

**ANNUAL CORPORATE GOVERNANCE REPORT
OF LISTED COMPANIES**

ISSUER IDENTIFICATION DATA

REFERENCE REPORTING DATE

31 December 2016

C.I.F. A-28.027.399

Company name: INMOBILIARIA COLONIAL, S.A.

Registered office: AVENIDA DIAGONAL, 532, 08006 BARCELONA

**ANNUAL CORPORATE GOVERNANCE REPORT
OF LISTED COMPANIES**

A OWNERSHIP STRUCTURE

A.1 Fill in the following table on the company's share capital:

Date of last change	Share capital (euros)	Number of shares	Number of voting rights
14/07/16	EUR 892,058,497.50	356,823,399	356,823,399

Indicate whether different types of shares exist with different associated rights:

Yes No **X**

Class	Number of shares	Par value each	Voting rights per share	Different rights
--	--	--	--	--

A.2 Detail the direct and indirect holders of significant ownership interests in the Company at year-end, excluding directors:

Name of the shareholder:	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct shareholder	Number of voting rights	
Aguila LTD.	0.000	SNI Luxembourg, S.À.R.L.	21,800,183	6.110
Grupo Villar Mir, S.A.U.	6,737,715	Espacio Activos Financieros, S.L.U.	5,169,254	3.337
Mr. Joseph Charles Lewis	0.000	Labmex International S.À.R.L.	17,617,708	4.937
Qatar Investment Authority	0.000	Qatar Holding Luxembourg II, S.À.R.L.	41,593,367	11.657
BlackRock, Inc.	0.000		10,885,211	3.051
Fidelity International Limited	0.000		6,248,471	1.751

Indicate the most significant movements in the shareholder structure during the year:

Name of the shareholder:	Transaction date	Description of the transaction
Grupo Villar Mir, S.A.U.	21/06/16	Ownership interest has fallen below 10% of share capital
Grupo Villar Mir, S.A.U.	12/12/16	Ownership interest has fallen below 5% of share capital
Mr. Joseph Charles Lewis	05/01/16	Ownership interest has exceeded 5%
Mr. Joseph Charles Lewis	05/07/16	Ownership interest has fallen below 5% of share capital
Mora Banc Grup, S.A.	28/06/16	Ownership interest has fallen below 5% of share capital
Mora Banc Grup, S.A.	28/07/16	Ownership interest has fallen below 3% of share capital
Third Avenue Management, LLC	26/07/16	Ownership interest has fallen below 3% of share capital
Third Avenue Real Estate Value Fund	30/06/16	Ownership interest has fallen below 3% of share capital
BlackRock, Inc	30/11/16	Ownership interest has exceeded 3%
Orbis Allan Gray Limited	01/01/16	Ownership interest has exceeded 1%
Orbis Allan Gray Limited	02/09/16	Ownership interest has fallen below 1%
Mr. Joseph Charles Lewis	25/03/16	Ownership interest has exceeded 5%

A.3 Fill in the following tables on the members of the company's Board of Directors who own voting shares in the company:

Name or company name of director	Number of direct voting rights	Indirect voting rights		% of total voting rights
		Direct shareholder	Number of voting rights	
Juan José Brugera Clavero	99,212		0	0.028
Pedro Viñolas Serra	168,071		0	0.047
Luis Maluquer Trepas	20,000	Marta Maluquer Domingo	2,500	0.006
Carlos Fernández-Lerga Garralda	5,361	Eur-Consultores, S.L.	5,170	0.003

Carlos Fernández González	0	Grupo Finaccess, S.A.P.I. de C.V.	41,139,685	11.529
Ana Sainz de Vicuña Bemberg	1,550		0	0.000
Javier Iglesias de Ussel Ordís	1,820		0	0.001
Adnane Mousannif	0		0	0
Sheikh Ali Jassim M. J. Al-Thani	0		0	0
Juan Villar-Mir de Fuentes	0		0	0
Juan Carlos García Cañizares	0		0	0

% of total voting rights held by the Board of Directors	11.614
--	--------

Fill in the following tables on the members of the company's Board of Directors who hold rights over shares in the company:

Name or company name of director	Number of direct rights	Indirect rights		Equivalent number of shares	% of total voting rights
		Direct holder	Number of voting rights		
-	-	-	-	-	-

- A.4 Indicate, as applicable, any family, commercial, contractual or corporate relationships between owners of significant shareholdings, insofar as these are known by the company, unless they are insignificant or arise from ordinary trading or exchange activities:

Name or company name of the related party	Type of relationship	Brief description
-	-	-

- A.5 Indicate, as applicable, any commercial, contractual or corporate relationships between owners of significant shareholdings, and the company and/or its group, unless they are insignificant or arise from ordinary trading or exchange activities:

Name or company name of the related party	Type of relationship	Brief description
-	-	-

- A.6 Indicate whether the Company has been notified of any shareholders' agreements pursuant to Articles 530 and 531 of the Spanish Limited Liability Companies Law ("LSC"). If so, provide a brief description and list the shareholders that are party to the agreement:

Yes No X

Parties to the shareholders agreement	% of share capital involved	Summary of the agreement
-	-	-

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. Give a brief description as applicable:

Yes No X

Participants in concerted action	% of share capital involved	Brief description of the concerted action
-	-	-

Expressly indicate any amendments to or termination of such agreements or concerted actions during the year:

- A.7 Indicate whether any individuals or legal entities currently exercise control or could exercise control over the Company pursuant to Article 5 of the Securities Market Law. If so, identify:

Yes No X

Name
-

Remarks
-

- A.8 Complete the following tables on the company's treasury stock:

At year end:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
5,679,588	-	1.59

(*) Through:

Name or company name of holder of direct ownership interest	Number of direct shares
-	-
Total	-

Give details of any significant changes during the year pursuant to Royal Decree 1362/2007:

Notification date	Total direct shares acquired	Total indirect shares acquired	Total % of share capital
02/08/16	3,801,417	-	1.065
05/08/16	(2,116,508)	-	0.593

- A.9 Give details of the applicable conditions and time periods governing any resolutions of the Annual General Meeting the Board of Directors to issue, buy back and/or transfer treasury shares.

On 30 June 2014 the shareholders of Inmobiliaria Colonial, S.A. (“Colonial” or “the Company”) authorised the Board of Directors for the derivative acquisition of treasury shares. The minimum acquisition price or consideration will be equal to the par value of the treasury shares acquired, and the maximum acquisition price or consideration will be equal to the quoted price of the treasury shares purchased in an official secondary market at the date of acquisition. At no time may the par value of the shares directly or indirectly acquired, added to those already held by the Company and its subsidiaries, exceed 10% of the subscribed share capital or the maximum amount that may be established in law. The types of acquisition may include sale and purchase, swap or any other type of transaction for consideration according to the circumstances. The authorisation was granted for a five-year period. The authorisation granted expressly provides that the shares acquired may be used in whole or in part for delivery or transfer to the directors, executives or employees of the Company or Group companies, directly or as a result of their exercising options, within the scope of the Company’s share price-based remuneration systems,

A.9 bis Estimated floating capital:

	%
Estimated floating capital	55.97

- A.10 Give details of any restriction on the transfer of securities or voting rights. Indicate, in particular, the existence of any restrictions on the takeover of the company by means of share purchases on the market.

Yes

No X

Description of restrictions
--

A.11 Indicate whether the shareholders at the Annual General Meeting has resolved to take neutralisation measures to prevent a triggered takeover bid by virtue of the provisions of Law 6/2007.

Yes No X

If applicable, explain the measures adopted and the terms under which these restrictions may be lifted:

A.12 Indicate whether the company has issued securities not traded in a regulated market of the European Union.

Yes No X

B ANNUAL GENERAL MEETING

B.1 Indicate the quorum required for constitution of the Annual General Meeting established in the company's bylaws. Describe how it differs from the system of minimum quorums established in the Spanish Limited Liability Companies Law (LSC).

Yes No X

	% quorum differing from that established in Art. 193 LSC for general cases	% quorum differing from that established in Art. 194 LSC for special cases pursuant to Art. 194
Quorum required on 1st call	--	--
Quorum required on 2nd call	--	--

Description of the differences
--

B.2 Indicate and, as applicable, describe any differences between the company's system of adopting corporate resolutions and the framework established in the Spanish Limited Liability Companies Law (LSC):

Yes No X

Describe how they differ from the rules established in the LSC.

	Qualified majority other than that provided for in Art. 201.2 LSC for the cases in 194.1 LSC	Other cases requiring qualified majority
% established by the company for the adoption of resolutions	--	--
Describe the differences		
--		

- B.3 Indicate the rules governing amendments to the company's bylaws. In particular, indicate the majorities required to amend the Bylaws and, if applicable, the rules for protecting shareholders' rights when changing the Bylaws.

Under the bylaws, for the shareholders to validly resolve to increase or reduce share capital or make any other amendment to the bylaws, shareholders holding at least 50% of the subscribed share capital with voting rights with must be present or represented on first call. At second call, shareholders representing 2% of share capital shall be sufficient.

As regards the adoption of resolutions, the bylaws establish that issues that are substantially independent will be voted on separately, in particular the amendment of any article or group of articles in the bylaws that stand alone. Also, the affirmative vote of more than 50% of the share capital present in person or by proxy is sufficient to adopt resolutions, whereas the affirmative vote of two thirds of the share capital present in person or by proxy at the general meeting will be necessary where, on second call, the shareholders present represent 25% of the subscribed share capital with voting rights without reaching 50%.

- B.4 Indicate the attendance figures for the General Meetings held during the year:

Attendance information					
Date of General Meeting	% attendance	% attendance by proxy	% distance voting		Total
			Electronic voting	Other	
24/04/15	29.72%	40.27%	0.00%	0.00%	69.99%
28/06/16	24.36%	45.70%	0.00%	1.63%	71.69%

- B.5 Indicate whether the bylaws contain any restrictions with respect to a minimum number of shares required to attend General Meetings.

Yes X No

Number of shares required to attend General Meetings	500
---	-----

B.6 Removed

B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other information on Annual General Meetings which must be made available to shareholders on the website.

Company's webpage: www.inmocolonial.com

To access corporate governance content on corporate governance and other information on General Meetings: <https://www.inmocolonial.com/accionistas-inversores/gobierno-corporativo/juntas-generales>

C MANAGEMENT STRUCTURE OF THE COMPANY

C.1 Board of Directors

C1.1 The maximum and minimum number of directors included in the bylaws:

Maximum number of directors	15
Minimum number of directors	5

C.1.2 Fill in the following table with the directors' particulars:

Name or company name of director	Representative	Category of the director	Position on the board	Date of first appointment	Date of last appointment	Appointment procedure
Juan José Brugera Clavero		Executive	Chairman	19/06/08	30/06/14	Resolution of the Annual General Meeting
Pedro Viñolas Serra		Executive	CEO	18/07/08	30/06/14	Resolution of the Annual General Meeting
Carlos Fernández González		Proprietary	Director	28/06/16	28/06/16	Resolution of the Annual General Meeting
Juan Carlos García Cañizares		Proprietary	Director	30/06/14	30/06/14	Resolution of the Annual General Meeting
Sheikh Ali Jassim M.J. Al-Thani		Proprietary	Director	12/11/15	28/06/16	Resolution of the Annual General Meeting
Adnane Mousannif		Proprietary	Director	28/06/16	28/06/16	Resolution of the Annual General Meeting

Name or company name of director	Representative	Category of the director	Position on the board	Date of first appointment	Date of last appointment	Appointment procedure
						Meeting
Juan Villar-Mir de Fuentes		Proprietary	Director	30/06/14	30/06/14	Resolution of the Annual General Meeting
Ana Sainz de Vicuña Bemberg		Independent	Director	30/06/14	30/06/14	Resolution of the Annual General Meeting
Carlos Fernández-Lerga Garralda		Independent	Lead independent director	19/06/08	30/06/14	Resolution of the Annual General Meeting
Javier Iglesias de Ussel Ordís		Independent	Director	19/06/08	30/06/14	Resolution of the Annual General Meeting
Luis Maluquer Trepat		Independent	Director	31/07/13	30/06/14	Resolution of the Annual General Meeting

Total number of directors	11
----------------------------------	----

Indicate any board members who left during the period:

Name or company name of director	Category of director at date of stepping down	Date of departure
Grupo Villar Mir, S.A.U.	Proprietary	16/12/16
Francesc Mora Sagués	Proprietary	05/05/16

C.1.3 Complete the following tables on board members and their respective categories:

EXECUTIVE DIRECTORS

Name or company name of director	Position per company organisation chart
Juan José Brugera Clavero	Chairman
Pedro Viñolas Serra	CEO

Total number of executive directors	2
% of total board	18.18%

EXTERNAL PROPRIETARY DIRECTORS

Name or company name of director	Name or company name of significant shareholder represented or proposing appointment
Juan Villar-Mir de Fuentes	Grupo Villar Mir, S.A.U.
Juan Carlos García Cañizares	Aguila, LTD
Carlos Fernández Gonzalez	Grupo Finaccess S.A. de C.V.
Adnane Mousannif	Qatar Investment Authority
Sheikh Ali Jassim M.J. Al-Thani	Qatar Investment Authority

Total number of proprietary directors	5
% of total board	45.45%

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of director	Profile
Carlos Fernández-Lerga Garralda	<p>Law degree from Universidad de Navarra, master's degree in European studies from the University of Louvain (Belgium) and PhD courses in Law at Universidad Complutense de Madrid and commercial law specialisation courses for post-graduates at the Bank of Spain's Training Centre. He completed his studies in international law at the Academy for International Law at The Hague, in comparative law and international organisations in Strasbourg and at the <i>Collège Universitaire d'études fédéralistes Niza, Val d'Aosta</i>.</p> <p>From 1978 to 1983 he was an advising member at the Spanish Ministry and State Secretary for Relations with the European Communities, where he participated in the negotiation of</p>

Name or company name of director	Profile
	<p>Spain's accession. From 1984 to 1986 he was managing director of EU Advisory at the Banco Hispano Americano Group. He has also been a director of Abantia Corporación and lead independent director and Chairman of the Appointments and Remuneration Committee of Gamesa Corporación Tecnológica, S.A. and General Director at La Caixa. He is a member of the International Secretariat of World Federalist Youth (Amsterdam, the Netherlands), Secretary of the LECE, Madrid (Liga Europea de Cooperación Económica); Secretary of Fundación para el Progreso y la Democracia, member (treasurer) of the Governance Board of the Madrid Bar Association, member of the Executive Committee of Real Instituto Elcano and trustee of Fundación Consejo España-EEUU and Fundación Consejo España/China. He has also taught at the Faculty of Political Sciences at Universidad Complutense and the Institute of European Studies at Universidad de Alcalá de Henares, among others, and has published extensively in legal matters.</p> <p>He is currently Chairman of Iberdrola Ingeniería y Construcción, S.A. and continues to practise law from his firm Carlos Fernández-Lerga Abogados, mainly providing legal advisory services in commercial and civil law. He is also a currently member of the board of directors of SFL.</p>
Javier Iglesias de Ussel Ordís	<p>Javier Iglesias de Ussel y Ordís has had a long career in finance. In 1974 we joined Lloyds Bank International in London, where over 21 years he held various positions of responsibility in</p>

Name or company name of director	Profile
	<p>corporate banking in Dubai, Sao Paulo, Asunción and Madrid. In 1995 he joined The Bank of New York and was named Country Manager for the Iberian Peninsula. In 2002 he moved to New York and was named General Director for Latin America. From 2008 to December 2013 he led the Representative Office of the Chilean bank Banco de Crédito e Inversiones. Since 2008 Mr Iglesias de Ussel has been an independent director at Inmobiliaria Colonial and has also been an independent director at Aresbank since March 2015.</p> <p>Mr Iglesias de Ussel holds a degree in modern history from Universidad de Barcelona and throughout his career has participated in numerous business administration, marketing, risk analysis and money-laundering prevention courses. He has lived outside of Spain for 22 years and speaks English, French and Portuguese.</p>
Luis Maluquer Trepas	<p>He holds a degree in law from Universidad de Barcelona and a diploma in international institutions from Université de Genève.</p> <p>Throughout his professional career, he has advised various Spanish and international entities, through the firm Maluquer Advocats, S.C.P., and provided services in consultancy, legal advisory and court, arbitration and mediation proceedings. He has also taught at various institutions such as Cambra de Comerç in Barcelona and was a director of Association Européenne pour le Droit Bancaire et Financier (AEDBF Paris).</p> <p>He is currently a partner at the firm Maluquer Advocats, S.C.P. and director and secretary of various entities,</p>

Name or company name of director	Profile
	<p>including SFL, of which he is a director. He is also a special representative and secretary of the board of various subsidiaries of European companies, particularly in the infrastructures and agro-food sectors. He is currently Chairman of the Argentine Chamber of Commerce in Spain.</p>
<p>Ana Sainz de Vicuña Bemberg</p>	<p>She graduated with a degree in agricultural economics from Reading University in the UK and has completed a Program for Management Development at Harvard University.</p> <p>She worked for 18 years (1984-2003) at Merrill Lynch in Spain. She began her career in private banking, where she spent 12 years. She subsequently joined the securities brokerage company formed after the acquisition of FG, and was in charge, under Mr Claudio Aguirre, of integrating the company, and later was responsible for operations, systems, HR and finance. She was eventually named General Manager of Merrill Lynch International Bank, branch in Spain. She has also been a member of the board of Mobile Dreams Factory, a mobile marketing and publicity agency, and Asturbega, the Coca-Cola bottling company in northern Spain. She current sits on the Foundation Board of Fondation ARPE (Foundation for Art Research Partnership and Education).</p> <p>Since 2004, she has been a member of the board and steering committee of Corporación Financiera Guadalmar (CFG), a family office with assets in Spain and Latin America, mainly in Argentina and Chile. She oversees the Financial Asset Committee, which</p>

Name or company name of director	Profile
	<p>manages the securities portfolios, as well as the family's investments in the Security Group, of which she is also a director, and in the Awasi and W Santiago hotel groups.</p> <p>In 2011 she was named director of Terold Invest, S.L. and in July 2015 was named director of Acciona, S.A.</p>

Total number of independent directors	4
Total % of Board	36.36%

List any independent directors who receive from the company or group any amount or payment other than standard director remuneration or who maintain or have maintained during the period in question a business relationship with the company or any group company, either in their own name or as a significant shareholder, director or senior manager of an entity which maintains or has maintained the said relationship.

NO

If applicable, include a statement from the board detailing the reasons why the said director may carry on their duties as an independent director.

Name or company name of director	Description of the relationship	Reasoned statement
--	--	--

OTHER EXTERNAL DIRECTORS

Identify the other external directors and explain why these directors may not be considered proprietary or independent directors, and what their connection is with the Company, its management or its shareholders:

Name or company name of director	Reason	Company, director or shareholder with which that person maintains a link
--	--	--

Total number of other external directors	--
Total % of Board	--

Indicate any changes in the status of each director that may have occurred during the year:

Name or company name of director	Date of change	Prior category	Current category
Luis Maluquer Trepas	16/12/16	Ordinary member	Independent

C.1.4 Complete the following table with the information on the number of female directors over the past four years and their category:

	Number of female board members				% of total directors of each category			
	2016	2015	2014	2013	2016	2015	2014	2013
Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	0	0	1	0	0.00%	0.00%	20.00%	0.00%
Independent	1	1	1	0	25.00%	33.33%	33.33%	0.00%
Other external members	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total	1	1	2	0	9.09%	9.09%	18.18%	0.00%

C.1.5 Explain the measures, if applicable, which have been adopted to ensure that there is a sufficient number of female directors on the board to guarantee an even balance between men and women.

Explanation of the measures
<p>The regulations of the board of directors provide for, among the various obligations of the board of directors, the obligation to ensure that the procedures for selecting its members promote diversity of gender, experience and knowledge and do not suffer from any implicit bias that may entail discrimination and, in particular, facilitate the selection of women directors.</p> <p>In this regard, in 2016 the board of directors approved a Selection Policy for Directors of Inmobiliaria Colonial, S.A. (the "Selection Policy") which expressly sets a goal of having at least 30% of total board places occupied by women directors before 2020.</p>

C.1.6 Explain the measures taken, if applicable, by the appointments committee to ensure that the selection processes are not subject to implicit bias that would make it difficult to select female directors, and whether the Company makes a conscious effort to search for female candidates who have the required profile:

Explanation of the measures
Both the board of directors and the Appointments and Remuneration Committee (the "ARC") have ensured, pursuant to the bylaws and board regulations, that the candidates proposed as Board members meet the requirements relating to experience, technical competence and suitability and that the fact that no woman directors has been appointed is due to the existence of implicit bias in the procedure that hinders selecting them. In this regard, it should be noted that the ARC has, inter alia, the following functions: i) evaluate the skills, knowledge and experience required of the board of directors, define the roles and capabilities required of the candidates to fill each vacancy and decide on the time and dedication necessary for them to effectively perform their duties; ii) establish a target representation rate for the less-represented gender on the board of directors; iii) make proposals to the board of independent directors to be appointed by co-option or, if applicable, for submission to decision by the shareholders at the general meeting, and proposals for re-election and removal of those directors by the shareholders at the general meeting; iv) report on proposals of the board of directors for appointment of other directors to be appointed by co-option or, if applicable, for submission to decision by the general shareholders' meeting, and proposals for re-election and removal of those directors by the shareholders at the general meeting.

When, despite the measures taken, there are few or no female directors, explain the reasons:

Explanation of the reasons
In 2016 the only appointments to the board of directors were made as a result of changes in the Company's shareholding structure. In this regard, all the directors appointed in the year are proprietary directors and, accordingly, were appointed at the proposal of significant shareholders based on their ownership interest.

C.1.6.bis Explain the findings of the appointments committee on the verification of compliance with the director selection policy. In particular, how this policy is promoting the goal of having at least 30% of total board places occupied by women directors before 2020.

On 11 April 2016 the ARC submitted the selection policy to the board of directors for approval. This policy, which was approved by the board of directors on the same date, included the criteria of the ARC in this connect and, in particular, set a goal of having at least 30% of total board places occupied by women directors before 2020.

C.1.7 Explain how shareholders with significant holdings are represented on the board.

In accordance with Colonial's board of directors regulations, in exercising its powers of proposal to the shareholders at the general meeting and of co-optation to fill directorship vacancies, the board of directors shall ensure that there is an ample majority of independent and proprietary directors on the board and that the number of executive directors is as low as possible, based on the Company's shareholding structure. In this regard, proprietary directors will be considered to be:

Directors who hold a block of shares equal to or over the legal threshold for significant interests or who were otherwise appointed due to their status as shareholders even though their ownership interest does not reach the aforementioned amount.

b. Those representing shareholders as stated in the preceding letter.

For the purposes of the foregoing definition, a director is deemed to represent a shareholder when:

- He/she has been appointed under a power of attorney in the board of directors;
- He/she is a director, senior executive, employee or regular supplier of significant services to the shareholder or to companies in the shareholder's group;
- Company records show that the shareholder considers that the director is his/her appointee or representative;
- He/she is the spouse or maintains an analogous affective relationship or is related up to the second degree of kinship to a significant shareholder.

C.1.8 If applicable, please explain the reasons for the appointment of any proprietary board members at the request of shareholders with less than 3% of share capital:

Name of the shareholder:	Reasons
-	-

Provide details of any rejections of formal requests for board representation from shareholders whose equity interest is equal to or greater than that of other shareholders who have successfully requested the appointment of proprietary directors. If so, explain why these requests have not been entertained.

Name of the shareholder:	Explanation
-	-

C.1.9 Indicate whether any director has resigned from office before their term of office has expired, whether that director has given the board their reasons and through which channel. If made in writing to the whole board, list below the reasons given by that director:

Name of director	Reason for termination
Francesc Mora Sagués	By means of a letter addressed to the Chairman of the board of directors for him to apprise the other directors, Mr Mora announced his decision to resign as a member of the Colonial's board of directors, for professional reasons, as per the related relevant event that the Company published on the website of the Spanish National Securities Market Commission.
Grupo Villar Mir, S.A.U.	By means of a letter addressed to the Chairman of the board of directors for him to apprise the other directors, Mr Villar Mir announced the resignation of Grupo Villar Mir, S.A.U. as a director of Colonial, due to changes in Colonial's shareholding structure.

C.1.10 Please specify any powers vested in the chief executive officer(s):

Name or company name of director	Brief description
Pedro Viñolas Serra	He has been attributed all the powers that may be delegated under law or the bylaws.

C.1.11 Please identify any board members who hold positions as directors or officers in other companies in the group of which the listed company is parent:

Name or company name of director	Group company name	Position	Has executive duties?
Pedro Viñolas Serra	Société Foncière Lyonnaise	Deputy Chairman and Director	No
Juan José Brugera Clavero	Société Foncière Lyonnaise	Chairman	No
Luis Maluquer Trepas	Société Foncière Lyonnaise	Director	No
Carlos Fernández-Lerga Garralda	Société Foncière Lyonnaise	Director	No
Adnane Mousannif	Société Foncière Lyonnaise	Director	No
Sheikh Ali Jassim M.J. Al-Thani	Société Foncière Lyonnaise	Director	No
Pedro Viñolas Serra	Danieltown Spain, S.L.U.	Individual representing the sole director (Inmobiliaria)	Yes

Name or company name of director	Group company name	Position	Has executive duties?
		Colonial, S.A.)	
Pedro Viñolas Serra	Moorage Inversiones 2014, S.L.U.	Individual representing the sole director (Inmobiliaria Colonial, S.A.)	Yes
Pedro Viñolas Serra	Colonial Invest, S.L.U.	Individual representing the sole director (Inmobiliaria Colonial, S.A.)	Yes
Pedro Viñolas Serra	Colonial Tramit, S.L.U.	Individual representing the sole director (Inmobiliaria Colonial, S.A.)	Yes

C.1.12 Please detail any directors who have notified the Company of their membership on the boards of directors of other companies (other than Group companies) listed on official securities markets:

Name or company name of director	Company name of listed company	Position
Carlos Fernández González	Banco Santander, S.A.	Director
Carlos Fernández González	AmRest Holdings, SE	Director
Ana Sainz de Vicuña Bemberg	Acciona, S.A.	Director
Juan Villar-Mir de Fuentes	Obrascón Huarte Lain (OHL), S.A.	Chairman
Juan Villar-Mir de Fuentes	Ferroglobe, PLC	Director
Juan Carlos García Cañizares	Bavaria, S.A. (Colombia)	Director
Juan Carlos García Cañizares	Valorem, S.A. (Colombia)	Director

C1.13 Give details of any rules established by the Company with respect to the number of boards to which its directors may belong:

Yes

No X

Explanation of the rules
-

C.1.14 Removed

C.1.15 Indicate the total remuneration paid to the Board of Directors:

Remuneration of directors (thousands of euros)	5,719
Amount of pension rights accumulated by the current directors (thousands of euros).	175
Amount of pension rights accumulated by the former directors (thousands of euros).	--

C.1.16 List any members of senior management who are not executive directors and indicate total remuneration paid to them during the year:

Name	Position(s)
Carmina Ganyet Cirera	Corporate General Manager
Alberto Alcober Teixidó	Business Director
Nuria Oferil Coll	Legal Director
Carlos Escosa Farga	Internal auditor
Total remuneration of senior executives (thousands of euros)	1,978

C.1.17 List, if applicable, the identity of those directors who are also members of the boards of directors of companies that own significant holdings and/or of Group companies:

Name or company name of director	Company name of significant shareholder	Position
Carlos Fernández González	Grupo Finaccess, S.A.P.I. de C.V.	Chairman
Carlos Fernández González	AmRest Holdings, SE	Director
Juan Villar-Mir de Fuentes	Grupo Villar Mir, S.A.U.	Deputy chairman and CEO
Juan Villar-Mir de Fuentes	Inmobiliaria Espacio, S.A.	Deputy chairman and CEO
Juan Villar-Mir de Fuentes	Fertiberia, S.A.	Deputy chairman and CEO
Juan Villar-Mir de Fuentes	Promociones y Propiedades Inmobiliarias Espacio, S.L.U.	Chairman and CEO
Juan Villar-Mir de Fuentes	Centro Canalejas Madrid, S.L.	Chairman
Juan Villar-Mir de Fuentes	Puerto Sotogrande, S.A.	Chairman and CEO
Juan Villar-Mir de Fuentes	Obrascón Huarte Lain (OHL), S.A.	Chairman
Juan Villar-Mir de Fuentes	Ferroglobe, PLC	Director

Name or company name of director	Company name of significant shareholder	Position
Juan Carlos García Cañizares	SIN Luxembourg, S.a.r.l.	Director

List, if appropriate, any relevant relationships, other than those included under the previous heading, that link members of the board of directors with significant shareholders and/or their group companies:

Name or company name of related director	Name or company name of related significant shareholder	Description of the relationship
--	--	--

C.1.18 Indicate whether any amendments have been made to the Board of Directors Regulations during the year:

Yes No

Description of amendments
<p>On 28 June 2016 the Board of Directors Regulations were amended in order to adapt them to the new content of the bylaws, once amendment thereof had been approved by the shareholders, which took place on the same day. This amendment sought to adapt the contents of the bylaws to the most recent legislation at that time.</p> <p>In addition, on 27 July 2016 the board of directors agreed on a new amendment with the main purpose of attributing the powers of monitoring compliance with the rules of corporate governance to the ARC.</p>

C.1.19 Indicate the procedures for the selection, appointment, re-election, evaluation and removal of directors. Give details of the competent bodies, the formalities to be fulfilled and the criteria to be used in each of the procedures.

The procedures for selection, appointment and re-election of directors are governed by the board of directors regulations and developed in the selection policy approved by the board on the proposal of the ARC.

Discrimination is to be avoided in the selection process, and the overruling principle is the evaluation of the merits and abilities of each of the candidates, while seeking in all cases the most qualified candidates.

The directors are appointed by the shareholders at the general meeting or, in the event of early vacancy, by the board of directors in the exercise of its power of co-optation.

The ARC makes proposals for the appointment or re-election of independent directors. In all other cases, the board is responsible for making proposals. Proposals must be accompanied by a supporting report from the board that assesses the competence, experience and merits of the proposed candidates, which will be attached to the minutes of the shareholders' meeting or the board meeting. The proposal for the appointment or re-election of any non-independent director should also be preceded by an ARC report.

In order for the shareholders at the general meeting to have the information necessary for the appointment of directors, from the publication of the call notice and until the holding of the general meeting, the Company should continuously post on its corporate website the following information, at least, on the persons proposed for appointment, ratification or re-election as board members: the identity, CV and category to which each belongs, and the aforementioned

proposal and reports and ARC explanatory report containing the findings of the analysis performed beforehand of the board's needs. For legal entities, information should be included on the individual designated for the ongoing discharge of fiduciary duties.

The procedure to evaluate directors is also governed in the Board of Directors Regulations. In this regard, the board in plenary session will conduct an annual evaluation, adopting, where necessary, an action plan to correct weaknesses detected in: (i) the quality and efficiency of the board's operation; (ii) the performance and membership of its committees; (iii) the diversity of board membership and competences; (iv) the performance of the chairman of the board of directors and the company's chief executive; and (v) the performance and contribution of individual directors, with particular attention to the chairmen of board committees. The evaluation of the Chairman of the Board will be directed by the Coordinating Director.

Regarding the removal of directors, the board of directors regulations provides that directors may be removed from office at any time by the shareholders at the general meeting even if such removal does not appear in the agenda.

In addition, directors must tender their resignation to the board of directors and resign if the latter deems it appropriate subsequent to a report from the ARC in the cases specified in the board of directors regulations, which are detailed in section C.1.21 below.

The Board of Directors shall not propose the removal of any independent directors before the expiry of their tenure as mandated by the bylaws, except where just cause is found by the Board, based on a report by the ARC. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation. The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the Company's capital structure, in order to meet the proportionality criterion.

Without prejudice to the foregoing, the Board of Directors Regulations stipulates that independent directors shall not retain their status as such for a continuous period of more than twelve years.

Also, the Board of Directors may propose the removal of other directors prior to expiry of the statutory period for which they were appointed on the occurrence of exceptional and justified causes as approved by the board, subsequent to a report by the ARC. When as a result of their resignation or for some other reason directors vacate their position before their term of office has concluded, they shall explain the reasons in a letter submitted to all the members of the Board. Directors' vacation of office shall also be disclosed in the Annual Corporate Governance Report as a relevant event, together with the reasons therefore.

C.1.20 Explain to what extent the annual evaluation of the Board has prompted significant changes in its internal organisation and the procedures applicable to its activities:

Description of changes
No changes have taken place since the self-assessment has been satisfactory.

C.1.20.bis Describe the evaluation process and areas evaluated that is performed by the board of directors, assisted, as the case may be, by an external consultant, in respect of the diversity of its composition and competences, the operation and composition of its committees, the performance of the chairman of the board and chief executive of the Company and the performance and contribution of each director.

The board of directors has evaluated its composition and competences, the operation and composition of committees and the performance of the chairman, CEO, lead independent

director, other Company directors and the secretary of the board. In this regard, questionnaires were sent to all directors for these evaluations, covering various matters and collecting general recommendations for improvement. Once the responses were received, the ARC prepared the related reports evaluating the board of directors, chairman, CEO, lead independent director and the secretary of the board, as well as its own composition, competences and operation, for submission to the board of directors. Also, the ACC prepared a report evaluating its own composition, competences and functioning.

The ARC commissioned the services of the Spencer Stuart as an external consultant in this evaluation process. It issued a report on the adequacy of the procedure and methodology applied by Colonial in the evaluation process and its conclusions regarding the evaluation.

Subsequent to the evaluation, the board of directors approved the evaluation reports for the board and its committees, the chairman, CEO, lead independent director and secretary, finding that: (i) the board of directors has an appropriate composition and effectively assumes and exercises the powers and competences attributed to it by the bylaws and the board of directors regulations, putting foremost in its actions at all times the interests of the Company and maximisation of the Company's economic value foremost; (ii) the executive committee, the ARC and the Audit and Control Committee ("ACC") each have an appropriate composition and effectively assume and exercise the powers attributed to them by applicable regulations and the Company's various corporate texts; and (iii) the chairman, CEO, lead independent director and the secretary of the board have effectively and diligently discharged their duties.

C.1.20.ter Detail, as appropriate, any business dealings that the consultant or any company in its group have with the Company or any company in its group.

Business dealings with the consultant or any company in its group are listed in section C.1.20 bis above, i.e. as an external consultant in relation to the evaluation of the board of directors, its committees, the chairman of the board and the CEO, the lead independent director and secretary of the board, and as external adviser on the remuneration policy of the board of directors.

C.1.20 Indicate the cases in which the directors must resign.

Under the Board of Directors Regulations, the directors must tender their resignation to the Board of Directors and resign if the latter deems it appropriate subsequent to a report from the ARC, in the following cases:

1. When they become subject to any incompatibility or prohibition established by law;
2. When they cease to discharge the executive functions associated with their appointment as directors or when the reasons for their appointment cease to exist. In particular, proprietary directors shall resign when the shareholder they represent transfers its entire ownership interest in Colonial or reduces its ownership interest to a level that requires a reduction of the number of its proprietary directors.
3. In events in which, notwithstanding the foregoing paragraph, the board of directors considers that there are reasons that justify that the director remain in office, taken into particular account is the impact that the new circumstances may have on the qualification of the director.
4. When they have been seriously reprimanded by the ARC for having infringed any of their obligations as directors;
5. When their remaining as board member may adversely affect the operation of the board or jeopardise the credit or reputation of the Company for any reason. In particular, the directors must inform the Board of any criminal proceedings in which they are an accused party and of the subsequent progress of the proceedings. In any event, if a director were prosecuted or had a court order issued against him or her initiating trial proceedings for any of the offences defined in the law, the Board shall examine the case as soon as practicable and, in view of the

particular circumstances, decide whether or not he or she should remain in office, providing reasonable reasons therefor in the Annual Corporate Governance Report.

C.1.22 Removed

C.1.23 Are qualified majorities other than those prescribed by law required for any type of decision?

Yes No X

If applicable, describe the differences.

Description of the differences
--

C.1.24 Indicate whether there are any specific requirements, apart from those relating to the directors, to be appointed Chairman of the Board of Directors.

Yes No X

Description of the requirements
--

C.1.25 Indicate whether the Chairman has the casting vote:

Yes X No

Areas in which there is a casting vote
There are no specific areas in which there is casting vote of the chairman, to the extent that he has such vote in the event of a tie in any of the votes submitted to the board of directors.

C.1.26 Indicate whether the bylaws or the Board Regulations set any age limit for directors:

Yes No X

Age limit for the Chairman -

Age limit for the CEO - Age limit for directors -

C.1.27 Indicate whether the bylaws or the Board Regulations set a limited term of office for independent directors other than that established in law:

Yes No X

Maximum term of office (years)
--

C.1.28 Indicate whether the bylaws or board regulations stipulate specific rules on appointing a proxy to the board, the procedures thereof and, in particular, the maximum number of proxy appointments a director may hold. Also indicate

whether there is any limit as to the categories in which it is possible to delegate votes, beyond the limits provided in law. If so, give brief details.

Under the board of directors regulations, proxy is granted in writing and specifically for each meeting, and solely another member of the board. However, non-executive directors may only assign proxy to another non-executive. Furthermore, the board of directors regulations stipulates that in cases of delegation, the directors must give specific instructions to the proxy on the direction of the vote on the matters under discussion.

C.1.29 Indicate the number of Board meetings held during the year and how often the Board has met without the Chairman's attendance. Attendance will also include proxies appointed with specific instructions.

Number of board meetings	11
Number of Board meetings without Chairman's attendance	0

If the chairman is executive director, indicate the number of meetings held without the attendance or representation of any executive director and chaired by the lead independent director

Number of meetings	0
---------------------------	---

Indicate the number of meetings of the various board committees held during the year:

Number of Executive or Delegated Committee meetings	1
Number of Audit Committee meetings	10
Number of Appointments and Remuneration Committee meetings	7

C.1.30 Indicate the number of Board meetings held during the year with all members in attendance. Attendance will also include proxies appointed with specific instructions.

Attendance of directors	6
Number of attendances as % of the total votes during the year	95.97%

C.1.31 Indicate whether the consolidated and individual financial statements submitted for authorisation for issue by the Board are certified previously:

Yes No

Identify, where applicable, the person(s) who certified the company's individual and consolidated financial statements prior to their authorisation for issue by the board:

Name	Position
Angels Arderiu Ibars	Finance Director

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent qualified auditors' reports on the separate and consolidated financial statements prepared by it from being submitted at the General Meeting.

The board of directors regulations stipulate that the ACC will strive to ensure that the board of directors submits the financial statements at the general shareholders' meeting without limitations or qualifications. In any exceptional cases where these exist, the chairman of the ACC and the auditors will give a clear account to shareholders of the contents and scope of such limitations or qualifications. In any case, based on the functions granted to it in this connection by the board of directors regulations, the ACC performs ongoing monitoring in the process of preparing the individual and consolidated financial statements to avoid them from being prepared with qualifications in the auditor's report.

C.1.33 Is the Board secretary a director?

Yes No X

If the secretary is not a director complete the following table:

Name or company name of director	Representative
Francisco Palá Laguna	--

C.1.34 Removed

C.1.35 Indicate the specific mechanisms, if any, established by the company to preserve the independence of the external auditors, of financial analysts, investment banks and of rating agencies.

The obligation of the ACC is to preserve the independence of the external auditor in the performance of its duties. It also corresponds to the ACC to: (i) investigate the issues giving rise to the resignation of the external auditor, should this come about; (ii) ensure that the remuneration of the external auditor does not compromise its quality or independence; (iii) oversee that the Company notifies any change of auditors to the Spanish National Securities Market Commission (CNMV) as a relevant event, accompanied by a statement of any disagreements arising with the outgoing auditors and the reasons therefor; and (iv) ensure that the Company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

It is also a function of the ACC to establish the necessary relations with the external auditor in order to receive information on any matters that might jeopardise the auditors' independence, for examination by the committee, any other matters related to the financial audit process and, when appropriate, to authorise non-prohibited services on the terms provided in current legislation relating to independence and to communicate with the auditors as provided for in the financial audit legislation and auditing standards. In any case, each year the external auditors will be required to furnish a statement of their independence with respect to the Company or entities related directly or indirectly thereto, as well as detailed and separate information on any manner of additional services of any kind provided and the related fees received from these entities by the external auditor or entities related thereto in accordance with the audit regulations.

The ACC will also issue, prior to the auditors' report, an annual report expressing an opinion on whether the independence of the auditors or audit companies is jeopardised. Such report shall, in all cases, contain the evaluation of the provision of the additional services mentioned in the

section above, considered individually and as a whole, other than legal audit services in relation to the rules on independence or in accordance with the audit regulations.

C.1.36 Indicate whether the company changed its external auditors during the year. If so, identify the incoming audit firm and the outgoing auditor:

Yes No X

Outgoing auditors	Incoming auditors
-	-

Explain any disagreements with the outgoing auditor and the reasons for the same:

Yes No

Explanation of the disagreements
-

C.1.37 Indicate whether the audit firm performs other non-audit work for the company and/or its group, and if so, state the amount of fees received for such work and the percentage they represent of the fees billed to the company and/or its group:

Yes X No

	Company	Group	Total
Amount for non-audit work (thousands of Euros)	276	22	298
Amount of other non-audit work/total amount billed by audit firm (as a %)	47.09%	8.09%	34.66%

C.1.38 Indicate whether the auditors' report for the previous year included any reservations or qualifications. Indicate the reasons given by the Chairman of the Audit Committee to explain the content and scope of those reservations or qualifications.

Yes No X

Explanation of the reasons
-

C.1.39 Indicate the number of years that the current audit firm has been uninterruptedly auditing the financial statements of the company and/or the group. Likewise, indicate for how many years the current firm has been auditing the financial statements as a percentage of the total number of years over which the financial statements have been audited:

	Company	Group
Number of consecutive years	10	10

	Company	Group
Number of years audited by the current audit firm/number of years the Company has been audited (as a %)	33.33	33.33

C.1.40 Indicate whether there is a procedure for directors to be able to receive outside advisory services, and if so, give details:

Yes No

Detail of the procedure
<p>In accordance with the board regulations, the Company provides suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the Company's expense.</p> <p>In this regard, in view of the functions of chairman of the board, the directors send the chairman requests for external assistance when they deem necessary. The chairman is responsible for duly transmitting this request to external advisers.</p> <p>Also, the board of directors regulations establish that the committees may engage external advice, when they feel it necessary for the discharge of their functions.</p>

C.1.41 Indicate whether there is a procedure for the directors to be able to receive the necessary information to prepare for meetings of the managing bodies sufficiently in advance, and if so, give details:

Yes No

Detail of the procedure
<p>In accordance with the board of directors regulations, in the discharge of their duties, directors have to request and obtain from the Company any information they need to discharge their board responsibilities. In this regard, a director shall have the broadest powers to obtain information regarding any aspect of the Company, to examine its books, records, documents and other records of corporate transactions, and to inspect all of its facilities.</p> <p>Accordingly, unless the board of directors has been convened or called for reasons of urgency, the chairman of the board of directors, in collaboration with the secretary, will ensure that, prior to the meeting and sufficiently in advance, directors have the information necessary to deliberate on and adopt resolutions on the matters at hand.</p> <p>Furthermore, the Company has set up a portal, the "Director Portal", where all the necessary information and documentation is available for directors to prepare meetings of the board and its committees, as well as the documentation from prior sessions.</p>

C.1.42 Indicate and, where appropriate, give details of whether the Company has established rules obliging directors to inform the Board of any circumstances that might harm the organisation's name or reputation, tendering their resignation as the case may be:

Yes No

Explain
<p>The board of directors regulations stipulates that directors must tender their resignation to the board of directors and resign if the latter deems it appropriate subsequent to a report from the ARC when their remaining as board member may adversely affect the operation of the board or jeopardise the credit or reputation of the Company for any reason. In particular, the directors must inform the Board of any criminal proceedings in which they are an accused party and of the subsequent progress of the proceedings. In any event, if a director were prosecuted or had a court order issued against him or her initiating trial proceedings for any of the offences defined in the law, the Board shall examine the case as soon as practicable and, in view of the particular circumstances, decide whether or not he or she should remain in office, providing reasonable reasons therefor in the Annual Corporate Governance Report.</p>

C.1.43 Indicate whether any of the directors have informed the Company of any indictments or the commencement of oral proceedings against him/her for any of the offences specified in Article 213 of the Spanish Public Limited Liability Companies Law:

Yes No

Name of director	Criminal case	Remarks
--	--	--

Indicate whether the Board of Directors has examined this matter. If so, provide a justified explanation of the decision taken as to whether or not the director should continue to hold office or, if applicable, detail the actions taken or to be taken by the board.

Yes No

Decision taken/action performed	Reasoned explanation
--	--

C.1.44 Detail the significant agreements entered into by the Company which take effect, are amended or terminated in the event of a change of control of the Company following a takeover bid and the effects thereof.

Colonial has arranged a syndicated loan amounting to EUR 350 million, which contains an acceleration clause in the event that a change of control takes place.

Also, on 2 February 2015 a debenture issue was launched amounting to EUR 1,250 million, which, in the event of a change of control as defined in Article 24 of the Spanish Code of Commerce, provides for the mandatory early repayment both of the tranche maturing in June 2019 and the tranche maturing in June 2013, provided that such change of control leads to the loss of the "Investment Grade" rating.

Lastly, in 2016 the following fixed-income issues were launched under the "non-equity securities" issue programme of "Euro Medium Term Notes" ("the EMTN Programme"), which provides for the early maturity of the debentures, at the option of the bond holder, in the event a change of control occurs: (i) on 21 October 2016, the Company launched a debenture issue for a total nominal amount of EUR 600 million, which matures on 28 October 2024; and (ii) on 9 November 16, the Company launched a debenture issue for a total nominal amount of EUR 50 million, which matures on 10 November 2026.

C.1.45 Identify, in aggregate form and provide detailed information on, agreements between the Company and its officers, executives and employees that provide for indemnities or guarantee or golden parachutes clauses for the event of resignation, unfair dismissal or termination as a result of a takeover bid or other.

Number of beneficiaries	3
Type of beneficiary	Chairman of the Board, CEO and Corporate General Manager
Description of the agreements	<p>Executive directors, pursuant to their service provision contracts approved by the board of directors, would receive termination benefits in the event of unjustified termination or non-renewal of their positions, or a substantial reduction of their respective functions. This would also accrue (i) in the event of resignation or stepping down due to a change of control at the Company or significant change in the composition of the board of directors and (ii) in the event of amendment of the terms and conditions agreed in their employment contracts without their consent, among other scenarios established by the board of directors. The benefits consists of, (a) in relation to the chairman, a gross amount equivalent to two years' fixed and variable remuneration, with a minimum of EUR 1,650,000, and (b), in relation to the CEO, a gross amount equivalent to two years' fixed and variable remuneration, with a minimum of EUR 1,920,000. The amounts shown are automatically renewed on an annual basis by applying the CPI or any another official benchmark that may ultimately replace it. In the case of the corporate general manager, a golden parachute clause triggered in the event of termination under certain circumstances or change of control gives rise to compensation on termination of the functions thereof for an amount equal to three years' salary.</p> <p>There is also a long-term incentive plan approved by the shareholders at the general shareholders' meeting, which entails the delivery of ordinary shares of the Company contingent on the Company meeting certain targets each year. The beneficiaries of the plan are the chairman of the board, the CEO and all members of Colonial's executive committee, which includes the corporate general manager. The plan provides that the board of directors will agree on the early settlement of the plan and the award of a maximum number of outstanding shares to each beneficiary in the event that a "substantial liquidity event" takes place. A "substantial liquidity event" take places when (i) a takeover bid is authorised with a view to acquiring all the share capital of Colonial or (ii) a refinancing of all Colonial's debt is authorised. In the latter case, early settlement of the plan is subject to ratification by the ARC.</p> <p>If, during the term of the Plan, the Chairman or CEO were unfairly dismissed, the shareholders did not extend their mandate or they were dismissed from their positions without just cause, they shall</p>

	be entitled to the early settlement of the Plan and be delivered the maximum number of shares not yet settled in the years remaining until the end of the Plan's term. Beneficiaries will lose their right to delivery of shares in the event of justified dismissal, termination for cause or if he resigns of his own initiative, and in case of breach of contract in respect of confidentiality, non-solicitation of services or competition. In these cases the beneficiaries will lose any right to granted shares.
--	---

Indicate whether these agreements must be reported to and/or authorised by the governing bodies of the company or its group:

	Board of Directors	Annual General Meeting
Body which authorises the clauses	Yes	No

	Yes	No
Are the shareholders informed of the clauses at their general meeting?		x

C.2 Committees of the Board of Directors

C.2.1 Give details of all the Board committees, their members and the proportion of executive, proprietary, independent and other external directors:

EXECUTIVE OR DELEGATE COMMITTEE

Name	Position	Category
Juan José Brugera Clavero	Chairman	Executive director
Pedro Viñolas Serra	Member	Executive director
Carlos Fernández González	Member	Proprietary Director
Adnane Mousannif	Member	Proprietary Director
Juan Carlos García Cañizares	Member	Proprietary Director
Carlos Fernández-Lerga Garralda	Member	Independent Director

% of executive directors	33.33%
% of proprietary directors	50.00%
% of independent directors	16.67%
% of other external directors	0.00%

Explain the functions entrusted to this committee, describe the procedures and rules for the organisation and operation thereof and summarise its most important activities during the year.

The Executive Committee shall be made up of at least three and not more than eight members. The Board Chairman and Secretary shall be those of the Board of Directors. The Executive Committee may appoint from among its members a deputy chairman who shall act as chairman in the event of absence.

The board of directors will appoint the executive committee, ensuring that its membership structure reflects the various types of directors in a similar manner to that of the board. The appointment of directors who constitute the executive committee will require, to be valid, the affirmative vote of two thirds of the members of the board and will not take effect until registered at the mercantile registry. The members of the Executive Committee shall cease to be so when they cease to be directors or when the Board so resolves.

The executive committee will be called by its chairman on his own initiative or when requested by two of its members. The call must be made by letter, telegram, e-mail or fax addressed to each of its members at least 48 hours in advance of the date of the meeting; however, it may be called with immediate effect for reasons of urgency. The meetings shall be held at the Company's registered office or at any location designated by the Chairman and indicated in the notice.

The Executive Committee shall be validly convened where the majority of its members, present or represented, attend the meeting. The resolutions shall be adopted by the absolute majority of the members of the Committee. In the event of a conflict of interest, the directors concerned shall refrain from participating in the transaction to which the conflict refers. The votes of the directors affected by the conflict that are to abstain from voting shall be subtracted for purposes of calculating the necessary voting majority. In the event of a tie, the matter shall be submitted to the Board of Directors.

Through its chairman, the executive committee will inform the board of the business transacted and the resolutions adopted by the committee. All board directors must receive a copy of the minutes of the executive committee meetings.

Notable among its most significant actions in the year was the resolution to launch a debenture issue (amounting to EUR 650 million) pursuant to the related resolution of the board of directors.

Indicate whether the composition of the executive committee reflects the breakdown of the various Board directors according to their category:

Yes **X**

No

If "no" explain the composition of the executive committee

AUDIT COMMITTEE

Name	Position	Category
Ana Sainz de Vicuña Bemberg	Chairwoman	Independent
Javier Iglesias de Ussel Ordís	Member	Independent
Carlos Fernández-Lerga Garralda	Member	Independent

Luis Maluquer Trepas	Member	Independent
Juan Villar-Mir de Fuentes	Member	Proprietary

% of proprietary directors	20.00%
% of independent directors	80.00%
% of other external directors	-

Explain the functions entrusted to this committee, describe the procedures and rules for the organisation and operation thereof and summarise its most important activities during the year.

The ACC comprises a minimum of three and a maximum of eight directors, all of which must be non-executive directors, appointed by the Board. The ACC will also include the number of independent directors stipulated by law and at least one of them will be appointed taking into account the director's knowledge and experience regarding accounting and/or auditing. The ACC members shall have relevant technical knowledge in relation to the Company's sector of activity. The ACC will appoint a chairman, who must be an independent director. The chairman shall be replaced every four years, and may be re-elected after one year has elapsed from the date on which his/her term of office expired. It will also appoint a secretary from among its members, or may designate the secretary of the board to fill this position. The members are relieved of their duties once their tenure as a director ceases, or when agreed by the board. The ACC shall have, inter alia, the following functions:

1. Report to the general shareholders' meeting on any questions posed in relation to those matters for which the Committee is responsible, particularly the result of the audit.
2. Supervise the effectiveness of the internal control, the internal audit and the risk management systems, and discuss with the auditor any significant weaknesses detected.
3. Supervise the drawing up and presenting of required financial information and submit recommendations and proposals to the board to safeguard its integrity.
4. Propose to the Board the selection, appointment, re-election and replacement of the auditor, taking responsibility for the selection process, as well as the terms of its engagement, and regularly gather information therefrom regarding the audit plan and the implementation thereof, and preserve its independence.
5. Establish appropriate relationships with the auditor to receive information on any issues which may jeopardise its independence and issues relating to the audit process, and, as appropriate, the authorisation of non-prohibited services, among others. In all cases, it should, on an annual basis, receive from the auditor a statement of its independence with respect to the Company or entities directly or indirectly related thereto, as well as information on any type of additional services provided and the related fees received by the auditor or by persons or entities related to the auditor.
6. Issue, on an annual basis and prior to the issuance of the auditor's report, a report expressing an opinion on whether the independence of the auditor or audit companies is jeopardised, which should in all cases contain a reasoned evaluation of the provision of additional non-audit services in respect of the independence rules or audit standards.

7. Inform the board of all matters established by law, the bylaws and the board of directors regulations.

8. Prepare an annual report on its activities, which must be included in the directors' report.

The ACC meets whenever requested to do so by at least two of its members, or at the behest of the Chairman, who is responsible for convening it. The call notice shall be valid provided it is sent by any means that allows acknowledgement of its receipt. The ACC is validly convened when the majority of its members are present or represented, adopting resolutions by majority of those present or represented. The member affected must abstain from participating in the deliberation and voting on resolutions in which such member or a person related thereto has a conflict of interest. In the event of a tied vote, the chairman has the casting vote. Minutes are taken of all ACC meetings and are made available to the board. In 2016, the ACC carried out, among others, the following functions:

- Acted as a communication channel between the board of directors and the Company's external auditors, assessing the results of each audit.
- Reported the re-election of Deloitte, S.L. as auditor of the separate and consolidated financial statements for the year ended 31 December 2016.
- Selected the auditor for 2017 to 2019 and proposed the appointment of PWC Auditors, S.L. to the board.
- Issued, prior to the auditors' report, an report on whether the independence of the auditors or audit companies was jeopardised.
- Approved the internal audit action plan for 2016.
- Supervised the effectiveness of the Company's internal control, internal audit and risk management systems, and discussed with the auditor any significant weaknesses detected in the internal control system.
- Approved the risk management and control policy, corporate governance and treasury share reports to be submitted to the board.
- Supervised preparation of the corporate social responsibility policy.
- Supervised compliance with corporate governance rules and the internal codes of conduct.
- Oversaw the preparation and submission of regulatory financial information, in particular the separate and consolidated financial statements.
- Reported on the annual corporate governance report.
- Analysed the amendments to the bylaws and the regulations of the general shareholders' meeting for submission to the shareholders.
- Reported on the amendments to the regulations of the board.
- Proposed to the board amendments to the ICC to adapt the current structure of the Company to the changes introduced by the regulations on market abuse.
- Evaluated its own performance within the framework of the self-evaluation of the performance of the board of directors and related internal committees.

- Reported to the board on the corporate governance policy.
- Analysed and reported on treasury share transactions to be submitted to the board and issue a favourable report on the share buyback plan and monitoring thereof.
- Prepared and reported on the document on the management of tax risks for 2015.
- Reviewed and first reported to the board on the issue of bonds under the “EMTN Programme”.

Identify the member of the audit committee appointed with regard to his or her knowledge and experience in accounting, auditing or both, and indicate the number of years that the Chairman of the committee has held that office.

Name of director with experience	Ana Sainz de Vicuña Bemberg
Number of years in office as Chairman	1

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position	Category
Carlos Fernández-Lerga Garralda	Chairman	Independent
Sheikh Ali Jassim M.J. Al-Thani	Member	Proprietary
Juan Carlos García Cañizares	Member	Proprietary
Javier Iglesias de Ussel Ordís	Member	Independent
Luis Maluquer Trepal	Member	Independent

% of proprietary directors	40.00%
% of independent directors	60.00%
% of other external directors	-

Explain the functions entrusted to this committee, describe the procedures and rules for the organisation and operation thereof and summarise its most important activities during the year.

The ARC comprises a minimum of three and a maximum of eight directors, all of which must be non-executive directors, appointed by the Board. The ARC also includes the number of independent directors stipulated by law.

The ARC will appoint a chairman from among its members, who in any case shall be an independent director. The ARC will also appoint a secretary from among its members, or may designate the secretary of the board to fill this position. The ARC may appoint a deputy chairman who shall also be an independent director.

The members of the ARC shall leave office when they cease to be directors or when the Board so resolves.

The ARC shall have, inter alia, the following functions:

1. Evaluate the skills, knowledge and experience required of the board, define the roles and capabilities required of the candidates and decide on the time and dedication necessary for them to effectively discharge their duties.
2. Establish a target representation rate for the less-represented gender on the board, proposing ideas on how to achieve it.
3. Make proposals to the board of independent directors to be appointed by co-option or, if applicable, for submission to decision by the shareholders at the general meeting, and proposals for re-election and removal of those directors by the shareholders at the general meeting.
4. Report on proposals of the board of directors for appointment of other directors to be appointed by co-option or, if applicable, for submission to decision by the general shareholders' meeting, and proposals for re-election and removal of those directors by the shareholders at the general meeting.
5. Reporting on proposals for senior officer appointments and removals and the standard terms of their contracts.
6. Examine and organise the succession of the chairman of the board and of the Company's chief executive and, where applicable, make recommendations to the board to ensure a well-planned and orderly succession.
7. Make recommendations to the board on remuneration policy for directors and general managers or other members of senior management reporting directly to the board of directors, for executive committees or the CEO, and for individual remuneration and other contractual conditions of executive directors, and ensure compliance with this policy.

The ARC meets whenever requested by at least two of its members or as resolved by its chairman, who is responsible for calling meetings. The call notice shall be valid provided it is sent by any means that allows acknowledgement of its receipt.

The ARC is validly constituted when most of a majority of its members are present in person or by proxy; resolutions are adopted by a majority of those present in person or by proxy and the chairman has the casting vote in the event of a tied vote. Proxies are granted in writing specifically for each meeting, and solely to another member of the ARC. Members of the ARC shall refrain from taking part in discussions or voting on any resolutions or decisions in which they or any persons related thereto may have a direct or indirect conflict of interest.

Minutes are taken of all ARC meetings and are made available to all board members.

In 2016, the ARC carried out, among others, the following functions:

- Ensured that the remuneration policy established by the Company was observed.
- Proposed, based on the achievement of the indicators, the number of shares to be received by beneficiaries of the share delivery plan approved at the general meeting on 21 January 2014.
- Proposed to the board a new remuneration policy for the Company for 2016 to 2019, and favourably reported on the amendment of the Chairman's and CEO's contracts.
- Directed the process of evaluating its own performance, the performance of the board and the discharge of duties by the chairman, secretary, lead independent director and CEO, and reported to the board on the findings reached.
- Submitted to the board the contents of the annual report on director remuneration.
- Submitted to the board the selection policy.

- Analysed and reported to the board on the work performed by the Corporate Governance Unit (formed in July 2016) on the degree of compliance with the good governance recommendations approved by the CNMV.

- Reported favourably to the board on (i) the assessment of the appointment of Carlos Fernández-González by the shareholders at the general meeting as proprietary director, at the proposal of the shareholder Hofinac B.V.; (ii) the assessment of the appointment of Adnane Mousannif by the shareholders at the general meeting as proprietary director, at the proposal of the shareholder Qatar Investment Authority; and (iii) the ratification and appointment as proprietary director of Sheikh Ali Jassim J.M. Al-Thani in representation of Qatar Investment Authority, appoint by co-optation at the board meeting of 12 December 2015.

- Reported favourably to the board on (i) the change of Luis Maluquer from “other director” to “independent director” and (ii) the designation of Ana Sainz de Vicuña Bemberg as chairwoman of the ACC; and (iii) the composition and appointments to the ARC and executive committee.

C.2.2 Complete the following table on the number of female directors on the various board committees over the past four years:

	Number of female board members							
	2016		2015		2014		2013	
	Number	%	Number	%	Number	%	Number	%
Executive committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Audit Committee	1	20.00%	1	20.00%	1	20.00%	0	0.00%
Appointments and remuneration committee	0	0.00%	0	0.00%		0.00%	0	0.00%

C.2.3 Removed

C.2.4 Removed

C.2.5 Please indicate, where applicable, the existence of any regulations governing board committees, where these regulations may be consulted and any amendments made to them during the year. Also, indicate whether an annual report on the activities of each committee has been prepared voluntarily.

The board committees are governed by the board of directors regulations, which are available on the Company's website (www.inmocolonial.com) under the “Corporate governance” section, and on the website of the Spanish National Securities Market Commission (www.cnmv.es). In 2016 the related amendments were made to (i) bring the regulations into line with the new wording of the bylaws, the amendment of which was resolved at the annual general meeting of 28 June 2016 in order to adapt them to the latest legislative developments and (ii) bring the supervision of corporate governance under the aegis of the ARC.

The annual report on the activities of each committee in 2016 was prepared by the audit and control committee and appointments and remuneration committee. Both reports were made available to shareholders on the company's website along with the call notice for the general shareholders' meeting.

C.2.6 Removed

D RELATED-PARTY AND INTRAGROUP TRANSACTIONS

D.1 Explain, if applicable, the procedures for approving related-party or intragroup transactions.

Procedure for the approval of related-party transactions
<p>In accordance with the board of directors regulations, express authorisation is required from the board of directors, which cannot be delegated, following a favourable report from the ACC, in the following cases, among others:</p> <ul style="list-style-type: none"> - Provision of professional services by a director to Colonial companies. The employment or any other type of relationship that executive directors have with the Company is exempt for these purposes. - Sale, or transfer in any other way, through economic consideration of any type, of supplies, materials, assets or rights, in general, by a director, a significant shareholder or shareholder represented on the board or by persons related to them, to Colonial or other Group companies. - Transfer by the Group companies in favour of a director, a significant shareholder or entity represented on the Board or persons related thereto, of supplies, materials, goods or rights, in general, which do not form part of the transferor company's ordinary business. - Provision of works, services or sale of materials by Inmobiliaria Colonial Group companies to a director, significant shareholder or a shareholder represented on the board, or parties related thereto, and which, being part of their ordinary business, is carried out under economic conditions below market rates. - Any other legal business with Group companies in which the director or persons related thereto has a direct or indirect interest. <p>The aforementioned approval by the board of directors will not be necessary when such transactions simultaneously meet the following three characteristics:</p> <ol style="list-style-type: none"> 1. They are governed by standard form contracts applied on an across-the-board basis to a large number of clients; 2. They go through at market prices, generally set by the person supplying the goods or services; and 3. The amount thereof does not exceed 1% of the Company's annual income.

D.2 List any relevant transactions, by virtue of their amount or importance, between the Company or its group of companies and the Company's significant shareholders:

Name or Corporate Name of the Significant Shareholder	Name of Group company or entity	Nature of relationship	Type of transaction	Amount (thousands of euros)
--	--	--	--	--

D.3 List any relevant transactions, by virtue of their amount or importance, between the Company or its group of companies and the Company's managers or directors:

Name or company name of director or executive	Name or company name of the related party	Relationship	Nature of transaction	Amount (thousands of euros)
--	--	--	--	--

- D4. List any relevant transactions undertaken by the Company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose subject matter and terms set them apart from the Company's ordinary trading activities.

In any case, list any intragroup transactions carried out with entities in countries or territories considered to be tax havens:

Name of group company	Brief description of the transaction	Amount (thousands of euros)
--	--	--

- D.5 Indicate the amount from related-party transactions.

0 (thousands of euros)

- D.6 Give details of the mechanisms in place for detecting, identifying and resolving any potential conflicts of interest between the Company and/or its group and its directors, executives or significant shareholders.

Under the bylaws, the director shall refrain from taking part in discussions or voting on any resolutions or decisions in which the director or any persons related thereto may have a direct or indirect conflict of interest. The votes of the directors affected by the conflict that are to abstain from voting shall be subtracted for purposes of calculating the necessary voting majority. Resolutions or decisions that affect the director in his position as director, such as the appointment or revocation of positions in the governing body or others of a similar nature, are excluded from this obligation to abstain. Also, the board of directors regulations stipulate that the duty of loyalty requires that directors refrain from taking part in discussions or voting on any resolutions or decisions in which the director or any persons related thereto may have a direct or indirect conflict of interest. Likewise, directors must adopt the measures necessary to avoid becoming involved in situations where their interests, either as independent professionals or as employees, may be in conflict with the Company's interests and their duties to the Company. In particular, the duty to avoid conflicts of interest requires that directors abstain from: a) carrying out transactions with the Company, except when they are ordinary transactions, performed under standard market conditions for customers and are scantily relevant, which is understood to mean those transactions whose disclosure is not necessary to present a true and fair view of the Company's assets and liabilities, financial position and results; b) using the Company's name or relying on their status as directors to unduly influence private transactions; c) using the Company's assets, including its confidential information, for personal gain; d) taking advantage of the Company's business opportunities; e) obtaining advantages or remuneration from third parties other than the Company and its Group in connection with the performance of their duties, unless considered an act of mere courtesy; f) carrying out activities as independent professionals or as employees that involve effective competition, be it present or potential, with the Company, or that, in any other way, place the directors in an ongoing conflict with the Company's interests.

The foregoing will also be applicable if the beneficiary of the actions or prohibited activities is a person related to the director. Those persons mentioned in the Spanish Limited Liability Companies Law shall be considered related parties. In all cases, directors must notify the board of any conflict that they or persons related thereto may have that could lead to a direct or indirect conflict of interest with the Company. Any conflicts of interest in which the directors are involved shall be reported in the notes to the financial statements and in the annual corporate governance report.

The authorisation must be approved by the shareholders at the general meeting when its purpose is to waive the prohibition of obtaining an advantage or remuneration from third parties, or when it affects a transaction whose value is greater than 10% of the Company's assets. Authorisation may be granted in other cases by the board of directors, provided the independence of the members granting such

authorisation with regard to the exempt director can be guaranteed. The Company must also ensure that the authorised transaction does not harm its assets and liabilities and, where applicable, ensure its performance under market conditions and the transparency of the process. The obligation of not competing with the Company may only be waived if no damage is expected to be caused to the Company or if the Company is expected to be compensated for the profit that such director may obtain. The waiver will be granted through an express and separate resolution by the shareholders at the general meeting.

D.7 Is there more than one Group company listed in Spain?

Yes No X

Identify the listed subsidiaries in Spain:

Listed subsidiaries
-

Indicate whether they have provided detailed disclosure on the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies:

Yes No

Define the possible business dealings between the parent and the listed subsidiary and between the listed subsidiary and the other group companies.
-

Indicate the mechanisms in place to resolve possible conflicts of interest between the listed subsidiary and other group companies:

Mechanisms to resolve any possible conflicts of interest
-

E RISK CONTROL AND MANAGEMENT SYSTEMS

E.1 Describe the risk management system in place at the company, including tax risks.

<p>Risk management is a key aspect of Colonial's organisational culture and, for this reason, the Company has developed a Control and Risk Management System ("CRMS"), which establishes certain bases to efficiently and effectively manage the risks at the entire organisation, including tax risks.</p> <p>In order to meet these corporate objectives, the risks to which Colonial is exposed are identified, analysed, assessed, managed, controlled and updated. In order to maintain an effective and updated CRMS, Colonial prepares a corporate risk map, which identifies the main risks affecting the Group, and evaluates them in terms of impact and likelihood of occurrence. This map is reviewed and updated every two years. Also, Colonial's CRMS establishes monitoring activities by the owners of risk by updating the records of the risks in order to verify the effectiveness of the management of those risks.</p> <p>The internal audit function analyses the corporate risk map and proposes which processes, risks and controls should be reviewed each year in the Internal Audit Plan.</p>

E.2 Identify the bodies responsible for preparing and implementing the risk management system, including tax risks.

The Board of Directors is responsible for determining the Company's risk management and control policy, including tax risks, identifying its main risks, and implementing and supervising the internal reporting and control systems in order to ensure the future viability and competitiveness of the Company, adopting the decisions best suited to its ideal development. The Board of Directors is assisted in managing this policy by the Audit and Control Committee (ACC). The ACC performs, inter alia, the following functions relating to the control and risk management:

- Submit to the Board for approval a report on the control and risk management policy.
- Review control and risk management systems on a regular basis so main risks are properly identified, managed and disclosed.
- Overseeing the preparation, completeness and filing of regulated public information (financial and non-financial).

In addition, the Company has set up a Regulatory Compliance Unit (RCU) and internal audit function to reinforce this objective. The RCU is responsible for ensuring compliance with any laws and regulations which may affect the Company. Meanwhile, the internal audit function is responsible for carrying out the oversight duties required and established in its annual plans to evaluate the effectiveness of the risk management and control processes implemented so as to mitigate risk.

The main responsibilities assigned in relation to the CRMS correspond to the Board of Directors, the Audit and Control Committee and the Internal Audit Unit. The CRMS also explicitly sets out the responsibilities of senior management, operational managers and owners of the risks in relation to risk management.

E.3 Indicate the main risks, including tax risks, which may prevent the company from achieving its targets.

The main risks faced by Colonial in achieving its targets include:

- Industry risks, since the real estate sector is a highly cyclical and competitive sector, as well as risks related to economic and/or political changes in the countries in which it operates and regulatory changes, especially those relating to real estate activities.
- Risks arising from the specific nature of the business in relation to the high concentration of office rental activities in the central business district areas of Barcelona, Madrid and Paris, the appraisal of its property assets and the concentration of customers.
- Risks of a financial nature relating to restrictions in capital markets and in financial debt markets, the debt level, the drop in credit rating and interest rate fluctuations.
- Tax risks relating to the limit on tax loss carryforwards, the loss by its French subsidiary, Société Foncière Lyonnaise, of its status as a listed real estate investment company (SIIC) and changes in its favourable tax regime.
- Corporate risks arising from the management of its corporate reputation and image and from carrying out its activities through subsidiaries.
- Operating risks arising from the management of and damage to its property assets, the maintenance and repair thereof, its liability for the actions of its contractors and subcontractors, and from court and out-of-court claims.

E.4 Identify if the entity has a risk tolerance level, including tax risks.

Colonial has established an appetite and tolerance for each risk area. Risk appetite is the level of risk a company is prepared to undertake or reject according to its objectives and taking into account the expectations of its stakeholders, and risk tolerance is the determination of fluctuations in risk levels deemed to be normal in

keeping with their risk appetite.

Risk management at Colonial has been structured into a corporate risk map which is the tool that graphically represents the assessment of risks according to their impact, their effect on Colonial measured in economic terms and in terms of its operations, reputation and compliance, and the likelihood and probability of the risk occurring over a time period.

In this regard, the Company assesses risk from two angles: inherent risk, which is understood to be that to which the Company is exposed in the absence of any mitigating actions/control; and residual risk, which is understood to be the risk remaining after the corresponding prevention and control measures have been taken.

E.5 Identify any risks, including tax risks, which have occurred during the year.

The risks that arose in 2016, the circumstances that caused them and the functioning of the control systems are as follows:

i. FINANCING OF PROPERTY ASSETS. FINANCIAL STRUCTURE AND DEBT LEVEL.

Circumstances: Following the bond issue launched by Colonial in 2015 amounting to EUR 1,250 million, the arrangement of a new syndicated loan amounting to EUR 350 million and the obtainment from Standard & Poor's of a BBB- long-term and A-3 short-term credit rating, the Group's net financial debt at 31 December 2015 was EUR 2,545 million and the Loan to Value (LtV) ratio was 41.8%. With these actions, Colonial was able to return its leverage ratio to a level more appropriate for the value of its assets, providing the Group the ability to finance potential acquisitions, refurbishings and other investments needs in property assets, and capacity to generate cash flow. However, Colonial had certain restrictions linked to the syndicated loan.

Control systems: In 2016 Colonia launched new bond issues totalling EUR 650 million, maintaining the credit rating given by Standard & Poor's, which made it possible to increase the average maturity of the debt, continue to diversify this average maturity and also continue optimising finance costs. At 31 December 2016, the Group's net financial debt amounted to EUR 3,528 million, with an LtV ratio of 41.4%.

ii. INCREASED COMPETITION IN THE REAL ESTATE SECTOR

Circumstances: In 2016, the real estate sector continued raising the confidence of international investors, returning to high levels of investment. This situation gave rise to an increase in competition between companies in the sector, which could generate an increase in the price of property acquisitions, excess supply on the office rental market or a decrease in the level of rent obtained from such properties.

Control systems: Colonial diversifies its investments in Barcelona, Madrid and Paris, selecting high quality properties located in central business district (CBD) areas. Colonial's strategy is to have the best portfolio of offices for rent. In 2016 the Colonial Group continued with this selective investment strategy in various areas, making new property acquisitions in the amount of EUR 234 million. In addition, in 2016 Colonial increased its ownership interest in SFL up to 58.55% and acquired 15.09% of Axiare Patrimonio Socimi, S.A., considering such acquisition as complementary to Colonial's investment strategy and its ability to create value and provide a return to shareholders.

iii. IMPAIRMENT OF PROPERTY ASSETS

Circumstances: The holding and acquisition of properties implies certain risks, including the possibility that returns on investment will be lower than estimated or that estimates and valuations performed could prove inaccurate or wrong. In addition, the market value of the assets may decline or be negatively affected in certain cases.

Control systems: To mitigate this risk factor, Colonial engages independent experts to appraise all of its assets on a six-monthly basis. The Group allocates a significant portion of its resources to investing in and maintaining its property assets in order to enhance their value and position on the market and the income obtained from

these assets. In this regard, Colonial invested EUR 128 million in 2015 in projects to improve and renovate its property assets.

iv. CONCENTRATION OF GROUP ACTIVITIES IN SPAIN AND FRANCE

Circumstances: Colonial focuses its business activities solely on the rental business of properties in Barcelona, Madrid and Paris. The Group is therefore exposed to changes in the political or economic situation in the countries in which it operates.

Control systems: The level of the Group's rental income comes from property rentals located mainly in CBD areas of such cities. The new investments made in 2016 reinforced this business strategy with the acquisition of six properties located in these CBD areas, amounting to EUR 234 million. This strategy of focusing its business mainly in CBD areas and its high-quality standards have positioned the Group as a reference in the sector.

v. OFFSET OF TAX LOSS CARRYFORWARDS

Circumstances: In December 2016, tax legislation was amended and set at 25% the maximum limit of the taxable income (for companies with revenue of at least EUR 60 million) that can be used to offset unused tax losses from prior years. Prior to this amendment of legislation, the maximum limit was 60% for 2016 and 70% from 2017 onwards.

Control systems: Colonial, as regards CRMS, identifies, analyses, assesses, manages, controls and updates tax risks. Colonial has a tax policy and strategy aimed to minimising and controlling the impact of the tax risks, and takes the most appropriate decisions to achieve the Group's strategic and value growth goals.

E.6 Indicate the plans in place for responding to and supervising the entity's main risks, including tax risks.

Risks are classified into four levels according to their impact and probability (ranging from the most to the least serious), and are then placed into one of the following categories according to the Company's response to each:

- *Avoid:* This entails abandoning activities which generate risks where no response has been identified which could reduce its impact and/or likelihood to a level deemed as acceptable.
- *Reduce:* This entails carrying out actions to reduce the likelihood and/or impact of the risk, thereby reducing the residual risk so that it is in line with the Company's risk tolerance level.
- *Share:* The likelihood or impact of a risk is reduced by transferring or sharing part of the risk to reduce the residual risk so that it is in line with the Company's risk tolerance level.
- *Accept:* No action is taken which may affect the likelihood or impact of the risk as the residual risk is already within the Company's risk tolerance level.

The owners of each risk are responsible for preparing the related records of risks in order to report the treatment established to mitigate and/or maintain the level of risk at the tolerance threshold accepted by the Company. These records should detail: (i) the objective pursued by the action plan, (ii) a description of the action, (iii) the risk owner, (iv) deadline for implementation of the action, (v) details of the activities to be performed with the officers for implementation and start and completion dates.

Internal audit supervises the response plans that are the responsibility of the risk owners.

F INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS RELATED TO FINANCIAL REPORTING (ICFR)

Describe the mechanisms which comprise the internal control over financial reporting (ICFR) risk control and management system at the company.

F.1 Control environment at the entity

Indicate the main characteristics of at least:

- F.1.1. Bodies and/or functions responsible for: (i) the existence and maintenance of an adequate ICFR system; (ii) its implementation; and (iii) monitoring thereof.

The Board of Directors, as stipulated in the Regulations, is ultimately responsible for the existence and updating of a suitable and effective ICFR system.

Specifically, Article 5 of the Regulations of the Board of Directors (“General Functions and Competences”) stipulates, *inter alia*, the following functions:

1. Determining the Company's general policies and strategies, approving the investment and financing policy, the strategic or business plan, the annual management targets and annual budgets, and the treasury share policy, determining the corporate governance policy of the Company and the Group and the dividend policy and approving the corporate social responsibility policy. The Board of Directors also determines the Company's risk management and control policy, including tax risks, identifying its main risks, and implementing and supervising the internal reporting and control systems in order to ensure the future viability and competitiveness of the Company, adopting the decisions best suited to its ideal development.

To this end, Colonial has published an Internal Control and Risk Management Manual for its ICFR system, approved by the ACC, detailing the methodology for establishing the materiality of risks, as well as methodologies for documenting, classifying and assessing risks and associated control activities.

2. The approval of the financial information that all listed companies must periodically disclose.

To this end, Colonial has published a manual for disclosure of statutory information which covers the aspects mentioned in this section and which has been approved by the ACC.

3. Supervising the effective operation of the committees that the Board has formed and the actions of the delegated bodies and the executives appointed.
4. Approving and amending the Regulations of the Board of Directors.

The ICFR Organisational and Monitoring Model, approved by the ACC, establishes the mechanism which the Board, and by delegation the ACC, deems appropriate and sufficient to guarantee the completeness, reliability, correct presentation and validity of Colonial's financial information.

Without prejudice to the other functions attributed by law, Article 32 of the Regulations of the Board of Directors states that at least the following functions must be performed by the ACC. In particular, the ACC is entrusted with the following functions, among others, regarding the ICFR organisational model:

1. Submit to the Board for approval a report on the control and risk management policy, which identifies at least: (i) the different types of financial and non-financial risks facing the Company, including financial or economic risks, contingent liabilities and other off-balance-sheet risks; (ii) the setting of the risk level the Company sees as acceptable; (iii) the measures in place to mitigate the impact of the risks events should they occur; and (iv) the internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

2. Overseeing the preparation and filing of required financial information.
3. With respect to internal control and reporting systems: (i) to supervise the preparation process and completeness of financial information on the Company and, where applicable, the Group, reviewing compliance with regulatory requirements, the composition of the consolidated group and the correct application of accounting criteria; (ii) monitor the independence and effectiveness of the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the Company is exposed to; receive regular report- backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports; and (iii) establish and supervise a mechanism whereby employees can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the Company.
4. Act as a communications channel between the board of directors and the Company's external auditor, assessing the results of each audit. Also, it relates to the external auditor to: (i) to receive information on a regular basis from the auditor on the audit plan and its implementation.
5. Inform the board of all matters established by law, the bylaws and the board of directors regulations, in particular regarding:
 - a) The financial information that the Company must make public on a periodic basis.

Minutes will be taken of all committee meetings and will be made available to all board members.

The internal audit function is responsible for drawing up the annual Internal Audit Plan and submitting it to the ACC. It includes the necessary tests to verify compliance with ICFR manuals, procedures and policies. The internal auditor will carry out these tests and report on the conclusions to the ACC, including any internal control weaknesses identified, recommendations for improvement and the general conclusions of the annual audit plan which specifically includes, among others, those related to the ICFR system.

F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:

- Departments and/or mechanisms responsible for: (i) designing and reviewing the organisational structure; (ii) clearly defining the lines of responsibility and authority with an adequate distribution of tasks and functions; and (iii) ensuring that there are sufficient procedures in place to correctly disseminate them throughout the entity.

The responsibility for developing Colonial's ICFR organisational model lies with the internal audit department and the operations and finance department, as they are the two departments with the most involvement in the development and subsequent monitoring of financial information to be published.

Nevertheless, all departments involved to a lesser or greater degree in preparing the financial information must also take responsibility for correctly carrying out the tasks, processes and controls in which they are involved

The organisational model of Colonial's ICFR system is structured as follows:

- a) Establishment of a general environment of appropriate control, in which the main guidelines of operation of the ICFR and high-level roles and responsibilities are developed.
- b) Identification of the relevant risk events which, if they occur, may materially affect financial information.

- c) For those risks identified in the relevant processes, specific mitigating controls are implemented to reduce these risks to acceptable levels. The affected operations departments are responsible for adequately implementing these procedures.
 - d) The Operations-Finance Department is responsible for maintaining documentation on and keeping Colonial's accounting policies and manuals up to date and maintaining an environment of general controls on the IT systems.
 - e) Lastly, the internal audit function and ACC are responsible for overseeing ICFR in order to ensure the operational efficiency thereof.
- Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.

On 28 September 2011 the board of directors of the Company approved Colonial's Code of Ethics. This Code of Ethics reiterates Colonial's commitment to the principles of corporate ethics and transparency, and establishes a series of basic principles to which all Colonial personnel, partners and suppliers must adhere at all times, as their behaviour may affect Colonial's reputation.

Specifically, and with regard to the financial information, Article 6.5 of the Code establishes the following:

"Colonial assumes as a guiding principle for its corporate behaviour with its shareholders, investors, analysts and the market in general, to disclose true, complete information which expresses the true and fair view of the Company and the Group, its corporate activities and its business strategies.

This information shall always be disclosed in accordance with regulations and within the timeframes established by prevailing legislation. The corporate actions and the strategic decisions of Colonial are focused on creating value for its shareholders, transparency in its management, the adoption of best corporate governance practices at its companies and the strict observance of prevailing regulations in this matter."

Colonial's Regulatory Compliance Unit, which reports to the ACC, is responsible for disseminating, both internally and externally, the Code of Ethics.

The Code has been distributed to all employees.

The Regulatory Compliance Unit is responsible for compiling any irregularities or breaches of the Code, and informing the Human Resources department to take the necessary disciplinary actions based on the fines and sanctions detailed in the collective bargaining agreement or applicable employment legislation.

The ACC is responsible for assessing the degree of compliance with the Code and preparing an annual report based on its findings.

The Board of Directors is responsible for reviewing and updating the Code of Ethics based on the report drawn up by the ACC.

- Whistle-blowing hotline, which allows the audit committee to be informed of any financial and accounting irregularities, in addition to any breaches of the Code of Conduct and irregular activities within the organisation, stating whether this channel is confidential in nature.

Under Article 32 of Colonial's Regulations of the Board of Directors, the ACC's responsibility is, among others:

"With respect to internal control and reporting systems: ... (iv) establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

As noted in the point above, the Regulatory Compliance Unit, which reports to the ACC, is responsible for managing any irregularities or breaches of the regulations, and specifically, of Colonial's Code of Ethics.

To this end, Colonial has set up a whistle-blowing channel on its intranet where employees can report any irregularities and breaches identified at the Company.

This channel is managed by the Regulatory Compliance Unit, and is regularly reviewed to guarantee its confidentiality and compliance with applicable regulations.

- Training programmes and regular refresher courses for personnel involved in the preparation and review of financial information and the assessment of ICFR, covering at least accounting standards, audit, internal control and risk management.

Colonial has a corporate training plan which covers all business areas according to the specific needs of each one. However, the functional business areas themselves, under the coordination and supervision of the human resources department, are responsible for designing and suggesting specific training plans for their areas.

For staff involved in preparing and reviewing financial information, training is structured around attending events about regulatory updates on financial, accounting and tax regulations, as well as receiving, distributing and analysing documentation from external advisors regarding regulatory developments.

In addition, the Regulatory Compliance Unit, together with the functional areas, is responsible for identifying and distributing regulatory developments that affect Colonial, so that these can be analysed and implemented.

In the event of any regulatory changes of special relevance to Colonial's financial, accounting or tax departments, the Operations-Finance Department proposes the need for specific training.

Also, personnel from the internal audit function attended thematic courses and forums outside the Company related to the evaluation of certain internal control and risk management aspects.

F.2 Assessment of financial reporting risks

Provide information on, at least:

F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating:

- Whether the process exists and is documented.

Colonial has a Control and Risk Management System (CRMS), as indicated in section E.1 of this report.

The basic function of the ACC, as delegated by the Company's Board of Directors, is to monitor and control risk. To this end the managers of the various operating units cooperate in identifying and correcting risk by applying the CRMS, as indicated in sections F.1.1 and F.1.2 of this report.

Colonial's ICFR organisational and monitoring structure, as well as its ICFR Internal Control and Risk Management Manual, which aim to ensure the preparation and issuance of reliable financial information, are aligned with and form part of Colonial's general risk policy, the CRMS, which have been approved by the ACC.

- Whether the process covers all financial reporting objectives (existence and occurrence, completeness, measurement, presentation, disclosure and comparability, and rights and obligations), whether it is updated and with what frequency.

The ICFR Internal Control and Risk Management Manual provides for the following seven types of risk:

- 1) **Completeness:** Transactions, events, assets, liabilities or equity interests that are not identified and, consequently, are not included in the Company's accounting records. Data entries not captured in the ledgers or data entries which have been rejected. Disclosures not identified and, consequently, not included in the notes to the financial statements or deliberately omitted.
- 2) **Existence:** Unauthorised transactions which are entered into the Company's accounting software. Duplicate transactions. Erroneous adjustments in the ledgers.
- 3) **Disclosures and comparability:** Disclosures not identified and, consequently, not included in the notes to the financial statements or deliberately omitted. Transactions that have not been recorded consistently over time.
- 4) **Rights and obligations:** Incorrect determination of the ability to control the rights arising from an asset or a contract/agreement. Correct determination of the obligations arising from a liability or a contract/agreement.
- 5) **Measurement:** Incorrect determination of the value of an asset, liability, income or expense, and which could generate the recording of adjustments in setting market values, amortised costs, value in use or due to an error in the depreciation, as well as adjustments made and are not duly justified.
- 6) **Presentation:** Incorrect presentation of financial transactions in the financial statements (assets vs. liabilities, income vs. expense, current vs. non-current, etc.).
- 7) **Transaction cut-off:** Incorrect recording of transactions in the corresponding accounting period.

Colonial's ICFR Internal Control and Risk Management Manual is revised and periodically updated by Internal Audit and the Legal Advisory and Operations-Finance Departments, at the proposal of any of these, also taking into account the suggestions and proposals of Internal Audit resulting from its reviews. The ACC must approve any amendments to the Manual, while Internal Audit and the Operations-Finance Department must be notified and review them in advance.

- The existence of a process to identify the scope of the consolidated group, considering aspects such as the possibility of complex corporate structures or special purpose vehicles.

Colonial's Regulations for the Board of Directors, and, specifically the section regarding the responsibilities of the ACC, stipulate that these responsibilities include, among others:

"With respect to internal control and reporting systems: (i) to supervise the preparation process and completeness of financial information on the Company and, where applicable, the Group, reviewing compliance with regulatory requirements, the composition of the consolidated group and the correct application of accounting criteria."

In this regard, Colonial has a consolidation process which stipulates, as a basic procedure, the determination of the Group's scope of consolidation at every accounting close.

This procedure is implemented by the Accounting, Consolidation and Tax Department which reports to the Operations-Finance Department. The ACC is notified when the scope of consolidation is changed.

- Whether the process considers the impact of other risk types (operational, technological, financial, legal, tax, reputational, environmental, etc.) that may affect the financial statements.

As described in the first point of section F.2.1, the basic function of the ACC, as delegated by the Board of Directors, is to monitor and control risk. To this end, the managers of the various operating units cooperate in identifying and correcting risk.

Colonial's ICFR organisational and monitoring structure, as well as its Internal Control and Risk Management Manual, are aligned with and form part of Colonial's general risk policy (see section E of this report), and have been approved by the CAC.

In the process of identifying risks to the financial information within the ICFR system, all the areas of risk identified in Colonial's risk map have been considered.

- Which of the entity's governing bodies supervises the process.

Colonial's Regulations for the Board of Directors, and, specifically the section regarding the responsibilities of the ACC, stipulate that these responsibilities include, among others:

"With respect to internal control and reporting systems: ... (ii) to review internal control and risk management systems on a regular basis, so that the main risks are properly identified, managed and disclosed."

In this regard, the ACC is responsible for approving Colonial's ICFR Internal Control and Risk Management Manual.

As indicated in section F.1.1 and F.1.2 of this report, the Internal Audit function is responsible for monitoring the ICFR system in order to ensure operational effectiveness. The internal auditor will carry out these tests and report on the conclusions to the ACC, including any internal control weaknesses identified, recommendations for improvement and the general conclusions of the annual audit plan which specifically includes, among others, those related to the ICFR system.

F.3 Control activities

Provide information, indicating salient feature, if available, on, at least:

- F.3.1. Procedures to review and authorise financial information and the ICFR system description to be published on the securities markets, indicating those responsible for execution, as well as documentation describing the flow of activities and controls (including those relating to fraud risk) for the different kinds of transactions that may have a material impact on the financial statements, including the procedure for the accounting close and the specific review of relevant judgements, estimates, measurements and projections.

In relation to procedures for reviewing and authorising the financial information and description of ICFR to be disclosed in the securities markets, as mentioned above, the ACC is responsible for supervising the preparation and disclosure of reliable financial information to the market. In this regard, the Committee has approved a manual for disclosure of statutory information which regulates the procedure for preparing and approving this information.

Colonial's ICFR Internal Control and Risk Management Manual establishes the criteria for identifying the relevant public financial information as follows:

- a) Periodic Public Information (PPI) obligations of issuers:

- 1) Quarterly Financial Report.
 - 2) Half-yearly Financial Report.
 - 3) Annual Financial Report and Annual Corporate Governance Report (ACGR).
- b) Annual Report on Directors' Remuneration (IAR).
 - c) Registration document
 - d) Relevant events.

There are preparation and review procedures in place for all relevant statutory financial information to be reported to the market. These include an internal control questionnaire that must be completed involving the Operations-Finance Department, the Corporate Development and Management Control Department, both of which report to the General-Corporate Department, through the Legal Advisory Department and, depending on the type of information, ending at the CEO, Board of Directors or the General Shareholders' Meeting itself.

Monitoring of the manual for disclosure of statutory information as well as the completion of the specific internal control questionnaires are mandatory and subject to review by Colonial's Internal Audit function.

In terms of the documentation describing activity flows and controls (including those relating to the risk of fraud) of the various types of transaction that may materially affect the financial statements, Colonial has an ICFR organisational and monitoring model which has been approved by the ACC. This structures specific internal control mechanisms that have been deployed to maintain an internal control environment conducive to comprehensive, reliable and timely financial reporting and which looks to foresee the possible existence of irregularities and the means to detect and correct them.

The organisational model of Colonial's ICFR system is based on two distinct areas:

- a) The general control environment, where the main guidelines of operation of the ICFR and high-level roles and responsibilities are developed.
- b) Specific ICFR controls, where the operating procedures relating to the preparation of financial information are developed.

In addition, Colonial has an ICFR Internal Control and Risk Management Manual which sets out the specific controls established with regard to the risks relating to financial information and formal documentation. The organisational model details the high-level controls and mechanisms.

Colonial has determined what errors or inaccuracies in the financial statements and other public information could severely affect its reputation, image and share price and these are therefore included in the ICFR system for monitoring.

Once the relevant financial information has been determined, the cycles and business processes are identified which, in both preparation and issue, may have a material impact on the information. Once the processes have been identified, the relevant functional areas and Internal Audit then identify the implicit risks of the processes and the corresponding controls. These processes, risks and controls are formally documented so they can be correctly carried out and monitored.

The Company ensures that the identified risks are consistent with the corporate risk model.

The scope of the processes selected ensures that, by complying therewith, complete and reliable financial information is obtained.

The Operations-Finance Department and Internal Audit are jointly responsible for identifying the ICFR processes, risks and relevant controls which are then approved by the ACC. In this process, the Company has specifically considered the potential risk of fraud and has in place control activities to prevent this risk.

The key processes identified at Colonial relating to the ICFR system are:

- a) Closing of accounts, including the process of judgements, estimates, measurements and projections.
- b) Consolidation and reporting at subsidiaries.
- c) Revenue recognition.
- d) Asset valuation (determination of the fair value of investment property).
- e) Cash, debt and derivatives.
- f) Manual for disclosure of statutory information.
- g) Procedure for maintaining the Group's accounting policies and accounting policies manual.
- h) Taxes.
- i) Reporting systems, including capture and preparation mechanisms for supporting financial information.
- j) Investments and asset acquisitions.
- k) Purchases of goods and services.
- l) Human resources.

All key processes are documented and are updated annually to include any potential changes. The key processes at Colonial that have a significant influence on the preparation of financial information are documented through the following:

- a) Flow charts of the activities of the processes.
- b) Descriptions of the processes, risks and controls in place.
- c) Risk and control matrices.

The ICFR Internal Control and Risk Management Manual is an internal regulation which must be adhered to. Therefore, it is essential that all the functions/departments involved monitor the processes established, as well as the controls in place, to guarantee security when preparing financial information at Colonial. The most senior-ranking employee in each of the departments involved in the procedures documented in the internal control model is responsible for ensuring that the processes and controls are correctly applied and documented for each accounting period.

In this regard, Colonial has software to monitor the responses to the controls defined in each accounting period for the key processes. Internal audit monitors and supervises compliance with these controls.

Any transactions with a substantial weight of critical judgments, estimates, measurements and projections are specifically monitored, as is the case with real estate asset valuations, the preparation of impairment tests and the preparation of effectiveness tests for derivative financial instruments.

F.3.2. Internal control policies and procedures for IT systems (including access security, control of changes, system operation, continuity and separation of duties) giving support to key company processes involved in the preparation and publication of financial information.

The Systems area is responsible for Colonial's corporate IT systems. This department reports to the Operations-Finance Department which in turn reports to the General-Corporate Department.

At present, the operation and maintenance of Colonial's corporate IT systems supporting financial reporting are outsourced. The head of IT coordinates the main aspects concerning the physical security, continuity and operation of the systems with the external supplier.

Furthermore, the head of IT systems at Colonial is responsible for establishing the IT internal control model regarding secure access, segregation of duties (in coordination with the operating business and support areas) and control of changes, as well as carrying out risk monitoring and control activities arising from the outsourcing of the IT systems.

All Spanish Colonial Group companies operate under one transactional system, SAP. The information systems of the French Group SFL are not fully integrated with Colonial, and therefore information is exchanged by exporting data to secure files.

Colonial's IT internal control model includes, among others, the following key processes:

- a) Physical security of equipment and data processing centres (in coordination with the external provider).
- b) Logical security of the applications (in coordination with the external supplier).
- c) Monitoring of service level agreements (SLAs) and service level objectives (SLOs) with external suppliers.
- d) Project management, rollouts, developments and upgrades of current systems.
- e) Management of operations.
- f) Management of infrastructure and communications.
- g) Management of back-up and recovery systems (in coordination with the external supplier).
- h) Management of users, profiles and accesses.
- i) Management of the audits of the IT systems.

F.3.3. Internal control policies and procedures to supervise management of activities outsourced to third parties, as well as issues related to evaluation, calculation or measurement which are entrusted to independent experts and which may have a material impact on the financial statements.

As described in section F.3.1, Colonial has identified the key processes which may materially affect its financial information. Among the criteria used to identify these processes, the Company has considered criteria for activities with a high level of third-party involvement and also those which are fully outsourced.

In this regard, the relevant processes involving significant third-party participation are as follows:

- a) Valuation of real estate assets: determination of fair value.
- b) Financial hedging instruments: effectiveness tests and obtainment of the fair value.
- c) IT systems: maintenance and operation.

All processes with substantial third-party involvement have been documented, identifying the risks and controls implemented. The functional areas involved in the various processes are responsible for monitoring them and for implementing the appropriate controls.

The Internal Audit function's annual plan includes the monitoring activities needed to ensure the processes described are correctly executed.

F.4 Reporting and communication

Provide information, indicating salient feature, if available, on, at least:

F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team

in charge of operations, and a manual of accounting policies regularly updated and communicated to all the company's operating units.

Colonial's ICFR organisational and monitoring model, which has been approved by the ACC, stipulates that the Operations-Finance Department is responsible for maintaining documentary records of Colonial's accounting policies and the keeping the Group accounting policies manual up to date, which entails settling doubts or disputes over their application.

Colonial has a Group accounting policies manual, which has been approved by the ACC, and which must be adhered to by all Group companies. The Operations-Finance Department is responsible for preparing and maintaining this manual.

F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

Colonial has implemented a computer tool to facilitate the financial consolidation and financial and operating budget planning of the Group. This guarantees greater control and security in the process of capturing and preparing financial information.

The Group accounting policies manual establishes a chart of accounts and model financial statements which all Group companies must follow and which are set up in the tool thereby guaranteeing the uniformity of the financial information.

The preparation of statutory financial information, as well as the separate financial statements for Colonial's Spanish companies, is coordinated centrally by the Operations-Finance Department and the Corporate Development and Management Control Department, thereby guaranteeing uniformity.

A significant portion of the details required to prepare this financial information is obtained directly from the IT tool, since it has been customised to do so. For those cases where certain information must be prepared without this tool, Colonial has control mechanisms in place to ensure its completeness and reliability, as well as a physical archive of the information in an internal repository with access limited to the staff involved in preparing the financial information.

Also, in 2016 Colonial implemented a GRC (Governance, Risk and Compliance) IT tool in order to monitor the information specific to ICFR management relating to compliance with the controls established for key procedures defined by the Company for the ICFR systems. Internal audit monitors and supervises the operation of this tool.

F.5 Supervision of system operation

Provide information, stating the main features, on at least:

F.5.1. ICFR supervisory activities conducted by the audit committee and whether the entity has an internal audit department whose competences include supporting the committee in its oversight of the internal control system, including ICFR. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information:

The main activities carried out by the ACC in relation to the ICFR system in 2016 consisted of approving the Internal Audit Plan for 2016, which includes monitoring ICFR and being apprised of the related degree of implementation, compliance and effectiveness.

The ACC also met with the Company's external auditors to assess the internal control weaknesses encountered during the course of their work, as well as the relevant aspects or incidents.

Lastly, the ACC has performed the following main activities relating to the financial information:

1. Review of the public financial information disclosed to the markets.
2. Analysis of the consistency of the accounting policies used as well as an analysis of the observations and recommendations received from the external auditors.
3. Review of the directors' report.
4. Review of the information contained in the half-yearly financial statements concerning related-party transactions.
5. Monitoring the effectiveness of the processes, risks and relevant controls relating to ICFR.

Regarding the internal audit function, Colonial's Regulations for the Board of Directors, and, specifically the section regarding the responsibilities of the ACC, stipulate that these responsibilities include, among others:

"With respect to internal control and reporting systems:

(iii) monitor the independence and efficacy of the internal audit function, proposing the selection, appointment, re-election and removal of the head of internal audit; propose the department's budget, receiving regular report-backs on its activities and verifying that senior management are acting on the findings and recommendations of its reports.

In July 2009, the ACC approved Colonial's internal audit regulations. The main responsibilities of this function include periodically verifying the degree of application of the approved policies and procedures which comprise the internal control system and offering suggestions for improvement.

The ACC has already approved the Internal Audit Plan for 2017, including the necessary actions necessary to guarantee monitoring and evaluation of the internal control procedures, the performance of one-off work to verify the operational effectiveness of Colonial's ICFR. Any incidents detected and the necessary corrective measures are reported on a regular basis, as well as their potential impact on the financial information, once these have been confirmed with the audited areas.

F.5.2. A discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its audit committee or board of directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

Colonial's board of directors regulations provide as follows:

"Dealings of the board of directors with the external auditor will be through the Audit and Control Committee."

In this regard, the board of directors regulations govern the functioning of the ACC and, inter alia, establishes the following functions:

1. Act as a communications channel between the board of directors and the Company's external auditor, assessing the results of each audit. Also, it relates to the external auditor to receive regular information from the auditors on the audit plan and performance thereof;

2. Establish the necessary relations with the external auditor in order to receive information on any matters that might jeopardise the auditors' independence, for examination by the appointments committee, and any other matters related to the financial audit process and to communicate with the auditors as provided for in the financial audit legislation and auditing standards.
3. Supervise the effectiveness of the Company's internal control, the internal audit and the risk management systems, and discuss with the auditor any significant weaknesses detected in the internal control system during the conduct of the audit.

All these monitoring activities of the Company's board and the ACC are conducted throughout the year and included in the agenda of the various sessions based the schedule established for each year.

F.6 Other relevant information

No additional issues to disclose have been identified.

F.7 External auditor's report

Indicate:

- F.7.1. Whether ICFR information reported to the markets has been reviewed by the external auditor, in which case the entity should include the corresponding report as an Appendix. Otherwise, explain the reasons for the absence of this review.

The ACC and internal audit department performed the ICFR monitoring activities, which complement the contributions of the external auditor regarding the identification, as appropriate, of the internal control weaknesses identified in the course of their external audit.

These monitoring activities are considered to be appropriate and sufficient and, therefore, it is not considered necessary to submit the ICFR information to additional external review.

G LEVEL OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Please specify the Company's level of compliance with recommendations from the Unified Good Governance Code.

Should the company not comply with any of the recommendations or comply only in part, include a detailed explanation of the reasons so that shareholders, investors and the market in general have enough information to assess the company's behaviour. General explanations are not acceptable.

- 1. The Bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.**

Complies Explain

- 2. When a parent and a subsidiary company are stock market listed, the two should provide detailed disclosure on:**

a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other Group companies.

b) The mechanisms in place to resolve possible conflicts of interest.

Complies Partially complies Explain Not applicable

3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:

a) Changes taking place since the previous annual general meeting.

b) The specific reasons for the Company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.

Complies Partially complies Explain

4. The Company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.

This policy is disclosed on the Company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.

Complies Partially complies Explain

5. The board of directors does not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.

When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the Company immediately posts a report on its website explaining the exclusion as envisaged in company legislation.

Complies Partially complies Explain

6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:

a) Report on auditor independence.

b) Reviews of the operation of the audit committee and the appointments and remuneration committee.

c) Audit committee report on related-party transactions.

d) Report on corporate social responsibility policy.

Complies Partially complies Explain

7. The Company broadcasts its general meetings live on the corporate website.

Complies Explain

The 2016 annual general meeting was not broadcast live on the corporate website, although it is expected that the recommendation will be met in 2017. Complementing the foregoing, it should be added that the regulations of the annual general meeting provide that the Board of Directors may broadcast the general meeting on the corporate website.

8. The audit committee strives to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

Complies Partially complies Explain

9. The company discloses its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.

Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.

Complies Partially complies Explain

10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the Company should:

a) Immediately circulate the supplementary items and new proposals.

b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.

c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.

d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.

Complies Partially complies Explain Not applicable

11. In the event that a Company plans to pay for attendance at the general meeting, it first establishes a general, long-term policy in this respect.

Complies Partially complies Explain Not applicable

12. The Board of Directors discharges its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It is

guided at all times by the Company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.

In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.

Complies Partially complies Explain

13. The board of directors has an optimal size to promote its efficient functioning and maximise participation. The recommended range is therefore between five and fifteen members.

Complies Explain

14. The board of directors should approve a director selection policy that:

- a) Is concrete and verifiable.
- b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs.
- c) Favours a diversity of knowledge, experience and gender.

The results of the prior analysis of board needs is written up in the appointments committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.

The director selection policy pursues the goal of having at least 30% of total board places occupied by women directors before 2020.

The appointments committee runs an annual check on compliance with the director selection policy and sets out its findings in the annual corporate governance report.

Complies Partially complies Explain

15. Proprietary and independent directors constitute an ample majority on the board of directors, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.

Complies Partially complies Explain

16. The percentage of proprietary directors out of all non-executive directors is no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the Company's capital.

This criterion can be relaxed:

a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.

b) In companies with a plurality of shareholders represented on the board but not otherwise related.

Complies Explain

17. Independent directors are at least half of all board members.

However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors occupy, at least, a third of board places.

Complies Explain

18. Companies should post the following director particulars on their websites, and keep them permanently updated:

a) Professional experience and background.

b) Directorships held at other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.

c) Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.

d) Dates of their first appointment as a board member and subsequent re-elections.

e) Shares held in the Company, and any options on the same.

Complies Partially complies Explain

19. Following verification by the appointments committee, the annual corporate governance report discloses the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

Complies Partially complies Explain Not applicable

20. Proprietary directors resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Complies Partially complies Explain Not applicable

21. The board of directors does not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where they find just cause, based on a proposal from the appointments committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient

time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in the applicable legislation.

The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.

Complies Explain

22. Companies establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the offences stated in company legislation, the board of directors open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board gives a reasoned account of all such determinations in the annual corporate governance report.

Complies Partially complies Explain

23. Directors express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest strenuously challenge any decision that could harm the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation. The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.

Complies Partially complies Explain Not applicable

24. Directors who give up their place before their tenure expires, through resignation or otherwise, state their reasons in a letter to be sent to all members of the board. Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.

Complies Partially complies Explain Not applicable

25. The appointments committee ensures that non-executive directors have sufficient time available to discharge their responsibilities effectively.

The board of directors regulations lay down the maximum number of company boards on which directors can serve.

Complies Partially complies Explain

The Company has set out in the board regulations that the ARC will, in evaluating the balance of skills, knowledge and experience on the board of directors, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.

Although a maximum number of boards to which directors may belong is not determined by the board regulations, this issue is taken into account in the analysis conducted by the ARC as a prerequisite for proposing their appointment, with a view to ensuring that they can properly discharge their duties as directors once appointed.

The Company considers that this formula, rather than reflecting a maximum number of boards, caters to the particular circumstances of each director for the discharge of their duties without being limited by a particular maximum number.

26. The board meets with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.

Complies Partially complies Explain

27. Director absences are kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors delegate their powers of representation with the appropriate instructions.

Complies Partially complies Explain

28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the Company's performance, and such concerns are not resolved at the meeting, they are recorded in the minutes book if the person expressing them so requests.

Complies Partially complies Explain Not applicable

29. The Company provides suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.

Complies Partially complies Explain

30. Regardless of the knowledge directors must possess to carry out their duties, they are also offered refresher programmes when circumstances so advise.

Complies Explain Not applicable

31. The agendas of board meetings clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.

For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.

Complies Partially complies Explain

32. Directors are regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.

Complies Partially complies Explain

33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.

Complies Partially complies Explain

34. When a lead independent director has been appointed, the bylaws or board of directors regulations grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or deputy chairmen, if any; give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those relating to the Company's corporate governance; and coordinate the chairman's succession plan.

Complies Partially complies Explain Not applicable

35. The board secretary strives to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the Company.

Complies Explain

36. The board in plenary session should conduct an annual evaluation, adopting, where necessary, an action plan to correct weaknesses detected in:

- a) The quality and efficiency of the board's operation.
- b) The performance and membership of its committees.
- c) The diversity of board membership and competences.
- d) The performance of the chairman of the board of directors and the company's chief executive.
- e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.

The evaluation of board committees should be based on the reports they send the board of directors, while that of the board itself should be based on the report of the appointments committee.

Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the appointments committee.

Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.

The process followed and areas evaluated should be detailed in the annual corporate governance report.

Complies Partially complies Explain

37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.

Complies Partially complies Explain Not applicable

38. The board is kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members receive a copy of the committee's minutes.

Complies Partially complies Explain Not applicable

39. All members of the audit committee, particularly its chairman, are appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.

Complies Partially complies Explain

40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and internal control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.

Complies Partially complies Explain

41. The head of the unit handling the internal audit function presents an annual work programme to the audit committee, informs it directly of any incidents arising during its implementation and submits an activities report at the end of each year.

Complies Partially complies Explain Not applicable

42. The audit committee has the following functions over and above those legally assigned:

1. With respect to internal control and reporting systems:

a) Monitor the preparation and the completeness of the financial information prepared on the Company and, where appropriate, the group, checking for compliance with legal

provisions, the accurate demarcation of the consolidation perimeter and the correct application of accounting principles.

b) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the Company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

2. With regard to the external auditor:

a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

c) Ensure that the Company communicates any change of external auditor to the CNMV as a relevant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the Company's risk and accounting positions.

e) Ensure that the Company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Complies Partially complies Explain

43. The audit committee is empowered to meet with any Company employee or manager, even ordering their appearance without the presence of another senior officer.

Complies Partially complies Explain

44. The audit committee is informed of any fundamental changes or corporate transactions the Company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the share exchange ratio proposed.

Complies Partially complies Explain Not applicable

45. Control and risk management policy should specify at least:

a) The different types of financial and non-financial risk the Company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational

risks), with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks.

b) The determination of the risk level the Company sees as acceptable.

c) Measures in place to mitigate the impact of risk events should they occur.

d) The internal reporting and control systems to be used to control and manage these risks, including contingent liabilities and off-balance-sheet risks.

Complies Partially complies Explain

46. Companies should establish a risk control and management function in the charge of one of the Company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:

a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the Company is exposed to are correctly identified, managed and quantified.

b) Participate actively in the preparation of risk strategies and in key decisions about their management.

c) Ensure that risk control and management systems are mitigating risks effectively in the framework of the policy drawn up by the board of directors.

Complies Partially complies Explain

47. Appointees to the appointments and remuneration committee – or of the appointments committee and remuneration committee, if separately constituted – have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members are independent directors.

Complies Partially complies Explain

48. Large cap companies should operate separately constituted appointments and remuneration committees.

Complies Explain Not applicable

49. The Appointments Committee should consult with the company's Chairman of the Board of Directors and chief executive, especially on matters relating to executive directors.

When there are vacancies on the board, any director may approach the appointments committee to propose candidates that it might consider suitable.

Complies Partially complies Explain

50. The remuneration committee operates independently and has the following functions in addition to those assigned by law:

a) Propose to the Board of Directors the standard conditions for senior officer employment contracts.

b) Oversee compliance with the remuneration policy set by the Company.

c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual remuneration is proportionate to the amounts paid to other directors and senior officers in the Company.

d) Ensure that any conflicts of interest do not jeopardise the independence of external advice to the commission.

e) Verify the information on director and senior officers' remuneration contained in the various corporate documents, including the annual directors' remuneration report.

Complies Partially complies Explain

51. The Remuneration Committee should consult with the Chairman and chief executive, especially on matters relating to executive directors and senior officers.

Complies Partially complies Explain

52. The terms of reference of supervision and control committees are set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They include at least the following terms:

a) Committees are formed exclusively by non-executive directors, with a majority of independents.

b) They are chaired by independent directors.

c) The board appoints the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discusses their proposals and reports; and provides report-backs on their activities and work at the first board plenary following each committee meeting.

d) They may engage external advice, when they feel it necessary for the discharge of their functions.

e) Meeting proceedings should be minuted and a copy made available to all board members.

Complies Partially complies Explain Not applicable

53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy is assigned to one board committee or split between several, which could be the audit committee, the appointments committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:

- a) Monitor compliance with the Company's internal codes of conduct and corporate governance rules.
- b) Oversee the communication and relations strategy with shareholders and investors, including small- and medium-sized shareholders.
- c) Periodically evaluate the effectiveness of the Company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.
- d) Review the Company's corporate social responsibility policy, ensuring that it is geared to value creation.
- e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.
- f) Monitor and evaluate the Company's interaction with its stakeholder groups.
- g) Evaluate all aspects of the non-financial risks the Company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.
- h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.

Complies Partially complies Explain

54. The corporate social responsibility policy states the principles or commitments the Company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:

- a) The goals of its corporate social responsibility policy and the support instruments to be deployed.
- b) The corporate strategy with regard to sustainability, the environment and social issues.
- c) Specific practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, tax responsibility, respect for human rights and the prevention of illegal conducts.
- d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.
- e) The mechanisms for supervising non-financial risk, ethics and business conduct.
- f) Channels for stakeholder communication, participation and dialogue.
- g) Responsible communication practices that prevent the manipulation of information and protect the Company's honour and integrity.

Complies Partially complies Explain

55. The Company reports on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.

Complies Partially complies Explain

56. Director remuneration is sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.

Complies Explain

57. Variable remuneration linked to the Company's and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and participation in long-term savings schemes such as pension plans, retirement schemes and other employee welfare schemes is confined to executive directors.

The Company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs relating to acquisition thereof.

Complies Partially complies Explain

58. In the case of variable remuneration, remuneration policies should include precise limits and technical safeguards to ensure they reflect the professional performance of the recipients and not only the general progress of the markets or the Company's industry or circumstances of this kind.

In particular, variable remuneration items should meet the following conditions:

a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.

b) Promote the long-term sustainability of the Company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.

c) Be focused on achieving a balance between the delivery of short-, medium- and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.

Complies Partially complies Explain Not applicable

59. A major part of variable remuneration components are deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.

Complies Partially complies Explain Not applicable

60. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Complies **Partially complies** **Explain** **Not applicable**

61. A major part of executive directors' variable remuneration is linked to the award of shares or financial instruments whose value is linked to the share price.

Complies **Partially complies** **Explain** **Not applicable**

62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors are not 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.

This condition, however, will not apply to shares that the director must dispose of to defray costs relating to acquisition thereof.

Complies **Partially complies** **Explain** **Not applicable**

63. Contractual arrangements include provisions that permit the Company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.

Complies **Partially complies** **Explain** **Not applicable**

64. Termination payments do not exceed a fixed amount equivalent to two years of the director's total annual remuneration and are not be paid until the Company confirms that he or she has met the predetermined performance criteria.

Complies **Partially complies** **Explain** **Not applicable**

H OTHER INFORMATION OF INTEREST

1. If you consider that there is any material aspect or principle relating to the Corporate Governance practices followed by your company that has not been addressed in this report and which is necessary to provide a more comprehensive view of the corporate governance structure and practices at the company or group, explain briefly.
2. You may include in this section any other information, clarification or observation related to the above sections of this report.

Specifically indicate whether the company is subject to corporate governance legislation from a country other than Spain and, if so, include the compulsory information to be provided when different to that required by this report.

3. Also state whether the company voluntarily subscribes to other international, sectorial or other ethical principles or standard practices. If applicable identify the Code and date of adoption. In particular, mention whether the Code of Good Tax Practices of 20 June 2010 has been adhered to.

On 10 December 2015 the Board of Directors of the Company resolved to adhere to the Code of Good Tax Practices. This resolution was communicated to the tax authorities on 8 January 2016.

a.2. The data included in this section reflect the information relating to significant holdings contained on the website of the Spanish National Securities Market Commission, although it has been adjusted to the resolutions relating to (i) capital increases with a charge to non-monetary contributions and (ii) grouping and share exchange (reverse split) adopted by the Company at the annual general meeting of 28 June 2016.

Also, in relation to the shareholders BlackRock, Inc and Fidelity International Limited, it is hereby reported that there is no information available relating to the direct holder of the equity interests in Colonial.

A.2 and C.1.3. In both sections Grupo Villar Mir, S.A.U. is indicated as the significant shareholder (section A.2) or the significant shareholder that represents the proprietary director (table relating to external proprietary directors in section C.1.3), although the ultimate significant shareholder is Inmobiliaria Espacio, S.A., since it wholly owns Grupo Villar Mir, S.A.U.

A.3. The data included in this section reflect the information relating to significant holdings contained on the website of the Spanish National Securities Market Commission and/or information provided by the directors, although it has been adjusted to the resolutions relating to (i) capital increases with a charge to non-monetary contributions and (ii) grouping and share exchange (reverse split) adopted by the Company at the annual general meeting of 28 June 2016.

C.1.36. At the Annual General Meeting of 28 June 2016 it was resolved to appoint PricewaterhouseCoopers Auditores, S.L. as the Company's auditor to review the separate and consolidated financial statements for a three-year period, including therefore the financial statements for the years ended 31 December 2017, 2018 and 2019.

C.1.45. Although the contracts of the directors do not have to be approved by the shareholders at the Annual General Meeting, the general terms and conditions thereof are included in the remuneration policy, which they do approve.

C.2.1. The composition of the executive committee included Carlos Fernández González and Adnane Mousannif as members of the committee, since they were appointed on 16 December 2016. However, under the bylaws, the appointment of the members of the Executive Committee shall not be valid until registered at the Mercantile Registry. In relation to these members, this took place on 31 January 2017.

D.2. On 27 July 2016, the entities belonging to the Mora Banc Grup, S.A. group entered into an agreement with the Company whereby Mora Banc Grup, S.A., then a significant Colonial shareholder, and related group entities sold to Colonial 3,801,417 of its own shares, representing approximately 1.06% of Colonial's share capital, under the main terms indicated in the notes to the Company's financial statements for the year ended 31 December 2016, authorised for issue by Colonial's board of directors at its meeting held on 24 February 2017. At 31 December 2016, the date of preparation of this report, the Mora Banc Grup, S.A. group was not a significant shareholder of the Company.

This annual corporate governance report was approved by the Company's Board of Directors at its meeting held on 24 February 2017.

List whether any directors voted against or abstained from voting on the approval of this Report.

Yes

No X

Name or company name of director who did not vote in favour of this Report	Reasons (against, abstention, non-attendance)	Explain the reasons