Colonial

Fiscal transparency report of Inmobiliaria Colonial, SOCIMI, S.A. 2020

Colonial

Content

1 Good governance, transparency and integrity

Our commitments to good governance, transparency and integrity, along with creating value for shareholders and investors, govern our business management and corporate activities.

1.1 Values

At Colonial we are aware of the importance of our contribution to public finances and sustaining them in accordance with our economic capacity by punctually complying with our tax obligations based on the principles of fiscal responsibility and transparency.

At Colonial we are committed to acting with transparency, honesty and respect for the law and the good of the community when managing our tax affairs. Our commitment is to comply with the law by making a reasonable interpretation of them, cooperating with the authorities and providing them with the necessary information. In this context, compliance with prevailing tax legislation at all times is part of the principles that inspire Colonial's corporate responsibility, with the taxes paid being one of its contributions to the economic and social development of the society in which it operates.

1.2 Tax Strategy

Colonial's tax strategy is governed by the following guidelines:

- Reducing tax risk and preventing those conducts that are likely to generate them by promoting ethical and upright behaviour that complies with prevailing tax requirements.
- Avoiding the use of opaque structures for tax purposes, understood as those intended to prevent the relevant Tax Administrations of the final party responsible for the activities or the ultimate owner of the assets or rights involved becoming aware.
- Using the specific instruments laid down by the regulations and the Code of Best Tax Practices (prior consultations with the tax authorities, prior assessment agreements, etc.) to reduce conflicts and litigation derived from the applicable regulations being interpreted differently.
- Collaborating with the relevant Tax Administrations in detecting and searching for solutions regarding fraudulent tax practices that may unfold in the markets in which Colonial operates.
- Providing the tax-related information and documentation requested by the relevant Tax Administrations, in the shortest possible time and with the necessary scope.
- Promoting cooperative relations with the Tax Administration.

Colonial's Tax Strategy was approved by Colonial's Board of Directors on 10 December 2015 and is updated when required.

1.3 Tax Risk Management and Control System

The Audit and Control Committee (hereinafter, ACC), in accordance with the Regulations of the Board of Directors, is entrusted with the function of overseeing the operation and effectiveness of Colonial's risk management and control system, including any tax-related risks. The ACC monitors the tax strategy approved by the Board of Directors through the annual fiscal report. In particular, the ACC issues a prior report to the Board of Directors on (i) the creation or acquisition of interests in special purpose vehicles or entities domiciled in countries or territories considered tax havens, (ii) related-party transactions, and (iii) major transactions with economic and tax implications, especially to do with corporate reorganisations.

Currently, Colonial has neither created nor has any entity or corporation domiciled in tax havens.

Accordingly, the ACC is responsible for directly overseeing the Internal Audit unit, as the unit responsible for ensuring the company's risk control and management systems function properly. It ensures the Management participates in strategic decisions on risk management and control and fosters a culture in which risk is a factor to be considered in all decisions and at all levels within the company.

The tax risk management and control model is made up of five elements that, combined, pursue an adequate control system for risk prevention:

- Control Environment: set of standards, processes and structures that constitute the basis on which the organisation's internal control is developed.
- Risk assessment and control activities: this is carried out jointly by the Internal Audit unit and the process managers and risk owners. Each tax risk identified has at least one control activity intended to prevent a risk from occurring and mitigate its impact.
- Oversight activities: this is continuously monitored to check whether its design and operation are adequate with respect to the requirements of the applicable regulations by analysing and resolving the identified incidents.
- Information and Communication: the required initiatives are promoted to be appropriately disseminated and train staff, so that the members of the company can comply with the regulations.
- Disciplinary system: non-compliance with the measures established in the model and with the company's rules of conduct are sanctioned by applying the Colonial sanctioning regime set forth in the company's Collective Bargaining Agreement.

Colonial's Tax Risk Management Policy, which is intended to be the base document for Colonial's tax control framework, was approved by Colonial's Board of Directors on 10 December 2015. It is updated whenever necessary.

The purpose of the Tax Risk Management Policy is to regulate the principles that should guide Colonial's tax function in order to carry out proper management and control of tax risks, by building:

- The principles that should guide the management of tax risks by establishing the obligations and responsibilities within the organisation in this regard and including a description of the measures that must exist to mitigate the possible tax risks identified.
- The principles that should guide the correct control of tax risks, which firstly include performing a set of ex ante preventive controls and, secondly, performing a set of ex-post controls that entail identifying, measuring, analysing, monitoring and reporting them.

For Colonial, due diligence is an important factor when doing business, both in relation to controlling the selection of the organisation's members (internal due diligence) and the third parties with whom it relates (external due diligence).

In relation to the group's investee companies, Colonial will strive to apply Colonial's Tax Strategy and Tax Risk Management and Control Policy, except in those cases in which, considering their specific characteristics, said companies have their own tax strategy or their own tax risk management and control policy.

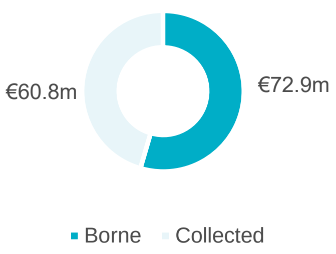
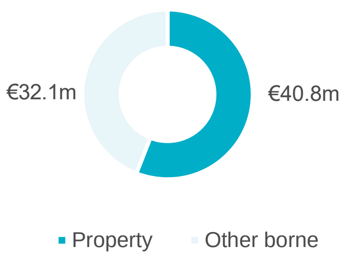
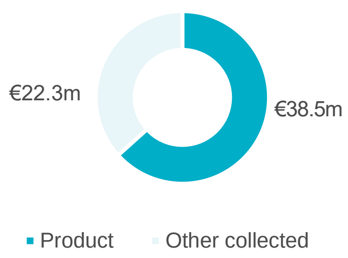
2 Breakdown of tax information

Properly explaining the importance of the Colonial Group's tax contribution is a priority for Colonial from the point of view of transparency and corporate social responsibility.

2.1 Tax contribution report

Colonial publicly breaks down the main tax payments in those countries in which it operates. This reflects the importance attached by Colonial to tax matters, as well as its level of commitment to the main stakeholders.

2.1.1 Total Tax Contribution in 2020

Total Tax Contribution of the Group	**Taxes borne in 2020**	**Taxes collected in 2020**
Total taxes generated by the Group's activity in all the territories in which it operates **amounted to €133.7m,** of which **54% refers to taxes borne** and **the other 46% refers to taxes collected**.	The taxes borne by the Colonial Group in 2020 amounted to 72.9 million euros. Property taxes are of particular importance, representing 56%.	The taxes collected by the Colonial Group in 2020 amounted to 60.8 million euros, the most significant of which are the taxes on products and services, mainly VAT, which represent 63% of the total taxes collected.
		

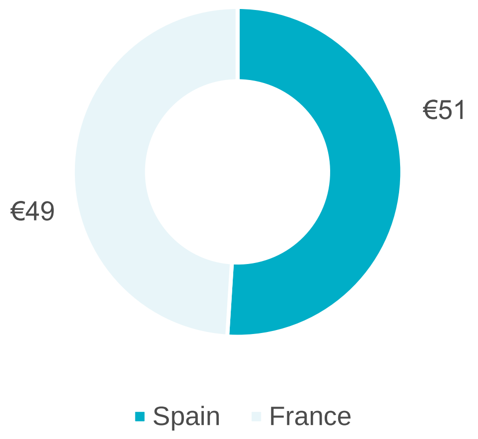
Source: Prepared in-house

Colonial's Tax Contribution with respect to 2020 turnover	**Total Tax Contribution Rate in 2020**	**Distributed tax value in 2020**(*)
For every 100 euros of the Group's revenue, 39 euros are used to pay taxes. Of that amount, 21 euros are taxes borne and 18 euros are taxes collected.	During 2020, the Total Tax Contribution Ratio of the Colonial Group represents 38% of the profits before taxes borne (the profit before taxes borne is adjusted for the impact of revaluations).	Of the value generated by the Colonial Group while carrying out its business activities, 133.7 million euros has been paid to the Public Treasury through taxes borne and collected. Thus, of every 100 euros of value generated by the Group in 2020, 33 euros were used to pay taxes.

***(*)** The value distributed by the company is the sum of taxes (borne and passed on), net withholding dividends, net interest and wages and salaries net of taxes collected on behalf of employees.*

2.1.2 Geographic distribution of the tax contribution in 2020

Of every 100 euros that the Colonial Group pays in taxes throughout the world, 52 euros are paid in Spain.



Source: Prepared in-house

2.1.3 Taxes paid to the Public Treasury

	Spain		France		Total	
	Taxes borne	Taxes collected	Taxes borne	Taxes collected	Taxes borne	Taxes collected
Income tax	**11.1**	**13.2**	**14.1**	**0.1**	**25.2**	**13.3**
Income tax	10.3	-	13.9	-	24.2	-
Others	0.8	13.2	0.2	0.1	1.0	13.3
Property tax	**21.1**	**-**	**19.7**	**-**	**40.8**	**-**
Yearly municipal property tax	17.8	-	17.6	-	35.4	-
Others	3.3	-	2.1	-	5.4	-
Taxes associated with employment	**1.9**	**5.6**	**4.5**	**3.0**	**6.4**	**8.6**
Payments to Social Security and others	1.9	0.4	4.5	1.7	6.4	2.1
Work income withholdings	-	5.2	-	1.3	-	6.5
Taxes on products and services	**0.4**	**14.3**	**-**	**24.2**	**0.4**	**38.5**
VAT settled	-	14.3	-	24.2	-	38.5
Others	0.4	-	-	-	0.4	-
Environmental taxes	**0.1**	**0.4**	**-**	**-**	**0.1**	**0.4**
Subtotal of taxes paid	**34.6**	**33.5**	**38.3**	**27.3**	**71.3**	**60.8**
Total	**68.1**		**65.6**		**133.7**	

2.1.4 Tax contribution report

The total tax contribution report of the Colonial Group for 2020 is available at this link.

2.2 Financial and non-financial tax information

2.2.1 Financial tax information

The breakdown of Colonial's tax expense is detailed in the consolidated financial statements of Colonial and its subsidiaries and in the separate financial statements of Inmobiliaria Colonial, SOCIMI, S.A., specifically in Notes 19 and 17, respectively.

2.2.2 Non-financial tax information

Law 11/2018 of December 28 amends the Commercial Code and the Spanish Limited Liability Companies Law, by making it mandatory in certain cases to include certain tax information in the statement of non-financial information of companies and groups: country-by-country profits earned, taxes on profits paid and government subsidies received.

	2020			2019		
	Third-party revenue	Intragroup transactions	Total	Third-party revenue	Intragroup transactions	Total
Spain	159.3	--	159.3	155.8	--	155.8
France	182.4	--	182.4	198.7	--	198.7
Total	**341.7**	**--**	**341.7**	**354.5**	**--**	**354.5**

The contribution by country to the accounting profit/(loss) before tax shown in the consolidated income statement is as follows:

	Accounting profit/(loss) before tax (contribution to consolidated profit/(loss))	
	2020	2019
Spain	(227.7)	343.3
France	292.5	671.5
Total	**64.8**	**1,014.8**

The Colonial Group applies the fair value through profit or loss method to the accounting records of its investment properties, and therefore the consolidated results include the impact of the change in value recorded during the year. These results do not have an impact on the tax payable in each country, since (i) they are either (i) treated as deferred taxes on consolidation as they are deferred unrealised capital gains, (ii) do not generate such deferred tax as they are properties that have met the minimum maintenance requirements established by the REIT Law, or (iii) are French assets subject to the SIIC regime for which the Group has already paid the exit tax and, therefore, no additional taxation is associated with them.

The amount of investment property revaluations recorded for 2020 in Spain and France amounts to 255.6 million euros of losses and 176.5 million euros of income, respectively (2019: 346.8 million and 526.9 million euros of income, respectively). These amounts do not include the effect of possible deferred taxes associated with them, nor the portion of such results attributable to non-controlling interests.

The contribution by country to the Group's consolidated profit/(loss) before tax excluding the effect of recording its investment property at fair value through profit or loss, as it would have been, is shown in the table below:

	Accounting profit/(loss) before tax (contribution to consolidated profit/(loss))	
	2020	2019
Spain	27.9	(3.5)
France	116.0	144.6
Total	**143.9**	**141.1**

The following table shows property, plant and equipment and investment property (including those classified as non-current assets held for sale) by country:

	Property, plant and equipment and investment property (contribution to consolidated profit/(loss))	
	2020	2019
Spain	4,490.1	4,959.1
France	7,364.7	7,065.4
Total	**11,854.8**	**12,024.5**

The following table shows the amount of income taxes paid and accrued by country:

	2020		2019	
	Income tax paid	**Accrued income tax**	**Income tax paid**	**Accrued income tax**
Spain	(10.3)	(3.5)	0.2	1.5
France	(13.9)	1.5	(15.8)	(23.8)
Total	**(24.2)**	**(2.0)**	**(15.6)**	**(22.3)**

Most of the group's companies, both Spanish and French, are part of what are known as REITs (*Real Estate Investment Trusts*). These are real estate companies listed on official national markets and which generate income for their shareholders through the development and sale of their real estate assets. Investors in this type of entity (be they small investors or institutional investors) can invest in a listed real estate company, in the same way as they can invest in other listed entities, and instead of investing in individual properties, they can invest collectively in a portfolio of assets.

Since the purpose of the REIT is to channel the collective investment in real estate assets, the profits generated by these companies is not taxed from the REIT, and in fact it is the shareholder who is taxed on these profits when they are distributed via dividends. Spanish REITs and French SIICs are legally obliged to distribute as dividends the following gains/losses that have benefited from these tax regimes:

	REIT	**SIIC**
Net gain/(loss) on leasing of properties	80%	95%
Net gain/(loss) on sales of assets	50%*	70%
Net gains/losses through dividends from REIT companies	100%	100%

* The remaining 50% must be reinvested in new assets subject to the REIT regime within 3 years from the date of the transfer, and if not reinvested, the net gain must be distributed as a dividend.

Taxation of net rental income and sales of real estate assets is passed on to its shareholders to ensure that such gains are only taxed once and not twice (first by the REIT and then by the shareholder). This creates an incentive for investing in property through REITs, as they are accessible, transparent and liquid.

In addition to REITs and SIICs, there are companies under the general Spanish and French corporate income tax regime. Certain gains and losses in REITs are also included in the general regime, such as sales of assets which have not been held for the minimum three-year holding period required by the REIT Law, or the inclusion of certain adjustments from years before the adoption of the REIT regime, which Colonial opted for with effect from 1 January 2017.

Lastly, as was the case with the consolidated profit/(loss), the amounts in the table above are greatly affected by the impact of recording investment property at fair value through profit or loss, and the associated deferred tax in those cases where applicable. If we strip out this impact, the table would be as follows:

	2020		2019	
	Income tax paid	**Accrued income tax**	**Income tax paid**	**Accrued income tax**
Spain	(10.3)	(3.4)	0.2	(0.8)
France	(13.9)	(6.3)	(15.8)	(9.8)
Total	**(24.2)**	**(9.7)**	**(15.6)**	**(10.6)**

The following table shows the amount of public subsidies received in Spain, plus the amount of contributions made to foundations and non-profit organisations:

	2018	2019	2020
Public subsidies received in Spain	-	-	-
Contributions to foundations and non-profit entities	0.1	0.1	0.3

2.3 Status of main tax inspections and litigation

2.3.1 Inspections

Periods open to review by the Tax Authorities

In Spain, at the close of 2020, Colonial has 2014, 2015 and subsequent financial years open for inspection for Corporation Tax. Colonial and its controlled subsidiaries have 2015 and subsequent years open to review, in general, for the other taxes that apply to them.

Inspections closed during 2020

In Spain, during 2020 an inspection process was closed regarding the tax on constructions, installations and works for the renovation works carried out in a property located in Madrid.

Inspections in 2021

In Spain, at the beginning of 2021, there were five inspection process open regarding the inspection of the tax on construction, installation and works of the renovation works of four buildings located in Madrid and for the construction of a building in Barcelona. Four processes have been completed without significant impact for Colonial.

An Inspection process regarding the cadastral registration for new construction of a building in Madrid has been open since 2020.

During 2021, an inspection process has been initiated by the City Council of Madrid on tax on constructions, installations and works for the renovation works carried out in a building.

2.3.2 Litigation

Most of Colonial's tax litigation processes arise from a process for returning undue income, where the relevant taxes are paid in a timely manner, and subsequently it asks for the amount paid to be refunded. Said refund request could be rejected by the Administration, in which case Colonial would challenge the refusal, thus starting court proceedings. By following this procedural strategy, Colonial avoids generating contingencies in its accounts without losing the legitimate interest to defend its position in the Courts.

The most relevant cases of litigation refer to the appeal against two additional settlements of the Transfer Tax and Stamp Duty arising from the purchase of property owing to disagreement concerning the value stated in the public deed and the value assigned by the Administration.

In addition, Colonial has several lawsuits regarding discrepancies in the cadastral values of certain properties located in Madrid and Barcelona.

Colonial has no reserves for tax litigation, nor does it expect potential significant impacts derived from open litigation.

2.4 Low tax territories

Colonial's policy is that investments are not made in or through territories classified as tax havens with the intention of reducing the tax burden. Furthermore, Colonial does not use entities based in tax havens in order to hide the true owner of income, activities, assets or rights.

3 Cooperative relationship with the Tax Administration

Colonial adheres to the Code of Best Tax Practices as a result of the resolution adopted by the Colonial Board of Directors in its session on 10 December 2015. In this regard, certain behaviours that are compulsory for the company have been developed including:

- Colonial's tax strategy must have been established by its Board of Directors, documented and known to the company's senior executives.
- The Board of Directors must have approved the operations and investments with special tax risk.
- The company's risk management policy must include measures to mitigate the tax risks identified and have established internal corporate governance rules in this area and compliance with which may be subject to verification.
- The company must have used effective information systems and internal control of tax risks, insofar as its design and operation are fully integrated into the general internal control systems of the business it undertakes.

In compliance with the Corporate Governance regulations on tax matters and the Code of Best Tax Practices, the Audit and Control Committee is periodically informed of the company's tax situation.

Colonial endeavours to respond to all the issues raised by the different stakeholders in relation to tax matters through the different communication channels in place.

4 Other tax-related information

4.1 Non-provision of tax services by the account auditor

Colonial does not hire tax advisory services with the firm that audits its annual accounts.

The services provided by the audit firm during 2020 are limited to those referring to the actual account audit services, as well as limited reviews of the financial statements and other minor services related to the audit, which include support for limited reviews, issuing comfort letters and reports on agreed procedures for ratios linked to financing contracts and the net asset value of assets. In 2020, the auditor did not provide tax services, or other services other than the above.

The Independent auditor's report for 2020 is available at this link.

4.2 Colonial's regulatory risk prevention model

Colonial has a model for preventing regulatory risks, including criminal risks. This model's main instruments are the Code of Ethics, the Manual for the Prevention of Criminal Risks, the Manual for the Prevention of Money Laundering and the Financing of Terrorism and the Internal Code of Conduct in the area of the Securities Market. These tools, together with the complaints channel, provide Colonial with a solid regulatory framework that includes its values and principles in terms of ethics and regulatory compliance.

This Model is intended to prevent non-compliance with the regulations applicable to Colonial, and therefore crimes being committed within its activity. It is a structured and organic system that has monitoring and control procedures and activities managed by the Regulatory Compliance Unit, which functionally reports to the Audit and Control Committee.

The criminal risks that are subject to review in the Colonial Model include money laundering and the crime of asset stripping.

All the company's professionals are responsible for executing and complying with the Model and the different tools that comprise it are available on the company's Intranet. Likewise, the company has an annual training plan run by the Regulatory Compliance Unit through which initiatives are promoted for their dissemination and understanding.

Finally, the Model is continuously overseen by the Internal Audit and the Regulatory Compliance Unit and the results of said oversight are submitted to the Audit and Control Committee, which is the body responsible for overseeing the operation and compliance of the Model.