



DIRECTORS' REMUNERATION POLICY OF INMOBILIARIA COLONIAL, S.A.

I. Introduction

In accordance with Article 529 novodecies of the *Royal Legislative Decree 1/2010, of 2 July, approving the Consolidated text of the Spanish Limited Liability Companies Law* (the "**LSC**"), any remuneration received by the directors through the exercise or termination of their position and for the performance of executive functions must be in accordance with the directors' remuneration policy in effect at all times.

For this purpose, it is necessary to approve and maintain a valid and up to date directors' remuneration policy that shall need to be amended in accordance with the statutory remuneration system. Such a remuneration policy shall be approved by the General Shareholders' Meeting.

The current directors' remuneration policy (the "**Remuneration Policy**") is submitted before the General Shareholders' Meeting by the Board of Directors, at the proposal of the Appointments and Remuneration Committee of INMOBILIARIA COLONIAL, S.A. (the "**Company**"), and once approved by the General Shareholders' Meeting as a separate point on the agenda, it shall remain in effect for the three financial years following that in which it is adopted.

The Remuneration Policy includes the maximum amount of the annual joint remuneration of the directors in their capacities as such as referred to in Article 217 of the Spanish Limited Liability Companies Law in effect.

The Remuneration Policy is applicable effective as of 1 January 2016, thereby rendering null and void any resolution relating to remuneration that has been agreed by the governing bodies of the Company, excepting those adopted relating to the Share Option Plan referred to in this Remuneration Policy, without prejudice to the contracts signed by the Company with the executive directors which in any event are in line with the current Remuneration Policy.

Any amendment or substitution thereof during its validity shall require the prior approval of the General Shareholders' Meeting. On an annual basis, the Company will also inform on the evolution of its Remuneration Policy by means of an annual report on the remuneration of the directors as provided for in Law, and subject to approval via consultive vote of the shareholders.

II. Principles

The Company's primordial objective is that the remuneration received by its directors is reasonably aligned with the Company's size, its changing economic situation and the prevailing market standards of comparable companies, in accordance with the law.

The current Remuneration Policy is aimed at promoting profitability for the Company and the shareholders and the long-term sustainability of the Company, and includes the necessary safeguards to avoid excessive risk-taking or rewards for poor performance.

Any remuneration must reflect the professional performance of its beneficiaries and not simply the general progress of the markets or the Company's sector or other similar circumstances.

In turn, the current Remuneration Policy's objective is that the remuneration of the Board of Directors should be sufficient to attract and retain directors with the desired profile, and to reward the dedication, abilities and responsibilities that the position demands, but should not be so high as to compromise the independent judgment of non-executive directors.

The Board of Directors of the Company undertakes the commitment to enforce the principle of transparency of all items of remuneration received by the directors, supplying transparent information issued sufficiently in advance and fully respecting the recommendations of good corporate governance generally recognised in the international markets with regard to directors' remuneration. To such effect, the Board of Directors is committed to the transparency of the directors' remuneration, detailing all remuneration received by the directors in a detailed and individual manner, according to their positions and categories.

III. Process for determining the Remuneration Policy

In accordance with the law and the rules of Corporate Governance of the Company, the Board of Directors has the power to adopt, within the legal framework, the principles and recommendations of Good Corporate Governance, the Bylaws, the Regulations of the Board of Directors and this Remuneration Policy, the decisions relating to the remuneration of the directors, as well as, in the case of the executive directors, the remuneration for their executive functions and other conditions in their contracts.

The Appointments and Remuneration Committee is the body that reports on and presents to the Board of Directors any proposals regarding any issues of a remuneration nature attributed to it in the Bylaws, the Regulations of the Board of Directors and in this Remuneration Policy, among others, ensuring the observance of the established Remuneration Policy and proposing, where required, any amendments that it deems appropriate.

Pursuant to Article 33 of the Regulations of the Board of Directors, the Appointments and Remuneration Committee currently has 4 members designated by the Board of Directors, all of whom are non-executive directors. In particular, the Committee comprises two independent directors (Carlos Fernández-Lerga Garralda and Javier Iglesias de Ussel Ordís) and 2 proprietary directors (Juan Villar-Mir de Fuentes, Juan Carlos García Cañizares). In addition, the Chairman of the Appointments and Remuneration Committee is one of the independent directors that sits on this Committee.

The Appointments and Remuneration Committee shall meet with the frequency necessary to fulfil its duties.

Without prejudice to other tasks that may be delegated to it by the Board of Directors, the Appointments and Remuneration Committee has the following responsibilities relating to remuneration:

- to propose to the Board of Directors the Remuneration Policy applicable to Directors and senior management;
- to propose to the Board of Directors the individual remuneration of the Chairman of the Board and the Chief Executive Officer, and other contractual conditions as executive directors, as well as their approval and that of the basic conditions for contracts of the executive directors, reporting and making proposals on incentive plans over several years that affect the

Company's executive directors and senior management, and in particular, those that may be established in relation to the value of the shares;

- informing the Board of Directors regarding the fulfilment of the conditions upon which the variable remuneration depend and the settlement of the remuneration plan in shares; and
- ensure the transparency of the remuneration and the inclusion of information regarding the remuneration of the directors in the Annual Notes to the Financial Statements and in the annual report on the remuneration of the directors.

The Regulations of the Board of Directors establish, for both the Appointments and Remuneration Committee and for directors in general, that they may all (the Committee or Board members as the case may be) request external assessment in the areas they deem appropriate. To this end, the Company has called on expert external advisers for the adequate performance of their duties.

IV. Remuneration of the Directors

IV.1. Remuneration of non-executive directors in their capacity as such

The maximum amount of the remuneration for all the directors in their capacity as such is established at €1,900,000. This maximum amount shall remain valid, effective as of 1 January 2016, unless its amendment is not approved by the General Shareholders' Meeting. However, if the number of members of the Board of Directors should increase, this maximum amount shall increase by 10% for each new member of the Board or Committees that imply an increase in the number of its members.

This annual remuneration, in accordance with Article 217.2 of the LSC and Articles 30 of the Bylaws and 21 of the Regulations of the Board of Directors, will consist of a remuneration that will include (i) a fixed annual amount, and (ii) the attendance fees for sessions of the Board or Committees.

The executive directors, contrary to the non-executive directors, do not receive a remuneration for sitting on the Board of Directors of the Company, nor its committees; nor do they receive a fixed annual amount or attendance fees for attending sessions of the Board of Directors of the Company or its committees.

The remuneration contained in this section will be adjusted to the standards of the market according to the function of the positions held on the Board of Directors and the committees to which they belong, their dedication and their attendance to meetings of the Board of Directors and the committees of which they form a part, always taking into account the maximum amount indicated above.

The determination and the distribution of the fixed remuneration of each director and for the attendance to meetings of each non-executive director in their capacity as such will correspond to the Board of Directors, at the proposal of the Appointments and Remuneration Committee, taking into account to such purpose the roles and responsibilities attributed to each non-executive director, whether they are on any of the committees of the Board of Directors, the assessment of the performance and other circumstances it considers relevant.

Similarly, the directors, in their capacity as such, shall be covered by a collective civil liability insurance policy that covers liability from actions and conduct of the Company's directors and managers in the

performance of their duties. The cost of this insurance is not included in the annual limit for all the above mentioned directors.

IV.2 Remuneration of executive directors

By virtue of the applicable legislation, the Chairman and the CEO hold signed contracts with the Company, respectively, these being contracts previously approved by the Board of Directors.

Each contract details the concepts for which one of them may receive remuneration for the performance of executive functions, including where appropriate, the eventual compensation for the early termination of these functions. The board members cannot receive any remuneration for the performance of executive functions if such amounts or concepts are not provided for in the contract.

Such contracts shall adapt to the following parameters:

Fixed remuneration

The annual fixed remuneration of the executive directors, effective as of 1 January 2016, will be as follows:

- Chairman of the Board of Directors: the fixed annual remuneration for the Chairman of the Board of Directors for 2016 is FIVE HUNDRED AND FIFTY THOUSAND EUROS (€550,000). This amount will be automatically updated in accordance with the Consumer Price Index (CPI) published by the Spanish National Statistics Institute, corresponding to the calendar year preceding the date of the revision, or any other official index of reference that may replace it in the future.
- Chief Executive Officer: The fixed annual remuneration for the CEO for 2016 is SIX HUNDRED THOUSAND euro (€600,000). This amount will be automatically updated in accordance with the CPI published by the Spanish National Statistics Institute, corresponding to the calendar year preceding the date of the revision, or any other official index of reference that may replace it in the future.

The annual fixed remuneration is payment for all the executive functions that the Chairman and the CEO perform in the Company, encompassing all those of an executive nature as well as for sitting on the Board of Directors of the Company and its committees and for attending sessions of the former.

This annual fixed remuneration takes into consideration the level of responsibility of the executive directors, ensuring it is competitive with that applied in other entities comparable in terms of capitalisation, size and international presence. For its determination, the proposal presented to the Board of Directors by the Appointments and Remuneration Committee has considered the specific characteristics of each position and the level of responsibility and dedication required.

Furthermore, the Company shall pay the Chairman of the Board of Directors and the CEO determined remuneration in kind, such as the use of a vehicle, family medical, incapacity and accident insurance and other social benefits the company may pay of a general nature to its senior management. Likewise, and in relation to the CEO, the Company pays remuneration in kind in the form of a life insurance policy in his/favour.

Similarly, the Company undertakes to arrange and maintain, at its cost, a civil liability insurance to cover any liability from the actions and conduct of the executive directors as a consequence of the performance of their duties as directors of the company under the terms established in their contracts.

Variable remuneration

The variable remuneration that may be agreed by the Board of Directors at the proposal of the Appointments and Remuneration Committee and established in the contracts of the executive directors should include limits and technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, or other circumstances.

In particular, variable remuneration items should:

- Be subject to predetermined and measurable performance criteria which consider the risk assumed to obtain a given outcome.
- Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the creation of long-term value, such as compliance with internal rules and procedures of the Company and its risk control and management policies, as well as the creation of a management team to guarantee the sustainability of the Company.
- Be focused on achieving a balance between the delivery of short, medium and long-term objectives, thus permitting pay rewards for continual performance, maintained over sufficient time to appreciate the contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Remuneration linked to Company earnings should bear in mind any situations detailed in the external auditor's report that reduce their amount.

The contracts of the executive directors shall include a clause that allows the Company to reclaim, in determined cases, the total or partial refund of its variable remuneration. This decision will be taken by the Board of Directors at the proposal of the Appointments and Remuneration Committee.

The variable remuneration will be determined on an annual basis by the Board of Directors, at the proposal of the Appointments and Remuneration Committee at a global level depending on objectives of a quantitative and qualitative nature. In this regard, the objectives or parameters to which this remuneration is subject shall be of a personal nature, such as dedication or professional experience, or a financial or budgetary nature; the degree of fulfilment of the annual budgetary objectives, of the investment objectives or the property occupancy rate, as well as the result of the evaluation of the performance of the functions of the position, of the supervision of corporate governance and the contribution to improving the corporate reputation of the Company.

The Chairman and the CEO may receive as an annual variable remuneration an amount of up to 100% of the fixed remuneration corresponding to each one.

The Appointments and Remuneration Committee shall assess the degree of fulfilment of the objectives of the variable remuneration of the executive directors and propose to the Board of Directors for each one of the executive directors, the degree and amount of variable remuneration that, where applicable, the Chairman and CEO may receive.

The Chairman and the CEO may further receive, every year, should the exceptional conditions set out in this paragraph arise, an additional variable remuneration, the maximum amount of which will reach up to 200% of their fixed annual remuneration. This additional variable remuneration can be agreed with attention to the participation of one or both executive directors in corporate operations concerning acquisition, investment, restructuring operations or any other type of operation or act which due to its nature, complexity, amount and outcome generate a significant value added to the shareholders or result in a financial profit or an increase in equity which reinforces the sustainability of the Company.

The Board of Directors, at the proposal of the Appointments and Remuneration Committee, will agree, where applicable, to fix for each one of the executive directors the amount and settlement date of this additional variable remuneration within the criteria set out in this Remuneration Policy.

The payment of the additional variable remuneration will not have the condition of salary or remuneration for the purposes of its inclusion in the base applicable for the calculation of any compensation that may arise for the termination of the contract or retirement of the executive directors.

- *Long-term variable remuneration plan*

The executive directors may participate in long-term incentive plans linked to the conditions and strategic objectives payable in cash or shares, established by the Company for its senior management.

During the validity of this policy, the Company's Chairman and the CEO are beneficiaries of the following long-term incentive plan implemented by the Company, payable in shares of the company.

Share option plan ("**Plan**"): the General Shareholders' Meeting of 21 January 2014 approved, after a favourable report by the Appointments and Remuneration Committee, the amendment to the long-term variable remuneration plan approved by the General Shareholders' Meeting on 21 June 2011 and aimed at the Chairman of the Board of Directors, and the members of the management committee of the Company, consisting of the conditional and restricted delivery of Colonial shares recorded in the information published in the CNMV and on the Company's website. The Plan's ultimate purpose is to establish a complementary remuneration system in order to achieve a greater alignment of the interests of the recipients with the main interests pursued by the Board of Directors and by the management team, this being the maximisation of profits for the shareholders within the framework of the remuneration policy which is aimed at promoting the long-term profitability and sustainability of the Company.

The most important aspects of the Plan are as follows:

1. Description of the plan: delivery of ordinary shares to the beneficiaries of the Plan depending on annual compliance with certain indicators and on its beneficiaries being executive directors or having a commercial or employment relationship with the Company or its group on the share delivery dates.
2. Beneficiaries: the Chairman of the Board of Directors, the CEO and the members at any given time of the Company's Management Committee, including the Company's senior executives.
3. Determination of the number of shares of the Plan to be allocated to the beneficiaries: each year, the Chairman of the Board of Directors and the CEO, depending on the compliance with

certain requirements, will be entitled to receive a maximum of 488,372 and 1,269,767 shares, respectively. However, in accordance with the provisions of Article 4 following, the maximum number of shares indicated for both the Chairman and the CEO may be incremented by a maximum of 25%, depending on the fulfilment of determined conditions as indicated in the following paragraph.

4. Conditions: The number of shares assigned to beneficiaries of the Plan will be determined by certain conditions being met, which are set by the Company and tied into its performance. In this regard, the Board of Directors on 13 May 2014, set the following conditioning factors:

- In the event that annual net cash flow (“NCF”) of the Company's operations is within 95% to 105% of that forecast in the last Business Plan forecast approved by the Board of Directors, they will receive 100% of the share entitlement.
- If the NCF is lower by up to 25% of that forecast in the Business Plan, the maximum number of shares they would have a right to receive in that year will be reduced by 1.5% for each percentage point of reduction below the intended minimum NCF of 95%.
- If the NCF is higher by more than 5% of that forecast in the Business Plan, the maximum number of shares they would have a right to receive in that year will be increased by 1.5% for each percentage point over the intended maximum NCF of 105%, up to new maximum number of shares equivalent to 125% of the established number of shares.

If the NCF is lower than 25% of that forecast in the Business Plan, no shares will be received.

For the purposes of the fulfilment of these parameters, the cash flow forecast in the last Business Plan for the years 2014 and 2018 is as follows:

2014. 80 MM€

2015. 90.3 MM€

2016. 91.7 MM€

2017. 94.8 MM€

2018. 97.4 MM€

The number of shares to be delivered to the beneficiary based on these calculations will be adjusted downwards by 25% each year in the event that the *Net Asset Value* (“NAV”) of the Company's shares does not increase at 4% per year in the period from 2015 to 2018. The accumulated number of shares granted will be adjusted at the end of each year to reflect this criteria. The target NAV to be obtained will be calculated on the basis of incrementing the figure obtained in the previous year at a rate of 4%.

5. Duration and Delivery: the plan will be in effect from 2015 to 2019. The Board of Directors, at the proposal of the Appointments and Remuneration Committee, will approve the annual settlement, determining in each year of the Plan, the number of shares which, if the previous year's indicators have been met, correspond to each of the beneficiaries. The shares will be

delivered between April 15 and 30 each year, and cannot be disposed of or transferred until three years after delivery, except to pay any taxes arising from their accrual. In this regard, the beneficiaries of the Plan shall be liable for the payments on account of earning or withholdings that may arise.

The delivery of the shares is conditioned to the beneficiaries of the Plan being executive directors of having an employment or mercantile relationship with the Company or the group on the dates upon which delivery occurs.

The Board of Directors, at the proposal of the Appointments and Remuneration Committee, will make the adjustments required to maintain the equivalence of the Plan's benefits, should any resolution be adopted that may negatively and substantially affect the Company's shares or that will involve a variation in the number of outstanding shares as a result of a modification of the nominal value of such shares, and in the event of a merger, integration or spin-off. In particular, in the case of an agreement by the General Shareholders' Meeting in 2016 on the proposal relating to the grouping and cancellation of shares for the consequent exchange thereof (point 18 of the Agenda), the necessary adjustments will be applied to maintain the equivalence of the Plan's benefits.

The adjustments must reflect generally accepted practices in the market for decisions such as the distribution of dividends, the exercise of existing warrants and other actions that might have a technical dilutive effect on "value per share".

In addition, the Board may resolve to wind up the plan early and deliver the maximum number of outstanding shares to each beneficiary if a "substantial liquidity event" occurs, as defined in the resolution of the General Shareholders' Meeting of 21 January 2014.

In the case that during the term of the plan, the beneficiaries were to be dismissed with no just cause, the shareholders at the general meeting were not to extend their term of office or they were removed from their positions without just cause, or reach statutory retirement age (including agreed early retirement) they will be entitled to early settlement of the plan, delivery would be made of the maximum number of undelivered shares that they would have accrued in the year of the termination, non-renewal of the term of office, unfair dismissal or statutory retirement, as well as the maximum number of shares that they would have accrued during the following years of the term of the Plan remaining until its termination.

In the event of incapacity or death of any beneficiary of the Plan, the terms of the plan shall be respected in relation to the delivery of the shares, with no early settlements, with the beneficiary or legal heirs having the right to the number of shares entitled to be received each year in accordance with the fulfilment of the indicators established to such effect for each year of accrual until the termination of the term of the Plan.

The beneficiaries of the Plan will forfeit any entitlement to such shares, together with any rights on such shares granted, in the event of fair dismissal, termination with just cause, or resignation on their own initiative, and in the event of contractual breach of confidentiality or the prohibition to offer services or competition.

The rights that the beneficiary holds by virtue of participating in the Plan do not consolidate for the effects of remuneration or compensation and are of a personal nature and cannot be the object or transfer or encumbrance to third parties.

The Appointments and Remuneration Committee must value the degree of fulfilment of the conditions of the Plan and propose to the Board of Directors the settlement to be made. Following the award of shares, share options or other rights on shares derived from the remuneration systems, the beneficiaries of the Plan will not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award. The above condition will not apply to any shares that such director must dispose of to defray costs related to their acquisition.

Also obligatory shall be the proposal of the Appointments and Remuneration Committee for the payment of compensations rights in the event of dismissal without just cause, non-extension of the term of office by the General Shareholders' Meeting, removal from positions without just cause or reaching statutory retirement age (including agreed early retirement).

Social provision

The executive directors shall be beneficiaries of a social provision scheme with defined contributions to cover retirement and, where applicable, invalidity and death, and in addition, where applicable, they may recognise coverage of defined benefits for the contingencies of invalidity and death.

The annual contributions will be, for 2016, SEVENTY FIVE THOUSAND EUROS (€75,000) for the Chairman of the Board and ONE HUNDRED THOUSAND EUROS (€100,000) for the CEO. This amount will be automatically increased in accordance with the CPI published by the Spanish National Statistics Institute, corresponding to the calendar year preceding the date of the revision, or any other official index of reference that may replace it in the future.

This system of social provision for the executive directors will recognise the consolidation of the economic rights in the event of the termination or extinction of the professional relationship prior to the occurrence of the covered contingencies, unless such terminations or extinction is due to just cause.

Main terms and conditions of the contracts of the executive directors

The contracts of the Chairman and the CEO are adjusted to the provisions of this remuneration policy with the essential terms and conditions of their contracts indicated as follows.

- Duration: For both the Chairman and the CEO, the duration of the contract will be subject to the duration of the appointment as Chairman of the Company's Board of Directors or as CEO, as appropriate. In the event that the appointments as Chairman of the Board of Directors and/or CEO are extended, then the contracts will likewise automatically be extended for the corresponding period, unless otherwise agreed by the Board of Directors.
- No post-contractual agreements of non-competition, continuance in office or loyalty are contemplated.
- Compensation for termination of the contractual relationship:

The executive directors shall receive an additional and special compensation in the event of the unjust termination or non-renewal of their term of office, or substantial reduction of their respective functions. Compensation shall also be payable in the cases of resigning their positions as a result of the change of control in the Company, or a relevant change in the composition of the Board of Directors. The compensation shall consist of:

- The Chairman shall receive from the Company, as compensation for the termination of the Contract (hereinafter, “**Compensation**”) a gross amount equivalent to two years fixed and variable remuneration, for a minimum of ONE MILLION SIX HUNDRED AND FIFTY THOUSAND EUROS (€1,650,000), which will be automatically increased annually in accordance with the application of the CPI published by the Spanish National Statistics Institute, corresponding to each calendar year passing until the termination date, or any other official index of reference that may replace it in the future. In order to calculate the compensation, the average of the amounts received for fixed and variable remuneration for the last two years will be taken into consideration, excluding any amounts that the Chairman may have received as additional variable remuneration as well as any amount deriving from the Share Option Plan in his favour.
- The CEO shall receive from the Company, as compensation for the termination of the Contract (hereinafter, “**Compensation**”) a gross amount equivalent to two years fixed and variable remuneration, for a minimum of ONE MILLION NINE HUNDRED AND TWENTY THOUSAND EUROS (€1,920,000), which will be automatically increased annually in accordance with the application of the CPI published by the Spanish National Statistics Institute, corresponding to each calendar year passing until the termination date, or any other official index of reference that may replace it in the future. In order to calculate the compensation, the average of the amounts received for fixed and variable remuneration for the last two years will be taken into consideration, excluding any amounts that the CEO may have received as additional variable remuneration as well as any amount deriving from the Share Option Plan in his favour.

In the event of a change of control of the Company or relevant change to the composition of the Board of Directors, as well as a substantial reduction to their respective functions or amendment to the conditions agreed in their contracts without their consent, the interested party will have a period of three months, counted from the effective date of the aforementioned resolutions or changes, to notify in writing the Board of Directors of their resignation as CEO or Chairman with executive functions, in which case, they shall have the right to the abovementioned compensation. For such purposes, the date of such changes coming into effect shall be understood to be the date on which the change of control at the Company or significant change in the composition of the Board of Directors is published as a significant event on the Spanish National Securities Market Commission (CNMV) website. In the case of a resolution by the Board of Directors to substantially reduce the functions of the Chairman or the CEO, or amend the conditions agreed in their contracts without their consent, from when the interested party receives reliable notification of the resolution.

Likewise, and regarding the long term plan consisting of the delivery of Company shares , the Company has established a series of compensations for determined cases, all of which are indicated in the sections relating to the Long-Term Variable Remuneration Plan of the present section 2 heading IV.

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