

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

**ANNUAL CORPORATE GOVERNANCE REPORT
FOR LISTED COMPANIES**

ISSUER'S PARTICULARS

FINANCIAL YEAR

31 December 2015

Tax ID number: A-28.027.399

Corporate name: INMOBILIARIA COLONIAL, S.A.

Registered office: AVENIDA DIAGONAL, 532, 08006 BARCELONA

**ANNUAL CORPORATE GOVERNANCE REPORT
FOR LISTED COMPANIES**

A OWNERSHIP STRUCTURE

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

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

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

Yes No

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

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

Name or corporate name of shareholder	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct shareholder	Number of voting rights	
Aguila LTD.		SNI Luxembourg, S.A.R.L.	218,001,838	6.84
Deutsche Bank AG	29,235,244			0.92
Fidelity International Limited	62,484,713			1.96
Inmobiliaria Espacio, S.A.		Grupo Villar Mir, S.A.U.	464,512,350	14.57
		Espacio Activos Financieros, S.L.U.		
Invesco Limited		Invesco Advisers, INC	35,407,880	1.11
		Invesco Global Asset Management, LTD		
		Invesco Australia		
		Invesco Canada		
Joseph C. Lewis		Skyland Inc.	162,167,654	5.08

		Berkley Capital Management LTD.		
Mora Banc Grup, S.A.		SICAV Amura Capital	223,064,422	7.00
Qatar Investment Authority		Qatar holding Luxembourg II, S.A.R.L.	415,933,672	13.04
Third Avenue Management, LLC		AIC Corporate Fund Inc.	97,030,111	3.04
		Third Avenue Real Estate Value Fund		
		Third Avenue Real Estate Value Fund Ucits		

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

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

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

		Indirect voting rights	
--	--	-------------------------------	--

Name or corporate name of director	Number of direct voting rights	Direct shareholder	Number of voting rights	% of total voting rights
Juan José Brugera Clavero	503.756			0.02%
Pedro Viñolas Serra	983.048			0.03%
Grupo Villar Mir, S.A.U.	315,093,625	Espacio Activos Financieros, S.L.U.	149,418,725	14.57%
Luis Maluquer Trepapat	200,000	Marta Maluquer Domingo	25,000	0.007%
Javier Iglesias de Ussel Ordís	18,201			0.00%
Carlos Fernández-Lerga Garralda	23,610	Eur Consultores, S.L.	21,700	0.00%
Ana Sainz de Vicuña	15,000			0.00%

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

Complete the following tables on share options held by directors.

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

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

Related party name or corporate name	Type of relationship	Brief description
-	-	-

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

Related party name or corporate name	Type of relationship	Brief description

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

Yes No

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

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

Yes No

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

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

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

Yes No

Name or corporate name
-

Remarks
-

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

At year-end:

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

(*) Through:

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

-	-
Total:	-

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

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

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

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

A.9.bis Estimated floating capital:

	%
Estimated floating capital	46.12%

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

Yes No

Description of restrictions
--

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

Yes No

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted.

A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes No

B GENERAL SHAREHOLDERS' MEETING

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

Yes No

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

Description of differences

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

Yes No

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

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

- B.3 Indicate the rules governing amendments to the company's Bylaws. In particular, indicate the majorities required to amend the Bylaws and, if applicable, the rules for protecting shareholders' rights when changing the Bylaws.

Article 22 of the Bylaws states that shareholders at the General Meeting can pass valid resolutions on increases or reductions in capital. For any amendments to the Bylaws, at a General Meeting held at first call, shareholders present or represented must hold at least fifty per cent of the subscribed share capital with voting rights. If held at second call, the attendance of shareholders holding twenty-five per cent of the capital shall be sufficient.

With regard to the adoption of resolutions, article 194 of the Bylaws states that the resolution may be adopted by absolute majority to amend the Bylaws if at least fifty per cent of the capital present or represented. However, the favourable vote of shareholders holding two-thirds of the share capital attending the meeting in person or by proxy will be required when, on second call, at least twenty five per cent but less than fifty per cent of the subscribed share capital with voting rights is in attendance. This same article stipulates that amendments to those articles or group of articles of the Bylaws that have their own autonomy will be put to a separate vote.

- B.4 Indicate the attendance figures for the General Shareholders' Meetings held during the year.

Attendance data					
Date of general meeting	% attending in person	% by proxy	% remote voting		Total
			Electronic means	Others	
21/01/2014	67.42%	3.87%	0.00%	0.00%	71.29%
08/04/2014	12.72%	43.72%	0.00%	0.00%	56.44%
30/06/2014	39.11%	28.33%	0.00%	0.00%	67.44%
24/04/2015	29.72%	40.27%	0.00%	0.00%	69.99%

- B.5 Indicate whether the Bylaws impose any minimum requirement on the number of shares required to attend the General Shareholders' Meetings.

Yes No

Number of shares required to attend the General Meetings	500
--	-----

- B.6 Repealed

- B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on General Meetings which must be made available to shareholders on the website.

Corporate website: www.inmocolonial.com

Information on corporate governance and General Shareholders' Meetings can be found on the corporate website from the "Information for shareholders and investors" tab. Full information on corporate governance issues pursuant to current legislation is available from the "Corporate Governance" tab on the left of the screen. The information relating to the General Shareholders' Meetings is included in the drop-down menu that opens after selecting the "Corporate governance" tab.

C COMPANY MANAGEMENT STRUCTURE

C.1 Board of Directors

C.1.1 List the maximum and minimum number of directors included in the Bylaws.

Maximum number of directors	15
Minimum number of directors	5

C.1.2 Complete the following table with board members' details.

Name or corporate name of director	Representative	Director category	Position on the board	Date of first appointment	Date of last appointment	Election procedure
Juan José Brugera Clavero		Executive	Chairman	19/06/2008	30/06/2014	General Shareholders' Meeting Resolution
Grupo Villar Mir, S.A.U.	Juan-Miguel Villar Mir	Proprietary	Deputy Chairman	13/05/2014	30/06/2014	General Shareholders' Meeting Resolution
Pedro Viñolas Serra		Executive	Chief Executive Officer	18/07/2008	30/06/2014	General Shareholders' Meeting Resolution
Juan Villar-Mir de Fuentes		Proprietary	Director	30/06/2014	30/06/2014	General Shareholders' Meeting Resolution
Juan Carlos García Cañizares		Proprietary	Director	30/06/2014	30/06/2014	General Shareholders' Meeting Resolution
Francesc Mora Sagués		Proprietary	Director	30/06/2014	30/06/2014	General Shareholders' Meeting Resolution
Ana Sainz de Vicuña Bemberg		Independent	Director	30/06/2014	30/06/2014	General Shareholders'

Name or corporate name of director	Representative	Director category	Position on the board	Date of first appointment	Date of last appointment	Election procedure
						Meeting Resolution
Carlos Fernández-Lerga Garralda		Independent	Lead Director	19/06/2008	30/06/2014	General Shareholders' Meeting Resolution
Javier Iglesias de Ussel Ordís		Independent	Director	19/06/2008	30/06/2014	General Shareholders' Meeting Resolution
Luis Maluquer Trepát		Other director	Director	31/07/2013	30/06/2014	General Shareholders' Meeting Resolution
Sheikh Ali Jassim M.J. Al-Thani		Proprietary	Director	12/11/2015	12/11/2015	Co-option

Total number of directors	11
----------------------------------	----

Indicate any board members who left during this period.

Name or corporate name of director	Status of the director at the time	Leaving date
Silvia Villar-Mir de Fuentes	Proprietary	12/11/2015

C.1.3 Complete the following tables on board members and their respective categories.

EXECUTIVE DIRECTORS

Name or corporate name of director	Position held in the company
Juan José Brugera Clavero	Chairman
Pedro Viñolas Serra	Chief Executive Officer

Total number of executive directors	2
% of the board	18.18%

EXTERNAL PROPRIETARY DIRECTORS

Name or corporate name of director	Name or corporate name of significant shareholder represented or proposing appointment
Grupo Villar Mir, S.A.U.	Inmobiliaria Espacio, S.A.
Juan Villar-Mir de Fuentes	Inmobiliaria Espacio, S.A.
Juan Carlos García Cañizares	Aguila, LTD.
Francesc Mora Sagués	Mora Banc Grup, S.A.
Sheikh Ali Jassim M.J. Al-Thani	Qatar Investment Authority

Total number of proprietary directors	5
% of the board	45.45%

INDEPENDENT EXTERNAL DIRECTORS

Name or corporate name of director	Profile
Carlos Fernández-Lerga Garralda	<p>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.</p> <p>He was an Advisory Member of the Ministry and Secretary of State for Relations with the European Communities between 1978 and 1983, during which time he participated in negotiations for Spain's accession to the EU. He was also General Manager of the EU Advisory Service within the Banco Hispano Americano Group between 1984 and 1986. He has also been a director at Abantia Corporación and Gamesa Corporación Tecnológica, S.A. (Lead Independent Director) as well as a General Board Member of La Caixa. He has also been a member of the International Secretariat of the World Federalist Youth movement (Amsterdam); Secretary of the Madrid branch of the European League for Economic Cooperation; Secretary of the Foundation for Progress and Democracy; a representative (treasurer) of the Governing Board of the Madrid Bar Association, a member of the Executive Committee of the Elcano Royal Institute and a trustee of the Spain/US Board and Spain/China Board Foundations. He has also lectured at the School of Political Science at the Complutense University and at the Institute of European Studies at the University of Alcalá de Henares, and has written numerous publications.</p>

Name or corporate name of director	Profile
	<p>He is currently Chairman of Iberdrola Ingeniería y Construcción, S.A. and continues to practise law at his firm, Carlos Fernández-Lerga Abogados, mainly offering legal advice on civil and commercial law. He is currently a member of the Board of Directors of Société Foncière Lyonnaise ("SFL").</p>
<p>Javier Iglesias de Ussel Ordís</p>	<p>Javier Iglesias de Ussel y Ordis has had a long career in the financial world. In 1974 he joined Lloyds Bank International in London, where he held various positions of responsibility in corporate banking in Dubai, Sao Paulo, Asunción and Madrid over a period of 21 years. In 1995 he joined the Bank of New York and was appointed Country Manager for the Iberian Peninsula. In 2002 he moved to New York and was appointed General Manager for Latin America. He was head of the Representative Office of the Chilean bank Banco de Crédito e Inversiones from 2008 to December 2013. Mr. Iglesias de Ussel has been an independent director of Inmobiliaria Colonial since 2008 and has been an independent director of Aresbank since March 2015.</p> <p>Mr. Iglesias de Ussel has a degree in modern history from the University of Barcelona and throughout his professional career he has taken numerous courses in business management and administration, marketing, risk analysis and money-laundering prevention. He has lived 22 years abroad and speaks English, French and Portuguese.</p>
<p>Ana Sainz de Vicuña Bemberg</p>	<p>Graduate of the University of Reading in the UK with a degree in Agricultural Economics. She was a participant in the Management Development Program at Harvard University.</p> <p>She worked for Merrill Lynch in Spain for 18 years (1984-2003). She began her career in private banking, where she remained for 12 years. She then joined Sociedad de Valores y Bolsa, which was formed following the acquisition of FG and assisted in the merger. Later, she took charge of operations, systems, human resources and finance. Lastly, she was appointed General Manager of the Merrill Lynch International Bank branch in Spain.</p> <p>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.</p> <p>In May 2015 she was appointed director of Altamar Capital Partners, a financial services firm mainly dedicated to alternative management through international funds and managers. In July 2015 she was appointed director of Acciona, S.A. She forms part of the Foundation Board of the Foundation for Art Research Partnership and Education and the board of trustees of the Próximo-Próximo Foundation.</p>

Total number of independent directors	3
% of the board	27.27%

List any independent directors who receive from the company or group any amount or payment other than standard director remuneration or who maintain or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.

NO

If applicable, include a statement from the board detailing the reasons why the said director may carry on their duties as an independent director.

Name or corporate name of director	Description of the relationship	Reasons

OTHER EXTERNAL DIRECTORS

Identify all other external directors and explain why these cannot be considered proprietary or independent directors and detail their relationships with the company, its executives or shareholders.

Name or corporate name of director	Reasons	Company, executive or shareholder with whom the relationship is maintained
Luis Maluquer Trepas	Luis Maluquer Trepas has provided legal services to the Colonial Group and is therefore considered as an "Other External Director".	Luis Maluquer Trepas

Total number of other external directors	1
% of the board	9.09%

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

There were none.

C.1.4 Complete the following table on the number of female directors at the end of the last four years and their category.

	Number of female directors				% of total directors of each category			
	Year t	Year t-1	Year t-2	Year t-3	Year t	Year t-1	Year t-2	Year t-3
Executive	0	0	0	0	0%	0%	0%	0%
Proprietary	0	1	0	0	0%	20%	0%	0%
Independent	1	1	0	0	33.33%	33.33%	0%	0%
Other external	0	0	0	0	0%	0%	0%	0%
Total:	1	2	0	0	9.09%	18.18%	0%	0%

C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.

Explanation of measures
In accordance with article 4 of the Regulations of the Board of Directors, the Board of Directors shall ensure the procedures for selecting its members favour diversity of gender, experience and knowledge, and are free from any implied bias entailing any kind of discrimination and, in particular, which facilitate the selection of female directors. Likewise, pursuant to article 33 of the Bylaws, the functions of the Nomination and Remuneration Committee include establishing a representation target for the less well-represented gender on the Board of Directors and drafting guidelines on how to reach this target.

C.1.6 Explain the measures taken, if applicable, by the Nomination Committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the company makes a conscious effort to search for female candidates who have the required profile.

Explanation of measures
Pursuant to that included in the Bylaws and in the Regulations of the Board of Directors, both the Board of Directors and the Nomination and Remuneration Committee ensured that the candidate put forward met the Board of Directors' requirements regarding experience, technical competence and suitability. The fact that female candidates were not appointed directors is not attributable to any bias inherent in the selection process. In this regard, it should be noted that the functions of the Nomination and Remuneration Committee, in accordance with article 33 of the Bylaws and the Regulations of the Board of Directors, include the following: i) evaluate the competencies, knowledge and experience required by the Board of Directors, defining the functions and abilities required by the candidates that should fill each vacancy, and evaluate the time and dedication required to enable them to effectively carry out their duties; ii) establish a representation target for the less well-represented gender on the Board of Directors; iii) submit to the Board proposals for appointment of independent directors to be appointed through co-option or to be submitted for approval at the General Shareholders' Meeting, as well as proposals for re-election or removal of such directors by the shareholders at the General Shareholders' Meeting; and iv) report on the proposals for appointment of the other directors to be appointed through co-option or to be submitted for approval at the General Shareholders' Meeting, as well as proposals for re-election or removal of such directors by the shareholders at the General Shareholders' Meeting.

When, despite the measures taken, there are few or no female directors, explain the reasons.

Explanation of the reasons
<p>Pursuant to article 33 of the Bylaws and the Regulations of the Board of Directors mentioned above, the proposed candidate for director must have the competencies, knowledge and experience required to form part of the Board of Directors. The Nomination and Remuneration Committee also evaluates the abilities required by the candidates that should fill each vacancy and evaluates the time and dedication required to enable them to effectively carry out their duties.</p> <p>In this regard, and with respect to the appointment of proprietary directors made during the year set forth in this Annual Corporate Governance Report, the Nomination and Remuneration Committee reported on the proposals for appointment.</p>

C.1.6.bis Explain the conclusions of the Nomination Committee on the verification of compliance with the director selection policy. Particularly whether the policy pursues the goal of having at least 30% of total board places occupied by women Directors before the year 2020.

At its meeting held on 19 February 2015, the Nomination and Remuneration Committee resolved to prepare a set of guidelines to reach the indicated target in relation to increasing the representation of the less well-represented gender on the Board of Directors. In relation to the director selection policy, the only appointment through co-option in 2015 was the appointment of Sheikh Ali Jassim M.J. Al-Thani as a new proprietary director of the Company, following a favourable report from the Nomination and Remuneration Committee.

C.1.7 Explain how shareholders with significant holdings are represented on the board.

Pursuant to article 4 of the Regulations of the Board of Directors of Inmobiliaria Colonial, S.A., the Board of Directors, in exercise of its powers to make proposals to the General Shareholders' Meeting and of co-option to cover vacancies, will seek to ensure that proprietary and independent directors form an ample majority of the Board, and that the number of executive directors is the minimum necessary, considering the Company's share structure and the capital represented on the Board.

In this regard, proprietary directors are considered to be:

a. Those who have shareholdings equal to or greater than the amount considered under law to be significant, or who have been appointed as such due to their capacity as shareholders, despite their shareholdings not reaching said amount.

b. Those who represent the shareholders indicated in the previous paragraph.

For the purposes of this definition, a director is deemed to represent a shareholder when:

- He/She has been appointed to exercise the right of proportional representation on the Board of Directors;

- He/She is a director, senior manager, employee or ongoing provider of significant services to said shareholder, or to companies in the shareholder's group;

- Company documents show that the shareholder considers that the director is his/her appointee or representative;

- He/She is a spouse, a person related by a similar personal relationship or a relative up to the second degree of kinship of a significant shareholder.

C.1.8 Explain, when applicable, the reasons why proprietary directors have been appointed upon the request of shareholders who hold less than 3% of the share capital.

There were none.

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained.

Yes

No

Name or corporate name of shareholder	Explanation

C.1.9 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board their reasons and through which channel. If made in writing, list below the reasons given by that director.

Name of director	Reasons for resignation
Silvia Villar-Mir de Fuentes	By means of a letter sent to the Chairman of the Board of Directors, Silvia Villar-Mir de Fuentes tendered her resignation as a member of the Board of Directors, as a result of the decrease in the shareholding of Inmobiliaria Espacio, S.A. in Inmobiliaria Colonial, S.A.

C.1.10 Indicate what powers, if any, have been delegated to the chief executive officer(s).

Name or corporate name of director	Brief description
Pedro Viñolas Serra	The Chief Executive Officer has been delegated all powers that may be delegated by law and under the Company's Bylaws.

C.1.11 List the directors, if any, who hold office as directors or executives in other companies belonging to the listed company's group.

Name or corporate name of director	Corporate name of the group entity	Position	Do they have executive duties?
Carlos Fernández-Lerga Garralda	Société Foncière Lyonnaise	Director	No
Pedro Viñolas Serra	Société Foncière Lyonnaise	Deputy Chairman and Director	No
Pedro Viñolas Serra	Danieltown Spain, S.L.U.	Representative of the Sole Director (Inmobiliaria Colonial, S.A.)	Yes

Name or corporate name of director	Corporate name of the group entity	Position	Do they have executive duties?
Pedro Viñolas Serra	Colonial Invest, S.L.U.	Representative of the Sole Director (Inmobiliaria Colonial, S.A.)	Yes
Pedro Viñolas Serra	Colonial Tramit, S.L.U.	Representative of the Sole Director (Inmobiliaria Colonial, S.A.)	Yes
Luis Maluquer Trepas	Société Foncière Lyonnaise	Director	No
Juan José Brugera Clavero	Société Foncière Lyonnaise	Chairman and Director	No
Sheikh Ali Jassim M.J. Al-Thani	Société Foncière Lyonnaise	Director	No

C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets in Spain, insofar as these have been disclosed to the company.

Name or corporate name of director	Corporate name of the listed company	Position
Juan Carlos García Cañizares	Bavaria, S.A. (Colombia)	Director
Juan Carlos García Cañizares	Backus & Johnston (Perú)	Director
Juan Carlos García Cañizares	Valorem, S.A. (Colombia)	Director
Juan Carlos García Cañizares	Banco CorpBanca Colombia S.A. (Colombia)	Director
Grupo Villar Mir, S.A.U.	Abertis Infraestructuras, S.A.	Director
Juan Villar-Mir de Fuentes	Obrascon Huarte Lain (OHL), S.A.	Director
Ana Sainz de Vicuña Bemberg	Acciona, S.A.	Director

C.1.13 Indicate and, where appropriate, explain whether the company has established rules about the number of boards on which its directors may sit.

Yes

No

C.1.14 Repealed

C.1.15 List the total remuneration paid to the Board of Directors in the year.

Board remuneration (thousands of euros)	4,236
---	-------

Amount of accumulated pension rights of current directors (thousands of euros)	0
Amount of accumulated pension rights of former directors (thousands of euros)	0

C.1.16 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year.

Name or corporate name	Position(s)
CARMINA GANYET I CIRERA	CORPORATE MANAGING DIRECTOR
ALBERTO ALCOBER TEIXIDO	BUSINESS MANAGER
NURIA OFERIL COLL	SENIOR MANAGER OF LEGAL SERVICES
CARLOS ESCOSA FARGA	INTERNAL AUDITOR

Total remuneration received by senior management (thousands of euros)	1,741
--	-------

C.1.17 List, if applicable, the identity of those directors who are likewise members of the boards of directors of companies that own significant holdings and/or group companies:

Name or corporate name of director	Name or corporate name of significant shareholder	Position
Juan Villar-Mir de Fuentes	Grupo Villar Mir, S.A.U.	Vice Charman and Chief Executive Officer
Juan Villar-Mir de Fuentes	Inmobiliaria Espacio, S.A.	Vice Charman and Chief Executive Officer
Juan Villar-Mir de Fuentes	Fertiberia, S.A.	Vice Charman and Chief Executive Officer
Juan Villar-Mir de Fuentes	Promociones y Propiedades Inmobiliarias Espacio, S.L.U.	Chairman and Chief Executive Officer
Juan Villar-Mir de Fuentes	Centro Canalejas Madrid, S.L.	Chairman
Juan Villar-Mir de Fuentes	Obrascon Huarte Lain (Ohl), S.A.	Director
Francesc Mora Sagués	Mora Banc Grup, S.A.	Chairman
Juan Carlos García Cañizares	SNI Luxembourg Sarl	Director

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the Board of Directors with significant shareholders and/or their group companies.

Name or corporate name of director	Name or corporate name of significant shareholder	Relationship

C.1.18 Indicate whether any changes have been made to the board regulations during the year.

Yes No

Description of amendments
Certain articles of the Regulations of the Board of Directors were amended to i) bring the content of these articles into line with the Spanish Limited Liability Companies Law, as worded following the entry into force of Law 31/2014, ii) include improvements in corporate governance in addition to those required by law, and iii) include technical improvements in the wording of the text.

C.1.19 Indicate the procedures for appointing, re-electing, evaluating and removing directors. List the competent bodies, procedures and criteria used for each of these procedures.

The procedures for selection, appointment and re-election of directors are set out in article 9 of the Regulations of the Board of Directors.

Without prejudice to the above, article 4.2.2 of the Regulations of the Board of Directors states that independent directors should not remain as such for a continuous period of more than 12 years.

With respect to the resignation and removal of directors, this issue is governed by article 11 of the Regulations of the Board of Directors.

C.1.20 Explain, if applicable, to what extent this evaluation has prompted significant changes in its internal organisation and the procedures applicable to its activities.

Description of amendments
There have been no changes, as the results of the evaluation were satisfactory.

C.1.20.bis Describe the evaluation process and the areas evaluated by the board, assisted, if applicable, by an external advisor, concerning diversity in its composition and skills, the functioning and composition of its committees, the performance of the Chairman of the board and the Chief Executive Officer and the performance and contribution of each director.

The Board of Directives evaluated its composition and skills, the functioning and composition of the committees, the performance of the Chairman and the Chief Executive Officer as well as that of each of the Company's directors. In this regard, all directors were sent the related questionnaires to evaluate the Board of Directors, the Nomination and Remuneration Committee and the Audit and Control Committee.

After the evaluation was carried out, the Board of Directors approved the evaluation reports relating to the Board, its committees and the Chairman and the Chief Executive Officer, reaching the conclusion that: (i) the Board of Directors has an adequate composition and assumes and efficiently exercises the powers and competences delegated thereto by the Bylaws and the

Regulations of the Board of Directors, ensuring that the interests of the Company and the maximisation of the Company's economic value shall prevail in all its actions; (ii) the Executive Committee, the Nomination and Remuneration Committee and the Audit and Control Committee each have an adequate composition and assume and efficiently exercise the competences delegated thereto by applicable legislation and by the various corporate texts of the Company; and (iii) the Chairman and the Chief Executive Officer have effectively and diligently carried out their duties.

The Board of Directors also approved an action plan for improvements with regard to its composition, skills and functioning.

Lastly, the Nomination and Remuneration Committee engaged the services of Spencer Stuart as an external advisor in the process of evaluating the Board, its committees, its Chairman and the Chief Executive Officer. The firm issued a report on the procedure and methodology applied by Colonial in the process of evaluating the Board, its committees, its Chairman and the Chief Executive Officer, and conclusions on the evaluation carried out by the Board and its committees.

C.1.20.ter Explain, if applicable, the business relationship the advisor or any group company maintains with the company or any group company.

The business relationships with the advisor or any group company are only those disclosed in section C.1.20.bis above, that is, as an external advisor in the evaluation of the Board of Directors, its committees, the Chairman of the Board and the Chief Executive Officer.

C.1.21 Indicate the cases in which directors must resign.

Directors are required to place their post at the Board of Directors' disposal and tender, if the Board deems this appropriate following a report from the Nomination and Remuneration Committee, their resignation in the following cases:

1. When they are subject to any of the cases of incompatibility or prohibition provided by law.
2. When they cease to hold the executive positions with which their appointment as director was associated or when the reasons for their appointment disappear. In particular, proprietary directors shall resign when the shareholder they represent transfers its entire ownership interest in Inmobiliaria Colonial or reduces it to a level that requires a reduction of the number of its proprietary directors.
3. The provisions of the previous paragraph notwithstanding, in the event that circumstances arise that the Board of Directors consider justify the director remaining on the Board, the Board shall take into consideration the effect of these new circumstances on the director's status.
4. When they are seriously admonished by the Nomination and Remuneration Committee as a result of breaching their obligations as directors.
5. When their continuing as a member of the Board might adversely affect the functioning of the Board or harm the Company's name or reputation for any reason.

In particular, the directors must inform the Board of any criminal proceedings in which they are an accused party and of the subsequent progress of the proceedings. In any event, the moment a director is indicted or tried for any of the crimes stated in the LSC, the Board should examine the matter as soon as possible and, in view of the particular circumstances and potential harm to the Company's name and reputation, decide whether or not they should be called on to resign. All such determinations should be disclosed in the Annual Corporate Governance Report.

C.1.22 Repealed

C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?

Yes No

If applicable, describe the differences.

Description of differences

C.1.24 Indicate whether there are any specific requirements other than those relating to the directors, to be appointed Chairman.

Yes No

Description of requirements

C.1.25 Indicate whether the Chairman has the casting vote.

Yes No

Matters where the Chairman has the casting vote
There are no special matters where the Chairman of the Board of Directors has the casting vote. The Chairman will have the casting vote whenever there is a tie in the votes of the Board of Directors.

C.1.26 Indicate whether the Bylaws or the board regulations set any age limit for directors.

Yes No

Age limit for Chairman -

Age limit for CEO - Age limit for directors -

C.1.27 Indicate whether the Bylaws or the board regulations set a limited term of office for independent directors.

Yes No

Maximum number of years in office	
-----------------------------------	--

C.1.28 Indicate whether the Bylaws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate whether there are any restrictions as to what categories may be appointed as a proxy other than those stipulated by law. If so, give brief details.

In accordance with article 35 of the Regulations of the Board of Directors, proxies are granted in writing and specifically for each meeting and solely to other Board members. However, non-

executive directors may only grant a proxy to another non-executive director. Article 13 of the Regulations of the Board of Directives stipulates that in cases of proxy delegation, directors must give specific instructions to the representative as to the vote to be cast on the matters to be debated.

C.1.29 Indicate the number of board meetings held during the year and how many times the board has met without the Chairman’s attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	9
Number of board meetings held without the Chairman’s attendance	0

If the Chairman is an executive director, indicate the number of meetings held without the attendance or representation of any executive director and under the chairmanship of the lead director.

Number of meetings	0
---------------------------	---

Indicate the number of meetings of the various board committees held during the year.

Number of meetings of the Executive or Delegate Committee	0
Number of meetings of the Audit Committee	8
Number of meetings of the Nomination and Remuneration Committee	4
Number of meetings of the Nomination Committee	
Number of meetings of the Remuneration Committee	
Number of meetings of the xxx Committee	

C.1.30 Indicate the number of board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions.

Directors' attendance	8
% of attendances of the total votes cast during the year	98.98%

C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the board are certified previously.

Yes

No

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior for their authorisation for issue by the board.

Name	Position
Àngels Arderiu Ibars	Chief Financial Officer

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements it prepares from being laid before the General Shareholders' Meeting with a qualified audit report.

In accordance with article 8 of the Regulations of the Board of Directors, the Audit and Control Committee will strive to ensure that the Board of Directors submits the financial statements at the General Shareholders' Meeting without limitations or qualifications; in any exceptional cases where these exist, the Chairman of the Audit and Control Committee and the auditors will give a clear account to shareholders thereof.

C.1.33 Is the secretary of the Board also a director?

Yes

No

Complete if the secretary is not also a director:

Name or corporate name of secretary	Representative
FRANCISCO PALÁ LAGUNA	—

C.1.34 Repealed

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

Article 32 of the Bylaws stipulates that the Audit and Control Committee must:

- i) Propose to the Board of Directors the selection, appointment, re-election and replacement of the external auditor, as well as the terms of its engagement, and regularly gather information therefrom regarding the audit plan and the implementation thereof, in addition to preserving its independence in the performance of its duties.
- ii) Establish the appropriate relationships with the external auditor to receive information on any issues which may jeopardise its independence and which will be studied by the Committee, and any other information relating to the auditing procedure, as well as any other communications provided for in the legislation relating to auditing and the technical rules thereof. In any case, written confirmation must be received, on an annual basis, from the external auditor of its independence with respect to the Company or entities directly or indirectly connected thereto, as well as information on any type of additional services provided and the related fees received from these entities by the external auditor or by persons or entities related to the auditor pursuant to that provided in accounting legislation.

- iii) Issue, on an annual basis and prior to the issuance of the auditor's report, a report expressing an opinion on the independence of the external auditor. Such report shall, in all cases, contain the evaluation of the provision of the additional services mentioned in the section above, considered individually and as a whole, other than legal audit services in relation to the rules on independence or in accordance with the audit regulations.

Likewise, these mechanisms are governed by article 32 of the Regulations of the Board of Directors.

- C.1.36 Indicate whether the company has changed its external audit firm during the year. If so, identify the incoming audit firm and the outgoing auditor.

Yes No

- C.1.37 Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the amount of fees paid for such work and the percentage they represent of the fees invoiced to the company and/or its group.

Yes No

	Company	Group	Total
Amount of non-audit work (thousands of euros)	350	34	384
Amount of non-audit work as a % of the total amount billed by the audit firm	53.00%	13.54%	41.95%

- C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

Yes No

- C.1.39 Indicate the number of consecutive years during which the current audit firm has been auditing the financial statements of the company and/or its group. Likewise, indicate how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited.

	Company	Group
Number of consecutive years	9	9

	Company	Group
Number of years audited by current audit firm/Number of years the company's financial statements have been audited (%)	30%	30%

C.1.40 Indicate and give details of any procedures through which directors may receive external advice.

Yes No

Procedures
<p>In accordance with article 20 of the Regulations of the Board of Directors, the Company shall provide suitable channels for directors to obtain the advice they need to carry out their duties, including, if necessary, external assistance at the Company's expense. The Board of Directors may oppose the hiring of external consultants when: 1. It is not necessary for the proper performance of the duties entrusted to the non-executive directors. 2. The cost thereof is not reasonable in view of the importance of the problem and of the assets and income of the Company. 3. The technical assistance to be received may be adequately provided by the Company's own experts and specialists.</p>

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 No

Procedures
<p>In accordance with article 19 of the Regulations of the Board of Directors, in carrying out their duties, directors have the right to request and obtain from the Company any information they need to discharge their board responsibilities. In this regard, directors shall have the broadest authority to obtain information on any aspect of the Company, to examine its books, records, documents and other logs of company transactions, and to inspect all facilities.</p> <p>The exercise of the aforementioned right of information should be carried out through the Chairman, the Chief Executive Officer or the Secretary of the Board, who shall deal with requests from directors, providing them directly with information, offering them the appropriate points of contact or deciding on measures so they can carry out the examinations and inspections.</p> <p>Accordingly, unless the Board of Directors has been convened or called for reasons of urgency, the Chairman of the Board of Directors, in collaboration with the Secretary, will ensure that, prior to the meeting and sufficiently in advance, directors have the information necessary to deliberate on and adopt resolutions on the matters at hand.</p>

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 No

Details of rules
<p>In accordance with article 11 of the Regulations of the Board of Directors, directors must place their post at the disposal of the Board and tender, if the Board deems this appropriate and following a report from the Nomination and Remuneration Committee, their resignation when their continuing as a member of the Board might adversely affect the functioning of the Board or harm the Company's name or reputation for any reason.</p> <p>In particular, the directors must inform the Board of any criminal proceedings in which they are an accused party and of the subsequent progress of the proceedings. In any event, the moment a director</p>

Details of rules
is indicted or tried for any of the crimes stated in the LSC, the Board should examine the matter as soon as possible and, in view of the particular circumstances and potential harm to the Company's name and reputation, decide whether or not they should be called on to resign. All such determinations should be disclosed in the Annual Corporate Governance Report.

C.1.43 Indicate whether any director has notified the company that they have been indicted or tried for any of the offences stated in article 213 of the LSC.

Yes

No

C.1.44 List the significant agreements entered into by the company which come into force, are amended or terminate in the event of a change of control of the company due to a takeover bid, and their effects.

Inmobiliaria Colonial, S.A. is party to a syndicated loan in the amount of 350 million euros. The loan provides for the early termination thereof in the event of a change of control, understood to be a takeover by one or several persons, either individually or acting in concert (other than those shareholders which, at the date on which this agreement was entered into, had declared their significant shareholdings to the CNMV). In turn, control is defined under the terms set forth in article 42 of the Spanish Commercial Code.

With regard to the debentures issued in the amount of 1,250 million euros, in the case of a change of control, as defined in article 42 of the Spanish Commercial Code, such amount must be repaid early for both the tranche maturing in June 2019 and the tranche maturing in June 2023, provided that this change of control involves the loss of its investment grade rating.

C.1.45 Identify, in aggregate form and provide detailed information on agreements between the company and its officers, executives and employees that provide indemnities for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other.

Number of beneficiaries	3
Type of beneficiary	Chairman of the Board Chief Executive Officer Corporate Managing Director

<p>Description of resolutions</p>	<p>The Chairman of the Board and Chief Executive Officer signed with the Company, on 28 June 2012, agreements relating to their remuneration, in accordance with the resolutions adopted by the internal governing bodies of Inmobiliaria Colonial, S.A. the agreements include, among other aspects relating to remuneration, additional contingent remuneration for the Chairman and the Chief Executive Officer of the Company in the case of their termination or resignation due to a change of control in Inmobiliaria Colonial, S.A. or a significant change in the composition of the Board of Directors, among other cases the established file Board of Directors.</p> <p>For the Chairman of the Board, this remuneration consists of an amount equal to three years of their annual fixed remuneration for carrying out their executive functions, with a minimum of 1,250,000 euros. For the Chief Executive Officer, this remuneration will consist of the equivalent of three years of total yearly remuneration (fixed remuneration and ordinary variable remuneration) for carrying out his executive functions, with a minimum of 1,500,000 euros. These amounts will be automatically updated each year in accordance with the Consumer Price Index. However, the events that would have accrued such remuneration for the Chairman and the Chief Executive Officer did not occur.</p> <p>In the case of the Corporate Managing Director, a golden parachute clause triggered in the event of termination under certain circumstances or change of control gives rise to compensation on termination of the functions thereof for an amount equal to three years' salary.</p> <p>There is also a long-term incentive plan approved by the shareholders at the General Shareholders' Meeting (last modified on 21 January 2014), which entails the delivery of ordinary shares contingent on the Company meeting certain targets each year. The beneficiaries of the plan are the Chairman of the Board, the Chief Executive Officer and all members of Colonial's Executive Committee, which includes the Corporate Managing Director. This plan stipulates that the Board of Directors shall wind up the plan early and deliver the maximum number of outstanding shares to each beneficiary if a "substantial liquidity event" occurs. A "substantial liquidity event" occurs if a takeover bid is authorised with the aim of acquiring all of Colonial's share capital, in the framework of which Colonial's creditors must waive any existing change of control clause, or if existing debt undergoes a significant refinancing. In the latter case, early settlement of the plan shall be subject to ratification by the Nomination and Remuneration Committee. If the aim of the bid is to remove Colonial shares from stock exchange listing, and no change of</p>
--	--

	<p>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.</p>
--	---

Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group.

	Board of Directors	Annual General Meeting
Body authorising the clauses	Yes	No

	Yes	No
Is the General Shareholders' Meeting informed of such clauses?		X

C.2 Board committees

C.2.1 Give details of all the board committees, their members and the proportion of executive, proprietary, independent and other external directors.

EXECUTIVE OR DELEGATE COMMITTEE

Name	Position	Category
Juan José Brugera Clavero	Chairman	Executive
Pedro Viñolas Serra	Member	Executive
Grupo Villar Mir, S.A.U.	Deputy Chairman	Proprietary
Francesc Mora Sagués	Member	Proprietary
Juan Carlos García Cañizares	Member	Proprietary
Carlos Fernández-Lerga Garralda	Member	Independent

% of executive directors	33%
% of proprietary directors	50%
% of independent directors	17%
% of other external directors	0%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

By virtue of article 30 of the Regulations of the Board of Directors, the Board of Directors may establish an Executive Committee and permanently delegate thereto all or part of its powers, except for those that cannot be delegated.

The Executive Committee shall be formed by a minimum of three and a maximum of eight members, who must be directors, and its Chairman and Secretary will be those of the Board of Directors.

The Executive Committee shall appoint from among its members a Deputy Chairman, who shall carry out the Chairman's duties if the latter is absent.

The Board of Directors shall appoint the members of the Executive Committee, ensuring that the breakdown of its members by director category is similar to that of the Board itself

In order to be valid, the appointment of directors to the Executive Committee shall require the favourable vote of two thirds of the Board and may not take effect until registered with the Mercantile Registry.

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

The Executive Committee shall be convened by its Chairman, either on his own initiative or when requested to do so by two of its members, by letter, telegram, e-mail or fax sent to each of its members at least 48 hours prior to the meeting date, although it may nevertheless be convened immediately if the matter is urgent. Meetings shall be held at the Company's registered office or any place designated by the Chairman and indicated in the call notice.

In order for Executive Committee meetings to be validly constituted, the majority of its members must be present or represented. Resolutions shall be adopted by absolute majority of the members of the Committee. In the event of a conflict of interest, the affected director shall refrain from participating in matters related to the conflict. Votes from directors affected by a conflict of interest and required to absent themselves from the meeting shall be deducted from the calculation of the majority of votes necessary. In the event of a tie, the matter shall be submitted to the Board of Directors, the convening of which shall be requested by the members of the Executive Committee pursuant to article 29 of the Bylaws, unless a meeting of said body has already been convened for within the next thirty calendar days, in which case the Committee shall ask the Chairman of the Board to include the points for which there was a tie on the agenda of said meeting.

The Executive Committee, through its Chairman, shall inform the Board of the matters dealt with and decisions adopted by the Committee. To this end, all Board members should receive a copy of the minutes of Executive Committee meetings.

Indicate whether the composition of the Executive Committee reflects the participation within the board of the different types of directors.

Yes

No

If not, explain the composition of the Executive or Delegate Committee

Although the breakdown of the Executive Committee by category of director does not exactly match the current composition of the Board, the structure of the Executive Committee does reflect sufficient diversity of knowledge, experience and category of director to ensure that it can fulfil its mandate effectively, objectively and with independence of judgement.

AUDIT COMMITTEE

Name	Position	Category
Javier Iglesias de Ussel Ordís	Chairman	Independent
Carlos Fernández-Lerga Garralda	Member	Independent
Ana Sainz de Vicuña Bemberg	Member	Independent
Luis Maluquer Trepas	Member	Other external director
Juan Villar-Mir de Fuentes	Member	Proprietary

% of proprietary directors	20.00%
----------------------------	--------

% of independent directors	60.00%
% of other external directors	20.00%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

In accordance with article 32 of the Bylaws, Committee shall comprise a minimum of three and a maximum of eight directors, all of which must be non-executive directors, appointed by the Board. The Committee will also include the number of independent directors stipulated by law and at least one of them will be appointed taking into account the director's knowledge and experience regarding accounting and/or auditing. The Committee will appoint a Chairman from among its members, who must be an independent director. The Chairman shall be replaced every four years, and may be re-elected after one year has elapsed from the date on which his/he term of office expired. The Committee will also appoint a Secretary from among its members, or may designate the Secretary of the Board to fill this position. If the Secretary of the Committee is absent, the Secretary of the Board or the Deputy Secretary thereof will carry out these duties. The Committee may appoint, where applicable, a Deputy Chairman who must also be an independent director. The Committee may avail itself of the technical assistance of the Secretary or the Deputy Secretary of the Board at its meetings, at the request of the Chairman of the Committee. The members of the Committee shall be relieved of their duties once their tenure as a director ceases, or when agreed by the Board. The Committee must at least carry out the following: 1. Report to the General Shareholders' Meeting on any questions posed in relation to those matters for which the Committee is responsible. 2. Monitor the effectiveness of internal control, internal audit and risk management systems, and discuss with the external auditors any significant weaknesses detected in the internal control system. 3. Supervise the drawing up and presenting of financial information. 4. Propose to the Board the selection, appointment, re-election and replacement of the external auditor, as well as the terms of its engagement, and gather information therefrom regarding the audit plan and the implementation thereof, and preserve its independence in the performance of its duties. 5. Establish relationships with the external auditor to receive information on any issues which may jeopardise its independence and which will be studied, and any other information relating to the audit, as well as any other communications provided for in the law. Written confirmation must be received, on an annual basis, from the external auditor of its independence with respect to the Company or entities directly or indirectly connected thereto, as well as information on any type of additional services provided and the related fees received by the external auditor or by persons or entities related to the auditor pursuant to that provided in the law. 6. Issue, on an annual basis and prior to the issuance of the auditor's report, a report expressing an opinion on the independence of the external auditor. 7. Inform the Board of all matters established by law, the Bylaws and the Regulations of the Board of Directors. 8. Prepare an annual report on the activities of the Committee, which must be included in the management report. 9. Propose to the Board of Directors any other matters that it deems relevant for which it is responsible. The Committee shall meet whenever requested to do so by at least two of its members, or at the behest of the Chairman, who is responsible for convening it. The call notice shall be valid provided it is sent by any means that allow acknowledgement of its receipt. The Committee shall be validly convened when the majority of its members are present or represented, adopting resolutions by majority of those present or represented. The member affected must abstain from participating in the deliberation and voting on resolutions in which such member or a person related thereto has a conflict of interest. Votes of those affected by a conflict of interest shall be deducted from the calculation of the majority of votes necessary. Proxies are granted in writing and specifically for each meeting and solely to other members. The Chairman has a casting vote in the event of a tie. Minutes are taken of all Committee meetings and are made available to the Board. Article 32 of the Regulations of the Board sets forth these rules, always favouring the independence of the Committee.

In 2015, the Committee carried out, among others, the following functions:

- Acted as a communication channel between the Board of Directors and the auditor, assessing the audit results.
- Reported on the re-election of Deloitte, S.L. as the auditor for the individual and consolidated financial statements for the year ended 31/12/2015.
- Analysed possible impacts of the new Audit Law and, in particular, oversaw the process of replacing the auditor as a result of such law.
- Approved the external and internal audit plan for 2015.
- Monitored the effectiveness of the internal control, internal audit and risk management systems, including tax risks, and discussed with the auditor any significant weaknesses detected in the internal control system.

- Approved the risk management and control policy, corporate governance and treasury share reports to be submitted to the Board.
- Supervised compliance with corporate governance rules and the internal codes of conduct.
- Preparation of the corporate social responsibility policy.
- Drawing up and presenting the required financial information.
- Reported on the Annual Corporate Governance Report.
- Analysed the amendments to the Bylaws and the Regulations of the General Shareholders' Meeting, following the reform of the law, duly submitted for approval at the General Shareholders' Meeting.
- Reported on the amendments to the Regulations of the Board, following the reform of the law, submitted for approval by the Board.
- Analysed and monitored the Company's tax strategy and policy, and ensured it adhered to the Code of Best Tax Practices.
- Evaluated its own functioning.
- Proposed to the Board the appointment of the new head of the internal audit function.
- Coordinated with the Committee of Société Foncière Lyonnaise (SFL) for the purpose of unifying criteria and improving efficiency in the audit process of the two companies.

Identify the director who has been appointed Chairman on the basis of knowledge and experience of accounting or auditing, or both and state the number of years they have been Chairman.

Name of director	Javier Iglesias de Ussel Ordís
Number of years as Chairman	3

NOMINATION AND REMUNERATION COMMITTEE

Name	Position	Category
Carlos Fernández-Lerga Garralda	Chairman	Independent
Juan Villar-Mir de Fuentes	Member	Proprietary
Juan Carlos García Cañizares	Member	Proprietary
Francesc Mora Sagués	Member	Proprietary
Javier Iglesias Ussel Ordís	Member	Independent

% of proprietary directors	60.00%
% of independent directors	40.00%
% of other external directors	0.00%

Explain the committee's duties, describe the procedure and organisational and operational rules and summarise the main actions taken during the year.

In accordance with article 33 of the Bylaws, the Nomination and Remuneration Committee shall comprise a minimum of three and a maximum of eight directors, all of which must be non-executive directors, appointed by the Board. The Committee will include the number of independent directors stipulated by law. The Committee will appoint a Chairman from among its members, who in any case shall be an independent director. The Committee will appoint a Secretary from among its members, or may designate the Secretary of the Board to fill this position. If the Secretary of the Committee is absent, the Secretary of the Board or, where applicable, the Deputy Secretary thereof will carry out these duties. The Committee may appoint a Deputy Chairman who shall also be an independent director. In any case, the Committee may avail itself of the technical assistance of the Secretary or the Deputy Secretary of the Board at its meetings, at the request of the Chairman of the Committee. The members of the Committee shall be relieved of their duties once their tenure as a director ceases, or when agreed by the Board of Directors. The Committee must at least carry out the following: 1. Evaluate the competencies, knowledge and experience required on the Board. Define the roles and capabilities required of the candidates, and decide the time and dedication necessary for them to effectively perform their duties. 2. Establish a representation target for the less well-represented gender on the Board and draft guidelines on how to reach this target. 3. Submit to the Board proposals for appointment of independent directors to be appointed through co-option or to be submitted for approval at the General Shareholders' Meeting, and proposals for re-election or removal of such directors by the shareholders at the General Shareholders' Meeting. 4. Report on the proposals for appointment of the other directors to be appointed through co-option or to be submitted for approval at the General Shareholders' Meeting, as well as proposals for re-election or removal by the shareholders at the General Shareholders' Meeting. 5. Report on the proposals for appointment and removal of senior executives and the basic terms and conditions of their contracts. 6. Examine and organise the succession of the Chairman of the Board and the Company's Chief Executive Officer and, if appropriate, make proposals to the Board in order for such succession to occur in an orderly and planned manner. 7. Propose to the Board of Directors the remuneration policy for directors and general managers or whoever carries out senior executive functions and reports directly to the Board, the Executive Committee or the Chief Executive Officer, as well as the individual remuneration and other contractual conditions of the executive directors, and ensure the observance thereof. 8. Propose to the Board any other matters that it deems relevant for which it is responsible. 9. Any other functions that may be attributed thereto by the Bylaws or the Regulations of the Board. The Committee shall meet whenever requested to do so by at least two of its members, or at the behest of the Chairman, who is responsible for convening it. The call notice shall be valid provided it is sent by any means that allow acknowledgement of its receipt. The Committee shall be validly convened when the majority of its members are present or represented, adopting resolutions by majority of those present or represented. A Committee member must abstain from participating in the deliberation and voting on resolutions or decisions in which such member or a person related thereto has a direct or indirect conflict of interest. Votes of those affected by a conflict of interest shall be deducted from the calculation of the majority of votes necessary. Proxies are granted in writing and specifically for each meeting and solely to other Committee members. The Chairman shall have a casting vote in the event of a tie. Minutes are taken of all Committee meetings and are made available to all members of the Board. Article 33 of the Regulations of the Board sets forth these rules regarding the Committee, always favouring its independence.

In particular, in 2015 the Committee carried out, among others, the following functions:

- Ensured that the remuneration policy established by the Company was observed and, in particular, proposed to the Board the remuneration policy for directors and senior executives, the individual remuneration of the Chairman of the Board and the Chief Executive Officer and other conditions of their contracts in order to bring them into line with the new Spanish Limited Liability Companies Law, and reported to the Board on the remuneration proposed for senior executives.
- Proposed the number of shares that the beneficiaries of the share delivery plan approved at the General Shareholders' Meeting held on 21 January 2014 would receive.

- Began the analysis of the Company's remuneration policy for the next four years beginning in 2016, including a potential new remuneration system for the Chairman and the Chief Executive Officer.
- Proposed an annual maximum limit for the total amount of director remuneration.
- Examined and organised the succession of the Chairman of the Board and the Company's Chief Executive Officer.
- Reported to the Board on the evaluation of its own functioning and that the Board of Directors and of the performance of the Chairman and the Chief Executive Officer.
- Proposed to the Board the content of the Annual Directors' Remuneration Report.
- Analysed the amendments to the corporate governance texts that affect the Committee and its functions to bring them into line with the new law.
- Reported favourably on (i) the appointment by co-option of Sheikh Ali Jassim M. J. Al-Thani, at the proposal of its shareholder, Qatar Investment Authority, following the resignation tendered by Silvia Villar-Mir de Fuentes; and (ii) the appointment of Nuria Oferil Coll, director of the Company's legal services department and Deputy Secretary of the Board, as proprietary director of SFL as a representative of Colonial.

C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years.

	Number of female directors							
	Year t		Year t-1		Year t-2		Year t-3	
	Number	%	Number	%	Number	%	Number	%
Executive Committee	0	0	0	0	0	0	0	0
Audit Committee	1	20%	1	20%	0	0	0	0
Nomination and Remuneration Committee	0	0	0	0	0	0	0	0

C.2.3 Repealed

C.2.4 Repealed

C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees. If so, indicate where they can be consulted, and whether any amendments have been made during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

The Board committees are governed by the Regulations of the Board of Directors, which are available on the Company's website (www.inmocolonial.com) under the "Corporate governance" section, and on the website of the Spanish National Securities Market Commission (www.cnmv.es).

In 2015 the related amendments were made to (i) bring the regulations into line with the Spanish Limited Liability Companies Law, as worded following the entry into force of Law 31/2014, (ii) include improvements in corporate governance in addition to those required by law, and (iii) include technical improvements in the wording of the text.

The annual report on the activities of each committee in 2015 was prepared by the Audit and Control Committee and made available to shareholders on the Company's website along with the call notice for the General Shareholders' Meeting.

C.2.6 Repealed

D_ RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related party or intragroup transactions.

Procedures for approving related party transactions
<p>Pursuant to article 17 of the Regulations of the Board of Directors, express authorisation is required from the Board of Directors, which cannot be delegated, following a favourable report from the Audit and Control Committee, in the following cases:</p> <ul style="list-style-type: none"> - Provision of professional services by a director to Inmobiliaria Colonial companies. The employment or any other type of relationship that executive directors have with the Company is exempt for these purposes. - Sale, or transfer in any other way, for any manner of economic consideration, by a director, a significant shareholder or a shareholder represented on the Board, or parties related thereto, to Inmobiliaria Colonial or its Group companies of supplies, materials, goods or rights in general. - Transfer by Group companies to a director, a significant shareholder or a shareholder represented on the Board, or parties related thereto, of supplies, materials, goods or rights, in general, which do not form part of the ordinary business of the transferring company. - Provision of works, services or sale of materials by Inmobiliaria Colonial Group companies to a director, significant shareholder or a shareholder represented on the Board, or parties related thereto, and which, being part of their ordinary business, is carried out under economic conditions below market rates. - Any other legal business with Group companies in which the director or persons related thereto has a direct or indirect interest. <p>The aforementioned approval by the Board of Directors will not be necessary when such transactions simultaneously meet the following three characteristics: 1. They are governed by standard form contracts applied on an across-the-board basis to a large number of clients; 2. They go through at market prices, generally set by the person supplying the goods or services; and 3. The amount does not exceed 1% of the Company's annual income.</p>

D.2 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's significant shareholders:

Name or corporate name of significant shareholder	Name or corporate name of the company or its group company	Nature of the relationship	Type of transaction	Amount (thousands of euros)

- D.3 List any relevant transactions, by virtue of their amount or importance, between the company or its group of companies and the company's managers or directors.

Name or corporate name of director or senior manager	Name or corporate name of related party	Relationship	Type of transaction	Amount (thousands of euros)

- D.4 List any relevant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the company's ordinary trading activities.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens.

Corporate name of the group company	Brief description of the transaction	Amount (thousands of euros)

- D.5 Indicate the amount from other related party transactions.

There are none.

- D.6 List the mechanisms established to detect, determine and resolve any possible conflicts of interest between the company and/or its group, and its directors, management or significant shareholders.

In accordance with article 29 of the Bylaws, a director must abstain from participating in the deliberation and voting on resolutions or decisions in which such director or a person related thereto has a direct or indirect conflict of interest. Votes from directors affected by a conflict of interest and required to absent themselves from the meeting shall be deducted from the calculation of the majority of votes necessary. Resolutions or decisions that affect the director in his position as director, such as the appointment or revocation of positions in the governing body or others of a similar nature, are excluded from this obligation to abstain. Likewise, in accordance with article 16 of the Regulations of the Board of Directors, directors must adopt the measures necessary to avoid becoming involved in situations where their interests, either as independent professionals or as employees, may be in conflict with the Company's interests and their duties to the Company.

In particular, the duty to avoid conflicts of interest requires that directors abstain from: a) carrying out transactions with the Company, except when they are ordinary transactions, performed under standard market conditions for customers and are hardly relevant, which is understood to mean those transactions whose information is not necessary to present a true and fair view of the Company's assets and liabilities, financial position and results; b) using the Company's name or relying on their status as directors to unduly influence private transactions; c) using the Company's assets, including its confidential information, for personal gain; d) taking advantage of the Company's business opportunities; e) obtaining advantages or remuneration from third parties other than the Company and its Group in connection with the performance of their duties, unless considered an act of mere courtesy; f) carrying out activities as independent professionals or as employees that involve effective competition, be it present or potential, with the Company, or that, in any other way, place the directors in an ongoing conflict with the Company's interests. The foregoing will also be applicable if the beneficiary of the actions or prohibited activities is a

person related to the director. Those persons mentioned in the Spanish Limited Liability Companies Law shall be considered related parties.

In all cases, directors must notify the Board of any conflict that they or persons related thereto may have that could lead to a direct or indirect conflict of interest with the Company. Any conflicts of interest in which the directors are involved shall be reported in the notes to the financial statements and in the annual corporate governance report.

However, the Company may waive the prohibitions contained in the section above in certain cases, and authorise a director or a person related thereto to carry out a specific transaction with the Company, use certain company assets, take advantage of a specific business opportunity, or obtain an advantage or remuneration from a third party. If the prohibition of using the Company's assets is waived, the economic advantage obtained shall be considered indirect remuneration and must be authorised by the Nomination and Remuneration Committee. The authorisation must be approved by the shareholders at the General Meeting when its purpose is to waive the prohibition of obtaining an advantage or remuneration from third parties, or when it affects a transaction whose value is greater than ten per cent of the Company's assets. Authorisation may be granted in other cases by the Board of Directors, provided the independence of the members granting such authorisation with regard to the exempt director can be guaranteed. The Company must also ensure that the authorised transaction does not harm its assets and liabilities and, where applicable, ensure its performance under market conditions and the transparency of the process. The obligation of not competing with the Company may only be waived if no damage is expected to be caused to the Company or if the Company is expected to be compensated for the profit that such director may obtain. The waiver will be granted through an express and separate resolution by the shareholders at the General Meeting.

D.7 Is more than one group company listed in Spain?

Yes

No

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Describe the risk management system in place at the company, including fiscal risks.

Risk management as a key aspect of Colonial's organisational culture and, for this reason, all risks to which the Company is exposed are identified, analysed, assessed, managed, controlled and updated.

In order to meet these corporate objectives, the Company has developed an Internal Control and Risk Management System (hereinafter, ICRMS), which establishes the bases for the efficient and effective management of risks, including tax risks, throughout the Company.

Colonial's ICRMS is structured in the following phases:

i. Identification, analysis and assessment:

- Identification of risks which may prevent Colonial from fulfilling its strategic goals: risk map.
- Analysis of the possible positive and negative effects of risk events and their likelihood.
- Assessment and treatment of risks based on strategic risk appetite criteria and risk tolerance levels and an analysis of the options to respond thereto (either minimising the negative impact or maximising the growth potential of opportunities).

ii. Management and updating:

- Establishment of constant communication flows (consultation, information and training) to promote a risk management culture throughout the entire Company.
- Review of the model by monitoring and updating the results of the ICRMS.

iii. Control:

- Independent monitoring of the efficiency of the ICRMS and the existing control measures by the internal audit function.

Colonial's ICRMS has the following risk monitoring and reporting activities:

- Permanent monitoring activities carried out by the owner of the risk in real time by analysing and dealing with unexpected events.
- Annual self-assessments to check the effectiveness of risk management.
- Preparation and updating of risk records which basically include the impact of the risk on value creation, as well as key risk indicators and action plans rolled out or being developed to achieve Colonial's desired level of response.
- Preparation of a report on the Audit and Control Committee's monitoring activities for the Board of Directors.
- Preparation of public information associated with the financial statements and Annual Corporate Governance Report.

The internal audit function analyses the corporate risk map and proposes which processes, risks and controls should be reviewed each year in the Internal Audit Plan.

The corporate risk map is reviewed and updated every two years to maintain an efficient and updated ICRMS.

E.2 Identify the bodies responsible for preparing and implementing the risk management system, including fiscal risks.

The Board of Directors is responsible for determining the Company's risk management and control policy, including tax risks, identifying its main risks, and implementing and supervising the internal information and control systems in order to ensure the future viability and competitiveness of the Company, adopting the decisions having greatest relevance to its better development. The Board of Directors is assisted in managing this policy by the Audit and Control Committee (ACC). The main bodies responsible for the Internal Control and Risk Management System (ICRMS) are:

1. Board of Directors: Reviews and approves the ICRMS, approves the corporate risk map (CRM) and monitors the internal information and control systems.

2. Audit and Control Committee:

- Continuously monitors the ICRMS.
- Reviews the CRM.
- Ensures that the information regarding risk management submitted to the Board of Directors and shareholders is correct.
- Reviews the risk management guidelines and risk events which exceed the predefined supervision limit.

3. Internal Audit:

- Submits an annual review on the CRM and the progress made to the governing bodies.
- Evaluates the effectiveness of those risk management processes and controls introduced to mitigate risks.
- Reviews, advises and develops risk treatment plans.
- Reviews and advises on initiatives to reduce excessive risk.
- Advises on current risk management practices and those being developed, particularly for the European rental sector.

The ICRMS also specifically identifies the duties of senior management, operating departments and owners of the risks with regard to risk management. In this regard, Colonial has determined the level of risks that can be assumed and the risk tolerance for each risk area.

One of the functions of the ACC, as delegated by the Board of Directors, is to monitor and control risk in collaboration with the managers of the various operating units.

The ACC has the following functions, among others, regarding risk management and control:

- To submit to the Board, for approval, a report on the ICRMS which identifies at least (i) the different types of financial and non-financial risks the Company is exposed to; (ii) the determination of the risk level the Company sees as acceptable; (iii) the measures in place to

mitigate the impact of risk events should they occur; and (iv) the internal reporting and control systems to be used to control and manage the above risks.

- To supervise the process of drawing up, the integrity of and the presentation of required public financial and non-financial information.
- To regularly review the internal control and risk management systems, so that the main risks can be identified, managed and reported appropriately.

In addition, the Company has set up a Regulatory Compliance Unit (RCU) and internal audit function to reinforce this objective. The RCU is responsible for ensuring compliance with any laws and regulations which may affect the Company. Meanwhile, the internal audit function is responsible for carrying out the oversight duties required and established in its annual plans to ensure that the internal control procedures to mitigate and prevent risks are correctly implemented and work efficiently.

In short, the Board is ultimately responsible for ensuring risks are correctly managed, delegating the duty of supervising risk management and the efficiency of the control systems to the ACC.

E.3 Indicate the main risks, including fiscal, which may prevent the entity from achieving its targets.

Colonial's ICRMS defines risk as any contingency which, should it occur, may prevent or make it difficult for the Company to fulfil the objectives set by its governing bodies. These are classified into a risk map for Colonial as follows:

- Strategic Risks: risks arising from the implementation of the Company's strategy.
- Corporate Risks: risks arising from the organisational structure, corporate culture, corporate policies and key decision-making processes by the governing bodies.
- Operational Risks: risks arising from losses due to failures or to inadequate management of operations.
- Reporting Risks: risks in compiling relevant and complete information to generate internal and external reports.
- Compliance Risks: risks relating to regulatory compliance.

The main risks that Colonial faces in achieving its targets include:

- Risks inherent to the environment since the real estate sector is a highly cyclical and competitive sector, as well as risks related to economic and/or political changes in the countries in which it operates and regulatory changes, especially those relating to real estate activities.
- Risks arising from the specific nature of the business in relation to the high concentration of office rental activities in the central business district areas of Barcelona, Madrid and Paris, the appraisal of its property assets and the concentration of customers.
- Risks of a financial nature relating to restrictions in capital markets and in financial debt markets, the debt level, the drop in credit rating and interest rate fluctuations.
- Tax risks relating to the limit on tax loss carryforwards, the loss by its French subsidiary, Société Foncière Lyonnaise, of its status as a listed real-estate investment company (SIIC) and changes in its favourable tax regime.
- Corporate risks arising from the management of its corporate reputation and image and from carrying out its activities through subsidiaries.
- Operating risks arising from the management of and damage to its property assets, the maintenance and repair thereof, its liability for the actions of its contractors and subcontractors, and from court and out-of-court claims.

E.4 Identify if the entity has a risk tolerance level, including fiscal.

Colonial has established an appetite and tolerance for each risk area. Risk appetite is the level of risk a company is prepared to undertake or reject according to its objectives and taking into account the expectations of its stakeholders, and risk tolerance is the determination of fluctuations in risk levels deemed to be normal in keeping with their risk appetite.

Risk management at Colonial has been structured into a corporate risk map which is the tool that graphically represents the assessment of risks according to their impact, their effect on Colonial measured in economic terms and in terms of its operations, reputation and compliance, and the likelihood and probability of the risk occurring over a time period.

In this regard, the Company assesses risk from two angles: inherent risk, which is understood to be that to which the Company is exposed in the absence of any mitigating actions/control; and residual risk, which is understood to be the risk remaining after the corresponding prevention and control measures have been taken.

E.5 Identify any risks, including fiscal, which have occurred during the year.

The risks that arose in 2015, the circumstances that caused them and the functioning of the control systems are as follows:

i. FINANCING OF PROPERTY ASSETS. FINANCIAL STRUCTURE AND DEBT LEVEL

Circumstances: Following the refinancing of Colonial in 2014, the Group's net financial debt at 31 December 2014 was 2,545 million euros and the Loan to Value (LTV) ratio was 44.8%. With these actions, Colonial was able to return its leverage ratio to a level more appropriate for the value of its assets and capacity to generate cash flow. However, Colonial had certain restrictions linked to the syndicated loan.

Control systems: In 2015 Colonial received a long-term credit rating of BBB- and a short-term credit rating of A-3 from Standard & Poor's, which enabled the Company to successfully issue 1,250 million euros in bonds, thereby repaying the syndicated loan entered into in 2014 early, diversifying the average maturity of its debt and, in turn, generating an annual savings in borrowing costs of around 20 million euros. The Company also entered into a new syndicated loan in 2015 for 350 million euros, which matures in June 2019, but may be extended until November 2020. The purpose of this loan is to finance possible acquisitions, renovations and other investments in property assets. At 31 December 2015, 67.3 million euros were drawn down on this syndicated loan; and the Group's net financial debt at 31 December 2015 was 2,992 million euros with an LTV of 41.8%.

ii. INCREASE OF COMPETITION IN THE REAL ESTATE SECTOR

Circumstances: The real estate sector recovered the confidence of investors, which gave rise to an increase in competition, finally enabling Spain in 2015 to reach the investment levels of 2007. This high level of competition could give rise to an increase in the price of property acquisitions, excess supply on the office rental market or a decrease in the level of rent obtained from such properties.

Control systems: Colonial diversifies its investments in Barcelona, Madrid and Paris, selecting high-quality properties located in central business district (CBD) areas. Colonial's strategy is to have the best portfolio of offices for rent. In 2015 the Colonial Group continued with this selective investment strategy in CBD areas, making new acquisitions in the amount of 234 million euros.

iii. IMPAIRMENT OF PROPERTY ASSETS

Circumstances: The holding and acquisition of properties implies certain risk factors, including the possibility that returns on investment will be lower than estimated or that estimates and valuations performed could prove inaccurate or wrong. In addition, the market value of the assets may decline or be negatively affected in certain cases.

Control systems: To mitigate this risk factor, Colonial engages independent experts to appraise all of its assets on a six-monthly basis. The Group allocates a significant portion of its resources to investing in and maintaining its property assets in order to enhance their value and position on the market and the income obtained from these assets. In this regard, Colonial invested 128 million euros in 2015 in projects to improve and renovate its property assets.

iv. CONCENTRATION OF THE GROUP'S ACTIVITIES IN SPAIN AND FRANCE

Circumstances: Colonial focuses its business activities solely on the rental business of properties in Barcelona, Madrid and Paris.

Control systems: The level of the Group's rental income comes from property rentals located in CBD areas of such cities. The new investments made in 2015 reinforced this business strategy with the acquisition of five properties located in these CBD areas in the amount of 234 million euros. This strategy of focusing its rental business in CBD areas and its high quality standards have positioned the Group as a reference in the real estate sector.

E.6 Explain the response and monitoring plans for the main risks the entity is exposed to, including fiscal.

Risks are classified into four levels according to their impact and probability (ranging from the most to the least serious), and are then placed into one of the following categories according to the Company's response to each:

Avoidance: This entails abandoning activities which generate risks where no response has been identified which could reduce its impact and/or likelihood to a level deemed as acceptable.

Reduction: This entails carrying out actions to reduce the likelihood and/or impact of the risk, thereby reducing the residual risk so that it is in line with the Company's risk tolerance level.

Sharing: The likelihood or impact of a risk is reduced by transferring or sharing part of the risk to reduce the residual risk so that it is in line with the Company's risk tolerance level.

Acceptance: No action is taken which may affect the likelihood or impact of the risk as the residual risk is already within the Company's risk tolerance level.

The internal audit function is responsible for monitoring the risk reaction plans of the owners of the risks.

F INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the entity.

F.1 The entity's control environment

Specify at least the following components with a description of their main characteristics:

F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) its monitoring.

The Board of Directors, as stipulated in the Regulations of the Board, is responsible for the existence and updating of a suitable and effective ICFR system.

Specifically, article 5 of the Regulations of the Board of Directors ("General Functions and Competences") stipulates, among others, the following functions:

1. Determining the Company's general policies and strategies, approving the investment and financing policy, the strategic or business plan, the annual management targets and annual budgets, and the treasury share policy, determining the corporate governance policy of the Company and the Group and approving the corporate social responsibility policy and the dividend policy. The Board of Directors will also determine the Company's risk management and control policy, including tax risks, identifying its main risks, and implementing and supervising the internal information and control systems in order to ensure the future viability and competitiveness of the Company, adopting the decisions having greatest relevance to its better development.

To this end, Colonial has published an Internal Control and Risk Management Manual for its ICFR system approved by the Audit and Control Committee, detailing the methodology for establishing the materiality of risks, as well as methodologies for documenting, classifying and assessing risks and associated control activities.

2. Approving the financial information that all listed companies must periodically disclose.

To this end, Colonial has published a manual for disclosure of statutory information which covers the aspects mentioned in this section and which has been approved by the Audit and Control Committee.

3. Supervising the effective operation of the committees that the Board has formed and the actions of the delegated bodies and the executives appointed.
4. Approving and amending the Regulations of the Board of Directors.

In this regard, the Board is ultimately responsible for the existence of an effective ICFR system at Colonial.

This ICFR Organisational and Monitoring Model, approved by the Audit and Control Committee, establishes the mechanism which the Board, and by delegation the Audit and Control Committee, deems effective and sufficient to guarantee the completeness, reliability, correct presentation and validity of Colonial's financial information.

Without prejudice to the other functions attributed by law, article 32 of the Regulations of the Board of Directors states that at least the following functions must be performed by the Audit and Control Committee.

In particular, the Audit and Control Committee is entrusted with the following functions, among others, regarding the ICFR system organisational model:

1. Submit to the Board, for approval, a report on the risk management and control policy which identifies at least: (i) the different types of financial and non-financial risks facing the Company; (ii) the determination of the risk level the Company sees as acceptable; (iii) the measures in place to mitigate the impact of risk events should they occur; and (iv) the internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.
2. Supervise the process of drawing up and presenting the required financial information.
3. With respect to internal control and reporting systems: (i) monitor the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the Group, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles; (ii) monitor the independence and effectiveness of the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the Company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports; and (iii) establish and supervise a mechanism whereby employees can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the Company.
4. Act as a communication channel between the Board of Directors and the external auditor, assessing the results of each audit, and having responsibilities in respect of the external auditor: (ii) to receive information on a regular basis from the external auditor on the audit plan and its implementation;
5. Inform the Board of Directors of all matters established by law, the Bylaws and the Regulations of the Board of Directors and, in particular:
 - a) The financial information that the Company must periodically disclose.
6. Minutes will be taken of all Committee meetings and will be available to all Board members.

In this regard, the Committee is responsible for preparing and updating the internal audit regulations as well as defining and structuring the function, including establishing its objectives, methodology, systems and reporting model.

The internal audit function is responsible for drawing up the annual Internal Audit Plan and submitting it to the Audit and Control Committee. It includes the necessary tests to verify compliance with ICFR manuals, procedures and policies.

The internal auditor shall carry out these tests and report on the conclusions to the Audit and Control Committee, including any internal control weaknesses identified, recommendations for improvement and the general conclusions of the annual audit plan which specifically includes, among others, those related to the ICFR system.

F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:

- The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the entity.

The internal audit function and the Operations-Finance Department are responsible for designing the ICFR organisational structure at Colonial and are the two departments which are most involved in the preparation and subsequent monitoring of the financial information to be disclosed.

Nevertheless, all departments involved to a lesser or greater degree in preparing the financial information must take responsibility for correctly carrying out the tasks, processes and controls in which they are involved.

The organisational structure of Colonial's ICFR system is based on two differentiated areas:

- a) The general control environment, where the main ICFR guidelines, as well as the roles and responsibilities of senior management, are developed.
- b) Specific ICFR controls, where the related operating procedures for the preparation of financial information are developed.

Colonial's ICFR system is structured as follows:

- a) Establishment of a general atmosphere of appropriate control.
- b) Identification of the relevant risks which may materially affect financial information. These risks are cross-referenced against Colonial's key business processes, to obtain a list of business processes to be monitored.
- c) For those risks identified in the relevant processes, mitigating controls are implemented to reduce these risks to acceptable levels. Key documentation regarding the identified processes, risks and controls is drawn up. The affected departments are responsible for adequately implementing these procedures.
- d) The internal audit function and the Audit and Control Committee are responsible for monitoring the ICFR system to guarantee it functions effectively.

Finally, the Operations-Finance Department is responsible for maintaining and keeping Colonial's accounting policies and manuals up to date and ensuring that there are suitable controls in place for the Company's IT systems.

- Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.

Colonial's Board of Directors approved its Code of Ethics on 28 September 2011.

This Code of Ethics reiterates Colonial's commitment to the principles of corporate ethics and transparency, and establishes a series of basic principles to which all Colonial personnel, partners and suppliers must adhere at all times, as their behaviour may affect Colonial's reputation.

Specifically, and with regard to financial information, article 6.5 of the Code establishes the following:

“Colonial assumes as a guiding principle for its corporate behaviour with its shareholders, investors, analysts and the market in general, to disclose true, complete information which expresses the true and fair view of the Company and the Group, its corporate activities and its business strategies.

This information shall always be disclosed according to the regulations and within the timeframes established by prevailing legislation. The corporate actions and the strategic decisions of Colonial are focused on creating value for its shareholders, transparency in its management, the adoption of best corporate governance practices in its companies and the strict observance of prevailing regulations in this matter.”

Colonial’s Regulatory Compliance Unit, which reports to the Audit and Control Committee, is responsible for disseminating, both internally and externally, the Code of Ethics.

The Code has been distributed to all employees.

The Audit and Control Committee is responsible for assessing the degree of compliance with the Code and preparing an annual report based on its findings.

The Regulatory Compliance Unit is responsible for compiling any irregularities or breaches of the Code, and corrective or disciplinary actions must be taken in accordance with the fines and sanctions detailed in the collective bargaining agreement or applicable labour legislation.

The Board is responsible for reviewing and updating the Code of Ethics based on the report drawn up by the Audit and Control Committee.

- ‘Whistle-blowing’ channel, for the reporting to the Audit Committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential.

Colonial’s Regulations of the Board of Directors, and, specifically the section of article 32 of these Regulations regarding the responsibilities of the Audit and Control Committee, stipulate that these responsibilities include, among others:

“With respect to internal control and reporting systems: ... (iv) establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.”

As we have noted in the previous point, the Regulatory Compliance Unit, which reports to the Audit and Control Committee, is responsible for managing any irregularities or breaches of the regulations, and specifically, of Colonial’s Code of Ethics.

To this end, Colonial has set up a whistle-blowing channel on its intranet where employees can report any irregularities and breaches identified in the Company.

This channel is managed by the Regulatory Compliance Unit, and is regularly reviewed to guarantee its confidentiality and compliance with regulatory requirements.

- Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating the ICFR, which address, at least, accounting rules, auditing, internal control and risk management.

Colonial has a corporate training plan which covers all business areas according to the specific needs of each one.

However, the functional business areas themselves, under the coordination and supervision of the human resources department, are responsible for designing and suggesting specific training plans for their areas.

For staff involved in preparing and reviewing financial information, training is structured around attending events about regulatory updates, on financial, accounting and tax regulations, as well as receiving, distributing and analysing documentation from external advisors regarding

regulatory updates.

In addition, the Regulatory Compliance Unit, together with the functional areas, is responsible for identifying and distributing regulatory updates which affect Colonial, so that these can be analysed and implemented.

In the event of any regulatory changes of special relevance to the Company's financial, accounting or tax departments, the Operations-Finance Department proposes the need for specific training.

Likewise, personnel from the internal audit function attended thematic courses and forums outside the Company related to the evaluation of certain internal control aspects.

F.2 Risk assessment in financial reporting

Report at least:

F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

- The process exists and is documented.

One of the basic functions of the Audit and Control Committee, as delegated expressly by the Board of Directors, is to monitor and control risk. To this end the managers of the various operating units collaborate in identifying and correcting risk by applying Colonial's internal control and risk management system (ICRMS).

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

- a) Submit to the Board, for approval, a report on the risk management and control policy which identifies at least:
 - 1) The different types of risk the Company is exposed to;
 - 2) The determination of the risk level the Company sees as acceptable;
 - 3) The measures in place to mitigate the impact of risk events should they occur;
 - 4) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.
- b) Supervise the process of drawing up and presenting the required financial information.
- c) Monitor the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the Group, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles.
- d) Review internal control and risk management systems on a regular basis, so the main risks are properly identified, managed and disclosed.

Colonial's ICFR organisational and monitoring structure, as well as its Internal Control and Risk Management Manual, are aligned with and form part of Colonial's general risk policy, and have been approved by the Audit and Control Committee.

The objective of the Internal Control and Risk Management Manual, as part of the Company's risk and internal control policy, is to guarantee the preparation and dissemination of reliable financial information.

- The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.

The Internal Control and Risk Management Manual covers the following seven types of risk:

- 1) Completeness: Transactions, events, assets, liabilities or equity interests that are not identified and, consequently, are not included in the Company's accounts. Data entries not captured in the ledgers or data entries which have been rejected. Disclosures not identified and, consequently, not included in the notes to the financial statements or deliberately omitted.
- 2) Existence: Unauthorised transactions which are entered into the Company's accounting application. Duplicate transactions. Erroneous adjustments carried out in the ledgers.
- 3) Disclosure and comparability: Disclosures not identified and, consequently, not included in the notes to the financial statements or deliberately omitted. Transactions that have not been recorded consistently over time.
- 4) Rights and obligations: Incorrect determination of the ability to control the rights arising from an asset or a contract/agreement. Correct determination of the obligations derived from a liability or from a contract/agreement.
- 5) Valuation: Incorrect determination of the value of an asset, liability, revenue or expense, and which could generate the recording of adjustments in determining market values, amortised costs, value in use or due to an error in the depreciation as well as adjustments carried out and which are not duly justified.
- 6) Presentation: Incorrect presentation of financial transactions in the financial statements (assets vs. liabilities, income vs. expense, long-term vs. short-term, etc.).
- 7) Transaction cut-off: Incorrect recording of transactions in the corresponding accounting period.

Colonial's Internal Control and Risk Management Manual is revised and periodically updated by Internal Audit and the Legal Advisory and Operations-Finance Departments, at the proposal of any of these, also taking into account the suggestions and proposals of Internal Audit resulting from its reviews of operations. The Audit and Control Committee must approve any amendments to the Manual, while Internal Audit and the Operations-Finance Department must be notified in advance of any reviews or updates.

- A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies, etc.

Colonial's Regulations for the Board of Directors, and, specifically the section regarding the responsibilities of the Audit and Control Committee, stipulate that these responsibilities include, among others:

"With respect to internal control and reporting systems: (i) monitor the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the Group, checking for compliance with legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles..."

In this regard, Colonial has a consolidation process which stipulates, as a basic procedure, the determination of the Group's scope of consolidation at every accounting close.

This procedure is implemented by the Accounting, Consolidation and Tax Department which reports to the Operations-Finance Department. The Audit and Control Committee is notified when the scope of consolidation is amended.

- The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.

As noted above, one of the basic functions of the Audit and Control Committee, as delegated expressly by the Board of Directors, is to monitor and control risk. To this end, the managers of the various operating units collaborate in identifying and correcting risk.

Colonial's ICFR organisational and monitoring structure, as well as its Internal Control and Risk Management Manual, are aligned with and form part of Colonial's general risk policy (see section E above), and have been approved by the Audit and Control Committee.

In the process of identifying risks to the financial information within the ICFR system, all the areas of risk identified in Colonial's risk map have been considered.

- Finally, which of the entity's governing bodies is responsible for overseeing the process.

Colonial's Regulations of the Board of Directors, and, specifically the section regarding the responsibilities of the Audit and Control Committee, stipulate that these responsibilities include, among others:

"With respect to internal control and reporting systems: ... (ii) review internal control and risk management systems on a regular basis, so the main risks are properly identified, managed and disclosed."

In this regard, the Audit and Control Committee is responsible for approving the Internal Control and Risk Management Manual of Colonial's ICFR system.

F.3 Control activities

Indicate the existence of at least the following components, and specify their main characteristics:

- F.3.1. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets stating who is responsible in each case and documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.

As mentioned above, the Audit and Control Committee is responsible for supervising the preparation and disclosure of reliable financial information to the market. In this regard, the Committee has approved a manual for disclosure of statutory information which regulates the procedure for preparing and approving this information.

Colonial's Internal Control and Risk Management Manual establishes the criteria for identifying the relevant public financial information as follows:

- a) Periodic Public Information (PPI) obligations:
 - 1) Quarterly Financial Report.
 - 2) Interim Financial Report.
 - 3) Annual Financial Report and Annual Corporate Governance Report (ACGR).
- b) Annual Report on Directors' Remuneration (ARDR).
- c) Registration document.
- d) Significant events.

There are preparation and review procedures in place for all relevant statutory financial reporting to the market. These include an internal control questionnaire that must be completed involving the Operations-Finance Department, the Corporate Development and Management Control Department, both of which report to the General-Corporate Department, through the Legal Advisory Department and, depending on the type of information, the CEO, Board of Directors or the General Shareholders' Meeting itself.

Monitoring of the manual for disclosure of statutory information as well as the completion of the specific internal control questionnaires are mandatory and subject to review by Colonial's Internal Audit function.

In terms of the documentation of activity flows and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, Colonial has an ICFR organisational and monitoring structure which has been approved by the Audit and Control Committee. This provides specific internal control mechanisms that have been deployed to maintain an internal control environment conducive to comprehensive, reliable and timely financial reporting and which provides for the possible existence of irregularities and the means to detect and correct these.

The organisational structure of Colonial's ICFR system is based on two differentiated areas:

- a) The general control environment, where the main ICFR guidelines, as well as the roles and responsibilities of senior management, are developed.
- b) Specific ICFR controls, where the related operating procedures for the preparation of financial information are developed.

In addition, Colonial has an Internal Control and Risk Management Manual for its ICFR system which sets out the specific controls and formal documentation for mitigating financial reporting risks. The organisation model details the high-level controls and mechanisms.

Colonial has determined that errors or inaccuracies in the financial statements and other public information could severely affect its reputation, image and share price and these are therefore included in the ICFR system for monitoring.

Once the relevant financial information has been determined, the cycles and business processes, both in the preparation as well as in the disclosure of financial reporting that could have a material impact on the abovementioned information, are identified.

Once the processes have been identified, the relevant functional areas and Internal Audit then identify the implicit risks in the processes and the corresponding controls.

These processes, risks and controls are formally documented so they can be correctly carried out and monitored.

The Company guarantees that the identified risks are consistent with the corporate risk model.

The scope of the processes selected ensures that, by complying with the same, complete and reliable financial information is obtained.

The Operations-Finance Department and Internal Audit are responsible for identifying the ICFR processes, risks and relevant controls which are then approved by the Audit and Control Committee. In this process, the Company has specifically considered the possible risk of fraud and has in place control activities to prevent this risk. At present, there is no formal corporate anti-fraud policy.

The processes identified at Colonial relating to the ICFR system are:

- a) Closing of accounts, and a review of critical judgements, estimates, valuations and projections.
- b) Consolidation and reporting at subsidiaries.
- c) Recognition of revenue.
- d) Asset valuation (determination of the fair value of Colonial's property investments and the net realisable value of inventories).
- e) Treasury, debt and derivatives.
- f) Manual for disclosure of statutory information.
- g) Procedure for maintaining accounting policies, Group accounting policies manual.
- h) Taxes.

- i) IT systems, including the capture and preparation mechanisms for supporting financial information.
- j) Investments and asset acquisitions.
- k) Purchases of goods and services.
- l) Human resources.

All of Colonial's key processes are documented and working, and are updated annually to include any potential amendments.

The key processes at Colonial which affect the preparation of financial information are documented through the following:

- a) Flow charts of the activities in the procedure.
- b) Descriptions of the processes, their risks and the controls in place.
- c) Risk and control matrices.

The ICFR Internal Control and Risk Management Manual is an internal regulation which must be adhered to. Therefore, it is essential that all the functions/departments involved monitor the processes established, as well as the controls in place, to guarantee security when preparing financial information at Colonial.

The most senior-ranking employee in each of the departments involved in the procedures documented in the internal control model shall be responsible for ensuring that the processes and controls are correctly applied and documented for each accounting period.

In this regard, a checklist has been provided to verify that the processes are documented for each accounting period and are subject to review by Internal Audit.

Any transactions with a relevant weight of critical judgments, estimates, evaluations and projections are specifically monitored, as is the case with real estate asset valuations, the preparation of impairment tests and the preparation of efficiency tests for derivative financial instruments.

F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

The IT systems area is responsible for Colonial's corporate IT systems. This department reports to the Operations-Finance Department which in turn reports to the General-Corporate Department.

At present, the operation and maintenance of Colonial's corporate IT systems are outsourced. Therefore, the head of IT coordinates the main aspects concerning the physical security, continuity and operation of the systems with the external supplier.

Furthermore, the head of IT systems at Colonial is responsible for establishing the IT internal control model regarding secure access, segregation of duties (in coordination with the operating business and support areas) and control of changes, as well as carrying out risk monitoring and control activities arising out of the outsourcing of the IT systems.

All Spanish Colonial Group companies use the same SAP operating system. The information systems of the French Group SFL are not fully integrated with Colonial, and therefore information is exchanged by exporting data to secure files.

Colonial's IT internal control model includes, among others, the following key processes:

- a) Physical safety of the equipment and the data processing centres (in coordination with the external supplier).
- b) Logical security of the applications (in coordination with the external supplier).

- c) Monitoring of the Service Level Agreement (SLAs) and the Service Level Objectives (SLOs) with the external suppliers.
- d) Project management, rollouts, developments and upgrades of current systems.
- e) Operations management.
- f) Infrastructure and communications management.
- g) Management of the back-up and recovery systems (in coordination with the external supplier).
- h) Management of users, profiles and accesses.
- i) Management of the audits of the reporting and regulatory compliance systems.

F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

As mentioned in section F.3.1, Colonial has identified the key processes which may materially affect its financial information. Among the criteria used to identify these processes, the Company has considered criteria for activities with a high level of third-party involvement and also those which are fully outsourced.

In this regard, the relevant processes involving significant third-party participation are as follows:

- a) Valuation of property assets: determination of fair value.
- b) Financial hedging instruments: efficiency tests and resulting fair value.
- c) IT systems: maintenance and operation.

All procedures involving third parties have been documented, identifying all the risks and the controls introduced. The functional areas involved in the different processes are responsible for monitoring them and for introducing the appropriate controls.

The Internal Audit function's annual plan includes the monitoring activities needed to ensure the processes described are correctly executed.

F.4 Information and communication

Indicate the existence of at least the following components, and specify their main characteristics:

F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations, and a manual of accounting policies regularly updated and communicated to all the entity's operating units.

The ICFR organisational and monitoring structure, which has been approved by the Audit and Control Committee, establishes that the Operations-Finance Department is responsible for maintaining Colonial's accounting policies and the group accounting policies manual, as well as settling doubts or disputes over their application.

Colonial has a group accounting policies manual, which has been approved by the Audit and Control Committee, and which must be adhered to by all companies.

The Operations-Finance Department is responsible for preparing and updating this manual.

F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

Colonial has implemented a tool to assist in the reporting of financial information and financial and operational budgetary planning for the Group. This guarantees greater control and security in the process of capturing and preparing financial information.

The Group accounting policies manual establishes an accounting plan and model financial statements which all Group companies must follow and which are set up in the tool thereby guaranteeing the uniformity of the financial information.

The preparation of statutory financial information, as well as the individual financial statements for Colonial's Spanish companies, is coordinated centrally by the Operations-Finance Department and the Corporate Development and Management Control Department, thereby guaranteeing uniformity.

A significant portion of the data required to prepare this financial information is obtained directly from the IT tool as it has been customised to do so. For those cases where information must be prepared without this tool, Colonial has control mechanisms in place to ensure its completeness and reliability as well as a physical archive of the information in an internal repository with access limited to the staff involved in preparing the financial information.

Colonial has a specific tool for managing the ICFR system.

F.5 Monitoring

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1. The ICFR monitoring activities undertaken by the Audit Committee and an internal audit function whose competencies include supporting the Audit Committee in its role of monitoring the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the entity has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

The main activities carried out by the Audit and Control Committee in relation to the ICFR system in 2015 consisted of supervising the development process implemented by the internal audit function to supervise the implementation and effectiveness of the ICFR.

The Committee also met with the Company's auditors to assess the internal control weaknesses encountered during the course of their work, as well as any relevant aspects or incidents.

Finally, the Audit and Control Committee has reviewed all the financial information disclosed by Colonial.

The Audit and Control Committee has already approved the 2016 action and audit plans, including the necessary actions to guarantee the correct monitoring and evaluation of the model throughout the year. Any incidents detected and the necessary corrective measures shall be reported on a regular basis, as well as their potential impact on the financial information, once these have been confirmed with the audited areas.

Colonial's Regulations of the Board of Directors, and specifically the section corresponding to the duties of the Audit and Control Committee, state that the Committee's responsibilities with regard to the internal audit function are, among others:

"With respect to internal control and reporting systems:

(iii) To safeguard the independence and effectiveness of the internal audit function; propose the selection, appointment, reappointment and removal of the head of Internal Audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports."

In July 2009, the Audit and Control Committee approved Colonial's internal audit regulations.

The main responsibilities of this function include:

1. Periodically verifying the degree of application of the approved policies and procedures which comprise the internal control system and offering suggestions for improvement, and as a result of this verification, offering suggestions to improve the risk management system.
2. Complying with any other precise requirement of the Audit and Control Committee or of the Executive Committee.

The internal control procedures include those relating to the ICFR system, which are included in the 2016 audit plan, which in turn includes the specific tasks to be carried out to verify that Colonial's ICFR system functions effectively.

The following activities relating to financial information were included in the 2015 audit plan:

1. Review of the financial information publicly disclosed.
2. Analysis of the consistency of the accounting policies used as well as an analysis of the observations and recommendations received from the external auditors.
3. Review of the management report.
4. Review of the information contained in the annual financial statements and interim financial statements concerning related-party transactions.
5. Monitoring of the effectiveness of the processes, risks and relevant controls related to the ICFR system.

F.5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its Audit Committee or Board of Directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

Article 8 of the Regulations of the Board of Directors states that:

"The relationship between the Board of Directors and the external auditor shall be channelled through the Audit and Control Committee."

In this regard, article 32 of the Regulations of the Board of Directors regulates the functions of the Audit and Control Committee, and among other aspects, establishes the following:

1. Act as a communication channel between the Board of Directors and the external auditor, assessing the results of each audit, and having responsibilities in respect of the external auditor:
 - (ii) to receive information on a regular basis from the external auditor on the audit plan and its implementation;

2. Establish the appropriate relationships with the external auditor to receive information on any issues which may jeopardise its independence and which will be studied by the Committee, and any other information relating to the auditing procedure, as well as any other communications provided for in the legislation relating to auditing and the technical rules thereof.

Likewise, and in relation to the internal audit function, the functions of the Audit and Control Committee include:

1. Monitor the effectiveness of the Company's internal control, internal audit and risk management systems, including tax risks, and discuss with the external auditors any significant weaknesses detected in the internal control system during the course of the audit.

All monitoring activities are carried out by the Company's Board of Directors and the Audit and Control Committee throughout the year and included in the agenda of the various meetings held during the year.

F.6 Other relevant information

No other aspects have been identified.

F.7 External auditor's report

State whether:

- F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The Audit and Control Committee and the internal audit function are responsible for the supervision of the ICFR system, complemented by the activities of the external auditor in identifying any internal control weaknesses identified during the course of the audit.

These supervision activities are considered adequate and sufficient, and it is therefore not considered necessary to submit the ICFR information to an additional external review.

G DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the degree of the Company's compliance with Corporate Governance recommendations.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

- 1. The Bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.**

Compliant **Explain**

- 2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:**

a) The activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies.

b) The mechanisms in place to resolve possible conflicts of interest.

Compliant X Partially compliant Explain Not applicable

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

a) Changes taking place since the previous annual general meeting.

b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Compliant Partially compliant Explain X

The Company expects to comply with this recommendation at the General Shareholders' Meetings to be held in 2016.

4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Compliant Partially compliant X Explain

Although not published on the Company's website, both the Bylaws and Colonial's Code of Ethics include the action principles for Inmobiliaria Colonial, S.A.'s relationship with its various stakeholders, including its shareholders, institutional investors and proxy advisors. These principles fully comply with market abuse regulations and accords equitable treatment to shareholders in the same position.

5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.

Compliant X Partially compliant Explain

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

a) Report on auditor independence.

b) Reviews of the operation of the audit committee and the nomination and remuneration committee.

c) Audit committee report on third-party transactions.

d) Report on corporate social responsibility policy.

Compliant Partially compliant X Explain

The report on the independence of the auditor, and on the functioning of the Audit Committee, are published on the corporate website well in advance of the Annual General Meeting. It should also be noted that the Audit Committee's report on third-party transactions was not drawn up because no third-party transactions were carried out in 2015.

7. The company should broadcast its general meetings live on the corporate website.

Compliant Explain X

Although the General Meeting was not broadcast live, this possibility is included in article 15 of the Regulations of the General Shareholders' Meeting.

8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Compliant X Partially compliant Explain

9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Compliant X Partially compliant Explain

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:

a) Immediately circulate the supplementary items and new proposals.

b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.

c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.

d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Compliant X Partially compliant Explain Not applicable

11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.

Compliant Partially compliant Explain Not applicable X

12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Compliant X Partially compliant Explain

13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.

Compliant X Explain

14. The board of directors should approve a director selection policy that:

a) Is concrete and verifiable.

b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs.

c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.

The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.

Compliant Partially compliant X Explain

The Board of Directors has a director selection policy that conforms with article 4 of the Regulations of the Board of Directors, with the objective of ensuring that (i) proposals for appointment or re-election are based on a prior analysis of the Board's needs; (ii) the procedures for selecting its members favour diversity of gender, experience and knowledge, and are free from any implied bias entailing any kind of discrimination and (iii) in particular, that such procedures facilitate the selection of female directors. However, the explanatory report of the Nomination and Remuneration Committee is not being published in connection with the call for the General Meeting.

15. Proprietary and independent directors should constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Compliant X Partially compliant Explain

16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Compliant Explain X

The number of proprietary directors (5) out of non-executive directors (9) currently exceeds the proportion between Colonial's share capital represented by these directors and the remainder of the Company's capital. However, Inmobiliaria Colonial, S.A. does have several shareholders represented on the Board of Directors that are not otherwise related and, therefore, this criterion can be relaxed.

17. Independent directors should be at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.

Compliant Explain X

First of all, Colonial cannot be considered to have a large market capitalisation. Second, the Company's Board of Directors currently has three independent directors and one member classified under the category of "other external director", as well as five proprietary directors and two executive directors. In this regard, although the number of independent directors does not exactly represent one-third of all directors and, therefore, does not literally comply with the aforementioned good governance recommendation, we believe that the Company complies with the philosophy and spirit of the good governance principles and recommendations applicable to listed companies, as the Board of Directors is mainly composed of proprietary and independent directors, and the number of executive directors is the minimum necessary.

18. Companies should post the following director particulars on their websites, and keep them permanently updated:

a) Background and professional experience.

b) Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.

d) Dates of their first appointment as a board member and subsequent re-elections.

e) Shares held in the company, and any options on the same.

Compliant Partially compliant Explain

19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Compliant Partially compliant Explain Not applicable

20. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Compliant Partially compliant Explain Not applicable

21. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Compliant Explain

22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.

Compliant Partially compliant Explain

23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning

for such causes should set out their reasons in the letter referred to in the next recommendation. The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Compliant X Partially compliant Explain Not applicable

24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.

Compliant X Partially compliant Explain Not applicable

25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations should lay down the maximum number of company boards on which directors can serve.

Compliant Partially compliant X Explain

Although the Regulations of the Board of Directors do not establish a maximum number of company boards on which directors can serve, the Nomination and Remuneration Committee ensures that non-executive directors have sufficient time available to properly discharge their duties.

26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Compliant X Partially compliant Explain

27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.

Compliant X Partially compliant Explain

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, they should be recorded in the minute book if the person expressing them so requests.

Compliant X Partially compliant Explain Not applicable

29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Compliant X Partially compliant Explain

30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.

Compliant X Explain Not applicable

31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Compliant X Partially compliant Explain

32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Compliant X Partially compliant Explain

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Compliant X Partially compliant Explain

34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.

Compliant X Partially compliant Explain Not applicable

35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.

Compliant X Explain

36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:

- a) The quality and efficiency of the board's operation.
- b) The performance and membership of its committees.
- c) The diversity of board membership and competences.

d) The performance of the chairman of the board of directors and the company's chief executive.

e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Compliant Partially compliant Explain

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

Compliant Partially compliant Explain Not applicable

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 Partially compliant Explain Not applicable

39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

Compliant Partially compliant Explain

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Compliant Partially compliant Explain

41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.

Compliant X Partially compliant Explain Not applicable

42. The audit committee should have the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

a) Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.

b) Ensure the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.

e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Compliant X Partially compliant Explain

43. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Compliant X Partially compliant Explain

44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report

to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.

Compliant Partially compliant Explain Not applicable

45. Risk control and management policy should identify at least:

a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), with the inclusion under financial or economic risks of contingent liabilities and other off- balance-sheet risks.

b) The determination of the risk level the company sees as acceptable.

c) The measures in place to mitigate the impact of identified risk events should they occur.

d) The internal control and reporting systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

Compliant Partially compliant Explain

46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.

Compliant Partially compliant Explain

47. Appointees to the nomination and remuneration committee - or of the nomination committee and remuneration committee, if separately constituted - should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.

Compliant Partially compliant Explain

48. Large cap companies should operate separately constituted nomination and remuneration committees.

Compliant Explain Not applicable

49. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the nomination committee to propose candidates that it might consider suitable.

Compliant X Partially compliant Explain

50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:

- a) Propose to the board the standard conditions for senior officer contracts.
- b) Monitor compliance with the remuneration policy set by the company.
- c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.
- d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.
- e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.

Compliant X Partially compliant Explain

51. The remuneration committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors and senior officers.

Compliant X Partially compliant Explain

52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.
- b) They should be chaired by independent directors.
- c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.
- d) They may engage external advice, when they feel it necessary for the discharge of their functions.
- e) Meeting proceedings should be minuted and a copy made available to all board members.

Compliant Partially compliant Explain Not applicable X

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.

b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.

c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.

d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.

e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.

f) Monitor and evaluate the company's interaction with its stakeholder groups.

g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.

h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Compliant X Partially compliant Explain

54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

a) The goals of its corporate social responsibility policy and the support instruments to be deployed.

b) The corporate strategy with regard to sustainability, the environment and social issues.

c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conducts.

d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.

e) The mechanisms for supervising non-financial risk, ethics and business conduct.

f) Channels for stakeholder communication, participation and dialogue.

g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.

Compliant X Partially compliant Explain

55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Compliant X Partially compliant Explain

56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Compliant X Explain

57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.

The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant X Partially compliant Explain

58. In the case of variable awards, remuneration policies should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or circumstances of that kind.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Compliant X Partially compliant Explain Not applicable

59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Compliant X Partially compliant Explain Not applicable

60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.

Compliant X Partially compliant Explain Not applicable

61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.

Compliant X Partially compliant Explain Not applicable

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.

The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.

Compliant X Partially compliant Explain Not applicable

63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Compliant Partially compliant Explain X Not applicable

No further provisions in this regard are envisaged, beyond those set out in applicable company law.

64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.

Compliant Partially compliant X Explain Not applicable

Compliant with respect to the Chairman of the Board of Directors.

H OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.
2. You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different from that required by this report.

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable, identify the Code and date of

adoption. In particular, indicate whether the company adheres to the Code of Best Tax Practices of 20 June 2010.

- On 10 December 2015, the Company's Board of Directors agreed to adhere to the Code of Best Tax Practices. This resolution was reported to the tax authorities on 8 January 2016.
- The figure contained in section C.1.15 of this report includes (i) the settlement of the share delivery plan, (ii) compensation of executive directors and (iii) the cost of directors for their membership on the Board of Directors of group companies.

This annual corporate governance report was adopted by the Company's Board of Directors at its meeting held on 19 February 2016.

List whether any directors voted against or abstained from voting on the approval of this Report.

Yes X No

Name or corporate name of director who voted against the approval of this report	Reasons (voted against, abstained, non-attendance)	Explain the reasons
Sheikh Ali Jassim M.J. Al-Thani	Non-attendance	Non-attendance