

**REPORT BY THE APPOINTMENTS AND REMUNERATION COMMITTEE OF
INMOBILIARIA COLONIAL, SOCIMI, S.A.**

IN RELATION WITH

**THE PROPOSAL FOR THE APPROVAL OF THE DIRECTORS' REMUNERATION
POLICY (ARTICLE 529 NOVODECIES OF THE SPANISH LAW ON
CORPORATIONS)**

5 May 2021

1. INTRODUCTION

This report includes the proposal put forward by the Appointments and Remuneration Committee for the Directors' Remuneration Policy (hereinafter referred to as the "Policy") of Inmobiliaria Colonial, SOCIMI, S.A. (hereinafter referred to as "Colonial" or the "Company"), which shall be in force, if approved by the General Shareholders' Meeting, during the 3-year period 2021-2023.

While this Policy maintains the existing principles in the policy approved by the General Shareholders' Meeting held on 14 June 2019, it includes some material changes with the objectives of enhancing the alignment with our strategic priorities, with investors' sentiment and with industry market practice.

This report is made available to shareholders on Colonial's website, as stipulated by article 529 novodecies, of the redrafted text of the Spanish Law on Corporations (with initials in Spanish "LSC"). This article requires that all listed companies have in place a remuneration policy approved by the General Shareholders' Meeting at least every three years and that any remuneration paid to the Directors must be consistent with such remuneration policy.

Bearing in mind the foregoing, the Appointments and Remuneration Committee will submit a new Remuneration Policy for approval which, if approved by the General Shareholders' Meeting, will be applicable since the financial year 2021, making the Remuneration Policy currently in force, approved by the General Shareholders' Meeting held in 14 June 2019, null and void.

2. PRINCIPLES OF THE POLICY

Colonial's remuneration philosophy promotes an equitable and well governed, long-term approach to remuneration, including pay-for-performance practices that attract and retain top talent, are responsive to and aligned with shareholders.

Accordingly, the basic principles that drives remuneration-related decisions across all levels of the Company are the following:

PAY-FOR-PERFORMANCE

Ensure that the remuneration received by Executive Directors is commensurate with the overall performance of the Company and their individual performance.

In making remuneration-related decisions, we focus on risk-adjusted performance and reward behaviours that generate sustained value for the Company. This means that remuneration should not be overly formulaic, rigid or focused on the short-term.

ALIGNMENT WITH STAKEHOLDERS' INTERESTS

Align the interests of our Executive Directors with our shareholders by tying a significant portion of total compensation to our overall financial and operating performance and the creation of long-term shareholder value. At-risk remuneration is also based on achievement of designated ESG objectives linked to our sustainability strategy.

Decisions on executive remuneration are made with consideration of the interests of the wider workforce and other stakeholders, as well as taking account of the external climate.

COMPETITIVENESS

Our long-term success depends on the talents of our employees. Our remuneration philosophy plays a significant role in our ability to attract, properly motivate and retain top talent.

Market-competitive total remuneration with an appropriate balance of reward and upside opportunity allows us to attract and retain the best talent.

Decisions on the design of the Remuneration Policy takes into consideration the remuneration practices of peer companies based on an objective set of criteria.

TRANSPARENCY

Transparency to shareholders regarding our Remuneration Policy is important. We disclose material terms of our pay plans and any actions on our part in response to significant events.

3. SUMMARY OF THE NEW FEATURES INCLUDED IN THE NEW REMUNERATION POLICY

As indicated in the previous section, one of the main principles maintained by the new Remuneration Policy is the alignment with the stakeholders' interests, specifically, with our shareholders. Consequently, the Board of Directors and, in particular, the Committee has consulted Colonial's main shareholders and has considered the information gathered from institutional investors and proxy advisors in the regular engagement process conducted by Colonial. In addition, the Board of Directors and the Committee have also given full consideration to the provisions of the Spanish Corporate Governance Code relating to Directors' remuneration.

Our new Remuneration Policy has been considered in the context of the wider workforce pay. The different remuneration elements for Executive Directors follow the same set of principles than those of the Group's executive team.

In addition, based on external benchmark data and internal projections, the Board of Directors, on the Committee's proposal has assessed the appropriateness and relevance of the Company's remuneration arrangements and evaluate the proposed changes to ensure its implementation fits for purpose. In particular, the Committee has considered the impact of the COVID-19 pandemic in Colonial's business and stock market movements and has ensured the new Remuneration Policy remains aligned with the interest of the business for the coming period.

The main changes proposed in the Director's Remuneration Policy are set forth below:

Fixed remuneration

- **Simplification** of the structure of the fixed elements
- **Elimination of automatic updates** of fixed elements according to the CPI published by the National Institute of Statistics corresponding to the calendar year immediately prior to the date of the review.
- **Clarification** of the definition of the **contribution** to the **social welfare system**.

Annual variable remuneration

- Greater **objectiveness** of the annual **variable remuneration**, with an increase in the weight of the metrics linked to the creation of value for the shareholder.
- Consideration of non-financial objectives in variable remuneration, which may be linked to **ESG** priorities.
- Introduction of the possibility of delivering part of the annual **variable remuneration deferred** and **in shares**.

Long-term incentives

- Definition of a **long-term incentive plan** linked to a **3-year performance period**.
- Increase in the weight of the **metrics** related to the **shareholders' value**.
- Consideration of non-financial objectives in variable remuneration, which may be linked to **ESG** priorities.

Other remuneration elements

- Clarification of the definition of the **malus and clawback clauses**.
- Inclusion of a **minimum shareholding requirement**, in addition to the holding period on the net shares that, where appropriate, are delivered by the long-term incentive plan.
- **Simplification** of the definition of **severance payments**.
- Inclusion of a **post-termination non-compete agreement** in the event the Executive Director's voluntary terminates the relationship with Colonial without cause (this is not applicable if the termination is decided by the Company).
- **Reduction** of the **extraordinary remuneration** (from 200% to 100% of the Executive Director's annual base salary) and clarification of the exceptional cases where it could be applied, as the case may be.

4. EFFECTIVENESS

The Board of Directors, on the Nomination and Remuneration Committee's proposal, will present this new Remuneration Policy for approval by shareholders at the 2021 Annual General Meeting and, if approved, will apply from financial year 2021 and will replace the existing remuneration policy, approved by the General Shareholders' Meeting held on 14 June 2019, in its entirety.

It is intended that the new Remuneration Policy will apply for three financial years (2021, 2022 and 2023), although the Committee may seek approval for a new policy at an earlier point if it is considered appropriate.