



## REPORT OF THE NOMINATION AND REMUNERATION COMMITTEE ON ITS OPERATIONS

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### 1. INTRODUCTION

The Nomination and Remuneration Committee of Inmobiliaria Colonial, S.A. (the “**Company**”) is issuing this report on its operations and the performance of its duties in 2016 (the “**Report**”). For the purposes of drafting this Report, a questionnaire on its structure, operations and performance of duties was forwarded to the members of this Committee, which has been replied by all of them.

The Report shall be submitted to the Board of Directors, which, on the bases thereof, shall be the body responsible for the evaluation of the operations of this Nomination and Remuneration Committee (the “**Committee**”) in accordance with Article 34 of the Regulations of the Board of Directors.

### 2. CONCLUSIONS OF THE EVALUATION PROCESS

From the evaluation process carried out by this Committee on its own operations, positive conclusions are obtained, both in terms of its composition and internal organization and the performance of its duties.

In accordance with recommendation 48 of the new Good Governance Code, which provides that large cap companies shall have a separate Nomination Committee and Remuneration Committee, the Committee considers it appropriate to have a single Committee according to the organizational structure of the Company and given that, in accordance with the aforementioned recommendation, Colonial should not be considered a large cap company.

#### 2.1. Composition of the Committee

The Committee was composed of 5 members, and is thus in compliance with the minimum set forth in Article 33 of the Regulations of the Board of Directors, which require the Committee to be made up of a minimum of 3 and a maximum of 8 Directors.

All of the members of the Committee are non-executive directors, including three independent directors and three proprietary directors. The Committee is chaired by an independent director. The composition thus conforms to Article 33 of the Regulations of the Board of Directors.

The present composition of the Committee is as follows:

<u>Name/Corporate name</u>	<u>Position</u>	<u>Capacity</u>
D. Carlos Fernández-Lerga Garralda .....	Chairman	Independent Director
Sheikh Ali Jassim M.J. Al-Thani .....	Board Member	Proprietary Director
D. Juan Carlos García Cañizares .....	Board Member	Proprietary Director
D. Luis Maluquer Trepas .....	Board Member	Independent Director
D. Javier Iglesias de Ussel Ordís .....	Board Member	Independent Director

In 2016, there have been several changes in the composition of the Committee. Accordingly, on 5 May 2016 Mr. Francesc Mora Sagués submitted, by letter addressed to the Company, his resignation as a

member of the Board of Directors of the Company, which entailed his termination as a member of this Committee. Furthermore, with effect from 16 December 2016, Mr. Juan Villar-Mir de Fuentes placed at the disposal of the Nomination and Remuneration Committee his position in the same.

As a consequence of these movements and in order to comply with corporate governance recommendations, the Committee proposed the appointment of Mr. Luis Maluquer and of Sheikh Ali Jassim M.J. Al-Thani as new members of the Committee, being appointed as such by the Board of Directors dated 16 December 2016.

In addition to the members of the Committee, the meetings were attended, as a guest, by the Chief Executive Officer, Pedro Viñolas Serra, who reported to the Committee primarily on the Company's systems for compensating employees and senior managers. Furthermore, Mrs. Nuria Oferil, Chief Legal Officer and responsible for the Regulatory Compliance Unit, attended to inform about the corporate governance work carried out by the Unit created for that purpose during the 2016 financial year.

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

On the basis of all this, it might be concluded that the Committee is duly organized and integrated by Directors with the necessary skills and qualifications for the fulfillment of its own purposes.

## **2.2. Operations of the Committee**

In 2015, the Committee met on 7 occasions. The dates of the meetings were as follows: 21 January, 17 February, 11 April, 23 May, 27 July, 5 October and 14 December.

Regarding the preparation for and the 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.

Pursuant to the foregoing it is therefore concluded that the Committee complies with the operating rules established in the Bylaws and in the Regulations of the Board of Directors, by organizing itself in a proper and efficient manner for the performance of its duties and the ultimate achievement of its purposes.

## **2.3. Competencies of the Committee**

The Committee efficaciously fulfils the duties that correspond to it under Article 33 of the Regulations of the Board of Directors.

In particular, and in consequence of the favorable report by the Audit and Control Committee on the amendment of articles 32 and 33 of the Regulations of the Board of Directors, the Board of Directors resolved to amend said articles with the aim of transferring the competencies of supervision of corporate governance of the Company to the Nomination and Remuneration Committee, having specially attributed as minimum functions (i) the supervision of compliance with the corporate

governance rules of the Company; and (ii) the periodic evaluation of the adequacy of the Company's corporate governance system.

To this effect, during the 2016 financial year the Committee approved the creation of the Corporate Governance Unit, a department specialized in corporate governance. Said unit, dependent on the Committee, is directed by Ms. Nuria Oferil, vice-secretary of the Board of Directors.

Likewise, during 2016 the Committee fulfilled, amongst others, the following duties:

- Ensuring that the Company's remuneration policy is abided by, and in particular proposing to the Board of Directors (i) the individual variable remuneration of the Chairman of the Board and of the Chief Executive Officer; (ii) the extraordinary retribution (and its payment) of the Chairman of the Board and the Chief Executive Officer; (iii) the determination and distribution of the fixed remuneration of each non-executive Director in his capacity as such and for the remuneration for their assistance to the meetings; as well as (iv) reporting on the proposed remuneration of senior management and employees to the Board of Directors.
- Proposing, in accordance with the fulfillment of the indicators, the number of shares to be received by the beneficiaries of the Share Delivery Plan approved by the General Shareholders' Meeting on 21 January 2014.
- Proposing to the Board of Directors a new remuneration policy of the Company for the years 2016 to 2018. Furthermore, informed favorably the amendment of the contracts of the Chairman and the Chief Executive Officer.
- Reporting to the Board on the evaluation of the Committee's own operations, of the operations of the Board of Directors and the fulfillment by the Chairman's and Chief Executive Officer's of their duties.
- Proposing to the Board of Directors the contents of the annual report on remuneration of Board members.
- Proposing the Policy on selection of candidates to directors to the Board of Directors.
- Analyzing and informing the Board of Directors on the work carried out by the Corporate Governance Unit on the level of compliance with the recommendations contained in the Good Governance Code approved by the *Comisión Nacional del Mercado de Valores*.
- The fostering and implementation of the Directors Portal.
- Proposing the Board of Directors (i) the corporate general manager's (Ms. Carmina Ganyet) pension plan; and (ii) the renewal of the Directors' liability insurance.
- Favorably informing the Board of Directors on (i) the evaluation carried out on Mr. Carlos Fernández-González for his appointment by the General Shareholders Meeting as dominical Director, upon proposal by the shareholder *Hofinac B.V.* in consequence of the agreement reached by said entity and the Company; (ii) the evaluation carried out on Mr. Adnane Moussanif for his appointment by the General Shareholders Meeting as dominical Director, upon proposal by the shareholder *Qatar Investment Authority*; and (iii) the ratification and appointment as dominical Director of the Company, of Sheikh Ali Jassim J.M. Al-Thani in representation of *Qatar Investment Authority*, who was appointed Director by cooptation in the meeting of the Board of Directors of December 12<sup>th</sup>, 2015.

- Favorably informing the Board of Directors on (i) the change of qualification as Director of the Company of Mr. Luis Maluquer, from “Other Directors” to “independent Director”; (ii) the designation of Ms. Ana Sainz de Vicuña Bemberg as chairman of the Audit and Control Committee due to the expiration of the legal term to hold such office by the previous chairman of said committee; and (iii) the composition and appointment in the Nomination and Remuneration Committee and the Executive Committee, in consequence of the resignation as Director of Mr. Juan Miguel Villar-Mir in representation of Grupo Villar Mir, due to the variations in the capital structure of the Company.
- Favorably informing the Board of Directors on the progress in regard to the criteria for the determination of the variable remuneration of the executive Directors and the officers of the Company in the year 2017.

In accordance with the above, it can be concluded that the Committee efficiently assumes and fulfills the competencies attributed to it by the different corporate texts of the Company.

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