

# Colonial

## REPORT OF THE AUDIT AND CONTROL COMMITTEE ANNUAL GENERAL SHAREHOLDERS' MEETING 2016

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### 1. INTRODUCTION

The Audit and Control Committee of Inmobiliaria Colonial, S.A. (the “**Company**”) is issuing this report on its operations in 2015 (the “**Report**”) under Article 34 of the Regulations of the Board of Directors.

### 2. COMPOSITION OF THE COMMITTEE

At 31 December 2015, the Committee was composed of five members, and was thus in compliance with the minimum set forth in Article 32 of the Regulations of the Board of Directors, which require the Committee to be made up of a minimum of three and a maximum of eight Directors.

All of the members of the Committee are non-executive directors, including three independent directors, one proprietary director and one who is classified in the category of “*Other Directors*”. The Committee is chaired by an independent director. The composition thus conforms to Article 32 of the Regulations of the Board of Directors.

At 31 December 2015, the composition of the Company’s Committee was as follows:

<b>Name/Corporate name</b>	<b>Position</b>	<b>Capacity</b>
Javier Iglesias de Ussel Ordís .....	Chairman	Independent Director
Juan Villar-Mir de Fuentes.....	Board Member	Proprietary Director
Ana Sainz de Vicuña .....	Board Member	Independent Director
Carlos Fernández-Lerga Garralda .....	Board Member	Independent Director
Luis Maluquer Trepas .....	Board Member	Other Director

In 2015, there were no changes in the composition of the Committee.

The meetings, convened by the Committee, were attended, in addition to the Committee members, by the Internal Auditor. In addition, where necessary, the following persons, among others, attended as guests: (i) the head of the Regulatory Compliance Unit; (ii) the Corporate General Manager; (iii) the Financial Officer; and (iv) the Director of Corporate Development, Management Control and Investor Relations.

The Company’s auditor, Deloitte, S.L., was invited and attended several of the Committee’s meetings in order to analyse in greater depth important financial issues for the Company. Representatives of Deloitte, S.L. were present at the meetings held on 21 January 2015, 23 February 2015, 5 May 2015 and 23 July 2015.

The Committee’s members have the knowledge, qualifications and experience required to fulfil their functions thereon.

### 3. OPERATIONS OF THE COMMITTEE

The Audit and Control Committee held eight meetings in 2015. The dates of the meetings were as follows: 21 January, 23 February, 25 February, 5 May, 23 July, 28 July, 10 November and 10 December.

Regarding the preparation for and conducting of the meetings, the Committee Chairman calls meetings sufficiently in advance, and all, or a majority, of the Committee members attend. Prior to each meeting, Committee members are provided information on the issues to be addressed therein, so as to encourage their active participation and the well-reasoned adoption of resolutions.

Lastly, it should be stressed that the secretary kept minutes of all of the meetings, setting forth the proceedings, content, deliberations and resolutions that were adopted. The minutes of the Committee meetings are available both to the Committee members and to the Board members.

#### **4. COMPETENCIES OF THE COMMITTEE**

The Committee efficaciously fulfils the duties that correspond to it under Article 32 of the Regulations of the Board of Directors. In particular, in 2015 the Committee fulfilled the following duties:

- Acting as a communication channel between the Board of Directors and the external auditor of the Company, evaluating the results of each audit.
- Reporting on the reappointment of Deloitte, S.L. as the Company auditor for the review of the individual and consolidated financial statements for the year ending at 31 December 2015, for their submittal, at the proposal of the Board of Directors, for approval by the General Shareholders' Meeting.
- Analysing and evaluating the possible impact of the passage of the new Financial Auditing Act and, in particular, monitoring the process of replacing the auditor as a result of said law.
- Approving the Company's External and Internal Audit Action Plan for 2015.
- Monitoring the effectiveness of the Company's internal control, internal audit and risk management systems, including those relative to tax risks, and discussing with the external auditors any significant weaknesses detected in the internal control system during the course of the audit.
- Approving the reports on the risk control and management policy, the corporate governance policy and the treasury shares policy for their submission to the Board of Directors.
- Overseeing compliance with the corporate governance rules and the internal codes of conduct.
- Overseeing the corporate social responsibility policy.
- Supervising the process of preparing and submitting the required financial information.
- Providing information on the annual corporate governance report, which is part of the financial statements, for its submission for approval by the Board of Directors.
- Analysing the modifications to the By-laws and Regulations of the Board following the amendment of the Corporate Enterprise Act, in order that, once the modifications are approved by the Board of Directors, they will be submitted to the General Shareholders' Meeting for approval.
- Reporting on the modifications to the Board Regulations following the amendment of the Corporate Enterprise Act, for the submission thereof to the Board.
- Analysing and monitoring the tax strategy and policy, as well as the adherence to Code of Good Tax Practices.

- Evaluating its own operations as part of the self-evaluation process of the operations of the Board of Directors and of its internal committees.
- Proposing to the Board of Directors the appointment of a new head of internal audit.
- Coordinating its efforts with the Audit and Control Committee of Société Foncière Lyonnaise (SFL) in order to unify criteria and improve efficiency in the audit process of two companies.

## **5. RELATED-PARTY TRANSACTIONS**

The Audit and Control Committee's duties also include reporting, prior to the adopting of decisions by the Board of Directors, on any related-party transactions that the Company or the companies of its group carry out with Board members, with shareholders who hold significant shares or are represented on the Board or with persons related to said shareholders.

During 2015, the Audit and Control Committee, in conducting the supervisory functions described above, was not made aware of any related-party transactions conducted as part of the ordinary course of business of the Company that were not carried out on an arm's-length basis.

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