



**REPORT BY THE APPOINTMENTS AND REMUNERATION COMMITTEE OF INMOBILIARIA COLONIAL, S.A., IN RELATION TO THE PROPOSAL TO APPROVE THE DIRECTORS' REMUNERATION POLICY (AGENDA ITEM 15).**

**1. Purpose of the report**

This report has been prepared by the Appointments and Remuneration Committee of Inmobiliaria Colonial, S.A. ("**Inmobiliaria Colonial**" or the "**Company**") in order to support the proposed Remuneration Policy for the Directors of the Company (the "**Remuneration Policy**") that, if appropriate, will be approved by the Board of Directors, and will be submitted for approval at the General Shareholders' Meeting.

In accordance with article 529 novodecies of *Royal Legislative Decree 1/2010, of 2 July, approving the Consolidated text of the Spanish Limited Liability Companies Law* (the "**LSC**"), a reasoned proposal of the Remuneration Policy must be made to the General Shareholders' Meeting by the Board of Directors and be accompanied by an explanatory report. These documents shall be made available to shareholders, as envisaged in article 529 novodecies of the LSC along with the rest of the documentation relating to the call of the General Shareholders' Meeting.

Once approved by the General Shareholders' Meeting, the Remuneration Policy shall be effective from 1 January 2016, and remain in force for the three financial years following that in which it was approved by the General Shareholders' Meeting. Any amendment or substitution of the Remuneration Policy during this period shall require the prior approval of the General Shareholders' Meeting, in accordance with the procedure established for its approval.

**2. Justification for the proposal**

***INTRODUCTION***

This present document constitutes the legal explanatory report (the "**Report**") of the proposed Remuneration Policy, applicable as of 1 January 2016, and aims to explain the criteria and rationale to determine the remuneration of its directors in the financial years in which the Policy is in force.

***OBJECTIVES AND RATIONALE OF THE DIRECTORS' REMUNERATION POLICY***

The objective of the Remuneration Policy is that, in accordance with the criteria set out in the present report, the remuneration of the Board of Directors should be sufficient to attract and retain directors with the desired profile, and to reward them for the dedication, abilities and responsibilities that the post demands, but should not be so high as to compromise the independent judgment of non-executive directors.

In this regard, the Remuneration Policy contains the principles and criteria applicable to remuneration of the directors, in their capacity as such, and for the performance of their executive duties. These principles and criteria, periodically reviewed by the Board of Directors, shall be regularly analysed and adjusted by the Appointments and Remuneration Committee, in order to keep the Company's Remuneration Policy in line with best market practices and trends.

The following aspects were the ones principally considered when producing the proposed Remuneration Policy:

- 1) Applicable legislation, especially the Spanish Limited Liability Companies Law.
- 2) Best practices for good corporate governance, especially the recommendations of the Good Governance Code for Listed Companies in February 2015.
- 3) The content of the Company's Bylaws and Regulations of the Board of Directors.
- 4) The defining principles of the Company's Remuneration Policy, that are aimed at promoting profitability for the Company and its shareholders, long-term sustainable value creation by the Company in a responsible manner and the attraction and retention of talent.

As a result, the remuneration of non-executive directors, in their capacity as such, comprises a fixed component and attendance fees.

The remuneration package for executive directors will be unitary in nature, and therefore, will include remuneration for their capacity as directors and also for the performance of their executive duties in Inmobiliaria Colonial, including attendance at meetings of the Company's Board of Directors and its committees, without prejudice to the remuneration they may receive as members of the Board and its committees of other Inmobiliaria Colonial group companies. This remuneration package offers a balanced and efficient relationship between fixed and variable components, with the fixed component forming a sufficiently high part of the total remuneration. The variable components of the remuneration have sufficient flexibility to allow for their modulation, with it even being possible to completely remove the variable remuneration in a particular financial year. This will ensure that the variable components of remuneration 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.

The Remuneration Policy includes the maximum amount payable to directors, in their capacity as such, which, in accordance with article 217 of the LSC, must be approved by the General Shareholders' Meeting. This maximum amount has been set at €1,900,000, with this remaining as the maximum amount until the approval of any modification to it. Notwithstanding, the Remuneration Policy establishes that if the number of members of the Board or its committees increases to more than twelve, this maximum amount could also increase by up to 10% for each new member of the Company's Board of Directors or its committees.

- 5) The Appointments and Remuneration Committee believes that the proposed Remuneration Policy complies in general terms with the requirements of the new section 4 of article 217 of the LSC, in relation to the need for director remuneration to be in reasonable proportion to the size of the Company, the economic situation existing at that moment and the prevailing market standards of comparable companies. The remuneration system must be orientated towards promoting the Company's long-term profitability and sustainability and include the necessary safeguards to avoid excessive risk taking and rewarding of adverse results.
- 6) The Appointments and Remuneration Committee has carried out a review of its directors' remuneration package to determine its suitability and its alignment with the market situation of comparable companies and the Company's business performance. To do this, and following best practice, advice was requested from an external expert (Spencer Stuart) in the areas deemed appropriate, and this external expert was asked to prepare a report giving their opinion of the

proposed Remuneration Policy. The external expert issued a favourable report on the Remuneration Policy.

The amounts included in this present document and in the proposed Remuneration Policy, are maximum amounts appropriate for the Company, which shall remain in effect until they are modified in some way. Equally, the contracts signed between Inmobiliaria Colonial and its executive directors shall also remain in effect until they are modified in some way, once they have been approved by the Board of Directors, and, in all cases, being in accordance with the Remuneration Policy. This policy determines the amount of the fixed remuneration of the Chairman and CEO over the next few years, which will be increased each year in line with the CPI.

In this regard, taking into account the market study carried out on the other companies in Inmobiliaria Colonial's business sector, the Company's size and nature of business and the opinion and recommendations of the independent expert consulted, the following factors have been considered:

- The benefit of establishing a single remuneration for the executive directors (the Chairman and CEO) in their capacity as directors and for the performance of their executive duties, which includes remuneration for their positions on and attendance at meetings of Inmobiliaria Colonial's Board and the related committees to which they belong, along with remuneration for their executive functions. The aim being to simplify their compensation, make it more transparent and follow best practice in international remuneration policy; which recommends it precisely in the interests of transparency.
- The suitability of establishing variable remuneration of the executive directors at a maximum of 100% of fixed remuneration, linked to predetermined and measurable performance criteria in accordance with the philosophy of contributing to long-term sustainable value creation, and equally establishing objective criteria for setting the final amount that executive directors receive, with the possibility that they may not receive any amount in this regard.
- Likewise, the advantage, for those exceptional cases relating to the Remuneration Policy and within the years that this remains in force, of the Board of Directors determining, at the proposal of the Appointments and Remuneration Committee, an additional annual variable remuneration for executive directors, setting this amount at a maximum of 200% of their fixed remuneration. In this way, the Remuneration Policy establishes sufficient margin, during the time it is in force, to attend to this additional remuneration, where appropriate.
- The intention of maintaining the long-term variable remuneration for executive directors, through a share option plan agreed by the General Shareholders' Meeting, given that it complies with the principle of aligning the interests of the executive directors and the Company; making these directors participants in its performance and results, by giving them part of their variable remuneration in Company shares. This decision, in the opinion of the external expert, is in line with international remuneration best practice, which involves increasing the weighting of the variable element in total remuneration, with the aim of matching the interests of executives with those of shareholders. Similarly, the decision to base this plan on various business indicators and

not exclusively on one, also stands out, making it fairer for the director when calculating their earnings and reducing the fluctuations in the amounts paid out.

- The intention to include a private pension plan as part of the remuneration of the executive directors (the Chairman and CEO). The contribution of this plan has been set as a percentage of the fixed salary within the parameters recommended by the external expert (between 15% and 25% of fixed salary) in their advisory report, in line with best practice in Spain and internationally.
- The suitability of establishing for the executive directors, an average over two years of the total amount received from their fixed and variable remuneration by way of compensation, in cases, among others, of unjustified removal from or non-renewal of their position, or a substantial reduction in their duties; the resignation from their post as a result of a change in control of the Company or a significant change in the composition of the Board of Directors. The amount of compensation will be set in accordance with recommendation 64 of the Good Governance Code for Listed Companies. The amounts that the executive directors may have received in additional variable remuneration or in share options, shall not be taken into consideration when setting it.
- The intention of including a clawback clause, through which all or part of the variable payments made can be reclaimed. This aims to avoid a bonus-malus system (recommendation 63 of the Good Governance Code for Listed Companies).

#### **CONCLUSION**

With regard to the criteria shown above, the Appointments and Remuneration Committee has concluded that the proposed Remuneration Policy (attached as an appendix to the present report), applicable as of 1 January 2016, complies in general terms with the LSC; with remuneration being in accordance with the size of the Company, the current economic situation and the prevailing market standards of comparable companies.

Equally, the proposed Remuneration Policy meets the objective of attracting and retaining directors with the desired profile, and rewarding the dedication, abilities and responsibilities that the post demands, but not being so high as to compromise the independent judgment of non-executive directors.

### **3. Proposed resolution to be submitted to the General Shareholders' Meeting**

The proposed resolution, which includes the Remuneration Policy (attached as an appendix to the present report), and which will be submitted for the approval of the General Shareholders' Meeting, is as follows:

#### ***“PROPOSED RESOLUTION TO APPROVE THE DIRECTORS' REMUNERATION POLICY.***

##### ***The Directors' Remuneration Policy of Inmobiliaria Colonial, S.A.***

*The General Shareholders' Meeting of Inmobiliaria Colonial, S.A. resolves to approve the Directors' Remuneration Policy, which was made available to the shareholders at the time of convening the General Meeting. It is hereby stated that, for the purposes of article 217 of the Spanish Limited Liability*

*Companies Law, the Policy in question expressly includes the maximum amount of the remuneration of the Directors in their capacity as such.”*

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