial instruments (Note 15)	2,498	3,157
Capitalised borrowing costs (Note 4.c)	7,473	10,985
Total finance income	**19,402**	**22,861**
Share of profit/(loss) of companies accounted for using the equity method (Note 10)	**(2,176)**	**20,969**
Finance costs		
Finance and similar expenses	(197,984)	(214,118)
Finance costs associated with the repurchase of bonds	(22,384)	-
Expenses arising from derivative financial instruments (Note 15)	(11,998)	(21,605)
Total finance cost	**(232,366)**	**(235,723)**
Impairment of financial assets (Note 12)	**(3,733)**	**(107)**
Total financial loss	**(218,873)**	**(192,000)**

"Revenue from equity instruments" includes 8,485 thousand euros relating to the positive margin from the sale of the interest that SFL held in SIIC de Paris and that was transferred in 2014 (Note 24).

"Finance and similar expenses" includes 41,030 thousand and 76,115 thousand euros for 2014 and 2013, respectively, for interest accrued upon application of the additional interest spread to the balances drawn down on the Parent's former syndicated loan (Note 14), which was cancelled in 2014. In addition, the restructuring of financial debt led to the recognition of the following impacts on financial profit/(loss) in the consolidated statement of comprehensive income:

- Inclusion of arrangement expenses and recycling of the "valuation adjustments" associated with the hedging instruments for the previous syndicated loan amounting to 4,997 thousand and 5,425 thousand euros, respectively, once the aforementioned loan has been written off in accordance with that described in Notes 14 and 13.

- Likewise, in line with that described in Note 14, the Group recognised various costs associated with the arrangement of the new syndicated loan, for a joint amount of 23,200 thousand euros, in the consolidated statement of comprehensive income for 2014. In the case of investments in the previous syndicated loan and the bilateral loans included in the Parent's new syndicated loan (Notes 2-g and 14), there was a substantial change in its debt (Note 4-e) and, therefore, these costs were taken to the consolidated statement of comprehensive income.

– Lastly, in relation to the three new hedging instruments arranged in 2014 by the Parent (Note 15), the Group recognised the premium paid in the arrangement of such instruments, amounting to 8,580 thousand euros, in the consolidated statement of comprehensive income. At 31 December 2014, the fair value of these financial instruments was not material.

Lastly, "Finance costs associated with the repurchase of bonds" includes the cost of 300,000 thousand euros borne by SFL to repurchase the bonds it had issued in 2014 (Note 14), which amounted to 22,384 thousand euros.

h) Related party transactions

The main related party transactions undertaken in 2014 and 2013 were as follows:

	Thousands of Euros			
	2014		2013	
	Interest income (cost)	Building leases and other income	Interest income (cost)	Building leases and other income
Gas Natural, SDG, S.A.	-	5,971	-	5,943
Commerzbank (*)	-	-	(2,980)	-
CaixaBank, S.A. (**)	(92)	-	(2,170)	5,471
Banco Popular Español, S.A. (**)	(4)	-	(65)	-
The Royal Bank of Scotland Group, PLC (**)	(78)	-	(24,491)	-
Crédit Agricole – CIB (***)	(10,547)	80	(27,299)	150
Coral Partners (Lux), S.A.R.L. (***)	(10,374)	-	(23,515)	-
Total	**(21,095)**	**6,051**	**(80,520)**	**11,564**

(*) Includes transactions concluded with Commerzbank up until October 2013, when that entity disposed of its interest.

(**) Includes transactions with CaixaBank, S.A., Banco Popular Español, S.A. and Royal Bank of Scotland Group, PLC up until January 2014, when their shares were disposed of, according to a notice to the CNMV.

(***) Includes transactions with Crédit Agricole – CIB and Coral Partners (Lux), S.A.R.L. up until April 2014, when their shares were disposed of, according to a notice to the CNMV.

i) Results by consolidated company

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

	Thousands of Euros					
	Consolidated profit/(loss)		Profit/(loss) attributable to non-controlling interests		Profit/(loss) attributable to shareholders of the Parent	
Company	2014	2013	2014	2013	2014	2013
Inmobiliaria Colonial, S.A.	392,553	(240,461)	-	-	392,553	(240,461)
TorreMarenostrum, S.A.	2,877	347	(1,222)	(84)	1,655	263
Subgrupo SFL	240,229	182,696	(135,148)	(104,395)	105,081	78,301
Subgrupo Riofisa	1,742	(172,064)	(121)	22,447	1,621	(149,617)
Desarrollos Urbanísticos Entrenúcleos 2009 S.L.U	(323)	(57,688)	-	-	(323)	(57,688)
Asentia Project, S.L.U	(8,563)	(174,279)	-	-	(8,563)	(174,279)
Abix Service, S.L.U	-	(2,426)	-	-	-	(2,426)
Asentia Invest, S.L	(1)	-	-	-	(1)	-
Asentia Gestión, S.L.U	(1)	-	-	-	(1)	-
Inmocaral Servicios, S.A.U	(28)	(1,021)	-	-	(28)	(1,021)
Total	**628,485**	**(464,896)**	**(136,491)**	**(82,032)**	**491,994**	**(546,928)**

21. Share option plans

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

In 2011, the Parent set up a long-term share-based payment scheme for the Chairman and CEO of Inmobiliaria Colonial, S.A., as well as for the members of the Group's Executive Committee. The plan can be settled only in Parent shares and is dependent on compliance of certain targets set in the plan, all referring to a four-year period from 1 January 2011 to 1 January 2015.

As this scheme is payable in Parent shares, the balancing entry for this expense in recognised directly in Group equity (Note 4-j).

At 31 December 2013, the expected percentage take-up of these shares was reassessed and was set at 0%, whereby the entire amount of 1.850 thousand euros taken to the Parent's equity was fully reversed (Note 20-c).

On 21 January 2014, the General Shareholders' Meeting of the Parent resolved to scrap the current plan and approve a new one.

New long-term bonus scheme linked to delivery of several management indicators

On 21 January 2014, the shareholders at the Parent's General Shareholders' Meeting set up a long-term bonus scheme for the Chairman and Chief Executive Officer of Inmobiliaria Colonial, S.A. and for members of the Group's Executive Committee that will apply from 2015 to 2019.

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

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

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

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

In 2014, the Parent recognised 1,190 thousand euros under "Staff costs - Other employee benefit expenses" in the consolidated statement of comprehensive income to cover the incentive plan (Note 20-c).

Share option plans on SFL shares

At 31 December 2014, SFL had two share 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 share option plans was set by reference to the average share price over a specific period.

	Purchase options (*)
Date of approval of share option plan	13/03/2007
End of exercise period	13/03/2015
Strike price per share	58.97
Options at 31 December 2013	208,297
Options granted in 2014	3,910
Options cancelled in 2014	(10,497)
Options not exercised at 31 December 2014	201,710

(*) SFL holds treasury shares in the amount needed to service the share option plan (Note 13).

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

In addition, SFL had two bonus share plans at 31 December 2014, the breakdown of which is as follows:

			Plan 1
Meeting date			09/05/2011
Board of Directors date	16/02/2012	05/03/2013	04/03/2014
Exercise date, starting on	31/12/2014	31/12/2015	31/12/2016
% expected	70.83%	70.83%	70.83%
Target number	32,988	35,144	33,981
Expected number	23,366	24,892	24,069
Amount per share	29.08€	31.65€	31.48€
Options cancelled	-2,376	-7,450	-10,428
Estimated number at year-end	20,990	17,442	13,641

Each allocation plan has been calculated based on the expected number of shares multiplied by the unit fair value of those shares. The expected number of shares is the total number of shares multiplied by the expected percentage of take-up in the grant, which is expected to be 70.83% for the plans of SFL. The resulting amount is charged on a straight-line basis over the grant period.

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

At 31 December 2014, 676 thousand euros were recognised in the consolidated statement of comprehensive income relating to these bonus share plans (Note 20-c). In 2014, 20,516 bonus shares were allocated in accordance with SFL's former Plan 2 of 2012, thereby fully cancelling the plan.

22. Year-end balances with related parties and associates

At 31 December 2014, the Group did not have any balances outstanding with related parties or associates. At 31 December 2013, the Group had the following balances outstanding with related parties and associates:

					Thousands of Euros
Asset / (Liability) Company	Syndicated loans (Note 14)	Lines of credit received (Note 14)	Other loans received (Note 14)	Interest on borrowings (Note 14)	Net derivative financial instruments (Note 15)
The Royal Bank of Scotland Group, PLC	-	-	-	-	2
Crédit Agricole – CIB	(372,728)	(19,735)	-	(4,348)	1
Coral Partners (Lux), S.A.R.L.	(362,351)	-	-	(4,201)	-
CaixaBank, S.A.	(2,502)	-	(44,456)	(110)	(2,040)
TOTAL	**(737,581)**	**(19,735)**	**(44,456)**	**(8,659)**	**(2,037)**

23. Director and senior management compensation and other benefits

Compensation of Board members

In 2014, the Parent recorded an expense of 5,235 thousand euros in relation to wages and salaries, incentives, attendance fees and bylaw-stipulated compensation earned by 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 (*)	**3,561**	**150**	**3,711**
Attendance fees	**518**	**126**	**644**
Director attendance fees	460	126	550
Additional attendance fees for the Chairman	58	-	94
Fixed compensation	**880**	**-**	**880**
Directors' remuneration	470	-	470
Additional remuneration for the Executive Committee	172	-	172
Additional remuneration for the Audit and Control Committee	114	-	114
Additional remuneration for the Nomination and Remuneration Committee	124	-	124
Total	**4,959**	**276**	**5,235**
Remuneration earned by executive directors	3,876	222	4,098

(*) Includes the remuneration earned by the directors in carrying out senior management functions. It also includes the amount received for extraordinary and contingent remuneration for restructuring, which amounts to 2,520 thousand euros.

Director compensation accrued in 2013 amounted to 2,702 thousand euros, with 1,222 thousand euros earned by the executive directors, 623 thousand euros in per diems and 857 thousand euros in fixed remuneration.

At 31 December 2014 and 2013, the Parent had a civil liability insurance policy covering all of its directors, executives and staff, for a total of 420 thousand and 545 thousand euros, respectively.

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

At 31 December 2014, 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 by the shareholders at the General Meeting.

The Parent's Board of Directors was made up of nine men and two women at 31 December 2014, and of seven men at 31 December 2013.

Following the changes in the Parent's shareholder structure, the detail of the Board of Directors at 31 December 2014 was as follows:

Director	Position
Juan José Brugera Clavari	Chairman
Villar Mir, S.A.U. Group represented by Juan-Miguel Villar Mir	Deputy Chairman
Pedro Viñolas Serra	Chief Executive Officer
Carlos Fernández-Lerga Garralda	Lead Director
Juan Villar-Mir de Fonts	Director
Silvia Villar-Mir de Fonts	Director
Juan Carlos García Canyars	Director
Francesc Mora Sagués	Director
Ana Sainz de Vicunya	Director
Javier Esglésies d'Ussel Ordis	Director
Luis Maluquer Trepat	Director

In 2014, the directors Javier Faus Santasusana and HDA Conseil, S.A.R.L., represented by Henri Goüin d'Àmbrières, resigned.

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

Compensation of senior management

The Parent's senior management team is formed by senior executives and other persons responsible for the management of the Company, reporting to the CEO. At 31 December 2014, the senior management team was composed of two men and two women, while at 31 December 2013 it was composed of one man and two women.

Compensation earned by senior management in 2014 and 2013 amounted to 2,151 thousand and 874 thousand euros, respectively, relating to wages and salaries, and in 2014, it included the extraordinary and contingent compensation for the restructuring performed amounting to 1,220 thousand euros.

At 31 December 2014 and 2013, one member of senior management had signed a golden parachute clause, triggered in the event of termination under certain circumstances or change of control.

Extraordinary and contingent compensation pursuant to 'Debt restructuring agreement'

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

In view of the state of progress of restructuring the Parent's debt at 31 December 2013, a provision of 4,000 thousand euros was recognised under "Current provisions" in the consolidated statement of financial position, based on the expectation that the process would be completed successfully.

Following the performance of the transactions described in Note 2-f, the debt restructuring process was successfully completed; accordingly, the Board of Directors, following to a report by the Nomination and Remuneration Committee, has set the exact amounts and distribution methods.

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

The movements under this heading in 2014 and 2013 were as follows:

	Thousands of Euros			
	Investment property	Assets of the Asentia subgroup	Total assets held for sale	Liabilities of the Asentia subgroup
Balance at 31 December 2012	**386,864**	**1,236,942**	**1,623,806**	**1,655,791**
Additions	1,974	-	1,974	-
Disposals or reductions	(386,710)	(448,431)	(835,141)	(117,933)
Transfers	81,118	-	81,118	-
Impairment (Note 20-f)	(29,009)	-	(29,009)	-
Balance at 31 December 2013	**54,237**	**788,511**	**842,748**	**1,537,858**
Changes in the scope of consolidation (Note 2-f)	-	(788,511)	(788,511)	(1,537,858)
Transfers (Notes 9 and 10)	(34,480)	-	(34,480)	-
Impairment (Note 20-f)	(3,218)	-	(3,218)	-
Balance at 31 December 2014	**16,539**	**-**	**16,539**	**-**

Investment property (Note 9)

Changes in 2014

After refinancing the Parent's debt, as mentioned in Note 2-f, the Parent's sales plan was reviewed and a property located in Madrid was reclassified to "Investment property" in the consolidated statement of financial position, given that it is not expected to be sold in the short term. The amount of property transferred amounts to 34,480 thousand euros.

Changes in 2013

The main transactions carried out in 2013 were as follows:

- SFL sold the Mandarin Oriental Hotel for 290,000 thousand euros, incurring a loss on disposal of 2,209 thousand euros.
- The Parent sold a property in Madrid for 73,000 thousand euros, incurring a loss of 4,070 thousand euros. This asset had been transferred from “Investment property”.
- The Parent also sold the property in Barcelona (Samontà 19-21) for a total price of 17,662 thousand euros, incurring a loss on the disposal of 2,110 thousand euros.
- Lastly, the Parent sold the car park in the Centro Norte building for 7,200 thousand euros, incurring a loss of 953 thousand euros.

A building was transferred to “Investment property” for 18,300 thousand euros in 2013.

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

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

The table below breaks down the amounts under “Non-current assets held for sale” and “Liabilities relating to assets held for sale” in the consolidated statement of financial position corresponding to the subgroup headed by Asentia Project.

Consolidated statement of financial position breakdown for discontinued operations at 31 December 2013

ASSETS	31 December 2013	**LIABILITIES**	31 December 2013
Intangible assets	8		
Property, plant and equipment held under concession and concession work in progress	79,966		
Property, plant and equipment	176	Bank borrowings and other financial liabilities	24,372
Investment property	32,082	Non-current deferred tax liabilities	10,904
Non-current financial assets	14,798	Non-current provisions	11,967
Non-current deferred tax assets	2,951	Other non-current liabilities	3,487
NON-CURRENT ASSETS	**129,981**	**NON-CURRENT LIABILITIES**	**50,730**
Inventories	618,695		
Trade and other receivables	7,553		
Current financial assets	2,352	Bank borrowings and other financial liabilities	1,423,297
Current tax assets	1,462	Trade payables	59,367
Cash and cash equivalents	28,468	Current tax liabilities	4,464
CURRENT ASSETS	**658,530**	**CURRENT LIABILITIES**	**1,487,128**
TOTAL ASSETS	**788,511**	**TOTAL EQUITY AND LIABILITIES**	**1,537,858**

Consolidated statement of comprehensive income breakdown for discontinued operations at 31 December 2013:

	Thousands of Euros
	2013
Revenue	43,026
Cost of sales	(62,237)
Other income	2,135
Staff costs	(3,593)
Other operating expenses	(10,130)
Depreciation and amortisation charge	(1,451)
Net change in provisions	5,474
Operating profit	**(26,776)**
Change in fair value of investment property	(7,946)
Impairment charges and net gains/(losses) on assets	(356,220)
Finance income	56,920
Finance costs	(71,369)
Loss before tax	**(405,391)**
Income tax expense (Note 18)	339
Consolidated net loss	**(405,052)**
- attributable to shareholders of the Parent (Note 5)	(382,604)
- attributable to non-controlling interests (Note 13)	(22,448)
Basic and diluted loss per share	**(1.706)**
- from discontinued operations (Note 5)	(1.706)

The breakdown of “Impairment charges and net gains/(losses) on assets” is as follows:

	Thousands of Euros
	2013
Impairment of assets held under concession	(25,620)
Inventory write-downs	(330,475)
Derecognitions of replaced assets	(125)
Impairment charges and net gains/(losses) on assets	**(356,220)**

25. Auditors' fees

Fees incurred for auditing services in 2014 and 2013 provided to the various companies composing the Colonial Group by the principal auditor and other auditors are set forth below:

	Thousands of Euros	
	Principle auditor	Other auditors
2014		
Audit services	546	307
Audit-related services	14	-
Other professional services	593	15
Total 2014	**1,153**	**322**
2013		
Audit services	901	348
Audit-related services	21	-
Other professional services	186	7
Total 2013	**1,108**	**355**

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.

26. Events after the reporting period

From 31 December 2014 to the date on which these consolidated financial statements were authorised for issue, no significant events took place and there were no other matters worthy of mention.

27. Explanation added for translation to English

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

APPENDIX I
Companies included in the scope of consolidation

At 31 December 2014 and 2013, fully consolidated subsidiaries and related information were as follows:

	% shareholding					
	Direct		Indirect		Sharehol-der	Line of business
	31/12/14	31/12/13	31/12/14	31/12/13		
Torre Marenostrum, S.L Avda. Diagonal 532 08006 Barcelona (Spain)	55%	55%	-	-		Real estate
Colonial Invest, S.L.U Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Colonial Tramit, S.L.U Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Abix Service, S.L.U Avda. Diagonal 532 08006 Barcelona (Spain)	Merged	100%	-	-		Real estate
Société Foncière Lyonnaise, S.A. (SFL) 42, rue Washington 75008 Paris (France)	53.14%	53.14%	-	-		Real estate
Condorcet Holding SNC 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
Condorcet PROPCO SNC 42, rue Washington 75008 Paris (France)	-	-	100%	100%	Condorcet Holding SNC	Real estate
SCI Washington 42, rue Washington 75008 Paris (France)	-	-	66%	66%	SFL	Real estate
SCI 103 Grenelle 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SCI Paul Cézanne 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
Segpim, S.A. 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Sales of real estate and rendering of services
Locaparis, SAS 42, rue Washington 75008 Paris (France)	-	-	100%	100%	Segpim	Sales of real estate and rendering of services

	% shareholding					
	Direct		Indirect		Sharehol-der	Line of business
	31/12/14	31/12/13	31/12/14	31/12/13		
Maud, SAS (antes SB1, SAS) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SB2, SAS 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SB3, SAS 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SCI SB3 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SC Parholding 42, rue Washington 75008 Paris (France)	-	-	50%	50%	SAS Parholding	Real estate
SC Parchamps 42, rue Washington 75008 Paris (France)	-	-	50%	50%	SAS Parholding	Real estate
SC Pargal 42, rue Washington 75008 Paris (France)	-	-	50%	50%	SAS Parholding	Real estate
SC Parhaus 42, rue Washington 75008 Paris (France)	-	-	50%	50%	SAS Parholding	Real estate
Asentia Project, S.L.U Avda. Diagonal 532 08006 Barcelona (Spain)	3.79%	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
Inmocaral Servicios, S.A.U Paseo de la Castellana, 52 28046 Madrid (Spain)	-	-	100%	100%	Asentia Project, S.L.U	Real estate
Riofisa, S.A.U Avda. Diagonal 532 08006 Barcelona (Spain)	-	-	100%	100%	Asentia Project, S.L.U	Real estate
Riofisa Sur, S.L Paseo de la Castellana, 52 28046, Madrid (Spain)	-	-	50.10%	50.10%	Riofisa, S.A.U	Real estate
Necsa, Nuevos Espacios Comerciales, S.A. Paseo de la Castellana, 52 28046, Madrid (Spain)	-	-	60%	60%	Riofisa, S.A.U	Real estate
Nuevas Estaciones del Ferrocarril, S.A. Paseo de la Castellana, 52 28046, Madrid (Spain)	-	-	60%	60%	Riofisa, S.A.U	Real estate

	% shareholding					
	Direct		Indirect		Sharehol-der	Line of business
	31/12/14	31/12/13	31/12/14	31/12/13		
Riofisa Espacios Inmobiliarios, S.L.U Paseo de la Castellana, 52 28046, Madrid (Spain)	-	-	100%	100%	Riofisa, S.A.U	Real estate
Riofisa Internacional, S.L Paseo de la Castellana, 52 28046, Madrid (Spain)	-	-	99.99%	99.99%	Riofisa, S.A.U	Real estate
			0.01%	0.01%	Riofisa Desarrollos Internacionales, SL	
Riofisa Sema, S.L Paseo de la Castellana, 52 28046, Madrid (Spain)	-	-	100%	100%	Riofisa Internacional, S.L	Real estate
Riofisa Desarrollos Internacionales,S.L Paseo de la Castellana, 52 28046, Madrid (Spain)	-	-	100%	100%	Riofisa Internacional, S.L	Real estate
Riofisa Real Estate, S.R.L Sector 1, World Trade Centre Bucharest, Piata Montreal, Nr 10 Bucarest (Romania)	-	-	100%	100%	Riofisa Internacional, S.L	Real estate
Riofisa Bulgaria Eood "Sredets" region, 2a Saborna Str.Floor 3 Sofia (Bulgaria)	-	-	100%	100%	Riofisa Internacional, SL	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 Paseo de la Castellana, 52 28046, Madrid (Spain)	-	-	69.30%	69.30%	Riofisa, S.A.U	Real estate
Riofisa Este, S.L. (antes Riofisa Procam, S.L.) Paseo de la Castellana, 52 28046, Madrid (Spain)	-	-	100%	100%	Riofisa, S.A.U	Real estate

At 31 December 2014 and 2013, the proportionately consolidated subsidiaries and related information were as follows:

	% shareholding					
	Direct		Indirect		Sharehol-der	Line of business
	31/12/14	31/12/13	31/12/14	31/12/13		
UTE La Dehesa (Vías y Construcciones, S.A.) Av. Luis de Morales, 32 41018 Sevilla (Spain)	-	-	-	50%	Inmocaral Servicios, S.A.	Construction
Goldale Real Estate, S.R.L 24-26 Nordului Road, 5th Floor Room 2 Bucarest (Romania)	-	-	-	50%	Riofisa Internacio-nal, S.L	Real estate
Masterange Imobiliare SRL 24-26 Nordului Road, 5th Floor Room 14, District 1 Bucarest (Romania)	-	-	-	50%	Riofisa Internacio-nal, S.L	Real estate

At 31 December 2014 and 2013, the companies accounted for using the equity method and related information were as follows:

	% shareholding					
	Direct		Indirect		Sharehol-der	Line of business
	31/12/14	31/12/13	31/12/14	31/12/13		
SIIC de París, S.A. 24, Place Vendôme 75001 París (França)	-	-	-	29.63%	SFL	Real estate

At 31 December 2014 and 2013, the Colonial Group companies were audited by Deloitte, S.L., with the exception of the SFL Group, which was audited jointly by Deloitte and PriceWaterhouseCoopers, and Necsa and Nefsa, which were audited by PriceWaterhouseCoopers.

1. Group situation

Macroeconomic context

In 2014, the global economy closed with a general trend of accelerated growth. However, against this backdrop of positive evolution, it is important to point out that some downside risks emerged. After positive signs during the first half of 2014, the year closed with certain volatility. In December, the international markets suffered the impacts of new setbacks. The drop in oil prices, the crisis of the ruble and the instability in Greece have broken the calm felt in previous months. Despite this, 2014 closed with a global growth of 3.2%. 2015 commenced gaining ranks in the global recovery, according to the latest data available, 2015 is expected to see some clearer signs of expansion, which will place global growth at 3.5% for the year.

The eurozone continues to recover, albeit slowly, with differences between countries. To correctly diagnose the deep pulse of the eurozone situation is an exercise plagued with nuances. On the one hand, a growing economic activity can be observed. A shift away from the stagnation in summer and the factors that have boosted this reactivation seem to show a future continuity; private consumption is recovering and the effects of the euro depreciation and the decrease in oil prices will have a significant impact in 2015. However, the remaining outlook is less reassuring: political risks (instability in Greece), economic risks (the recovery rates are too slow and disperse between countries), as well as extraordinary risks deriving from the current situation of low inflation.

The Spanish economy continues with its positive growth. Although the main European economies have reported results which were lower than expected and in some cases even worrying, the Spanish economy shows signs of recovery which are gradually gaining strength. The latest data confirm that, as a result of improved confidence on growth perspectives, domestic demand increased at the end of 2014. In the short term, this factor provides certain autonomy to the Spanish cycle against that which is more contained in the eurozone. On the other hand, regarding inflation, Spain continues to be in the area of falling prices (although this striking fact is greatly the result of the decrease in oil prices). However, according to top analysts, the forecasts foresee that the core inflation will leave this area of zero growth during the first half of 2015. According to analysts, the GDP growth in Spain for 2014 was 1.4% and a growth of 2.3% is expected for 2015, positioning it above the average growth for the eurozone (1.3% in 2015).

In France, growth has been weak. The main indicators confirm the weak recovery, although an improvement is expected in 2015. Analysts confirm a GDP growth of 0.4% in 2014 and 0.8% in 2015.

Source: Monthly report by "la Caixa".

Rental market situation

Barcelona

According to the main brokers, the office take up in Barcelona in 2014 amounted to 258,137 sq m (up 40% compared to 2013), confirming the gradual improvement in the sector. The last quarter of 2014 was the most active with an office take-up of 103,316 sq m, an increase of almost 100% on the previous quarter. The new business districts have attracted most office take-up, accounting for 25% of the take-up in the quarter.

The vacancy rate in the fourth quarter of the year was below 13%, representing a fall in the year of more than one percentage point, equal to more than 100,000 sq m. The main brokers affirm that this decrease in surface area of office stock is largely due to the conversion of the use of the buildings, the majority to hotels. This, together with the lack of future supply, has a direct impact on the vacancy rate.

The trend for 2015 will be a continued decline in the vacancy rate, mainly due to the lack of new office supply to meet the considerable demand in Barcelona, as well as an expected improvement in take-up levels, bearing in mind that pre-crisis levels were reached in 2014.

The CBD vacancy rate has decreased and is at 7.8%.

Maximum rental levels in the Paseo de Gracia/Diagonal area rose slightly to €17.75 sq m/month in the last quarter of 2014, as opposed to the €17.50 sq m/month registered in previous quarters. Office rental levels in Barcelona have started to register a slight increase following a seven-year downward trend. These first signs of an upturn, for the moment, are only seen for the highest quality cutting-edge buildings in the best locations.

In addition, this upward trend on rental levels is only being observed for “trophy” buildings located in the city centre and new business districts, such as 22@, where the scarcity of quality offices to meet the considerable demand is already a reality.

Madrid

During the last quarter of 2014, the take up of office space amounted to over 97,000 sq m, the best figure registered for a fourth quarter since 2009. However, the total take-up rate for 2014 is similar to the previous year’s figure, reaching 328,967 sq m.

By area, the majority of take up in the fourth quarter of the year corresponded to buildings located in the CBD area (which includes Paseo de la Castellana and adjacent streets). By building type, 65% of the total take up in the quarter corresponds to high-quality buildings. The majority of transactions were relocations or consolidations of space while a small part corresponded to newly created companies and increases in letted space.

All transactions of over 10,000 sq m signed in 2014 (66,000 sq m in total) were for assets that will be refurbished and therefore were not immediately available. These pre-lets and acquisitions for subsequent renovation are a clear sign of the scarcity of high quality products, especially in the CBD area, but also in secondary areas.

The vacancy rate of offices was 12.1%. The volume of available office space has remained practically flat. In the CBD area, the vacancy rate remained unchanged at 8.9%. In the secondary and peripheral areas, the vacancy rate increased due to the considerable supply of office space available compared to the demand from tenants. The future supply is very limited, with only three projects in progress, and two of them for own use. In 2015, completion of the head office of BBVA is expected to be completed in Las Tablas (70,000 sq m) and for 2017 the head office of Banco Popular is expected to be delivered in the area of Avenida de América (38,500 sq m).

Regarding rental prices, an increase in the maximum rental prices has been seen in the CBD area compared to the contracts signed in the last quarter, reaching €25.50 sq m, their highest level in the last three years, driven up by the lack of quality products.

For the best CBD locations rent-free incentives have started to decline. In the rest of the market, both the maximum and minimum rental levels remained at low levels, awaiting signs from the market during the first months of 2015.

París

The take up in the Paris region at the end of 2014 reached more than 2,100,000 sq m, an increase of 13% compared to the same period of the previous year.

The solid take up results are mainly due to the good level of large transactions which make up 40% of the total with 62 transactions, amounting to around 825,000 sq m. The segment of small and medium surfaces (less than 1,000 sq m) obtained very good results, while the segment of intermediary surfaces (1,000 sq m to 5,000 sq m) decreased.

Due to the absence of a strong economic recovery, the abundance of supply in the entire Paris market continues. The available office space at the end of 2014 was 4 million sq m, which represents a vacancy rate of 7.6% for the Paris region. However, in the CBD area, supply is scarce and the vacancy rate remained stable at levels around 5.6%.

The rental prices in the CBD area remained at levels similar to recent quarters, reaching maximum levels of €750 sq m/year in some exceptional transactions. The average price for “Grade A” properties in the CBD area was €645 sq m/year.

After three difficult years, the main brokers point to a slightly positive growth in the French market. The obstacles for a strong recovery of the French market are purely domestic, with a weak business climate, high tax pressure and business margins that need strengthening. 2015 will be a year of recovery necessary for the French economy before a consolidation in 2016.

For prime properties in the CBD area, the main consultants forecast a consolidation of the positive trend which commenced at the end of 2014.

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

Organisational structure and operations

The Colonial Group is a leading player in the top-end office rental market in the euro area. It is one of the leading rental operators in the Spanish and European property market. The Group's property portfolio has been valued at over €5,700m. Colonial focuses on developing and operating buildings in the high-quality office rental market, and has a strong presence in the prime areas of Paris, Madrid and Barcelona.

On 6 May 2014, Colonial culminated a rights offer of 1,263 million euros (for which demand tripled the supply) and arranged a new syndicated loan for 1,040 million euros (Notes 2-g, 13 and 14).

Following this increase, the Company's shareholder structure comprised institutional investors in Spain and abroad, supporting the Company's rental strategy,

Noteworthy among such investors are the Villar Mir Group, Qatar Investment Authority (QIA), Quadrant (Santo Domingo Group) and Amura Capital (Mora Banc Group).

Following the above-mentioned transactions, the new Colonial has a "Loan-to-Value" Holding of around 38% and the Group has sufficient liquidity to enable it to perform new investments, always following the strategy of including in its portfolio select office buildings in Barcelona, Madrid and Paris.

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

In particular, its strategy comprises:

- Improving cash flow of assets, increasing occupancy portfolios and capturing all the potential of a successful project portfolio.
- Taking advantage of all investment opportunities, both those of organic growth and possible corporate transactions.
- Locking in its position as European leader in its traditional business, its strategic project: the offices market in the prime areas of Paris, Madrid and Barcelona.
- Operating with an adequate capital structure, taking advantage of capital market opportunities.
- Maximising value for its shareholders, offering an attractive return with limited risk.

2. Business performance

Introduction

Revenue totalled 211 million euros at 31 December 2014, and was generated by the Group's recurring business (property rentals).

The ownership interest in SIIC de Paris contributed revenues of 6 million euros. This figure is the net result of 8 million euros in gains on the sale of the stake and -2 million euros in losses attributed to the Parent prior to that sale.

Operating profit before net gains, depreciation and amortisation, provisions and interest came in at 161 million euros.

According to the independent year-end appraisals by CB Richard Ellis, Jones Lang Lasalle and Atis Real, the Group's investment property was revalued by 332 million euros in the year. This revaluation, reported both in France and in Spain, reflects a 9.6% increase in value in like-for-like terms on rental assets in operation with respect to December 2013 (10.0% in Spain and 9.5% in France).

The Group capitalised 7 million euros of borrowing costs related to developments in progress.

The net finance cost was 232 million euros.

Results for the year were boosted by recognition of 701 million euros under "Profit from discontinued operations" as a result of the loss of control of the Asentia sub-group (Note 2-f), with the Colonial Group leaving its shareholder structure.

After subtracting profit attributable to non-controlling interests (-136 million euros), the profit after tax attributable to the Group amounted to 492 million euros.

Valuation of the property business

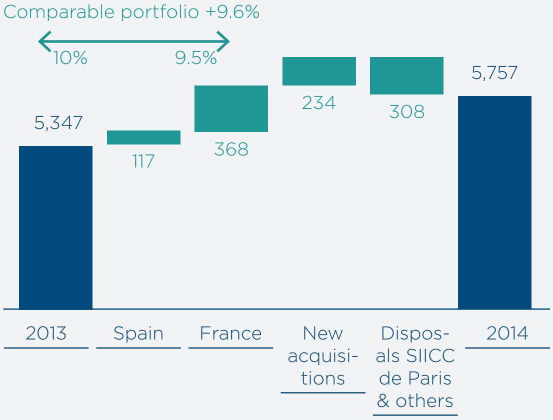
At the end of 2014, the rental business of the Colonial Group was valued at €5,757m (€6,033m including transfer costs), by Jones Lang LaSalle, CB Richard Ellis, and BNP Paribas Real Estate. The appraisal figures are updated half-yearly, following the best market practices. The valuation of the Colonial Group's assets at December 2014 rose by +9.6% in like for like terms compared to December 2013 (+4.5% vs. June 2014).

The asset portfolio in Spain increased by 10% in like-for-like terms in the last 12 months (6.2% in 6 months). The portfolio in Barcelona increased by 6.3% in like-for-like terms (4,0% in 6 months) and the portfolio I Madrid increased by 13,3% (8.1% in 6 months). This increase is mainly due to a yield compression given the growing interest of investors for prime assets in Madrid and Barcelona, as well as the positive effects of repositioning the properties.

The asset value in Paris has increased by 9.5% in like-for-like terms in the last 12 months (3.9% in 6 months). This increase in value is a consequence of the progressive repositioning of the property portfolio with positive impacts on rents and yields, in the context of an investment market with high interest in prime offices in Paris.

The valuation of the property business of the Colonial Group, together with the net impact of the new acquisitions and the disposal of the SIIC de Paris, was valued at €5,757m at the end of 2014.

VARIANCE ANALYSIS VALUE



During 2014, the Colonial Group actively managed its portfolio, disposing of mature assets and carrying out new investments and acquisitions, in order to maximize value for the shareholders.

Asset Management of the portfolio – Disposal of SIIC de Paris

On 23 July 2014, Colonial's subsidiary, SFL, completed the sale of its minority stake in SIIC de Paris, at a price of €23.88/share (€304m) after deducting the dividend received in July 2014. The price obtained was in line with the NAV at December 2013 (including the dividends received in May and July 2014).

This transaction represented the disposal of an asset at maximum price levels, after capturing its full value creation potential. The sale price resulted in a premium of 29% above the acquisition price (€18.48/share) and, together with the dividends received, offered an attractive return for the Colonial Group.

Prime Factory investments – Optimization of the positioning of Colonial's portfolio

During 2014, €135m were invested in refurbishments and projects of the Colonial Group to optimize the positioning of the property portfolio.

These investments have attracted and will continue to attract top tier rental demand, optimizing the cash flow profile and valuation of the assets.

In Spain, it is worth highlighting the properties of Travessera de Gràcia/Amigó, Diagonal 409, Paseo los Tilos and Alfonso XII. The main characteristics are shown as follows:

TRAVESSERA/AMIGÓ

- Office complex of 8,095 sq m
- Leed Gold Certification in Barcelona CBD
- Delivered on 9/2014
- Commercialization underway
- 365 sq m let to a fund manager

DIAGONAL 409

- Office complex of 4,531 sq m
- Leed Gold Certification in Barcelona CBD
- Delivered in 2Q 2014
- 64% occupied at reporting date
- Top tier tenants with prime retail on ground floor

PASEO DE LOS TILOS

- Office complex of 5,143 sq m
- Leed Silver Certification in Barcelona CBD
- 100% pre-let before the start of the project
- 10-year contract with top tier tenant -Albertis-

ALFONSO XII

BREEAM® ES

- Office building 13,135 sq m
- Breeam Certification in Madrid CBD
- Delivered in 1Q 2014
- 86% occupied at reporting date

In France, the 90 Champs Elysees, IN/OUT & Cloud projects are highlighted.

90 CHAMPS ELYSÉES

- Office complex of 9,700 sq m
- Breeam Certification in Paris CBD
- To be released in 2015
- Pre-let in February 2014 to top tier consulting firm

IN & OUT

- Office complex of 37,700 sq m, an outstanding urban complex
- HQE, Breeam & Leed Platinum Certifications in Paris
- Released in 4Q 2013
- Asset in marketing and commercialization process

#CLOUD

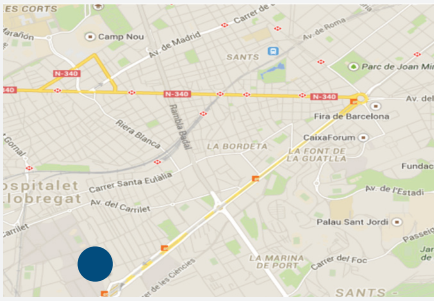
- Office complex of 33,200 sq m
- Breeam & HQE Certifications in Paris CBD
- To be released in 2H 2015
- A unique three-building complex, situated in CBD Opera

New acquisitions

During the second half of 2014, Colonial carried out two acquisitions for a total volume of €234m (price excluding acquisition costs).

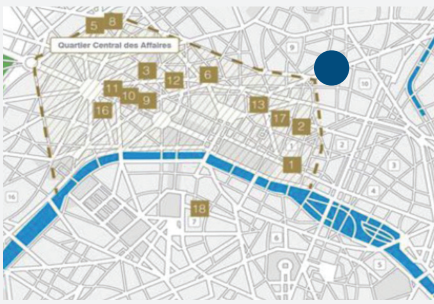
In Barcelona, Colonial has acquired an office building located in Plaza Europa for €10.4m. This property is located in a business district in expansion with excellent transportation links to the city centre and the airport. The building has a surface area above ground of almost 5,000 sq m of office space, and 68 parking spaces. It is currently 100% occupied by Gallina Blanca with a 10-year contract, housing the headquarters of this Spanish multinational company in the food industry.

This acquisition has enabled Colonial to strengthen its portfolio with a top tier client, in a business district with significant growth potential.




In Paris, Colonial has acquired, through its subsidiary Société Foncière Lyonnaise (SFL), an office building of more than 23,000 sq m above ground, located in Rue Condorcet in district 9 in Paris, for €224m. This asset is currently 100% rented by the company GrDF (Gaz Réseau Distribution France), a tenant with a long term contract maturing in 2024. The property has the best quality facilities, thanks to a recent refurbishment.

This investment permits the Colonial Group to position itself, through a prime asset with an AAA client, in district 9 in the centre of Paris, an area with significant growth potential.




Rental Business

Following are detailed the most relevant aspects of the rental business:

The rental revenues reached €211m, 1% lower than the rents of the previous year. This decrease is mainly due to assets divested during 2013, in particular Torres Agora in Madrid and the Mandarin Hotel in Paris. In like-for-like terms, adjusting for investments, disposals and variations in the project and refurbishment portfolio and other exceptionals, the rental revenues of the Group increased by 3.2% like-for-like. In Paris, the rental revenues increased by 4.3% like-for-like. In Spain, the rental revenues rose by 0.5% like-for-like, mainly due to the Madrid portfolio, which went up by 5.4%.

The like-for-like increase in rental revenues mainly corresponds to the new contracts signed in 2013 and 2014, for the Martínez Villergas, Recoletos, Edouard VII, Washington Plaza and Hanovre assets.

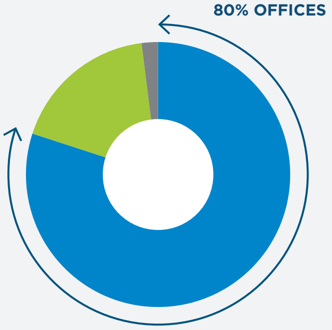
Rental EBITDA reached €191m, a 4% increase in like-for-like terms, with an EBITDA margin of 90%.

The majority of the Group's revenues (80%) are from office buildings. Likewise, the Group maintains its high exposure to CBD markets (76%). In consolidated terms, 72% of the rental revenues (€152m) came from the subsidiary in Paris and 28% were generated by buildings in Spain. In attributable terms, 54% of the rents were generated in France and the rest were in Spain.

CONSOLIDATED GROUP

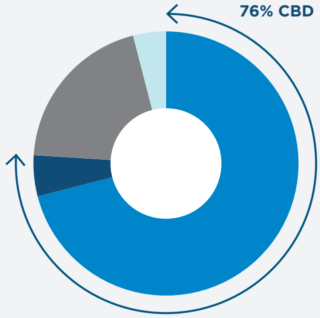
REVENUES BY USE

- 80% OFFICES
- 18% RETAIL
- 2% OTHERS



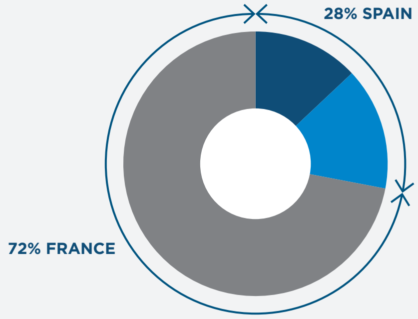
REVENUES BY AREA

- 71% PRIME CBD
- 5% CBD
- 20% BD
- 4% OTHERS



REVENUES BY MARKET

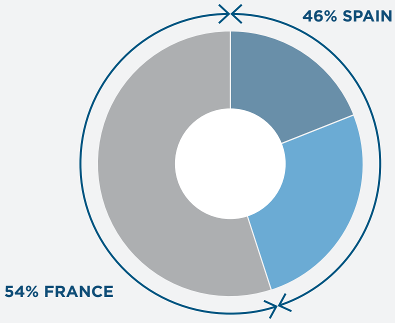
- 13% BARCELONA
- 15% MADRID
- 72% PARIS



ATTRIBUTABLE

REVENUES BY MARKET

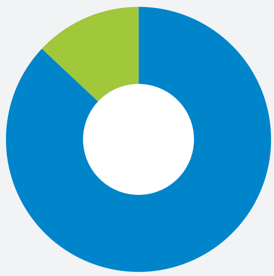
- 19% BARCELONA
- 26% MADRID
- 55% PARIS



At the end of 2014, the Colonial Group's portfolio totalled 1,026,598 sq m (725,341 sq m above ground), focused mainly on office assets. At 31 December 2014, 87% of the portfolio was in operation and 13% corresponded to an attractive portfolio of projects and refurbishments.

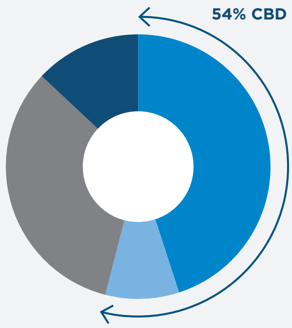
SURFACE BY CONDITION

87% IN OPERATION
13% PROJECTS



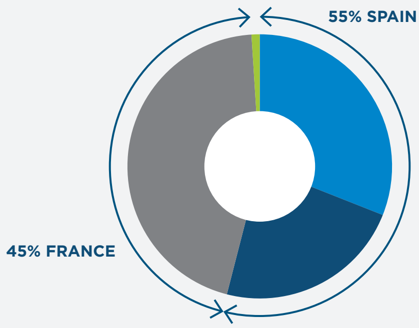
SURFACE BY AREA

45% PRIME CBD
9% CBD
33% BD
13% OTHERS



SURFACE BY MARKET

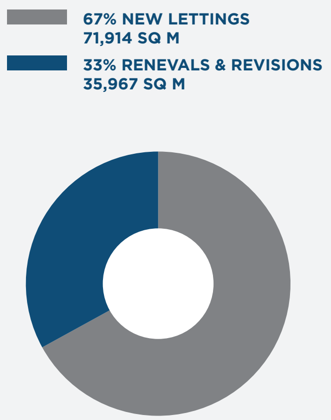
31% BARCELONA
23% MADRID
45% PARIS
1% OTHERS

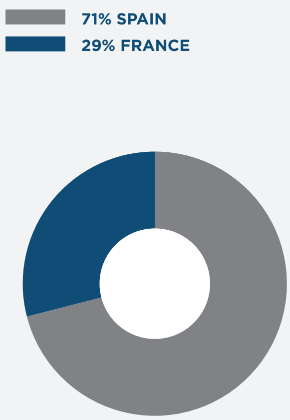


Throughout 2014, the Group signed a total of 107,881 sq m of contracts (71% in Spain and 29% in France).

Out of the total commercial effort, 67% (71,914 sq m) related to surfaces of new contracts. This figure almost tripled the volume of new contracts signed throughout the whole of 2013 (28,041 sq m). Contract renewals were carried out for 35,967 sq m. The new rental prices relating to these contracts resulted in a decrease of 8% with respect to previous rents. However, the prices signed on the new contracts in the portfolio, both in Spain and in France, have an average in line with the market prices estimated by independent appraisers as at December 2014.

Letting Performance		% New rents vs. previous	Average maturity
December cumulative - sq m			
Renewals & revisions - Barcelona	12,554	(17%)	6
Renewals & revisions - Madrid	17,020	(9%)	2
Renewals & revisions - Paris	6,390	(3%)	6
Total renewals & revisions	**35,967**	**(8%)**	**4**
New lettings Barcelona	20,110		6
New lettings Madrid	26,988		4
New lettings Paris	24,816		5
New lettings	**71,914**	**n/a**	**5**
Total commercial effort	**107,881**	**n/a**	**5**





As a result of the commercial effort, the EPRA financial occupancy for the office portfolio reached 85% at the end of 2014, a higher figure than that at the end of 2013.

The office portfolios in Madrid and Barcelona reached an EPRA financial occupancy of 90% and 78%, respectively.

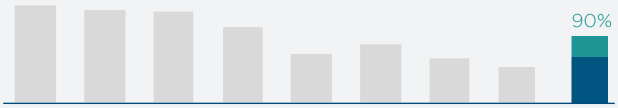
In **Madrid**, the office occupancy increased mainly due to the new contracts signed in various assets, as is the case with Martínez Villergas, Alfonso XII, Miguel Ángel, López de Hoyos and Recoletos (asset at 100% occupancy). In **Barcelona**, the office occupancy decreased mainly due to the entry into operation of the Travessera de Gràcia/Amigó building, an energy-efficient office complex located in the heart of the prime area, with the highest quality finishings and LEED Gold certification, as well as the Diagonal 409 building with LEED Silver certification. If we exclude these properties, EPRA financial occupancy of the Barcelona office portfolio reaches 83%. It should be mentioned that at the end of the year, the commercialisation of these new assets was progressing satisfactorily, given the positive response to the new deliveries in the rental market, in particular the Diagonal 409 building, which is at 64% occupancy as at the date of this report.

In **Paris**, the office portfolio reached an EPRA financial occupancy of 86%, a higher figure than that at the end of 2013. This increase was mainly due to new rentals for the Edouard VII and Washington Plaza properties. The office portfolio occupancy in Paris is affected by the entry into operation of the IN/OUT office complex, currently in an advanced commercialisation phase. Excluding this effect, EPRA financial occupancy of the Paris office portfolio is at 95%.

OFFICE OCUPANCY (1)
EVOLUTION OF COLONIAL PORTFOLIO

TOTAL

OCUPANCY - SURFACE



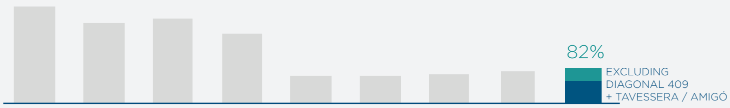
2006	2007	2008	2009	2010	2011	2012	2013	2014
98%	97%	96%	92%	84%	87%	83%	80%	84%

OCUPACIÓ FINANCERA EPRA

OFFICE OCUPANCY EPRA(2) 2014	TOTAL OCUPANCY EPRA(2) 2014
85%	87%
93%	94%

BARCELONA

OCUPANCY - SURFACE

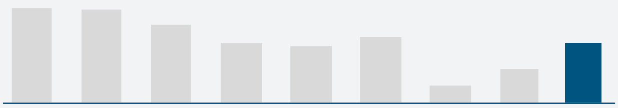


2006	2007	2008	2009	2010	2011	2012	2013	2014
99%	94%	95%	91%	78%	78%	79%	80%	77%

OFFICE OCUPANCY EPRA(2) 2014		TOTAL OCUPANCY EPRA(2) 2014
78%		79%
83%	EXCLUDING DIAGONAL 409 + TAVESSERA / AMIGÓ	84%

MADRID

OCUPANCY - SURFACE

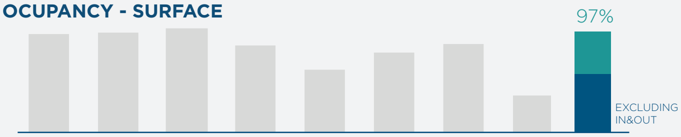


2006	2007	2008	2009	2010	2011	2012	2013	2014
99%	99%	94%	89%	88%	90%	75%	80%	89%

OFFICE OCUPANCY EPRA(2) 2014	TOTAL OCUPANCY EPRA(2) 2014
90%	88%

PARIS

OCUPANCY - SURFACE



2006	2007	2008	2009	2010	2011	2012	2013	2014
97%	97%	98%	94%	87%	92%	94%	80%	85%

OFFICE OCUPANCY EPRA(2) 2014		TOTAL OCUPANCY EPRA(2) 2014
86%		88%
95%	EXCLUDING IN&OUT	96%

(1) Occupied surfaces / Surfaces in operation.

(2) EPRA Occupancy: Fiancial occupancies according to calculation recomended by EPRA (Occupied surfaces multiplied by market rent / surfaces in operation at market rent).

Currently, the company has a project portfolio of more than 55,000 sq m above ground, entering into operation between 2015 and 2018. The Colonial Group's project portfolio pipeline is the following:

Projects	Entry into operation	% Group	Market	Use	Surfaceavowe ground (sq m)[1]
Parc Central 22@ A.1,6 - A.1,7 - A.1,2	>2016	100%	Barcelona	Oficines	14,737
Spain					**14,737**
90 av. des Champs Elysées	1S 2015	100%	Paris	Oficines	7,500
#Cloud (rue Richelieu)	2S 2015	100%	Paris	Oficines	33,200
France					**40,700**
Total					**55,437**

(1) Surface areaof completed project.

In Spain, Colonial has a plot of land located in the heart of the 22@ business district, which will allow for the development of an office complex of nearly 15,000 sq m, opposite Avenida Diagonal, one of the up-and-coming areas in the city of Barcelona. The project is not expected to commence in the short-term.

In France, the #CLOUD project (rue Richelieu) is progressing satisfactorily. A complete refurbishment is being carried out on this office complex, which involves creating 33,200 sq m of unique offices in the centre of Paris for top tier clients. This complex holds the Breeam and HQE energy certification and will enter into operation in the second half of 2015. Currently the start of the commercialisation process is generating a lot of interest.

In addition, it is worth highlighting the refurbishment project of more than 7,000 sq m above ground in the 90 Champs Elysées building, an office complex located on the top of the Champs-Elysées shopping centre, which is expected to come into operation in 2015. As at the date of this report, this building is already prelet, highlighting the signing of more than 6,000 sq m, 5,000 sq m of which were signed with a top tier consulting firm.

In addition to the above-mentioned project portfolio, the Colonial Group is carrying out substantial refurbishment projects on certain properties with the aim of optimizing the positioning of these assets in the market. It is important to mention the substantial refurbishments on the Louvre des Antiquaires, Washington Plaza and Cézanne St. Honoré buildings, among others.

3. Liquidity and capital resources

See "Capital management: policies and objectives" under Note 14 to the consolidated financial statements for the year ended 31 December 2014.

The average payment period of the Group's Spanish companies to its suppliers was around 53 days in 2014. As regards payments made after the legally-established period, note that these are primarily payments relating to works contracted and property refurbishment, which are paid within the payment terms stipulated in the contracts signed with the various contractors. In this regard, at the date on which these financial statements were authorised for issue, the Parent notified all suppliers with contracts in force, and whose payment conditions included in the contract were not in line with the maximum payment period of 60 days, that the contract conditions would change in order to bring them into line with Law 11/2013.

4. Risk management policies and objectives

Risk management

Colonial is exposed to a variety of risk factors arising from the countries in which it operates and from the very nature of its activities. Colonial's Board of Directors is responsible for determining the risk management and control policy, identifying the Group's main risks, and implementing and supervising the Internal Control and Risk Management System (hereinafter, ICRMS) that Colonial has developed and which establishes the bases for the efficient and effective management of risks throughout the organisation. Colonial's ICRMS groups risks into the following five areas, which make up the Company's corporate risk map: strategic, corporate, operational, compliance and reporting risks.

Section E of the Annual Corporate Governance Report details the main risks that arose during the year and the related triggering circumstances. The risks linked to the Group's business activities, according to the risk areas defined, are detailed as follows:

Strategic risks

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

- **Country risk:** Special attention is paid to economic, legal and social risks related to the countries in which the Group carries out its activities (Spain and France). The impact of the economic crisis has especially affected the real estate sector. Colonial's activities are concentrated in the cities of Barcelona, Madrid and Paris. The maturity of the real estate sector in France has enabled the company to withstand the readjustments experienced in the Spanish market in recent years. This balance, along with the Spanish economy's growth forecast for 2015, will enable the Group to have a more optimistic outlook over the coming years in terms of increased return from its investments and sustainable growth.

- **Market risks:** The following market risks are noteworthy of mention:

    - Competitive environment: The real estate sector is a highly competitive industry. With the reopening of capital markets, triggered by the recovered confidence of international investment funds in the real estate sector as a long-term investment, especially in connection with sovereign debt funds, with the creation of new listed property investment companies (SOCIMIs) and with the rise in investments made in property assets, the level of competition in the rental property sector has increased. The high quality of the Colonial Group's assets, the value of these assets and its strategy of focusing mainly on its office rental activities in central business district (CBD) areas have positioned the Group as a key benchmark in the real estate sector in Europe.

    - Concentration of customers: A significant portion of the Colonial Group's total rental income is currently generated by a small number of large customers, some of which are public sector customers. The office rental business depends on the solvency and liquidity of tenants. Colonial's strategy of offering high-quality properties, located mainly in CBD areas, provides the Company with a portfolio of customers that are leaders in their respective sectors, solvent and free of liquidity problems. The default ratio among Colonial's customers is very low.

- **Risks related to the value of its assets:** The Colonial Group's strategy in the rental property sector is unique in that the company's high-quality property assets are located mainly in CBD areas of the cities in which it carries out its activities. The drop in property values in recent years has had a significant impact on sector companies. The Group appraises its property assets every six months. These appraisals are carried out for each asset by independent experts, using objective market criteria. Colonial allocates a significant portion of its resources to investing in and maintaining its property assets in order to enhance their value and position on the market, and to optimise the income and returns they generate.

Corporate risks

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

- **Reputational risks and risks concerning social commitment:** Colonial's Board of Directors is responsible for determining the corporate social responsibility policy. Colonial's aim is to have a better understanding and constantly improve the expectations of its stakeholders (shareholders and investors, customers and suppliers, employees and the local communities in which it operates). Management of these expectations forms part of the Group's objectives in terms of sustainability and creating value for these stakeholders. The Group therefore measures its degree of sustainability in accordance with the standard principles of reference used by most European listed companies. Colonial has a Code of Ethics, an Internal Code of Conduct and, in general, the appropriate good governance mechanisms to ensure committed and responsible behaviour in all its areas of activity. In addition, the Group's properties are noted for their high level of environmental quality and energy efficiency. The Company's sustainable management in all its areas provides great value to the Group.

- **Medium- and long-term business plans:** Failure to have a long-term business plan increases uncertainty regarding a company's viability and future. Colonial has a medium- and long-term business plan which ensures the Group's viability and aims to anticipate the Group's financial needs and avoid any restrictions in its operating and investment capacity while pursuing the aforementioned sustainability and growth targets. The business plan is constantly monitored by the governing bodies and is continuously adjusted to take into account the economic, financial and social situation of the real estate market. Monitoring and control of compliance with this plan, as well as the real estate investment and management strategies adopted by the governing bodies, ensure value for shareholders.

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

    - Risk of exposure to interest rate fluctuations: All loans entered into by the Colonial Group accrue interest at floating rates tied to Euribor, except for the fixed-rate bonds issued by SFL. The Group's risk management policy is designed to reduce, limit and control the impact of interest rate fluctuations on profit and cash flows and to keep overall borrowing costs at reasonable levels. The Group arranges financial instruments to cover interest rate fluctuations.

    - Risks relating to financing and debt: Companies operating in the real estate sector need to make heavy upfront investments to ensure development of their projects and growth of their businesses by means of the purchase of rental properties and/or land. The Group's financial structure warrants diversification of its sources of financing by entity, product and maturity. Following the financial debt restructuring and recapitalisation process the Company carried out in the first half of 2014, the Colonial Group's net borrowing, measured using the loan to value ratio, dropped significantly, thereby providing the Group with sufficient financing to carry out its projects, take on new projects and ensure sufficient investment capacity to bear significant growth costs over the coming years.

- Liquidity risk: As mentioned in the paragraph above, the Group has the necessary sources of financing to undertake its current projects as well as those laid out in the Group's business plan. Following the refinancing and recapitalisation process, Colonial also significantly increased its ability to attract capital.

Operational risks

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

– **Rental property management risks:** Sustainable management of daily operations increasingly forms a key part of an owner's obligations, and sustainability clauses in lease agreements are becoming more and more popular. Therefore, rental property management has a direct effect on occupancy levels. The Colonial Group allocates a significant portion of its investments to acquiring, constructing, renovating and maintaining the high quality of its property assets, which stand out as a result of their energy efficiency. Proper management of rental properties, customers and the channels set up for communicating with these customers has caused lease renewal levels to improve. This property management strategy is incorporated into the Group's organisation and business plan.

– **Risk of loss or damage to property assets:** The Colonial Group's properties are exposed to generic risks of damage as a result of fires, flooding or other events, regardless of whether or not they are attributable to natural causes. The Group may also be held liable vis-à-vis third parties for accidents taking place in the properties it owns, and for any damage caused in the properties of third parties. Colonial has taken out insurance cover for a total of 660 million euros corresponding to the total cost of rebuilding each property it owns.

Compliance risks

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

– **Risks arising from failure to comply with contractual obligations:** In carrying out its activities, Colonial is exposed to risks inherent in failing to comply with any of its contractual obligations with its customers, banks, suppliers, employees, etc. The risk management process allows any risks of contractual breach that may give rise to legal proceedings against the Group to be identified and assessed, thereby allowing the Group to take the appropriate corrective measures to mitigate these risks or, where applicable, any possible impact. The Company has also taken out insurance to cover any legal costs or possible damage against directors and senior management.

The Company has a Regulatory Compliance Unit whose main responsibility is to ensure that any regulations and laws affecting Colonial are complied with, guaranteeing adequate identification, interpretation, compliance and supervision of these regulations and laws, and to assign the necessary roles and responsibilities among the various departments, business units and companies for such purpose. Colonial also has a legal department that is responsible for providing legal coverage for the Group's management in accordance with applicable general and sector-specific regulations.

Reporting risks

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

5. Events after the reporting period

No significant events have taken place since the end of 2014.

6. Future outlook

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

Barcelona and Madrid

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

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

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

With regard to supply, vacancy rates are above 10%; however, there is a clear scarcity of prime rentals in central areas.

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

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

Paris

The office market in Paris has been affected by the weak French economy. However, 2014 saw clear signs of an improvement in demand, especially in CBD areas, where there is an apparent scarcity of prime rentals.

Consequently, leading consultants expect this positive trend that began at the end of 2014 to be consolidated for prime property rentals in CBD areas.

Strategy for the future

The investment market has posted record-high trading volumes, making 2014 the best year since 2007. In the current climate of low interest rates, the expectation is that investors will continue to be interested in the Paris market, as it is the most important office market in the eurozone.

In this market context, Colonial is implementing a selective investment policy in order to maximise value for its shareholders.

In particular, it has focused its efforts on acquiring top-quality properties in high-potential market areas, including assets with the potential to become prime rentals through repositioning.

7. Research and development activities

As a result of the nature of the Group, its business activities and structure, Inmobiliaria Colonial S.A. does not usually carry out research and development activities.

8. Treasury shares

In 2014 Inmobiliaria Colonial S.A. divested all of its 1,710,000 treasury shares.

9. Other relevant information

There is no other relevant information.

10. Annual Corporate Governance Report

Pursuant to Article 538 of the Spanish Limited Liability Companies Law, it is hereby noted that the Annual Corporate Governance Report for 2014 is included in this Management Report in a separate section.

.

3. 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
30/12/2014	797,214,160.00	3,188,856,640	3,188,856,640

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

NO

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

Name or corporate name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
AGUILA, LTD	0	218,001,838	6.84%
FIDELITY INTERNATIONAL LIMITED	0	62,484,713	1.96%
INMOBILIARIA ESPACIO, S.A.	0	770,808,294	24.17%
MORA BANC GRUP, S.A.	0	223,064,422	7.00%
QATAR INVESTMENT AUTHORITY	0	415,933,672	13.04%
THIRD AVENUE MANAGEMENT, LLC	0	97,030,111	3.04%
T.ROWE PRICE ASSOCIATES, INC	0	97,883,515	3.07%
THE ROYAL BANK OF SCOTLAND PLC	0	0	0.00%
CREDIT AGRICOLE, S.A.	0	0	0.00%
CORAL PARTNERS (LUX) S.A.R.L	0	0	0.00%
BANCO POPULAR ESPAÑOL, S.A.	0	0	0.00%
CAIXABANK	0	0	0.00%

Name or corporate name of shareholder	Name of direct holder	Number of voting rights
AGUILA, LTD	SNI LUXEMBOURG, S.A.R.L	218,001,838
FIDELITY INTERNATIONAL LIMITED	OTHERS	62,484,713
INMOBILIARIA ESPACIO, S.A.	GRUPO VILLAR MIR, S.A.U	770,808,294
MORA BANC GRUP, S.A.	SICAV AMURA CAPITAL	223,064,422
QATAR INVESTMENT AUTHORITY	QATAR HOLDING LUXEMBOURG II, S.À.R.L	415,933,672
THIRD AVENUE MANAGEMENT, LLC	OTHERS	97,030,111
T.ROWE PRICE ASSOCIATES, INC	OTHERS	97,883,515

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

Name or corporate name of shareholder	Date of the transaction	Description of the transaction
THE GOLDMAN SACHS GROUP, INC	22/01/2014	Exceeded 5%
THE GOLDMAN SACHS GROUP, INC	21/03/2014	5% decrease
THE GOLDMAN SACHS GROUP, INC	02/04/2014	3% decrease
ORION EUROPEAN REAL ESTATE FUND III, C.V	11/06/2014	Exceeded 3%
ORION EUROPEAN REAL ESTATE FUND III, C.V	18/06/2014	3% decrease
HENDERSON GROUP, PLC	27/01/2014	Exceeded 3%
HENDERSON GROUP, PLC	16/04/2014	3% decrease
CAJA DE AHORROS Y PENSIONES DE BARCELONA	15/01/2014	3% decrease
FIDELITY FUNDS SICAV	03/02/2014	Exceeded 3%
FIDELITY FUNDS SICAV	14/04/2014	3% decrease
CREDIT AGRICOLE, S.A.	23/01/2014	decrease 15%
CREDIT AGRICOLE, S.A.	30/01/2014	5% decrease
CREDIT AGRICOLE, S.A.	09/04/2014	3% decrease
CORAL PARTNERS (LUX) S.A.R.L	15/04/2014	decrease 10%
CORAL PARTNERS (LUX) S.A.R.L	24/04/2014	5% decrease
CORAL PARTNERS (LUX) S.A.R.L	25/04/2014	3% decrease
CORAL PARTNERS (LUX) S.A.R.L	06/05/2014	Exceeded 5%
CORAL PARTNERS (LUX) S.A.R.L	11/06/2014	3% decrease
COLONY FUNDS SANTS S.À.R.L	11/06/2014	Exceeded 3%
COLONY FUNDS SANTS S.À.R.L	18/06/2014	3% decrease
BANCO POPULAR ESPAÑOL, S.A.	22/01/2014	3% decrease
THIRD AVENUE MANAGEMENT, LLC	28/08/2014	Exceeded 3%

Name or corporate name of shareholder	Date of the transaction	Description of the transaction
T.ROWE PRICE ASSOCIATES, INC	19/06/2014	Exceeded 3%
QATAR INVESTMENT AUTHORITY	02/04/2014	Exceeded 3%
QATAR INVESTMENT AUTHORITY	09/04/2014	Exceeded 5%
QATAR INVESTMENT AUTHORITY	06/05/2014	Exceeded 10%
MORA BANC GRUP, S.A.	23/01/2014	Exceeded 5%
MORA BANC GRUP, S.A.	25/04/2014	5% decrease
MORA BANC GRUP, S.A.	29/04/2014	3% decrease
MORA BANC GRUP, S.A.	30/04/2014	2% decrease
MORA BANC GRUP, S.A.	07/05/2014	Exceeded 5%
INMOBILIARIA ESPACIO, S.A.	14/01/2014	Exceeded 20%
INMOBILIARIA ESPACIO, S.A.	14/05/2014	Exceeded 20%
FIDELITY INTERNATIONAL LIMITED	30/01/2014	Exceeded 2%
FIDELITY INTERNATIONAL LIMITED	03/02/2014	Exceeded 3%
FIDELITY INTERNATIONAL LIMITED	14/04/2014	3% decrease
FIDELITY INTERNATIONAL LIMITED	29/04/2014	1% decrease
FIDELITY INTERNATIONAL LIMITED	08/05/2014	Exceeded 2%
FIDELITY INTERNATIONAL LIMITED	28/05/2014	2% decrease
AGUILA, LTD	22/01/2014	Exceeded 2%
AGUILA, LTD	22/02/2014	Exceeded 3%
AGUILA, LTD	06/05/2014	Exceeded 5%
THE ROYAL BANK OF SCOTLAND PLC	14/01/2014	3% decrease

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
JUAN JOSÉ BRUGERA CLAVERO	0	0	rights
PEDRO VIÑOLAS SERRA	140	0	0.00%
JAVIER IGLESIAS DE USSEL ORDÍS	18,201	0	0.00%
ANA SAINZ DE VICUÑA	15,500	0	0.00%
CARLOS FERNÁNDEZ-LERGA GARRALDA	13,610	11,700	0.00%
FRANCESC MORA SAGUÉS	0	0	0.00%
JUAN CARLOS GARCÍA CAÑIZARES	0	0	0.00%
GRUP VILLAR MIR, S.A.U	770,858,294	0	24.17%
JUAN VILLAR-MIR DE FUENTES	0	0	0.00%
SILVIA VILLAR-MIR DE FUENTES	0	0	0.00%
LUIS MALUQUER TREPAT	145,040	0	0.00%

Name or corporate name of director	Name of direct holder	% of total votingde vot
CARLOS FERNÁNDEZ-LERGA GARRALDA	EUR CONSULTORES, S.L	11,700

% of total voting rights held by the Board of Directors	24.18%

Complete the following tables on share options held by directors.

Name or corporate name of director	Number of direct options	Number of Indirect options	Number of equivalent shares	% of total voting rights
		0	6,348,835	0.20%
JUAN JOSÉ BRUGERA CLAVERO	2,441,860	0	2,441,860	0.08%

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 shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities.

A.6 Indicate whether the company has been notified of any shareholders' agreements pursuant to articles 530 and 531 of the Spanish Limited Liability Companies Law. 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 Securities Market Law. If so, identify.

NO

Remarks

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

At year-end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
0	0	0.00%

(*) Through:

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

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

The General Shareholders' Meeting held on 30 June 2014 granted authorisation to the Board of Directors, under item eight on the agenda, subject to the requirements established under article 146 and the related provisions of the Spanish Limited Liability Companies Law, 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 price of the treasury shares bought on an official secondary market at the time of purchase. At no time may the nominal value of the shares acquired, directly or indirectly, in addition to those already held by the Company and its subsidiaries, exceed ten (10) per cent of subscribed share capital or any other upper threshold established in law. The acquisition methods can include purchase-sale, swap or any other form of transaction for valuable consideration as circumstances advise.

This authorisation was granted for five years.

It is noted that the authorisation granted for the acquisition of treasury shares allows them to be used, in full or in part, for their delivery or transfer to directors, executives or employees of the Company or the companies in its Group, directly or as a result of them having exercised their option rights, within the framework of duly approved remuneration systems linked to the market value of the Company shares.

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

NO

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.

Not applicable

A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

NO

B GENERAL SHAREHOLDERS’ MEETING

B.1 Indicate the quorum required for constitution of the General Shareholders’ Meeting established in the company’s Bylaws. Describe how it differs from the system of minimum quorums established in the Spanish Limited Liability Companies Law.

NO

B.2 Indicate and, as applicable, describe any differences between the company’s system of adopting corporate resolutions and the framework established in the Spanish Limited Liability Companies Law.

NO

Describe how they differ from the rules established in the Spanish Limited Liability Companies Law.

B.3 Indicate the rules governing amendments to the company’s Bylaws. In particular, indicate the majorities required to amend the Bylaws and, if applicable, the rules for protecting shareholders’ rights when changing the Bylaws.

Pursuant to article 22 of the Company Bylaws, in order for the General Shareholders’ Meeting to validly resolve to modify the Bylaws, shareholders present or represented must hold at least fifty per cent of the subscribed share capital with voting rights on first call. If the meeting is held at second call, the attendance of shareholders holding twenty-five per cent of the capital shall be sufficient.

In the cases provided for in article 25 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 favourable vote by two-thirds of the subscribed share capital present or duly represented at the General Meeting.

Moreover, articles 16 and 22 of the Regulations for the General Shareholders’ Meeting reiterate the regulations set out in the Company Bylaws relating to their modification, although article 22 indicates that, if the Bylaws are amended, each article or group of articles that are materially different shall be voted on separately so that shareholders can express their voting preferences in each case.

B.4 Indicate the attendance figures for the General Shareholders' Meetings held in the year to which this report refers and the previous year.

		Attendance data			
			% remote voting		
Date of general meeting	% attending in person	% by proxy	Electronic means	Others	Total
27/06/2013	53.96%	26.12%	0.00%	0.00%	80.08%
21/01/2014	67.42%	3.87%	0.00%	0.00%	71.29%
08/04/2014	12.72%	43.72%	0.00%	0.00%	56.44%
30/06/2014	39.11%	28.33%	0.00%	0.00%	67.44%

B.5 Indicate whether the Bylaws impose any minimum requirement on the number of shares required to attend the General Shareholders' Meetings.

YES

Number of shares required to attend the General Meetings	50

B.6 Indicate whether decisions involving a fundamental corporate change ("subsidiarisation", acquisitions/disposals of key operating assets, operations that effectively entail the company's liquidation) must be submitted to the General Shareholders' Meeting for approval or ratification even when not expressly required under company law.

NO

B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on General Meetings which must be made available to shareholders on the website.

Corporate website: www.inmocolonial.com

Information on corporate governance and general shareholders' meetings can be found on the corporate website from the "Information for shareholders and investors" tab. Full information on corporate governance issues pursuant to current legislation is available from the "Corporate Governance" tab on the left of the screen.

C COMPANY MANAGEMENT STRUCTURE

C.1 Board of Directors

C.1.1 List the maximum and minimum number of directors included in the Bylaws.

Maximum number of directors	15
Minimum number of directors	5

C.1.2 Complete the following table with Board members' details.

Name or corporate name of director	Representative	Position on the board	Date of first appointment	Date of last appointment	Election procedure
CARLOS FERNÁNDEZ-LERGA GARRALDA		DIRECTOR	19/06/2008	30/06/2014	VOTE AT SHAREHOLDERS' MEETING
JAVIER IGLESIAS DE USSEL ORDÍS		DIRECTOR	19/06/2008	30/06/2014	VOTE AT SHAREHOLDERS' MEETING
PEDRO VIÑOLAS SERRA		CHIEF EXECUTIVE OFFICER	18/07/2008	30/06/2014	VOTE AT SHAREHOLDERS' MEETING
JUAN JOSÉ BRUGERA CLAVERO		CHAIRMAN	19/06/2008	30/06/2014	VOTE AT SHAREHOLDERS' MEETING
LUIS MALUQUER TREPAT		DIRECTOR	31/07/2013	30/06/2014	VOTE AT SHAREHOLDERS' MEETING
ANA SAINZ DE VICUÑA		DIRECTORA	30/06/2014	30/06/2014	VOTE AT SHAREHOLDERS' MEETING
GRUP VILLAR MIR, S.A.U	JUAN MIGUEL VILLAR- MIR	DIRECTOR	13/05/2014	30/06/2014	VOTE AT SHAREHOLDERS' MEETING
JUAN VILLAR-MIR DE FUENTES		DIRECTOR	30/06/2014	30/06/2014	VOTE AT SHAREHOLDERS' MEETING
SILVIA VILLAR-MIR DE FUENTES		DIRECTOR	30/06/2014	30/06/2014	VOTE AT SHAREHOLDERS' MEETING
JUAN CARLOS GARCÍA CAÑIZARES		DIRECTOR	30/06/2014	30/06/2014	VOTE AT SHAREHOLDERS' MEETING
FRANCESC MORA SAGUÉS		DIRECTOR	30/06/2014	30/06/2014	VOTE AT SHAREHOLDERS' MEETING

Total number of directors	11

Indicate any board members who left during this period.

Name or corporate name of director	Status of the director at the time	Leaving date
HDA CONSEIL, S.A.R.L	PROPRIETARY DIRECTOR	13/05/2014
JAVIER FAUS SANTASUSANA	OTHER DIRECTOR	22/05/2014

C.1.3 Complete the following tables on board members and their respective categories.

EXECUTIVE DIRECTORS

Name or corporate name of director	Committee proposing appointment	Position held in the company
PEDRO VIÑOLAS SERRA	COMISSIÓ DE NOMENAMENTS I RETRIBUCIONS	CHIEF EXECUTIVE OFFICER
JUAN JOSÉ BRUGERA CLAVERO	COMISSIÓ DE NOMENAMENTS I RETRIBUCIONS	CHAIRMAN

Total number of executive directors	2
% of the board	18.18%

EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of director	Committee proposing appointment	Name or corporate name of significant shareholder represented or proposing appointment
GRUP VILLAR MIR, S.A.U	NOMINATION AND REMUNERATION COMMITTEE	INMOBILIARIA ESPACIO, S.A.
JUAN VILLAR-MIR DE FUENTES	NOMINATION AND REMUNERATION COMMITTEE	INMOBILIARIA ESPACIO, S.A.
SILVIA VILLAR-MIR DE FUENTES	NOMINATION AND REMUNERATION COMMITTEE	INMOBILIARIA ESPACIO, S.A.
JUAN CARLOS GARCÍA CAÑIZARES	NOMINATION AND REMUNERATION COMMITTEE	AGUILA LTD
FRANCESC MORA SAGUÉS	NOMINATION AND REMUNERATION COMMITTEE	MORA BANC GRUP, S.A.

Total number of proprietary directors	5
% of the board	45.45%

INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of director

CARLOS FERNÁNDEZ-LERGA GARRALDA

Profile

Law graduate of the University of Navarra. He also holds a Masters in European Studies from the University of Leuven (Belgium) and a Doctorate in Law from the Complutense University of Madrid. He has also participated in post-graduate courses specialising in Commercial Law at the Bank of Spain's Training Centre. He completed his international law studies at The Hague Academy of International Law and his comparative law and international organisations studies in Strasbourg and at the Collège Universitaire d´Etudes Fédéralistes in Nice, Val d'Aosta. He was an Advisory Member of the Ministry and Secretary of State for Relations with the European Communities between 1978 and 1983, during which time he participated in negotiations for Spain's accession to the EU. He was also General Manager of the EU Advisory Service within the Banco Hispano Americano Group between 1984 and 1986. He has also been a Director at Abantia Corporación and Gamesa Corporación Tecnológica, S.A. (Lead Independent Director) as well as a General Board Member of La Caixa. He has also been a member of the International Secretariat of the World Federalist Youth movement (Amsterdam); Secretary of the Madrid branch of the European League for Economic Cooperation; Secretary of the Foundation for Progress and Democracy; a representative (treasurer) of the Governing Board of the Madrid Bar Association as well as a member of the Executive Committee of the Elcano Royal Institute. He has also lectured at the School of Political Science at the Complutense University and at the Institute of European Studies at the University of Alcalá de Henares, and has written numerous publications. He is currently Chairman of Iberdrola Ingeniería y Construcción, S.A. and continues to practise law at his firm, Carlos Fernández-Lerga Abogados, mainly offering legal advice on civil and commercial law. He is currently a member of the Board of Directors of SFL.

Name or corporate name of director

JAVIER IGLESIAS DE USSEL ORDÍS

Profile

Graduate of the University of Barcelona with degree in Modern and Contemporary History. He has participated in a large number of courses on company management and administration, marketing, risk analysis and prevention of money laundering. He held several senior positions at Lloyds Bank International from 1974 to 1995 in London, Dubai, Brazil, Paraguay and Spain, including Branch Manager for Sao Bernardo do Campo (Brazil), Deputy General Manager (Paraguay) and Director of International Trade, Marketing and UK Corporate Banking (Madrid). He also held several posts at The Bank of New York Mellon between 1995 and June 2008, including Managing Director and Regional Director for Spain, Portugal and Andorra (Madrid) and Managing Director and Head of the Latin American and Caribbean Division (New York).

Name or corporate name of director

ANA SAINZ DE VICUÑA

Profile

Graduate of the University of Reading in the UK with a degree in Agricultural Economics and a participant in the Management Development Program at Harvard University.

She worked for Merrill Lynch in Spain for 18 years (1984-2003). She began her career in private banking, where she remained for 12 years. She then joined Sociedad de Valores y Bolsa, which was formed following the acquisition of FG. She was responsible, working with Claudio Aguirre, for this merger and was then in charge of operations, systems, human resources and finance. Lastly, she was appointed General Manager of the Merrill Lynch International Bank branch in Spain. She also served on the board of Mobile Dreams Factory, a mobile marketing and advertising agency, and of Asturbega, a Coca-Cola bottling company in Northern Spain. She currently forms part of the board of trustees of the Foundation for Art Research Partnership and Education.

Since 2004, she has been a member of the Board and the Executive Committee of Corporación Financiera Guadalmar (CFG), a family office with assets in Spain and Latin America, mainly in Argentina and Chile. She supervises the Financial Assets Committee which manages securities portfolios as well as the family's investments in Grupo Security, of which she is also a director, and in the Awasi and W Santiago hotel groups.

Total number of independent directors	3
% of the board	27.27%

List any independent directors who receive from the company or group any amount or payment other than standard director remuneration or who maintain or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.

NO

If applicable, include a statement from the board detailing the reasons why the said director may carry on their duties as an independent director.

OTHER EXTERNAL DIRECTORS

Name or corporate name of director	Committee notifying or proposing appointment
LUIS MALUQUER TREPAT	NOMINATION AND REMUNERATION COMMITTEE

Total number of other external directors	1
% of the board	9.09%

List the reasons why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders.

Name or corporate name of director

LUIS MALUQUER TREPAT

Company, executive or shareholder with whom the relationship is maintained

Inmobiliaria Colonial, S.A.

Reasons

Luis Maluquer Trepat has provided legal services to the Colonial Group and is therefore considered as an "Other External Director".

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

C.1.4 Complete the following table on the number of female directors over the past four years and their category.

	Number of female directors				% of total directors of each type			
	Year t	Year t-1	Year t-2	Year t-3	Year t	Year t-1	Year t-2	Year t-3
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	1	0	0	0	20.00%	0.00%	0.00%	0.00%
Independent	1	0	0	0	33.33%	0.00%	0.00%	0.00%
Other external	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total	2	0	0	0	18.18%	0.00%	0.00%	0.00%

C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.

Explanation of measures

Pursuant to article 35 of the Regulations for the Board of Directors of Inmobiliaria Colonial, S.A., the Nomination and Remuneration Committee is responsible for ensuring that there is no implicit bias hampering the appointment of female directors when vacancies arise on the Board of Directors. To this end, the Company deliberately seeks to include women with the required professional profiles among the candidates for Board vacancies.

C.1.6 Explain the measures taken, if applicable, by the Nomination Committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile.

Explanation of measures

Pursuant to the Regulations for the Board of Directors, both the Board of Directors and the Nomination and Remuneration Committee ensured that the candidates put forward met the Board of Directors' requirements regarding experience, technical competence and suitability.

In this respect, it is to be noted that pursuant to article 35 of the Regulations for the Board of Directors, the Board of Directors expressly attributed to the Nomination and Remuneration Committee the function of ensuring that the procedure used to select directors is in no way biased against women and that the appointments made by the Board of Directors via co-option and proposed appointments submitted to the General Shareholders' Meeting are based on purely professional criteria. Accordingly, in 2014 the Nomination and Remuneration Committee reported favourably on the appointment of Silvia Villar-Mir de Fuentes as a proprietary director, and proposed the appointment of Ana Sainz de Vicuña as an independent director.

When, despite the measures taken, there are few or no female directors, explain the reasons.

Explanation of measures

In 2014 two female directors joined the Board of Directors, one as a proprietary director and the other as an independent director. As a result of these inclusions, 18.18% of the Board members were women, which is above average for average listed companies (according to 2013 annual corporate governance reports) and a substantial increase for the company itself.

C.1.7 Explain how shareholders with significant holdings are represented on the board.

Pursuant to article 4 of the Regulations for the Board of Directors of Inmobiliaria Colonial, S.A., the Board of Directors, in exercise of its powers to make proposals to the General Shareholders' Meeting and of co-option to cover vacancies, will seek to ensure that proprietary and independent directors form an ample majority of the Board, and that the number of executive directors is the minimum necessary, considering the Company's share structure and the capital represented on the Board.

Moreover, in terms of external directors, the number of proprietary and independent directors will reflect the share of capital represented by proprietary directors compared to the remaining capital.

In this regard, proprietary directors are considered to be:

a. Those who have shareholdings greater than or equivalent to the amount considered under law to be significant, or who have been appointed as such due to their capacity as shareholders, despite their shareholdings not reaching said amount.

b. Those who represent the shareholders indicated in the previous paragraph.

For the purposes of this definition, a director is deemed to represent a shareholder when:

- He/She has been appointed to exercise the right of proportional representation on the Board of Directors.
- He/She is a director, senior manager, employee or ongoing provider of services to said shareholder, or to companies in the shareholder's group.
- Company documents show that the shareholder considers that the director is his/her appointee or representative.
- He/She is a spouse, a person related by a similar personal relationship or a relative up to the second degree of kinship of a significant shareholder.

C.1.8 Explain, if 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

C.1.9 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board their reasons and through which channel. If made in writing to the whole board, list below the reasons given by that director.

Name of director

JAVIER FAUS SANTASUSANA

Reasons for resignation

To avoid possible situations of incompatibility or conflicts of interest in the future as a result of his professional activities in other entities. His resignation was given in a letter dated 22 May 2014.

Name of director

HDA CONSEIL, S.A.R.L.

Reasons for resignation

As a result of the sale of its interest in the share capital of Colonial to Credit Agricole CIB. This sale was reported in a letter dated 2 May 2014.

C.1.10 Indicate what powers, if any, have been delegated to the Chief Executive Officer(s).

Name or corporate name of director

PEDRO VIÑOLAS SERRA

Brief description

The Chief Executive Officer has been delegated all powers that may be delegated by law and under the company bylaws.

C.1.11 List the directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group:

Name or corporate name of director	Corporate name of the group entity	Position
CARLOS FERNÁNDEZ-LERGA GARRALDA	SOCIÉTÉ FONCIÈRE LYONNAISE	DIRECTOR
PEDRO VIÑOLAS SERRA	SOCIÉTÉ FONCIÈRE LYONNAISE	DIRECTOR
PEDRO VIÑOLAS SERRA	COLONIAL INVEST, S.L	REPRESENTATIVE OF THE SOLE DIRECTOR (INMOBILIARIA COLONIAL, S.A.)
PEDRO VIÑOLAS SERRA	COLONIAL TRAMIT, S.L	REPRESENTATIVE OF THE SOLE DIRECTOR (INMOBILIARIA COLONIAL, S.A.)
JUAN JOSÉ BRUGERA CLAVERO	SOCIÉTÉ FONCIÈRE LYONNAISE	CHAIRMAN AND DIRECTOR
LUIS MALUQUER TREPAT	SOCIÉTÉ FONCIÈRE LYONNAISE	DIRECTOR

C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company.

Name or corporate name of director	Name of listed company	Position
GRUPO VILLAR MIR, S.A.U	OBRASCON HUARTE LAIN (OHL), S.A.	CHAIRMAN
GRUPO VILLAR MIR, S.A.U	ABERTIS INFRAESTRUCTURAS, S.A.	DEPUTY CHAIRMAN
GRUPO VILLAR MIR, S.A.U	BANCO SANTANDER	DIRECTOR
JUAN VILLAR-MIR DE FUENTES	OBRASCON HUARTE LAIN (OHL), S.A.	DIRECTOR
JUAN VILLAR-MIR DE FUENTES	ABERTIS INFRAESTRUCTURAS, S.A.	DIRECTOR
SILVIA VILLAR-MIR DE FUENTES	OBRASCON HUARTE LAIN (OHL), S.A.	DIRECTOR
JUAN CARLOS GARCÍA CAÑIZARES	BTG PACTUAL GROUP (BRASIL)	DIRECTOR
JUAN CARLOS GARCÍA CAÑIZARES	VALOREM, S.A. (COLOMBIA)	DIRECTOR
JUAN CARLOS GARCÍA CAÑIZARES	UNIÓN DE CERVECERÍAS PERUANAS BACKUS & JOHNSTON (PERÚ)	DIRECTOR

C.1.13 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its directors may sit.

NO

C.1.14 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
Strategic or business plan, 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

C.1.15 List the total remuneration paid to the Board of Directors in the year:

Board remuneration (thousands of euros)	4,959
Amount of total remuneration corresponding to accumulated pension rights (thousands of euros)	0
Total board remuneration (thousands of euros)	4,959

C.1.16 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year.

Name or corporate name	Position(s)
ALBERTO ALCOBER TEIXIDO	BUSINESS AREA MANAGER
NURIA OFERIL COLL	SENIOR MANAGER OF LEGAL SERVICES
CARMINA GANYET CIRERA	CORPORATE MANAGING DIRECTOR
JOSÉ MARTÍNEZ FLOR	SENIOR MANAGER OF HUMAN RESOURCES, INTERNAL AUDIT AND GENERAL SERVICES

Total remuneration received by senior management (thousands of euros)	2,127

C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies:

Name or corporate name of director	Name or corporate name of significant shareholder	Position
JUAN VILLAR-MIR DE FUENTES	INMOBILIARIA ESPACIO, S.A.	DIRECTOR
SILVIA VILLAR-MIR DE FUENTES	INMOBILIARIA ESPACIO, S.A.	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

GRUP VILLAR MIR, S.A.U.

Name or corporate name of significant shareholder

INMOBILIARIA ESPACIO, S.A.

Relationship

INMOBILIARIA ESPACIO, S.A. directly owns 100% of Grupo Villar Mir, S.A.U.

C.1.18 Indicate whether any changes have been made to the board regulations during the year.

YES

Description of amendments

The Regulations for the Board of Directors were amended in order to (i) facilitate the operations of the Executive Committee if the Chairman is absent, ill or unable to exercise his functions, whereby the Deputy Chairman would be appointed to carry out these duties, as stated in the amendment to article 32 of the Regulations, and (ii) bring the content of the Regulations for the Board of Directors into line with the recommendations on corporate governance for listed companies by appointing a lead director from among the independent directors, as included in the new article 27.bis of the Regulations.

C.1.19 Indicate the procedures for appointing, re-electing, evaluating and removing directors. List the competent bodies, procedures and criteria used for each of these procedures.

The procedures for selection, appointment and re-election of directors are set out in article 9 of the Regulations for the Board of Directors.

Without prejudice to the above, article 4.3 of the Regulations for the Board of Directors states that independent directors should not remain as such for a continuous period of more than 12 years.

With respect to the resignation and removal of directors, this issue is governed by article 11 of the Regulations for the Board of Directors.

C.1.20 Indicate whether the board has evaluated its performance during the year.

YES

Explain, if applicable, to what extent this evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities.

Description of amendments

There have been no changes, as the results of the evaluation were satisfactory.

C.1.21 Indicate the cases in which directors must resign.

Pursuant to article 11 of the Regulations for the Board of Directors, members of the Board of Directors are required to place their post at the Board of Directors' disposal, and tender, if the Board deems this appropriate following a report from the Nomination and Remuneration Committee, their resignation in the following cases:

1. When they are subject to any of the cases of incompatibility or prohibition provided by law.

2. When they cease to hold the executive positions with which their appointment as director was associated, or when the reasons for their appointment disappear. In particular, 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.

3. The provisions of the previous paragraph notwithstanding, in the event that circumstances arise that the Board of Directors consider justify the director remaining on the Board, the Board shall take into consideration the effect of these circumstances on the classification of the director.

4. When they are seriously admonished by the Nomination and Remuneration Committee as a result of breaching their obligations as directors.

5. When their continuing as a member of the Board might harm the Company's name or reputation. Directors must inform the Board of any criminal charges brought against them and the progress of any subsequent trial. In any event, the moment a director is indicted or tried for any of the crimes stated in the Spanish Limited Liability Companies Law, the Board should examine the matter as soon as possible and, in view of the particular circumstances and potential harm to the Company's name and reputation, decide whether or not they should be called on to resign. All such determinations should be disclosed in the Annual Corporate Governance Report.

C.1.22 Indicate whether the duties of chief executive officer 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.

YES

Explanation of rules

An independent lead director has been appointed from among the independent directors and, in accordance with article 27.bis of the Regulations for the Board of Directors, will carry out the following functions: i) ask the Chairman of the Board of Directors to call a Board meeting when deemed appropriate, ii) request the inclusion of items on the agenda of the Board of Directors meetings, iii) coordinate the tasks of the non-executive directors, iv) lead the evaluation of the Chairman of the Board of Directors, and v) carry out other functions conferred thereupon by the Board of Directors.

C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?

NO

If applicable, describe the differences.

C.1.24 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed Chairman.

NO

C.1.25 Indicate whether the Chairman has the casting vote.

YES

Matters where the Chairman has the casting vote

Pursuant to article 29 of the Company Bylaws and article 38 of the Regulations for the Board of Directors, resolutions are adopted by absolute majority of the directors present at the meeting. In the event of a tie, the Chairman has the casting vote.

C.1.26 Indicate whether the Bylaws or the board regulations set any age limit for directors.

NO

C.1.27 Indicate whether the Bylaws or the board regulations set a limited term of office for independent directors.

YES

Maximum number of years in office	12

C.1.28 Indicate whether the Bylaws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether only one director of the same category may be appointed as a proxy. If so, give brief details.

Pursuant to article 38 of the Regulations for the Board of Directors, proxies are granted in writing and specifically for each meeting, and solely to other members of the Board. Article 13.2 of the Board Regulations stipulates that proxies granted must include specific instructions as to the vote to be cast on the matters to be debated. Since the entry into force of the most recent amendment to the Spanish Limited Liability Companies Law, proxies may not be granted to the company's executive directors.

C.1.29 Indicate the number of board meetings held during the year and how many times the board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	16
Number of board meetings held without the Chairman's attendance	0

Indicate the number of meetings of the various board committees held during the year.

Committee	Number of meetings
Number of meetings of the Executive or Delegated Committee	4
Number of meetings of the Audit Committee	10
Number of meetings of the Nomination and Remuneration Committee	6

C.1.30 Indicate the number of board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions.

Directors' attendance	16
% of attendances of the total votes cast during the year	100.00%

C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously.

YES

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior to their authorisation for issue by the board.

Name	Position
MARIA ÁNGELES ARDERIU IBARS	CHIEF FINANCIAL OFFICER

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being laid before the General Shareholders' Meeting with a qualified Audit Report.

Article 8 of the Regulations for the Board of Directors states that the Board of Directors shall seek to prepare the annual financial statements in such a way as to avoid reservations or qualifications in the audit report and, should these exist, both the Chairman of the Audit and Control Committee and auditors shall clearly explain to shareholders the content and scope of the said reservations or qualifications.

C.1.33 Is the Secretary of the board also a director?

NO

C.1.34 Explain the procedures for appointing and removing the Secretary of the board, indicating whether their appointment and removal have been notified by the Nomination Committee and approved by the board in plenary session.

Appointment and removal procedure

Pursuant to article 29 of the Regulations for 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 Board in plenary session subject to a report drawn up by the Nomination and Remuneration Committee.

Does the Nomination Committee propose appointments?	YES
Does the Nomination 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

Article 29 of the Regulations for the Board of Directors stipulates that “the Secretary shall take special care to ensure that the Board’s actions: (i) adhere to the spirit and letter of the laws and their implementing regulations, including those issued by regulatory bodies; (ii) comply with the Bylaws, the Regulations for the General Shareholders’ Meeting, the Regulations for the Board of Directors and other internal regulations; and (iii) take into consideration the recommendations on good governance contained in the Company Bylaws and Regulations”.

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

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

Article 34 of the Regulations for the Board of Directors states that the competences and functions of the Audit and Control Committee shall include “to ensure the independence of the external auditor and, to this end, ensure that the Company notifies any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for doing so. In the event of resignation of the external auditor, the Committee should investigate the issues giving rise to the resignation”.

C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor.

NO

Explain any disagreements with the outgoing auditor and the reasons for the same.

C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of all fees invoiced to the company and/or its group.

YES

	Company	Group	Total
Amount of non-audit work (in thousands euros)	578	28	606
Amount of non-audit work as a % of the total amount billed by the audit firm	65.11%	10.65%	52.62%

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

NO

C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited.

	Company	Group
Number of consecutive years	8	8
Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)	29.63%	29.63%

C.1.40 Indicate and give details of any procedures through which directors may receive external advice.

YES

Procedures

Article 23 of the Regulations for the Board of Directors states that "external directors shall have the right to obtain from the Company the necessary advice to carry out their functions and, when necessary, request that legal, accounting or financial advisors or other experts be hired at the Company's expense.

The Board of Directors may oppose the hiring of external consultants when:

1. It is not necessary for the proper performance of the duties entrusted to the external directors;

2. The cost thereof is not reasonable in view of the importance of the problem and of the assets and income of the Company.

3. The technical assistance to be received may be adequately provided by the Company's experts and specialists."

C.1.41 Indicate whether there are procedures for directors to receive the information they need in sufficient time to prepare for meetings of the governing bodies.

YES

Procedures

Pursuant to article 22 of the Regulations for the Board of Directors, “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”.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to inform the board of any circumstances that might harm the organisation’s name or reputation, tendering their resignation as the case may be.

YES

Details of rules

Pursuant to article 11 of the Regulations for the Board of Directors, “members of the Board of Directors are required to place their post at the Board of Directors’ disposal, and tender, if the Board deems this appropriate following a report from the Nomination and Remuneration Committee, their resignation in the following cases:

1. When they are subject to any of the cases of incompatibility or prohibition provided by law.

2. When they cease to hold the executive positions with which their appointment as director was associated or when the reasons for their appointment disappear. In particular, 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.

3. The provisions of the previous paragraph notwithstanding, in the event that circumstances arise that the Board of Directors consider justify the director remaining on the Board, the Board shall take into consideration the effect of these circumstances on the classification of the director.

4. When they are seriously admonished by the Nomination and Remuneration Committee as a result of breaching their obligations as directors.

5. When their continuing as a member of the Board might harm the Company's name or reputation. Directors must inform the Board of any criminal charges brought against them and the progress of any subsequent trial. In any event, the moment a director is indicted or tried for any of the crimes stated in the Spanish Limited Liability Companies Law, the Board should examine the matter as soon as possible and, in view of the particular circumstances and potential harm to the Company's name and reputation, decide whether or not they should be called on to resign. All such determinations should be disclosed in the Annual Corporate Governance Report.

The Board of Directors should not propose the removal of external proprietary or independent directors before the expiry of their tenure, except for exceptional cases and where just cause is found by the Board, subject to a report from the Nomination and Remuneration Committee. In particular, just cause will be presumed when a director is in breach of his or her fiduciary duties or comes under one of the disqualifying grounds described in article 4 of the Regulations which impede their appointment as an independent director."

C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the Spanish Limited Liability Companies Law.

NO

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

Inmobiliaria Colonial, S.A. is party to certain financing agreements with various financial institutions for a total amount of €1,040 million. The clauses of these contracts provide for early termination of the same in the event of any change, for whatever reason, to the current shareholder structure that may entail the loss of the current control of the Company.

C.1.45 Identify, in aggregate form and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other.

Number of beneficiaries: 3

Type of beneficiary

Chairman of the Board, Chief Executive Officer and Corporate Managing Director.

Description of the resolution

The General Shareholders' Meetings held on 21 November 2008 and 21 June 2011 (as ratified by the General Shareholders' Meeting of 27 June 2013) approved the remuneration of the directors of the Company, including additional contingent remuneration to the Chairman and Chief Executive Officer of the Company in the event that they should leave or resign as a result of a change of control of Inmobiliaria Colonial, S.A., significant change in the composition of the Board of Directors and for any other reasons established by the Board of Directors.

For both the Chairman of the Board and the Chief Executive Officer, this remuneration consists of an amount equivalent to three years fixed annual remuneration in consideration of the executive duties thereof, subject to a minimum of €1,250,000 for the Chairman of the Board and €1,500,000 for the Chief Executive Officer. This amount will be automatically reviewed each year in line with the Consumer Price Index. The minimum amount that the Chairman and the Chief Executive Officer would be entitled to receive in 2014 in such eventualities would be €1,321,071.36 and €1,848,261.35, respectively.

In the case of the Corporate Managing Director, a golden parachute clause is triggered in the event of termination under certain circumstances or change of control giving rise to compensation on termination of the functions thereof of three years fixed annual remuneration

In addition, there is a long-term incentive plan, approved by the General Shareholders' Meeting which was last amended on 21 January 2014 and consists of the delivery of ordinary shares contingent on the Company meeting certain targets each year, and which has as its beneficiaries the Chairman of the Board, the CEO and all members of Colonial's Executive Committee, including the Corporate Managing Director. This plan states that the Board of Directors shall agree on the early settlement of the plan and the delivery of the maximum number of outstanding shares to each of the beneficiaries in the event a "substantial liquidity event" occurs. A "substantial liquidity event" occurs if a takeover bid is authorised with the aim of acquiring all of Colonial's share capital, in the framework of which Colonial's creditors must waive any existing change of control clause, or if existing debt undergoes a significant refinancing. In the latter case, early settlement of the plan shall be subject to ratification by the Nomination and Remuneration Committee. If the aim of the bid is to remove Colonial shares from stock exchange listing, and no change of control occurs, no prior delivery of shares is carried out and an equivalent remuneration system must be established based on replacing the share distribution system with an equivalent distribution of cash. If, after the delisting of Colonial shares, a transaction occurs involving a change of control, as part of which Colonial's creditors must waive any existing change of control clause, or if existing debt undergoes a significant refinancing, the Board must wind up the plan early and pay out the maximum contemplated remuneration in cash, subject to the approval of the Nomination and Remuneration Committee. In the event that, during the term of this plan, the Chairman or the CEO were to be dismissed without just cause, the shareholders at the General Meeting were to not extend their term of office or they were removed from their posts without just cause, they will be entitled to early settlement of the plan and delivery would be made of the maximum number of undelivered shares during the years remaining until the end of the term of the plan, unless the unfair dismissal were to occur in 2014 or 2015, in which case they would be entitled to receive 50% of the maximum number of undelivered shares if the dismissal occurs in 2014 or 66% if the dismissal occurs in 2015. Beneficiaries will forfeit any entitlement to such shares in the event of fair dismissal, termination with just cause, or resignation on their own initiative, or in the event of contractual breach with regard to confidentiality, the prohibition to offer services or competition. In such cases, the beneficiaries will forfeit any entitlement to awarded shares.

Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group.

	Consell d'administració	Junta general
Body authorising clauses	Yes	No
Is the General Shareholders' Meeting informed of such clauses?	No	

C.2 Board Committees

C.2.1 Give details of all the board committees, their members and the proportion of proprietary and independent directors.

EXECUTIVE OR DELEGATE COMMITTEE

Name	Position	Type
JUAN JOSÉ BRUGERA CLAVERO	CHAIRMAN	EXECUTIVE
GRUPO VILLAR MIR, S.A.U. (represented by Juan Miguel Villar Mir)	DEPUTY CHAIRMAN	PROPRIETARY
PEDRO VIÑOLAS SERRA	MEMBER	EXECUTIVE
JUAN CARLOS GARCÍA CAÑIZARES	MEMBER	PROPRIETARY
CARLOS FERNÁNDEZ-LERGA GARRALDA	MEMBER	INDEPENDENT
FRANCESC MORA SAGUÉS	MEMBER	PROPRIETARY

% of executive directors	33.00%
% of proprietary directors	50.00%
% of independent directors	17.00%
% of other external directors	0.00%

AUDIT COMMITTEE

Name	Position	Type
JAVIER IGLESIAS DE USSEL ORDÍS	CHAIRMAN	INDEPENDENT
CARLOS FERNÁNDEZ-LERGA GARALDA	MEMBER	INDEPENDENT
JUAN VILLAR-MIR DE FUENTES	MEMBER	PROPRIETARY
ANA SAINZ DE VICUÑA	MEMBER	INDEPENDENT
LUIS MALUQUER TREPAT	MEMBER	OTHER EXTERNAL

% of executive directors	0.00%
% of proprietary directors	20.00%
% of independent directors	60.00%
% of other external directors	20.00%

NOMINATION AND REMUNERATION COMMITTEE

Name	Position	Type
CARLOS FERNÁNDEZ-LERGA GARALDA	CHAIRMAN	INDEPENDENT
JAVIER IGLESIAS DE USSEL ORDÍS	MEMBER	INDEPENDENT
JUAN VILLAR-MIR DE FUENTES	MEMBER	PROPRIETARY
JUAN CARLOS GARCÍA CAÑIZARES	MEMBER	PROPRIETARY
FRANCESC MORA SAGUÉS	MEMBER	PROPRIETARY

% of executive directors	0.00%
% of proprietary directors	60.00%
% of independent directors	40.00%
% of other external directors	0.00%

C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years.

	Number of female directors							
	Year t		Year t-1		Year t-2		Year t-3	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Audit Committee	1	20.00%	0	0.00%	0	0.00%	0	0.00%
Nomination and Remuneration Committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%

C.2.3 Indicate whether the Audit Committee is responsible for the following:

Monitoring the preparation and integrity of financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter and the correct application of accounting principles	YES
Reviewing internal control and risk management systems on a regular basis, so the main risks are properly identified, managed and disclosed	YES
Monitoring the independence and efficacy of the internal audit function; proposing 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 verifying that senior management are acting on the findings and recommendations of its reports	YES
Establishing and supervising 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
Making recommendations to the board for the selection, appointment, reappointment and removal of the external auditor, and the terms of their engagement	YES
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	YES
Monitoring the independence of the external auditor	YES

C.2.4 Describe the organisational and operational rules and the responsibilities attributed to each of the board committees.

NOMINATION AND REMUNERATION COMMITTEE

A) Composition

The Committee shall comprise at least 3 members, who must all be external directors. The members shall be relieved of their duties once their tenure as a director ceases, or when agreed by the Board of Directors.

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

B) Competencies

The functions of the Committee are governed by article 35 of the Regulations for the Board of Directors.

C) Operation

The Committee shall meet as many times as necessary to carry out its functions. It may also be convened when so requested by two of its members.

The Nomination and Remuneration Committee shall be validly convened when the majority of its members are present.

The Nomination and Remuneration Committee shall have access to all the information and documents required to perform its duties.

The conclusions of each meeting will be minuted and reported to the plenary Board.

EXECUTIVE OR DELEGATE COMMITTEE

A) Composition and Competencies

Pursuant to article 32 of the Regulations for the Board of Directors, the Board of Directors may establish an Executive Committee comprising members of the Board itself and, in any event, shall have the Chairman of the Board of Directors as one of its members.

The Executive Committee shall comprise a minimum of 3 and a maximum of 10 members.

B) Operation

Executive Committee meetings shall be called by the Chairman and held at the Company's registered office or any place designated by the Chairman.

In order for Executive Committee meetings to be validly convened, the majority of its members must be present.

Resolutions shall be adopted by the absolute majority of the Committee members. The Executive Committee, through its Chairman, shall inform the Board of the matters dealt with and decisions adopted by the Committee.

AUDIT AND CONTROL COMMITTEE

A) Composition

The Audit and Control Committee comprises a minimum of 3 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, the Chairman, who in any event must be an independent director, and who must be replaced every four years, but may be re-elected after one year has passed since leaving the position. The Committee shall also designate a Secretary.

All members of the Audit and Control Committee must have the knowledge, professional experience and dedication required for performance of the role entrusted to them.

B) Competencies

Article 32 of the Company Bylaws.

C) Operation

The Audit and Control Committee shall meet whenever requested to do so by any of its members, or at the behest of its Chairman. The conclusions of each meeting will be minuted and reported to the plenary Board.

The Committee may request that any member of the management team or other personnel of the Company or its subsidiaries attend Committee meetings to offer their collaboration and access to the information available to them.

C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also indicate whether an annual report on the activities of each committee has been prepared voluntarily.

NOMINATION AND REMUNERATION COMMITTEE

The regulations of the Nomination and Remuneration Committee are set out in article 33 of the Company Bylaws and article 35 of the Regulations for the Board of Directors. Both of these documents are available on the company website. The Regulations for the Board of Directors of Inmobiliaria Colonial, S.A. are also available on the CNMV (Comisión Nacional del Mercado de Valores) 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 imposed upon it pursuant to article 37 of the Regulations for the Board of Directors, which incorporates Recommendation 21 of the Unified Good Governance Code for Listed Companies of June 2013, as approved by the CNMV. 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.

EXECUTIVE OR DELEGATE COMMITTEE

The regulations of the Executive Committee are set out in article 29 of the Company Bylaws and article 32 of the Regulations for the Board of Directors. Both of these documents are available on the company website. The Regulations for the Board of Directors of Inmobiliaria Colonial, S.A. are also available on the CNMV (Comisión Nacional del Mercado de Valores) 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 imposed upon it pursuant to article 37 of the Regulations for the Board of Directors, which incorporates Recommendation 21 of the Unified Good Governance Code for Listed Companies of June 2013, as approved by the CNMV. However, as the Executive or Delegate Committee did not meet in 2013, the Board of Directors did not assess its performance.

AUDIT AND CONTROL COMMITTEE

The regulations of the Audit and Control Committee are set out in article 32 of the Company Bylaws and article 34 of the Regulations for the Board of Directors. Both of these documents are available on the company website. The Regulations for the Board of Directors of Inmobiliaria Colonial, S.A. are also available on the CNMV (Comisión Nacional del Mercado de Valores) 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 imposed upon it pursuant to article 37 of the Regulations for the Board of Directors, which incorporates Recommendation 21 of the Unified Good Governance Code for Listed Companies of June 2013, as approved by the CNMV. 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 prepares an annual report on its activities, in compliance with its Bylaw stipulated requirement.

C.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 or Delegate Committee

Although the breakdown of the Executive Committee by category of director does not exactly match the current composition of the Board, the structure of the Executive Committee does reflect sufficient diversity of knowledge, experience and category of director to ensure that it can fulfil its mandate effectively, objectively and independently.

D RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Identify the competent body and explain, if applicable, the procedures for approving related-party or intragroup transactions.

Competent body

Board of Directors

Procedures

Pursuant to article 17 of the Regulations for the Board of Directors, express authorisation is required from the Board of Directors, which cannot be delegated, following a favourable report from the Audit and Control Committee, in the following cases:

"– Provision to Inmobiliaria Colonial companies by a director of professional services other than those deriving from the employment relationship with executive directors.

– Sale, or transfer in any other way, for any manner of economic consideration, by a director, a significant shareholder or a shareholder represented on the Board, or parties related thereto, to Inmobiliaria Colonial or its Group companies of supplies, materials, goods or rights in general. For the purposes of this section, a related person shall be understood to be that described in the Spanish Limited Liability Companies Law.

– Transfer by Group companies to a director, a significant shareholder or a shareholder represented on the Board, or parties related thereto, of supplies, materials, goods or rights, in general, which do not form part of the usual business of the transferring company.

– Provision of works, services or sale of materials by Inmobiliaria Colonial Group companies to a director, significant shareholder or a shareholder represented on the Board, or parties related thereto, and which, being part of their ordinary business, is carried out under economic conditions below market rates.

This authorisation is not required in related-party transactions that simultaneously comply with the three following 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 services.

– The amount does not exceed 1% of the Company's annual income.

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."

With regard to the Company's management and employees, article 16 of the Internal Code of Conduct on the Securities Markets establishes that they "must inform the Regulatory Compliance Unit of any potential conflicts of interest with any company in the Colonial Group, affecting them or related persons, and caused by their activity outside the Company, family relations, personal equity or any other cause.

Any query as to the possible existence of a conflict of interest must be checked with the Regulatory Compliance Unit, before carrying out any actions that may be deemed affected by said conflict.

Having regard to the nature of the information received, the Regulatory Compliance Unit will decide as to whether the situation should be reported to the Audit and Control Committee."

Explain if the authority to approve related-party transactions has been delegated to another body or person.

Not applicable.

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders.

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount
THE ROYAL BANK OF SCOTLAND PLC	Inmobiliaria Colonial, S.A.	Contractual	Interest charged	86
THE ROYAL BANK OF SCOTLAND PLC	Inmobiliaria Colonial, S.A.	Contractual	Interest paid	8
CREDIT AGRICOLE, S.A.	Inmobiliaria Colonial, S.A.	Contractual	Interest charged	10,087
CREDIT AGRICOLE, S.A.	Société Foncière Lyonnaise	Contractual	Operating lease agreements	80
CORAL PARTNERS (LUX) S.A.R.L	Inmobiliaria Colonial, S.A.	Contractual	Interest charged	10,374
BANCO POPULAR ESPAÑOL, S.A.	Inmobiliaria Colonial, S.A.	Contractual	Interest charged	4
CAIXABANK	Inmobiliaria Colonial, S.A.	Contractual	Interest charged	43
CREDIT AGRICOLE, S.A.	Société Foncière Lyonnaise	Contractual	Interest charged	460
CAIXABANK	Torre Marenostrum, S.L.U	Contractual	Interest charged	49

D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors.

D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens.

D.5 Indicate the amount from related-party transactions.

D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

Article 29 of the Company Bylaws stipulates:

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

Article 16 of the Regulations for the Board of Directors states that:

1. Directors must notify the Board of any situation that could lead to a direct or indirect conflict of interest with the Company.

2. Directors affected by the conflict of interest shall refrain from participating in any discussion or voting in matters related to the conflict.

- Directors shall also inform the Company of any direct or indirect stake they and their affiliates, as defined in the Spanish Limited Liability Companies Law, may have in a company with the same, analogous or similar corporate purpose, and the positions or duties they perform therein.

- Any conflicts of interest as described above shall be detailed in the notes to the financial statements.

3. Article 17 of the Regulations for the Board of Directors states that:

- 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, a significant shareholder or a shareholder represented on the Board, or parties related thereto, to Inmobiliaria Colonial or its Group companies of supplies, materials, goods or rights in general. For the purposes of this section, a related person shall be understood to be that described in the Spanish Limited Liability Companies Law.

– Transfer by Group companies to a director, a significant shareholder or a shareholder represented on the Board, or parties related thereto, of supplies, materials, goods or rights, in general, which do not form part of the usual business of the transferring company.

– Provision of works, services or sale of materials by Inmobiliaria Colonial Group companies to a director, significant shareholder or a shareholder represented on the Board, or parties related thereto, and which, being part of their ordinary business, is carried out under economic conditions below market rates.

This authorisation is not required in related-party transactions that simultaneously comply with the three following 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 services.

– The amount does not exceed 1% of the Company's annual income.

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."

Pursuant to the Company's management and employees, article 16 of the Internal Code of Conduct on the Securities Market, they "must inform the Regulatory Compliance Unit of any potential conflicts of interest with any company in the Colonial Group, affecting them or related persons, and caused by their activity outside the Company, family relations, personal equity or any other cause.

Any query as to the possible existence of a conflict of interest must be checked with the Regulatory Compliance Unit, before carrying out any actions that may be deemed affected by said conflict.

Having regard to the nature of the information received, the Regulatory Compliance Unit will decide as to whether the situation should be reported to the Audit and Control Committee."

Finally, article 17 of the Internal Code of Conduct sets out the communication procedure for such conflicts of interest affecting the Company's management and employees, establishing that "communications must be made as soon as possible and, in any event, within fifteen days from the date on which the interested party became aware of the situation. Likewise, communication must always take place before taking the decision that may be affected by the possible conflict of interest."

D.7 Is more than one group company listed in Spain?

NO

Identify the listed subsidiaries in Spain.

Listed subsidiaries

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies.

Business dealings between the parent and listed subsidiary, as well as between the subsidiary and other group companies.

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies.

Mechanisms

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Describe the risk management system in place at the company.

Risk management as a key aspect of Colonial's organisational culture and, for this reason, all risks to which the Company is exposed are identified, analysed, assessed, managed, controlled and updated.

In order to meet these corporate objectives, the Company has developed an Internal Control and Risk Management System (hereinafter, ICRMS), which establishes the bases for the efficient and effective management of risks throughout the Company.

Colonial's ICRMS is structured in the following phases:

i. Identification, analysis and assessment:

- Identification of risks which may prevent Colonial from fulfilling its strategic goals: risk map.
- Analysis of the possible positive and negative effects of risk events and their likelihood.
- Assessment and treatment of risks based on strategic risk appetite criteria and risk tolerance levels and an analysis of the options to respond thereto (either minimising the negative impact or maximising the growth potential of opportunities).

ii. Management and updating:

- Establishing constant communication flows (consultation, information and training) to promote a risk management culture throughout the entire Company.
- Review of the model by monitoring and updating the results of the ICRMS.

iii. Control:

- Independent monitoring of the efficiency of the ICRMS and the existing control measures by the Internal Audit Area.

Colonial's ICRMS has the following risk monitoring and reporting activities:

- Permanent monitoring activities carried out by the owner of the risk in real time by analysing and dealing with unexpected events.
- Annual self-assessments to check the effectiveness of risk management.
- Preparation and updating of risk records which basically include the impact of the risk on value creation, as well as key risk indicators and action plans rolled out or being developed to achieve Colonial's desired level of response.

- Preparation of a report on the Audit and Control Committee's monitoring activities for the Board of Directors.

- Preparation of public information associated with the financial statements and Annual Corporate Governance Report.

The Internal Audit Area analyses the corporate risk map and proposes which processes, risks and controls should be reviewed each year in the audit plan.

The corporate risk map is reviewed and updated every two years to maintain an efficient and updated ICRMS.

E.2 Identify the bodies responsible for preparing and implementing the risk management system.

El Consell The Board of Directors is responsible for determining the Company's risk management and control policy, including tax risks, identifying its main risks, and implementing and supervising the internal information and control systems in order to ensure the future viability and competitiveness of the Company, adopting the decisions having greatest relevance to its better development. The Board of Directors is assisted in managing this policy by the Audit and Control Committee (ACC). The main bodies responsible for the Internal Control and Risk Management System (ICRMS) are:

1. Board of Directors: reviews and approves the ICRMS, approves the corporate risk map (CRM) and monitors the internal information and control systems.

2. Audit and Control Committee:

    - Continuously monitors the ICRMS.

    - Reviews the CRM.

    - Ensures that the information regarding risk management submitted to the Board of Directors and shareholders is correct.

    - Reviews the risk management guidelines and risk events which exceed the predefined supervision limit.

3. Internal Audit:

    - Submits an annual review on the CRM and the progress made to the governing bodies.

    - Evaluates the effectiveness of those risk management processes and controls introduced to mitigate risks.

    - Reviews, advises and develops risk treatment plans.

    - Reviews and advises on initiatives to reduce excessive risk.

- Advises on current risk management practices and those being developed, particularly for the European rental sector.

The ICRMS also specifically identifies the duties of senior management, operating departments and owners of the risks with regard to risk management. In this regard, Colonial has determined the level of risks that can be assumed and the risk tolerance for each risk area.

One of the functions of the ACC, as delegated by the Board of Directors, is to monitor and control risk in collaboration with the managers of the various operating units.

In addition, the Company has set up a Regulatory Compliance Unit (RCU) and Internal Audit Area to reinforce this objective.

The ACC has the following functions, among others, regarding risk management and control:

- To submit to the Board, for approval, a report on the ICRMS which identifies at least: (i) the different types of risk the Company is exposed to; (ii) the determination of the risk level the Company sees as acceptable, including its tolerance levels; (iii) the measures in place to mitigate the impact of risk events should they occur; and (iv) the internal reporting and control systems to be used to control and manage the above risks.

- To supervise the process of drawing up, the integrity of and the presentation of required public financial and non-financial information.

- To regularly review the internal control and risk management systems, so that the main risks can be identified, managed and reported appropriately.

Given the need to manage compliance risks, the Company set up an RCU in which representatives from the legal department participate.

Compliance covers all risks associated with adherence to internal and external regulations which affect the Company. These include corporate regulations, securities market regulations, the criminal code, urban planning regulations, environmental regulations, quality regulations, health and safety regulations for work sites, regulations on building safety, regulations on the prevention of occupational hazards, regulations on the prevention of money laundering and the financing of terrorism, regulations on data protection as well as internal policies and regulations such as the Code of Ethics, Regulations of the General Shareholders' Meeting and the Board of Directors, the Internal Code of Conduct (ICC) and the Company Bylaws, among others.

The RCU's main duties include:

- Keeping the applicable regulations up to date and available for the ACC.

- 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 ACC of any significant regulatory breaches, incidences or anomalies.

- Presenting the ACC with an annual activities report.

The RCU's existence and activities since its creation ensure that all regulations and laws are correctly identified, interpreted, adhered to and supervised. It also establishes the various roles and responsibilities of different departments, business units and companies.

Notwithstanding the procedures outlined in the guidelines, each area within Colonial has a protocol that establishes the procedure to be followed in pursuing its respective activity, thereby ensuring compliance with applicable sector-specific regulations.

The RCU is responsible for ensuring compliance with any laws and regulations which may affect the Company. Meanwhile, the Internal Audit Area is responsible for carrying out the oversight duties required and established in its annual plans to ensure that the internal control procedures to mitigate and prevent risks are correctly implemented and work efficiently.

In this regard, the Board is ultimately responsible for ensuring risks are correctly managed, delegating the duty of supervising risk management and the efficiency of the control systems to the ACC.

E.3 Indicate the main risks which may prevent the company from achieving its targets.

Colonial's ICRMS defines risk as any contingency which, should it occur, may prevent or make it difficult for the Company to fulfil the objectives set by its governing bodies. These are classified into a risk map for Colonial as follows:

- Strategic risks: risks arising from the implementation of the Company's strategy.

- Corporate risks: risks arising from the organisational structure, corporate culture, corporate policies and key decision-making processes by the governing bodies.

- Operational risks: risks arising from losses due to failures or to inadequate management of operations.

- Reporting risks: risks in compiling relevant and complete information to generate internal and external reports.

- Compliance risks: risks relating to regulatory compliance.

The main risks to which Colonial is exposed include:

- Entry of new competitors (mainly investment fund and listed companies investing in the property market (SOCIMIs).

- Lack of competitiveness to attract capital.

- Limitations on operating flexibility arising from financial restructuring agreements.

- Risks related to the possibility of any company of the Asentia group, which in 2014 was excluded from Colonial's scope of consolidation, declaring bankruptcy.

- Downward trend in the office rental market.

- High concentration of activities in the central business district areas of Barcelona, Madrid and Paris.

- Lack of liquidity in the financial markets and interest rate hedges.

- Regulatory compliance, particularly regarding the property business, as a listed company and in the relation to crime prevention.

- In addition, note 15 to the consolidated financial statements and note 10 to the individual financial statements of Colonial provide additional information on financial risks.

E.4 Identify if the company has a risk tolerance level.

Colonial has established an appetite and tolerance for each risk area. Risk appetite is the level of risk a company is prepared to undertake or reject according to its objectives and taking into account the expectations of its stakeholders, and risk tolerance is the determination of fluctuations in risk levels deemed to be normal in keeping with their risk appetite.

Risk management at Colonial has been structured into a corporate risk map which is the tool that graphically represents the assessment of risks according to their impact, their effect on Colonial measured in economic terms and in terms of its operations, reputation and compliance, and the likelihood and probability of the risk occurring over a time period.

In this regard, the Company assesses risk from two angles: inherent risk, which is understood to be that to which the Company is exposed in the absence of any mitigating actions/control; and residual risk, which is understood to be the risk remaining after the corresponding prevention and control measures have been taken.

E.5 Identify any risks which have occurred during the year.

The risks that occurred in 2014, the circumstances giving rise to them and the operation of the control systems were as follows:

i. FINANCING OF PROPERTY ASSETS. DEBT LEVEL

Circumstances: Companies in the real estate sector need to make heavy investments to ensure the growth and development of their projects. At 31 December 2013, the Group's net financial debt stood at EUR 4,929 million (including the debt relating to "available-for-sale assets"). The net debt for the rental business amounted to EUR 3,543 million and the loan to value (LtV) debt ratio was 66.3%.

Control systems: As a result of Colonial's refinancing in 2014, the Group's net financial debt at 31 December 2014 stood at EUR 2,545 million and its LtV was 44.8%. With these actions, Colonial was able to return its leverage ratio to a level more appropriate for the value of its assets and capacity to generate cash flow.

ii. INCREASE OF COMPETITION IN THE REAL ESTATE SECTOR

Circumstances: Competition increased as a result of the capital market recovery and renewed investor trust in the real estate sector. Listed property investment companies were the most active agents in Spain in non-residential investment in 2014. This high level of competition could give rise to an increase in the price of property acquisitions, excess supply on the office rental market or a decrease in the level of rent obtained from such properties.

Control systems: Colonial diversifies its investments in Barcelona, Madrid and Paris, by selecting high quality properties in the central business district areas of these three cities. Colonial's strategy is to have the best office rental portfolio.

iii. RISKS RELATED TO THE ASENTIA GROUP

Circumstances: As a result of the refinancing process at Colonial in 2014, the stake in Asentia Project, S.L. (head of the Asentia Group) decreased to 3.79%. This led to the exclusion of the Asentia Group from Colonial's scope of consolidation and Colonial's exit from the residential property development sector. Therefore, Colonial no longer controls the negotiations between the Asentia Group companies and their creditors in relation to any conversion of debt required to avoid future insolvency proceedings or the restructuring of their loans. If any company of the Asentia Group is unable to comply with its obligations, the affected creditors may take legal action against Colonial, even if the latter does not believe that there are any legal grounds to do so, either through insolvency or other proceedings, as a result of having recently been the sole shareholder and sole director of Asentia Project, S.L.

Control systems: The Asentia warrants are the only recourse against Colonial relating to the loans taken out by the Asentia Group companies. In December 2014, Asentia's creditors holding these warrants requested their enforcement. Colonial therefore complied with this request through a capital increase of 22,916,662 new Inmobiliaria Colonial, S.A. shares and assumed the debt that these entities held in Asentia Project, S.L. for the market value of these warrants. Colonial recognised the appropriate provisions to meet its financial obligations arising from the deconsolidation of Asentia and to recognise the receivables of the Asentia Group companies at their recoverable value.

iv. IMPAIRMENT OF PROPERTY ASSETS

Circumstances: The holding and acquisition of properties implies certain risks, including the possibility that returns on investment will be lower than estimated or that estimates and valuations performed could prove inaccurate or wrong. In addition, the market value of the assets may decline or be negatively affected in certain cases.

Control systems: To mitigate this risk, Colonial engages independent experts to appraise all its assets on a six-monthly basis. The Group allocates a significant portion of its resources to investing in and maintaining its property assets in order to enhance their value and position on the market, and to optimise the related income obtained.

v. LIMITATIONS ARISING FROM FINANCIAL RESTRUCTURING AGREEMENTS

Circumstances: In 2014 Colonial restructured its financial debt by arranging a new syndicated loan, which is subject to compliance with certain covenants, financial rations and contractual limitations. Colonial may have certain operating restrictions, linked to the terms and conditions set forth in the agreement, which may entail a loss of competitiveness to access certain investment opportunities.

Control systems: Colonial minimised this effect by designing a business plan aimed at contributing growth and value for the Group. This plan allows the operating needs for financing within the framework of the Group's new financial structure to be monitored, controlled and anticipated.

vi. CONCENTRATION OF THE GROUP'S ACTIVITIES IN SPAIN AND FRANCE

Circumstances: As a result of the deconsolidation of the Asentia Group in 2014, Colonial focuses its business activities solely on the rental business of properties in Barcelona, Madrid and Paris.

Control systems: Colonial's strategy has been to eliminate the risk linked to the residential property sector. The level of the Group's rental income comes from property rentals located in central business district areas of these aforementioned cities. This strategy of focusing its rental business in central business district areas and the high quality standards have positioned the Group as a reference in the sector.

E.6 Explain the response and monitoring plans for the main risks the company is exposed to.

Risks are classified into four levels according to their impact and probability (ranging from the most to the least serious), and are then placed into one of the following categories according to the Company's response to each:

Avoidance: this entails abandoning activities which generate risks where no response has been identified which could reduce its impact and/or likelihood to a level deemed as acceptable.

Reduction: this entails carrying out actions to reduce the likelihood and/or impact of the risk thereby reducing the residual risk so that it is in line with the Company's risk tolerance level.

Sharing: the likelihood or impact of a risk is reduced by transferring or sharing part of the risk to reduce the residual risk so that it is in line with the Company's risk tolerance level.

Acceptance: no action is taken which may affect the likelihood or impact of the risk as the residual risk is already within the Company's risk tolerance level.

The Internal Audit Area is responsible for monitoring the risk reaction plans of the owners of the risks.

F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

F.1 The entity's control environment

Specify at least the following components with a description of their main characteristics:

F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

The Board of Directors, as stipulated in the Regulations of the Board, is responsible for the existence and updating of a suitable and effective ICFR system.

Specifically, article 5 of the Regulations for the Board of Directors ("General Functions and Competences") stipulates, among others, the following functions:

1. Determining the Company's general policies and strategies, approving the investment and financing policy, the strategic or business plan, the annual management targets and annual budgets, and the treasury stock policy, determining the corporate governance policy of the Company and the Group and approving the corporate social responsibility policy and the dividend policy. The Board of Directors will also determine the Company's risk management and control policy, including tax risks, identifying its main risks, and implementing and supervising the internal information and control systems in order to ensure the future viability and competitiveness of the Company, adopting the decisions having greatest relevance to its better development.

To this end, Colonial has published an Internal Control and Risk Management Manual for its ICFR system approved by the Audit and Control Committee, detailing the methodology for establishing the materiality of risks, as well as methodologies for documenting, classifying and assessing risks and associated control activities.

2. Approving the financial information that all listed companies must periodically disclose.

To this end, Colonial has published a manual for disclosure of statutory information which covers the aspects mentioned in this section and which has been approved by the Audit and Control Committee.

3. Supervising the effective operation of the committees that the Board has formed and the actions of the delegated bodies and the executives appointed.

4. Approving and amending the Regulations for the Board of Directors.

In this regard, the Board is ultimately responsible for the existence of an effective ICFR system at Colonial.

This ICFR Organisational and Monitoring Model, approved by the Audit and Control Committee, establishes the mechanism which the Board, and by delegation the Audit and Control Committee, deems effective and sufficient to guarantee the completeness, reliability, correct presentation and validity of Colonial's financial information.

Without prejudice to the other functions attributed by law, article 34 of the Regulations for the Board of Directors states that at least the following functions must be performed by the Audit and Control Committee.

In particular, the Audit and Control Committee is entrusted with the following functions, among others, regarding the ICFR system organisational model:

1. To submit to the Board, for approval, a report on the risk management and control policy which specifies at least: (i) the different types of risk the Company is exposed to; (ii) the determination of the risk level the Company sees as acceptable; (iii) the measures in place to mitigate the impact of risk events should they occur; and (iv) the internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

2. With respect to internal control and reporting systems: (i) to monitor the preparation and integrity of the financial information prepared on the Company and, where appropriate, the Group, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation and the correct application of accounting principles; (ii) to review internal control and risk management systems on a regular basis, so main risks are properly identified, managed and disclosed; (iii) to safeguard the independence and effectiveness of the Internal Audit Area; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports; and (iv) to establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the Company.

3. To act as a communication channel between the Board and the external auditor, assessing the results of each audit, and having the following responsibilities in respect of the external auditor: (ii) to receive information on a regular basis from the external auditor on the audit plan and its implementation.

4. To inform the Board of Directors of all matters set forth in the law, the Company Bylaws, and in the Board Regulations and, in particular:

a) The financial information that the Company must periodically disclose.

5. Minutes will be taken of all committee meetings and will be available to all board members.

In this regard, the Committee is responsible for preparing and updating the internal audit regulations as well as defining and structuring the function, including establishing its objectives, methodology, systems and reporting model.

The Internal Audit Area is responsible for drawing up the annual Internal Audit Plan and submitting it to the Audit and Control Committee. It includes the necessary tests to verify compliance with ICFR manuals, procedures and policies.

The internal auditor shall carry out these tests and report on the conclusions to the Audit and Control Committee, including any internal control weaknesses identified, recommendations for improvement and the general conclusions of the annual audit plan which specifically includes, among others, those related to the ICFR system.

F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:

- **The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company.**

  The Internal Audit Area and the Operations-Finance Department are responsible for designing the ICFR organisational structure at Colonial and are the two departments which are most involved in the preparation and subsequent monitoring of the financial information to be disclosed.

  Nevertheless, all departments involved to a lesser or greater degree in preparing the financial information must take responsibility for correctly carrying out the tasks, processes and controls in which they are involved.

  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 roles and responsibilities of senior management, are developed.

  b) Specific ICFR controls, where the related operating procedures for the preparation of financial information are developed.

  Colonial's ICFR system is structured as follows:

  a) Establishment of a general environment of appropriate control.

  b) Identification of the relevant risks which may materially affect financial information. These risks are cross-referenced against Colonial's key business processes, to obtain a list of business processes to be monitored.

  c) For those risks identified in the relevant processes, mitigating controls are implemented to reduce these risks to acceptable levels. Key documentation regarding the identified processes, risks and controls is drawn up. The affected departments are responsible for adequately implementing these procedures.

  d) The internal audit function and the Audit and Control Committee are responsible for monitoring the ICFR system to guarantee it functions effectively.

  Finally, the Operations-Finance Department is responsible for maintaining and keeping Colonial's accounting policies and manuals up to date and ensuring that there are suitable controls in place for the Company's IT systems.

– **Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

Colonial's Board of Directors approved its Code of Ethics on 28 September 2011.

This Code of Ethics reiterates Colonial's commitment to the principles of corporate ethics and transparency, and establishes a series of basic principles to which all Colonial personnel, partners and suppliers must adhere at all times, as their behaviour may affect Colonial's reputation.

Specifically, and with regard to financial information, article 6.5 of the Code establishes the following:

"Colonial assumes as a guiding principle for its corporate behaviour with its shareholders, investors, analysts and the market in general, to disclose true, complete information which expresses the true and fair view of the Company and the Group, its corporate activities and its business strategies.

This information shall always be disclosed according to the regulations and within the timeframes established by prevailing legislation. The corporate actions and the strategic decisions of Colonial are focused on creating value for its shareholders, transparency in its management, the adoption of best corporate governance practices in its companies and the strict observance of prevailing regulations in this matter."

Colonial's Regulatory Compliance Unit, which reports to the Audit and Control Committee, is responsible for disseminating, both internally and externally, the Code of Ethics.

The Code has been distributed to all employees.

The Audit and Control Committee is responsible for assessing the degree of compliance with the Code and preparing an annual report based on its findings.

The Regulatory Compliance Unit is responsible for compiling any irregularities or breaches of the Code, and corrective or disciplinary actions must be taken in accordance with the fines and sanctions detailed in the collective bargaining agreement or applicable labour legislation.

The Board is responsible for reviewing and updating the Code of Ethics based on the report drawn up by the Audit and Control Committee.

– **'Whistle-blowing' channel, for the reporting to the Audit Committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.**

Colonial's Regulations for the Board of Directors, and, specifically the section of article 34 of these Regulations regarding the responsibilities of the Audit and Control Committee, stipulate that these responsibilities include, among others:

"With respect to internal control and reporting systems: … (iv) establishing and supervising a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the Company."

As we have noted in the previous point, the Regulatory Compliance Unit, which reports to the Audit and Control Committee, is responsible for managing any irregularities or breaches of the regulations, and specifically, of Colonial's Code of Ethics.

To this end, Colonial has set up a whistle-blowing channel on its intranet where employees can report any irregularities and breaches identified in the Company.

This channel is managed by the Regulatory Compliance Unit, and is regularly reviewed to guarantee its confidentiality and compliance with regulatory requirements.

– **Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating the ICFR, which address, at least, accounting rules, auditing, internal control and risk management.**

Colonial has a corporate training plan which covers all business areas according to the specific needs of each one.

However, the functional business areas themselves, under the supervision of the human resources area, are responsible for designing and suggesting specific training plans for their areas.

For staff involved in preparing and reviewing financial information, training is structured around attending events about regulatory updates, on financial, accounting and tax regulations, as well as receiving, distributing and analysing documentation from external advisors regarding regulatory updates.

In addition, the Regulatory Compliance Unit, together with the functional areas, is responsible for identifying and distributing regulatory updates which affect Colonial, so that these can be analysed and implemented.

In the event of any regulatory changes of special relevance to the Company's financial or accounting departments, the Operations-Finance Department proposes the need for specific training.

F.2 Risk assessment in financial reporting

Report at least:

F.2.1 The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

– **The process exists and is documented.**

One of the basic functions of the Audit and Control Committee, as delegated expressly by the Board of Directors, is to monitor and control risk. To this end the managers of the various operating units collaborate in identifying and correcting risk by applying Colonial's internal control and risk management system (ICRMS).

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

a) To submit to the Board, for approval, a report on the risk management and control policy which identifies at least:

   1) The different types of risk the Company is exposed to.

   2) The determination of the risk level the Company sees as acceptable.

   3) The measures in place to mitigate the impact of risks events should they occur.

   4) The internal control and reporting systems to be used to control and manage the aforementioned risks, including contingent liabilities and off-balance-sheet risks.

b) To supervise the process of drawing up and presenting the required financial information.

c) To supervise the preparation and integrity of the 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 correct application of accounting principles.

d) To review internal control and risk management systems on a regular basis, so the main risks are properly identified, managed and disclosed.

Colonial's ICFR organisational and monitoring structure, as well as its Internal Control and Risk Management Manual, are aligned with and form part of Colonial's general risk policy, and have been approved by the Audit and Control Committee.

The objective of the Internal Control and Risk Management Manual, as part of the Company's risk and internal control policy, is to guarantee the preparation and dissemination of reliable financial information.

– **The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.**

The Internal Control and Risk Management Manual covers the following seven risk types:

1) Completeness: Transactions, events, assets, liabilities or equity interests that are not identified and, consequently, are not included in the Company's accounts. Data entries not captured in the ledgers or data entries which have been rejected. Disclosures not identified and, consequently, not included in the notes to the financial statements or deliberately omitted.

2) Existence: Unauthorised transactions which are entered into the Company's accounting application. Duplicate transactions. Erroneous adjustments carried out in the ledgers.

3) Disclosures and comparability: Disclosures not identified and, consequently, not included in the notes to the financial statements or deliberately omitted. Transactions that have not been recorded consistently over time.

4) Rights and obligations: Incorrect determination of the ability to control the rights derived from an asset or from a contract/agreement. Correct determination of the obligations derived from a liability or from a contract/agreement.

5) Valuation: Incorrect determination of the value of an asset, liability, revenue or expense, and which could generate the recording of adjustments in determining market values, amortised costs, value in use or due to an error in the depreciation as well as adjustments carried out and which are not duly justified.

6) Presentation: Incorrect presentation of financial transactions in the financial statements (assets vs. liabilities, income vs. expense, long-term vs. short-term, etc.).

7) Transaction cut-off: Incorrect recording of transactions in the corresponding accounting period.

Colonial's Internal Control and Risk Management Manual is revised and periodically updated by Internal Audit and the Legal Advisory and Operations-Finance Departments, at the proposal of any of these, also taking into account the suggestions and proposals of Internal Audit resulting from its reviews of operations. The Audit and Control Committee must approve any amendments to the Manual, while Internal Audit and the Operations-Finance Department must be notified in advance of any reviews or updates.

– **A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies. etc.**

Colonial's Regulations for the Board of Directors, and, specifically the section regarding the responsibilities of the Audit and Control Committee, stipulate that these responsibilities include, among others:

"With respect to internal control and reporting systems: (i) Supervise the preparation and integrity of the 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 correct application of accounting principles, etc.".

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 scope of consolidation is amended.

- **The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.**

  As noted above, one of the basic functions of the Audit and Control Committee, as delegated expressly by the Board of Directors, is to monitor and control risk. To this end, the managers of the various operating units collaborate in identifying and correcting risk.

  Colonial's ICFR organisational and monitoring structure, as well as its Internal Control and Risk Management Manual, are aligned with and form part of Colonial's general risk policy (see section E above), and have been approved by the Audit and Control Committee.

  In the process of identifying risks to the financial information within the ICFR system, all the areas of risk identified in Colonial's risk map have been considered.

- **Finally, which of the company's governing bodies is responsible for overseeing the process.**

  Colonial's Regulations for the Board of Directors, and, specifically the section regarding the responsibilities of the Audit and Control Committee, stipulate that these responsibilities include, among others:

  "With respect to internal control and reporting systems: … (ii) reviewing internal control and risk management systems on a regular basis, so the main risks are properly identified, managed and disclosed."

  In this regard, the Audit and Control Committee is responsible for approving the Internal Control and Risk Management Manual of Colonial's ICFR system.

F.3 Control activities

Indicate the existence of at least the following components, and specify their main characteristics:

F.3.1 Procedures for reviewing and authorising financial information and the description of ICFR to be disclosed to the markets, stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

As mentioned above, the Audit and Control Committee is responsible for supervising the preparation and disclosure of reliable financial information to the market. In this regard, the Committee has approved a manual for disclosure of statutory information which regulates the procedure for preparing and approving this information.

Colonial's Internal Control and Risk Management Manual establishes the criteria for identifying the relevant public financial information as follows:

a) Periodic Public Information (PPI) obligations:

1) Quarterly Financial Report.

2) Interim Financial Report.

3) Annual Financial Report and Annual Corporate Governance Report (ACGR).

b) Annual Report on Directors' Remuneration (ARDR).

c) Registration document.

d) Significant events.

There are preparation and review procedures in place for all relevant statutory financial reporting to the market. These include an internal control questionnaire that must be completed involving the Operations-Finance Department, the Corporate Development and Management Control Department, both of which report to the General-Corporate Department, through the Legal Advisory Department and, depending on the type of information, the CEO, Board of Directors or the General Shareholders' Meeting itself.

Monitoring of the manual for disclosure of statutory information as well as the completion of the specific internal control questionnaires are mandatory and subject to review by Colonial's internal audit function.

In terms of the documentation of activity flows and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, Colonial has an ICFR organisational and monitoring structure which has been approved by the Audit and Control Committee. This provides specific internal control mechanisms that have been deployed to maintain an internal control environment conducive to comprehensive, reliable and timely financial reporting and which provides for the possible existence of irregularities and the means to detect and correct these.

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 an Internal Control and Risk Management Manual for its ICFR system which sets out the specific controls and formal documentation for mitigating financial reporting risks. The organisation model details the high-level controls and mechanisms.

Colonial has determined that errors or inaccuracies in the financial statements and other public information could severely affect its reputation, image and share price and these are therefore included in the ICFR system for monitoring.

Once the relevant financial information has been determined, the cycles and business processes, both in the preparation as well as in the disclosure of financial reporting that could have a material impact on the abovementioned information, are identified.

Once the processes have been identified, the relevant functional areas and 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 Department and Internal Audit are responsible for identifying the ICFR processes, risks and relevant controls which are then approved by the Audit and Control Committee. In this process, the Company has specifically considered the possible risk of fraud and has in place control activities to prevent this risk. At present, there is no formal corporate anti-fraud policy.

The processes identified at Colonial relating to the ICFR system are:

a) Closing of accounts, and a review of critical judgements, estimates, valuations and projections.

b) Consolidation and reporting at subsidiaries.

c) Recognition of revenue.

d) Asset valuation (determination of the fair value of Colonial's property investments and the net realisable value of inventories).

e) Treasury, debt and derivatives.

f) Manual for disclosure of statutory information.

g) Procedure for maintaining accounting policies, Group accounting policies manual.

h) Taxes.

i) IT systems, including the capture and preparation mechanisms for supporting financial information.

j) Investments and asset acquisitions.

k) Purchases of goods and services.

l) Human resources.

All of Colonial's key processes are documented and working, and are updated annually to include any potential amendments.

The key processes at Colonial which affect the preparation of financial information are documented through the following:

a) Flow charts of the activities in the procedure.

b) Descriptions of the processes, their risks and the controls in place.

c) Risk and control matrices.

The ICFR Internal Control and Risk Management Manual is an internal regulation which must be adhered to. Therefore, it is essential that all the functions/departments involved monitor the processes established, as well as the controls in place, to guarantee security when preparing financial information at Colonial.

The most senior-ranking employee in each of the departments involved in the procedures documented in the internal control model shall be responsible for ensuring that the processes and controls are correctly applied and documented for each accounting period.

In this regard, a checklist has been provided to verify that the processes are documented for each accounting period and are subject to review by Internal Audit.

Any transactions with a relevant weight of critical judgments, estimates, evaluations and projections are specifically monitored, as is the case with real estate asset valuations, the preparation of impairment tests and the preparation of efficiency tests for derivative financial instruments.

F.3.2 Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

The IT systems area is responsible for Colonial's corporate IT systems. This department reports to the Operations-Finance Department which in turn reports to the General-Corporate Department.

At present, the operation and maintenance of Colonial's corporate IT systems is outsourced. Therefore the head of IT coordinates the main aspects of 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, implementations, 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.

F.3.3 Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

As mentioned in section F3.1., Colonial has identified the key processes which may materially affect its financial information. Among the criteria used to identify these processes, the Company has considered criteria for activities with a high level of third-party involvement and also those which are fully outsourced.

In this regard, the relevant processes in which third parties participate significantly are as follows:

a) Valuation of real estate assets: determination of fair value.

b) Financial hedging instruments: efficiency tests and resulting fair value.

c) IT systems: maintenance and operation.

All procedures involving third parties have been documented, identifying all the risks and the controls introduced. The functional areas involved in the different processes are responsible for monitoring them and for introducing the appropriate controls.

The Internal Audit function’s annual plan includes the monitoring activities needed to ensure the processes described are correctly executed.

F.4 Information and communication

Indicate the existence of at least the following components, and specify their main characteristics:

F.4.1 A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the 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 the procedure for maintaining Colonial’s accounting policies and the group accounting policies manual, as well as settling doubts or disputes over their application.

Colonial has a group accounting policies manual, which has been approved by the Audit and Control Committee, and which must be adhered to by all companies.

The Operations-Finance Department is responsible for preparing and updating this manual.

F.4.2 Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

Colonial has implemented a tool to assist in the reporting of financial information and financial and operational budgetary planning for the Group. This guarantees greater control and security in the process of capturing and preparing financial information.

The Group accounting policies manual establishes an accounting plan and model financial statements which all Group companies must follow and which are set up in the tool thereby guaranteeing the uniformity of the financial information.

The preparation of statutory financial information, as well as the individual financial statements for Colonial's Spanish companies, is coordinated centrally by the Operations-Finance Department and the Corporate Development and Management Control Department, thereby guaranteeing uniformity.

A significant portion of the data required to prepare this financial information is obtained directly from the IT tool as it has been customised to do so. For those cases where information must be prepared without this tool, Colonial has control mechanisms in place to ensure its completeness and reliability as well as a physical archive of the information in an internal repository with access limited to the staff involved in preparing the financial information.

Colonial has a specific tool for managing the ICFR system.

It currently has a filing procedure for all related documentation in an internal repository, with access limited to the staff involved in the ICFR system.

F.5 Monitoring

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1 The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR.

Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

The main activities carried out by the Audit and Control Committee in relation to the ICFR system in 2014 consisted of supervising the development process implemented by the internal audit function to supervise the implementation and effectiveness of the ICFR.

The Committee also met with the Company's auditors to assess the internal control weaknesses encountered during the course of their work, as well as any relevant aspects or incidents.

Finally, the Audit and Control Committee has reviewed all the financial information disclosed by Colonial.

The Audit and Control Committee has already approved the 2015 action and audit plans, including the necessary actions to guarantee the correct monitoring and evaluation of the model throughout the year. Any incidents detected and the necessary corrective measures shall be reported on a regular basis, as well as their potential impact on the financial information, once these have been confirmed with the audited areas.

Colonial's Regulations for the Board of Directors, and, specifically the section corresponding to the duties of the Audit and Control Committee, state that the Committee's responsibilities are, among others:

"With respect to internal control and reporting systems:

(iii) To safeguard the independence and effectiveness of the internal audit function; propose the selection, appointment, reappointment and removal of the head of Internal Audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports".

In July 2009, the Audit and Control Committee approved the Regulations for the internal audit function.

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 2015 audit plan.

The following activities relating to financial information were included in the 2014 audit plan:

1. Review of the financial information publicly disclosed.

2. Analysis of the consistency of the accounting policies used as well as an analysis of the observations and recommendations received from the external auditors.

3. Review of the management report.

4. Review of the information contained in the annual financial statements and interim financial statements concerning related-party transactions.

5. Monitoring of the effectiveness of the processes, risks and relevant controls related to the ICFR system.

The 2015 Audit Plan includes specific tasks to verify that Colonial's ICFR system functions effectively.

F.5.2 A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Audit Committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

Article 8 of the Regulations for the Board of Directors states that:

"The relationship between the Board of Directors and the external auditor shall be channelled through the Audit and Control Committee."

In this regard, article 34 of the Regulations for the Board of Directors regulates the functions of the Audit and Control Committee, and among other aspects, establishes the following:

1. To act as a communication channel between the Board and the external auditor, assessing the results of each audit, and having the following responsibilities in respect of the external auditor:

(ii) to receive information on a regular basis from the external auditor on the audit plan and its implementation;

2. To establish the appropriate relationships with the external auditor 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. To monitor the effectiveness of the Company's internal control, internal audit and risk management systems, including tax risks, and to discuss with the external auditors any significant weaknesses detected in the internal control system during the course of the audit.

All monitoring activities are carried out by the Company's Board of Directors and the Audit and Control Committee throughout the year and included in the agenda of the various meetings held during the year.

F.6 Other relevant information

No other aspects have been identified.

F.7 External auditor review

State whether:

F.7.1 The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The Audit and Control Committee and Internal Audit are responsible for the supervision of the ICFR system, complemented by the activities of the external auditor in identifying any internal control weaknesses identified during the course of the audit.

These supervision activities are considered adequate and sufficient, and it is therefore not considered necessary to submit the ICFR information to an additional external review.

G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the company's compliance with Corporate Governance recommendations.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

1. The Bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

See sections: A.10, B.1, B.2, C.1.23 and C.1.24

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: D.4 and D.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.

See section: B.6

Compliant

Article 5 of the Regulations for 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 has been agreed that subsidiarisation transactions need not be presented for approval at the General Shareholders' Meeting, since such transactions may require rapid decision-making in order to take advantage of timely opportunities and already benefit from wide-ranging legal mechanisms for the protection of shareholders and the Company's interests. Notwithstanding the foregoing, the Board of Directors does periodically inform shareholders and the markets of these transactions.

4. Detailed proposals of the resolutions to be adopted at the General Shareholders' Meeting, including the information stated in Recommendation 27, should be made available at the same time as the publication of the Meeting notice.

Compliant

5. Separate votes should be taken at the General Meeting on materially separate items, so shareholders can express their preferences in each case. This rule shall apply in particular to:

a) The appointment or ratification of directors, with separate voting on each candidate;

b) Amendments to the bylaws, with votes taken on all articles or groups of articles that are materially different.

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.

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, 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: C.1.14, C.1.16 and E.2

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.

ii) Directors' remuneration and, in the case of executive directors, the additional remuneration for their executive duties and other contract conditions.

iii) The financial information that all listed companies must periodically disclose.

iv) Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval corresponds to the General Shareholders' Meeting.

v) The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.

c) Transactions which the company conducts with directors, significant shareholders, shareholders with board representation or other persons related thereto ("related-party transactions").

However, board authorisation need not be required for related-party transactions that simultaneously meet the following three conditions:

1. They are governed by standard form contracts applied on an across-the-board basis to a large number of clients;

2. They go through at market prices, generally set by the person supplying the goods or services;

3. The amount does not exceed 1% of the Company's annual income.

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 those mentioned in b) and c), which may be delegated to the Executive Committee in urgent cases and later ratified by the full board.

See sections: D.1 and D.6

Compliant

9. In the interests of maximum effectiveness and participation, the Board of Directors should ideally comprise no fewer than five and no more than fifteen members.

See section: C.1.2

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.3 and C.1.3

Compliant

11. 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:

1. In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.

2. In companies with a plurality of shareholders represented on the Board but not otherwise related.

See sections: A.2, A.3 and C.1.3

Compliant

12. The number of independent directors should represent at least one third of all board members.

See section: C.1.3

Explain

The Company's Board of Directors currently has three independent directors and one member considered as an "other director", as well as five proprietary directors and two executive directors. In this regard, although the number of independent directors does not exactly represent one-third of all directors and, therefore, does not literally comply with the aforementioned good governance recommendation, we believe that the Company complies with the philosophy and spirit of the good governance principles and recommendations applicable to listed companies, as the Board of Directors is mainly composed of proprietary and independent directors, and the number of executive directors is the minimum necessary.

13. 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: C.1.3 and C.1.8

Compliant

14. When women directors are few or non existent, 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: C.1.2, C.1.4, C.1.5, C.1.6, C.2.2 and C.2.4

Compliant

15. 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 committee.

See sections: C.1.19 and C.1.41

Compliant

16. 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: C.1.22

Compliant

17. 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 regulations.

See section: C.1.34

Compliant

18. 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: C.1.29

Compliant

19. 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: C.1.28, C.1.29 and C.1.30

Compliant

20. 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

21. 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 sections: C.1.19 and C.1.20

Compliant

22. 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: C.1.41

Compliant

23. 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: C.1.40

Compliant

24. 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

25. 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: C.1.12, C.1.13 and C.1.17

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 Board members can hold.

26. The proposal for the appointment or renewal of directors which the board submits to the General Shareholders' Meeting, as well as provisional appointments by 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: C.1.3

Compliant

27. 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.

e) Shares held in the company and any options on the same.

Compliant

28. 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 C.1.2

Compliant

29. 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 Ministerial Order ECC/461/2013.

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 11.

See sections: C.1.2, C.1.9, C.1.19 and C.1.27

Compliant

30. 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 213 of the Spanish Limited Liability Companies Law, 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: C.1.42 and C.1.43

Compliant

31. 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

32. 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: C.1.9

Compliant

33. 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.

Compliant

34. 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

35. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Compliant Explain

36. 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

37. 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: C.2.1 and C.2.6

Compliant

38. The board should be kept fully informed of the business transacted and decisions made by the Executive Committee. To this end, all board members should receive a copy of the Committee's minutes.

Compliant

39. 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 sent to all board members.

See sections: C.2.1 and C.2.4

Compliant

40. 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.

See sections: C.2.3 and C.2.4

Compliant

41. Audit committee members, particularly the Chairman, are appointed in light of their knowledge and experience of accounting, audit or risk management.

Compliant

42. 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.

See section: C.2.3

Compliant

43. 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

44. 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: E

Compliant

45. The Audit Committee's role should be:

1. With respect to internal control and reporting systems:

a) Review internal control and risk management systems on a regular basis, so the main risks are properly identified, managed and disclosed.

b) Monitor the independence and efficacy of the internal audit function; proposing 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.

c) 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 of the external auditor:

a) Receive regular information from the external auditor on the progress and findings of the audit plan and to check that senior management are acting on its recommendations.

b) 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.

iii) The Committee should investigate the issues giving rise to the resignation of any external auditor.

See sections: C.1.36, C.2.3, C.2.4 and E.2

Compliant

46. 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

47. 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 jurisdictions 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: C.2.3 and C.2.4

Compliant

48. 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: C.1.38

Compliant

49. The majority of Nomination Committee members – or Nomination and Remuneration Committee members as the case may be – should be independent directors.

See section: C.2.1

Compliant

50. 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: C.2.4

Compliant

51. 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

52. 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 section: C.2.4

Compliant

53. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to executive directors and senior officers.

Compliant

H OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.

2. You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable identify the Code and date of adoption.

Law 31/2014, of 3 December, amending the Spanish Limited Liability Companies Law with a view to improving corporate governance, was published in the Official State Gazette on 4 December 2014. As a result of the amendments set forth by this law, the appropriate measures will be taken at the first General Meeting of 2015 in order to bring the Company's corporate governance documents into line with the new law.

This annual corporate governance report was approved by the Company's Board of Directors at its meeting held on 25 February 2015.

List whether any directors voted against or abstained from voting on the approval of this Report.

NO

GLOSSARY

Earnings per share (EPS)	Profit from the year attributable to the shareholders divided by the number of shares
BD	Business District
Market capitalisation	The value of the company's capital obtained from its stock market value. It is obtained by multiplying the market value of its shares by the number of shares in circulation
CBD	Central Business District (prime business area)
Property company	Company with rental property assets
Portfolio (surface area) in operation	Property/surfaces with the capacity to generate rents at the closing date of the report
EPRA vacancy rate	Financial vacancy according to the calculation recommended by EPRA (vacant surfaces multiplied by the market prices/surfaces in operation at market prices).
Asentia deconsolidation	Exit from the consolidation perimeter of the Colonial Group or consideration as an associated company
EBITDA	Operative results before net revaluations, amortizations, provisions, interests and taxes
EPRA	European Public Real Estate Association: Association of listed European property companies that sets best market practices for the sector
Free float	The part of share capital that is freely traded on the stock market and not controlled in any stable way by shareholders
GAV excl. transfer costs	Gross Asset Value of the portfolio according to external appraisers of the Group, before deducting transfer costs
GAV incl. transfer costs	Gross Asset Value of the portfolio according to external appraisers of the Group, before deducting transfer costs
GAV holding Colonial	Gross Asset Value of directly-held assets + NAV of the 55% stake in the Torre Marenostrum SPV + NAV of 53.1% stake in SFL
Holding	A company whose portfolio contains shares from a certain number of corporate subsidiaries.
IFRS	International Financial Reporting Standards
JV	Joint Venture (association between two or more companies).
Like for Like rents	Data that can be compared between one period and another, excluding the following: 1) investments and disposals, 2) changes in the project and refurbishment portfolio, and 3) other extraordinary items, for example, indemnities from tenants in case of anticipated leave
Like for Like valuation	Data that can be compared between one period and another (excluding investments and disposals)
LTV	Loan to Value (Net financial debt/GAV of the business)
EPRA NAV	EPRA Net Asset Value (EPRA NAV) is calculated based on the consolidated equity of the company and adjusting some items following the EPRA recommendations

EPRA NNNAV	The EPRA NNNAV is calculated adjusting the following items in the EPRA NAV: the fair market value of the financial instruments, the fair market value of the debt, the taxes that would be accrued with the sale of the assets at their market value applying tax benefits for reinvestments and the tax credit on balance, considering a going concern assumption
EPRA Cost Ratio	Administrative & operating costs (including & excluding costs of direct vacancy) divided by gross rental income
Occupancy - surfaces	Percentage: occupied square metres of the portfolio at the closing date of the report/surfaces in operation of the portfolio
Financial Occupancy	Financial occupancy according to the calculation recommended by the EPRA (occupied surface areas multiplied by the market rental prices/surfaces in operation at market rental prices)
Reversionary potential	This is the result of comparing the rental revenues from current contracts (contracts with current occupancy and current rents in place) with the rental revenues that would result from 100% occupancy at market prices, estimated by independent appraisers. Projects and refurbishments are excluded
Projects underway	Property under development at the closing date of the report
RICS	Royal Institution of Chartered Surveyors
SFL	Société Foncière Lyonnaisse,
Take up	Materialized demand in the rental market, defined as new contracts signed
TMN	SPV of Colonial (55%) and Gas Natural (45%) related to the Torre Marenostrum building
Valuation Yield	Capitalization rate applied by the independent appraisers in the valuation
Yield on cost	Market rent 100% occupied/Market value at the start of the project net of impairment of value + invested capital expenditure
Yield occupancy 100%	Passing rents + vacant spaces rented at the market prices/market value
EPRA net initial yield (NIY)	Annualised rental income based on passing rents as at the balance sheet date, reduced by the non-recoverable expenses, divided by the market value, including transfer costs (= estimated purchasers costs)
EPRA Topped-Up Net Initial Yield	EPRA Net Initial Yield adjusted in respect of the expiration of rent-free periods
Gross Yield	Gross rents/market value excluding transfer costs
Net Yield	Net rents/market value including transfer costs
€M	In millions of euros

Annual Report 2014

This report is available on the company website: www.inmocolonial.com

Design and publishing
gosban reporting
www,gosban,com

Publishing date: April 2015