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AUDIT AND CONTROL COMMITTEE REPORT ON THE ASSESSMENT OF THE COMMITTEE'S FUNCTIONING IN 2016

1. INTRODUCTION

The Audit and Control Committee of Inmobiliaria Colonial, S.A. (the “**Company**”) has drawn up this report on its functioning and on the exercise of its competences throughout 2016 (the “**Report**”). For the purposes of drawing up this report a questionnaire was sent to the members of the Committee on its structure, organization, functioning and exercise of its competences, and this was completed by all members of the Committee.

The Report shall be submitted to the Company's Board of Directors, and on this basis the Board shall be the body detailed to assess the functioning of this Audit and Control Committee (the “**Committee**”) by virtue of the provisions of Article 34 of Board Regulations.

2. CONCLUSIONS OF THE ASSESSMENT PROCESS

A number of positive conclusions were obtained from the assessment process carried out by the Committee on its own functioning, in terms of its composition and internal organization and also of exercise of the competences assigned to it.

2.1. Composition of the Committee

The Committee is composed of 5 members, thereby complying with the minimum number required by Article 32 of Board Regulations, which stipulates that the Committee must be composed of at least 3 and not more than 8 Directors.

All members of the Committee are non-executive Directors - 4 of them are independent Directors, and 1 is a proprietary Director. The Committee is chaired by an independent Director. The composition of the Committee therefore meets the provisions of Article 32 of Board Regulations.

The present composition of the Company's Committee is as follows:

<u>Name/Corporate name</u>	<u>Post</u>	<u>Type of director</u>
Mrs. Ana Sainz de Vicuña.....	Chairman	Independent Director
Mr. Juan Villar-Mir de Fuentes	Member	Proprietary Director
Mr. Javier Iglesias de Ussel Ordís.....	Member	Independent Director
Mr. Carlos Fernández-Lerga Garralda.....	Member	Independent Director
Mr. Luis Maluquer Trepatal	Member	Independent Director

A change was made to the chairmanship of the Committee in 2016, when Mr. Iglesias de Ussel stepped down as his term had expired, and Mrs. Ana Sainz de Vicuña was appointed to replace him following a decision by the Board of Directors on July 27, 2016, in the wake of a favorable report by the Appointments and Remuneration Committee.

In addition to the members of the Committee, the meetings convened were also attended by the internal Auditor. Moreover, whenever necessary the following, among others, also attended meetings as guests: (i) the Board Chairman and the Chief Executive Officer, (ii) the head of the Regulatory Compliance Unit; (iii) the Corporate General Manager and (iii) the Chief Financial Officer.

The Company auditor, Deloitte, S.L., was also invited to attend Committee meetings on several occasions in order to examine in greater depth financial issues that were important to the Company. The representatives of Deloitte, S.L. attended meetings on February 15, July 21 and November 10.

The Committee members have the necessary knowledge, aptitude and experience to enable it to carry out its functions.

On this basis, it may be concluded that the Committee is properly organized and composed of Directors with the necessary aptitudes and qualifications to enable it to carry out its functions.

2.2. Functioning of the Committee

The Audit and Control Committee met on 10 occasions in 2016. The dates of the meetings were as follows: January 20, February 15, February 19, May 12, June 28, July 21, July 27, October 4, November 10 and December 14.

In terms of preparation and carrying out the meetings, the Committee Chairman calls meetings on proper notice, which are attended by all members or, as the case may be, by a majority of members. Prior to each meeting, Committee members are also provided with information concerning the issues to be addressed, to foster active participation and to enable agreements to be adopted on an informed basis.

Finally, it must be stipulated that the Secretary recorded the minutes of all the meetings held, setting out the proceedings, contents, deliberations and agreements adopted. The minutes of Committee meetings are available to its members and also to the members of the Board of Directors.

Pursuant to the above, it may be concluded that the Committee complies with the rules for its functioning stipulated in the Company Bylaws and in the Board Regulations, and is organized in a proper and efficient manner to enable it to carry out its functions and ultimately achieve its aims.

2.3. Competences of the Committee

The Committee properly complies with the functions assigned to it by the provisions of Article 32 of Board Regulations. Specifically, following a favorable report by the Committee on the amendment of Articles 32 and 33 of Board Regulations, the Board of Directors agreed to amend these articles in order to transfer competences for the supervision of the Company's corporate governance to the Appointments and Remuneration Committee, competences which had previously been exercised by the Committee.

In 2016 the Committee carried out the following functions, among others:

- It served as a communication channel between the Board of Directors and the Company's external auditor, assessing the results of each audit.
- It reported on the reappointment of Deloitte, S.L. as company auditor to conduct a review of the individual and consolidated financial statements for the year ended December 31, 2016, to

be submitted for approval by the General Shareholders' Meeting following a proposal by the Board of Directors.

- It carried out the process to select the Company auditors for the years 2017, 2018 and 2019, and submitted the proposal to appoint PricewaterhouseCoopers Auditores, S.L. to the Board, to enable the Board to submit this in turn to the General Shareholders' Meeting.
- Prior to issuance of the audit report, it issued a report to express an opinion on whether the independence of the auditors or audit firms had been compromised.
- It approved the Company's Internal Audit Action Plan for the year 2016.
- It supervised the effectiveness of internal control, the internal audit and the Company's risk management systems, including its tax risks, and held discussions with the auditor concerning the major weaknesses of the internal control system detected in the course of the audit.
- It approved reports on the policy concerning control and management of risks, corporate governance and treasury shares, to be submitted to the Board of Directors.
- It supervised the process to draw up the corporate social responsibility policy.
- It supervised due compliance with rules for internal codes of conduct and for the corporate social responsibility policy.
- It supervised the process to draw up and present mandatory financial reporting.
- It reported on the Annual Corporate Governance Report, which forms part of the annual accounts, to be submitted for approval by the Board of Directors.
- It performed an analysis of amendments to the Board Regulations to adapt them to the new version of the Company Bylaws.
- It submitted a proposal for approval by the Board to amend the Internal Conduct Regulations in order to adapt them to the current structure of the Company and to the changes introduced by Regulation (EU) No 596/2014 of the European Parliament and of the Council of April 16, 2014 on market abuse (Market Abuse Regulation).
- It performed an evaluation of its own functioning as part of the process of self-assessment of the functioning of the Board of Directors and of its internal Committees.
- It issued a report for approval by the Board on the Company's Corporate Governance Policy.
- It examined and reported on the Company's operations with Treasury Shares in order to submit its findings to the Board, and specifically drew up a favorable report on the share buyback plan and monitoring of the plan.

Pursuant to the above, it may be concluded that the Audit and Control Committee effectively undertakes and exercises the competences assigned to it by the regulations applicable and by the Company's various corporate regulations.

2.4. Possible improvements

Notwithstanding the foregoing, in the wake of suggestions received from its members, in 2017 the Audit and Control Committee intends to make the following improvements in 2017:

- Implement a greater level and diversity of knowledge, experience and gender on the Committee.
- Continue with (i) proper provision of the documentation to be addressed at its meetings, striving to supply this documentation with the required notice; and (ii) measures to update the knowledge of the Committee in areas within its competences, carrying out this update with the proper regularity.
- Draw up a six-monthly or quarterly written report for the Board in addition to the report drawn up concerning the Annual Accounts, which shall cover aspects of fiscal policy, regulatory compliance and action taken concerning training and knowledge of members of the Committee.
- Continue to move forward with regard to Corporate Social Responsibility.
- Systematize the review of internal procedures to identify areas where improvements can be made, and put these into practice.

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