Colonial

Inmobiliaria Colonial, SOCIMI, S.A.

Certifies that:

The Declarations of Responsibility for the Annual Financial Report have not been translated into English.

Inmobiliaria Colonial, SOCIMI, S.A. and its subsidiaries

Audit Report,
Consolidated Annual Accounts and
Directors' Report
as at 31 December 2017

This version of our report is a free translation of the original, which will be prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent auditor's report on the consolidated annual accounts

To the shareholders of Inmobiliaria Colonial, SOCIMI, S.A.:

Report on the consolidated annual accounts

Opinion

We have audited the consolidated annual accounts of Inmobiliaria Colonial, SOCIMI, S.A. (the Parent company) and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2017, and the income statement, statement of other comprehensive income, statement of changes in equity, cash flow statement and related notes, all consolidated, for the year then ended.

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the equity and financial position of the Group as at 31 December 2017, as well as its financial performance and cash flows, all consolidated, for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS-EU) and other provisions of the financial reporting framework applicable in Spain.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated annual accounts* section of our report.

We are independent of the Group in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the consolidated annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated annual accounts of the current period. These matters were addressed in the context of our audit of the consolidated annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Key audit matter	How our audit addressed the key audit matter
Valuation of Investment Property	
Colonial Group has real estate assets which are recognised in Investment property amounting to Euro 8,792,369 thousand under the fair value model, that represent 84% of total assets. Also, the variation in value in investment property in 2017 amounts to Euro 937,108 thousand, representing 87% of the consolidated net profit for the year. Notes 4.c), 8 and 17.f) to the accompanying consolidated annual accounts contains information on the assets included in this heading. In order to obtain the fair value of these assets, the Group commissions valuations that are carried out by independent third party experts. Fair value is determined using the discounted cash flow methodology, generally applied over a 10 year timeframe, in accordance with standard market practice. Such valuations are based on a series of significant judgements and estimates. We have therefore focused on this area due to the materiality of this heading with respect to the Company's total assets and the significant judgment required on the part of Management. Changes in these assumptions could lead to a significant variation in the fair value of such assets and their impact on the consolidated comprehensive income statement and consolidated statement of financial position.	We obtained the year-end valuations of these assets by independent experts and we assessed that these independent experts meet the requirements of competence and independence, finding no exceptions. We determined that the valuations were performed in accordance with the Valuation Rules of the Royal Institution of Chartered Surveyors (RICS), included in the so-called "Red Book" - valuation manual. In this respect, we held meetings with the valuers together with our internal experts and verified for a representative sample of these valuations, the calculations used, final profitability, term of the rental contracts, the type and age of the properties, their location and occupancy rate and the discount rate used. Also, for a sample of assets, we verified the technical specifications used by the independent experts when determining the fair value of those assets using the purchase deeds. Lastly, we assessed the relevant disclosures in Notes 4.c), 8 and 17.f) to the accompanying consolidated annual accounts. We consider that we have obtained sufficient audit evidence in the course of our work to corroborate the reasonableness of the valuation of investment property.
Recognition of rental revenue. Lease incentives	
Consolidated lease income amounts to Euro 283,287 thousand for the year ended 31 December 2017 and is recognised on a straight-line basis over the lease term. There are rental contracts with specific conditions such as lease incentives, registration costs and early cancellation costs. These terms and conditions are subject to special treatment under accounting regulations, as described in Notes 4.n) and 10 to the accompanying consolidated annual accounts. Specifically, rent-free periods have resulted in the recognition of accounts receivable amounting to Euro 78,746 thousand at 31 December 2017.	We reviewed the new lease contracts signed, possible amendments and the follow-up of existing leases in order to identify lease incentives and any other kind of incentives requiring a specific accounting treatment. For a representative sample of contracts with specific characteristics, we analysed the accounting impacts and assessed the recoverability of those assets. We assessed the Group's procedures and controls with respect to the validation of the receivables deriving from the accounting treatment of such incentives. We validated the supporting documentation for Management's assumptions in the valuation and accounting of lease incentives.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition criteria during rent-free periods have a direct impact on lease income. We therefore focused on this area due to the materiality of the rent-free period assets and the application of significant judgement by Parent company management, concerning the expected term of the lease contract and the recoverability of the receivables, among other matters.	No significant matters warranting disclosure have come to light as a result of our work.
SOCIMI Tax Scheme	
On 30 June 2017 the Parent company and certain subsidiaries asked the Tax Authorities to include them in the SOCIMI tax scheme as detailed in Notes 1, 4.m) and 16 to the accompanying consolidated annual accounts. Adopting this tax scheme entails breaking up the tax group existing at 31 December 2016, with effect as from 1 January 2017 and recovering the Tax Group's adjustments pending recovery. The SOCIMI Tax Scheme is governed by Law 11/2009, dated 26 October 2016, as amended by Law 16/2012, that contains very specific requirements for inclusion in that scheme and which are detailed in Note 4.m) to the accompanying consolidated annual accounts. We have decided to mention this matter as it is a relevant event for the year and because of its impact on the consolidated annual accounts, as a result of the change in the way of accounting for corporate income tax in the Parent company and companies included in the SOCIMI Tax Scheme.	We obtained the certificates dated 30 June 2017 through which the Parent company and certain subsidiaries reported to the Tax Administration State Agency the decision to apply the SOCIMI Tax Scheme and we have seen the documentation relating to the receipt of such communications. We verified that the companies involved meet the necessary requirements under tax legislation to qualify for the SOCIMI Tax Scheme, without finding exceptions. Additionally, we involved our internal tax experts in order to validate that the effects of the scheme are correctly accounted for along with the treatment of temporary differences and their tax impact. We also took into account the relevant disclosures in Notes 1, 4.m) and 16 to the accompanying consolidated annual accounts. The results of our procedures ended satisfactorily and we did not identify any relevant matter affecting the financial information included in the accompanying consolidated annual accounts.
Public offering of shares of Axiare Patrimonio SOCIMI, S.A.	
In November 2017 the Parent company's interest in Axiare Patrimonio SOCIMI S.A. (hereinafter Axiare) amounted to 28.79%. The Group holds this investment as a financial asset available for sale in 2017 as the conditions to view it as an investment in an associate are not met, as indicated in Note 9.b) to the accompanying consolidated annual accounts.	In relation to the interest obtained in Axiare Patrimonio SOCIMI, S.A in November 2017, we took into account the arguments prepared by Management in order to conclude that there was no significant influence over that company. We reviewed that assessment together with our internal legal experts and concluded that Parent company Management's assessment is adequate.

Key audit matter	How our audit addressed the key audit matter
On 28 December 2017 the Comisión Nacional del Mercado de Valores authorised the voluntary public offer of Axiare shares, covering 100% of the company's share capital, excluding shares already held by the Parent company. On 2 February 2018 it was confirmed that the offer had been accepted by 58.07 % of the corresponding shareholders, resulting in the disbursement of Euro 842,955 thousand. As a result, the Company owns 86.86% of Axiare's share capital. As this transaction was completed after the 2017 year-end but before the date of formulation of the consolidated annual accounts, accounting regulations require information to be disclosed on the business combination and the disclosure, where appropriate, of the reasons why certain information cannot be included. These disclosures are included in Note 23 to the accompanying consolidated annual accounts. We have decided to mention this matter as this is a significant transaction that has a relevant impact on the Company's consolidated annual accounts.	We have determined that the information detailed in Notes 9.b), 9.c) and 23 to the accompanying consolidated annual accounts relates to the information that is publicly available on the public offer of shares and the financial information published by Axiare for the year ended 31 December 2017 and can conclude that the disclosures included are adequate.

Other Matters

On 24 February 2017 other auditors issued an audit opinion on the consolidated annual accounts of the group for the year ended 31 December 2016 in which they expressed an unqualified opinion.

Other information: Consolidated management report

Other information comprises only the consolidated management report for the 2017 financial year, the formulation of which is the responsibility of the Parent company´s directors and does not form an integral part of the consolidated annual accounts.

Our audit opinion on the consolidated annual accounts does not cover the consolidated management report. Our responsibility regarding the consolidated management report is defined in the legislation governing the audit practice, which establishes two different levels:

a) A specific level that is applicable to certain information included in the Annual Corporate Governance Report (ACGR), as defined in art. 35.2. b) of Law 22/2015, on Audit of Accounts, which consists in verifying only that the aforementioned information has been provided in the management report, and otherwise, to report on it.

b) A general level applicable to the rest of the information included in the consolidated management report, which consists of evaluating and reporting on the concordance of the aforementioned information with the consolidated annual accounts, based on the Group's knowledge obtained in the performance of the audit of the aforementioned accounts and without including information other than that obtained as evidence during the same, as well as evaluating and reporting whether the content and presentation of this part of the consolidated management report are in accordance with the regulations that result from application. If, based on the work we have done, we conclude that there are material inaccuracies, we are obliged to report it.

On the basis of the work performed, as described above, we have verified that the information mentioned in section a) above is provided in the consolidated management report and that the rest of the information contained in the consolidated management report is consistent with that contained in the consolidated annual accounts for the 2017 financial year, and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors and the audit committee for the consolidated annual accounts

The Parent company´s directors are responsible for the preparation of the accompanying consolidated annual accounts, such that they fairly present the consolidated equity, financial position and financial performance of the Group, in accordance with International Financial Reporting Standards as adopted by the European Union and other provisions of the financial reporting framework applicable to the Group in Spain, and for such internal control as the directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated annual accounts, the Parent company´s directors are responsible for assessing the Group´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Parent company´s audit committee is responsible for overseeing the process of preparation and presentation of the consolidated annual accounts.

Auditor's responsibilities for the audit of the consolidated annual accounts

Our objectives are to obtain reasonable assurance about whether the consolidated annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group´s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Parent company´s directors.
- Conclude on the appropriateness of the Parent company´s directors´ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor´s report to the related disclosures in the consolidated annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor´s report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated annual accounts, including the disclosures, and whether the consolidated annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated annual accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Parent company´s audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Parent company´s audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Parent company´s audit committee, we determine those matters that were of most significance in the audit of the consolidated annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor´s report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Report to the Parent company´s audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Parent company's audit committee dated 22 February 2018.

Appointment period

The General Ordinary Shareholders' Meeting held on 28 June 2016 appointed us as auditors of the Group for a period of 3 years, as from the year ended 31 December 2017.

Services provided

Services different to the audit of the accounts are indicated in the Note 22 to the consolidated annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
José M Solé Farre (05565)

February 22, 2018

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries

Consolidated Financial Statements for the year ended 31 December 2017, prepared in accordance with International Financial Reporting Standards and Consolidated Management Report

Translation of a report originally Issued in Spanish based on our work performed In accordance with the audit regulations In force in Spain and of consolidated financial statements originally Issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group In Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

INMOBILIARIA COLONIAL, SOCIMI, S.A. AND SUBSIDIARIES
(COLONIAL GROUP)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2017

(Thousands of Euros)

ASSETS	Note	31 December 2017	31 December 2016	LIABILITIES AND EQUITY	Note	31 December 2017	31 December 2016
				Share capital		1.088.293	892.058
Intangible assets		3.037	2.549	Share premium		1.126.248	731.326
Property, plant and equipment	7	39.369	44.061	Reserves of the Parent		245.118	250.634
Investment property	8	8.792.396	7.762.627	Reserves in consolidated companies		406.366	199.417
Non-current financial assets	9	444.350	150.676	Valuation adjustments recognised in equity - financial instruments		(559)	(571)
Non-current deferred tax assets	16	407	454	Valuation adjustments on available-for-sale financial assets		70.415	1.317
NON-CURRENT ASSETS		**9.279.559**	**7.960.367**	Other equity instruments		4.686	3.697
				Treasury shares		(31.262)	(49.811)
				Profit for the year		682.523	273.647
				Equity attributable to shareholders of the Parent		**3.591.828**	**2.301.714**
				Non-controlling interests		**2.087.870**	**1.706.205**
				EQUITY	11	**5.679.698**	**4.007.919**
				Bank borrowings and other financial liabilities	12 and 13	857.237	777.531
				Bonds and similar securities issued	12	3.307.633	2.509.956
				Non-current deferred tax liabilities	16	371.233	356.658
				Non-current provisions	15	11.450	13.674
				Other non-current liabilities	14	44.362	54.630
Trade and other receivables	10	103.232	116.954	**NON-CURRENT LIABILITIES**		**4.591.915**	**3.712.449**
Current financial assets		12	441				
Tax assets	16	20.115	44.689	Bank borrowings and other financial liabilities	12 and 13	39.350	93.549
Cash and cash equivalents	12	1.104.601	105.200	Bonds and similar securities issued	12	13.574	313.927
CURRENT ASSETS		**1.227.960**	**267.284**	Trade payables	14	143.880	69.760
				Tax liabilities	16	18.819	17.328
Non-current assets held for sale	21	**-**	**-**	Current provisions	15	20.283	12.719
				CURRENT LIABILITIES		**235.906**	**507.283**
TOTAL ASSETS		**10.507.519**	**8.227.651**	**TOTAL EQUITY AND LIABILITIES**		**10.507.519**	**8.227.651**

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of financial position for the year ended 31 December 2017.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

INMOBILIARIA COLONIAL, SOCIMI, S.A. AND SUBSIDIARIES
(COLONIAL GROUP)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

(Thousands of Euros)

Statement of comprehensive income	Note	2017	2016
Revenue	17-a	283.287	271.400
Other income	17-b	2.714	3.057
Staff costs	17-c	(28.936)	(22.293)
Other operating expenses	17-d	(40.921)	(33.481)
Depreciation and amortisation charge	7	(2.445)	(2.909)
Net change in provisions	17-e	(5.704)	(2.755)
Net gain/(loss) on sales of assets	17-g	527	(149)
Operating profit		**208.522**	**212.870**
Changes in fair value of investment property	17-f	933.435	560.777
Losses due to impairment of assets	17-f	(5.220)	(4.373)
Finance income	17-h	7.802	3.559
Finance costs	17-h	(86.846)	(107.794)
Impairment of financial assets	17-h	(401)	(648)
Profit before tax		**1.057.292**	**664.391**
Income tax expense	16	23.159	(105.087)
Consolidated net profit		**1.080.451**	**559.304**
Net profit for the year attributable to the Parent		682.523	273.647
Net profit attributable to non-controlling interests	11	397.928	285.657
Basic earnings per share (€)	5	1,83	0,81
Diluted earnings per share (€)	5	1,83	0,81

Other comprehensive income			
Consolidated net profit		**1.080.451**	**559.304**
Other items recognised directly in other comprehensive income		**69.028**	**1.134**
- Items that can be subsequently transferred to profit or loss			
Gains/(losses) on hedging instruments	11 and 13	(94)	(244)
Gains/(losses) on available-for-sale financial assets	9	69.098	1.317
Tax effect on prior years' profit or loss	11 and 13	24	61
Transfers to consolidated net profit		**91**	**3.782**
Gains/(losses) on hedging instruments	11 and 13	122	4.217
Tax effect on prior years' profit or loss	11 and 13	(31)	(435)
Consolidated comprehensive profit		**1.149.570**	**564.220**
Comprehensive profit for the year attributable to the Parent		751.633	277.031
Comprehensive profit attributable to non-controlling interests		397.937	287.189
Comprehensive basic earnings per share (euros)		2,01	0,82
Comprehensive diluted earnings per share (euros)		2,01	0,82

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of comprehensive income for the year ended 31 December 2017.

INMOBILIARIA COLONIAL, SOCIMI, S.A. AND SUBSIDIARIES
(COLONIAL GROUP)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED
31 DECEMBER 2017

(Thousands of Euros)

	Note	Share capital	Share premium	Reserves of the Parent	Prior years' losses at the Parent	Reserves in consolidated companies	Valuation adjustments recognised in equity - financial instruments	Valuation adjustments on available-for-sale financial assets	Other equity instruments	Treasury shares	Profit/(loss)	Equity attributable to shareholders of the Parent	Non-controlling interests	Equity
Balance at 31 December 2015		**797.214**	**560.606**	**1.163.954**	**(1.147.975)**	**64.881**	**(2.504)**	**-**	**2.895**	**(17.065)**	**415.413**	**1.837.419**	**1.612.048**	**3.449.467**
Consolidated comprehensive profit		-	-	-	-	-	2.067	1.317	-	-	273.647	277.031	287.189	**564.220**
Transactions with shareholders:														
Share capital increase		94.844	170.720	(1.905)	-	-	-	-	-	-	-	263.659	-	**263.659**
Offset of prior years' losses		-	-	(938.993)	938.993	-	-	-	-	-	-	-	-	**-**
Treasury share portfolio		-	-	(957)	-	(861)	-	-	-	(31.521)	-	(33.339)	(453)	**(33.792)**
Distribution of 2015 profit		-	-	28.535	208.982	130.063	-	-	-	-	(415.413)	(47.833)	(48.752)	**(96.585)**
Share-based payment transactions		-	-	-	-	-	-	-	629	-	-	629	462	**1.091**
Changes in the scope of consolidation		-	-	-	-	5.270	(134)	-	-	(1.225)	-	3.911	(144.378)	**(140.467)**
Other changes		-	-	-	-	64	-	-	173	-	-	237	89	**326**
Balance at 31 December 2016	**11**	**892.058**	**731.326**	**250.634**	**-**	**199.417**	**(571)**	**1.317**	**3.697**	**(49.811)**	**273.647**	**2.301.714**	**1.706.205**	**4.007.919**
Consolidated comprehensive profit		-	-	-	-	-	12	69.098	-	-	682.523	751.633	397.937	**1.149.570**
Transactions with shareholders:														
Capital increases		196.235	394.922	(6.691)	-	-	-	-	-	-	-	584.466	-	**584.466**
Treasury share portfolio		-	-	10.371	-	-	-	-	-	2.956	-	13.327	-	**13.327**
Distribution of 2016 profit		-	-	(7.910)	-	218.808	-	-	-	-	(273.647)	(62.749)	(27.000)	**(89.749)**
Share-based payment transactions		-	-	(1.286)	-	-	-	-	989	2.537	-	2.240	641	**2.881**
Changes in the scope of consolidation		-	-	-	-	79	-	-	-	(2)	-	77	9.737	**9.814**
Other changes		-	-	-	-	(11.938)	-	-	-	13.058	-	1.120	350	**1.470**
Balance at 31 December 2017	**11**	**1.088.293**	**1.126.248**	**245.118**	**-**	**406.366**	**(559)**	**70.415**	**4.686**	**(31.262)**	**682.523**	**3.591.828**	**2.087.870**	**5.679.698**

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of changes in equity for the year ended 31 December 2017.

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group in Spain (see Notes 2 and 24). In the event of a discrepancy, the Spanish-language version prevails.

INMOBILIARIA COLONIAL, SOCIMI, S.A. AND SUBSIDIARIES
(COLONIAL GROUP)

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED
31 DECEMBER 2017
(Thousands of Euros)

	Note	2017	2016
CASH FLOWS IN OPERATIONS			
1. CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES			
Profit from operations		208.522	212.870
Adjustments to profit			
Depreciation and amortisation (+)		2.445	2.909
Net change in provisions (+/-)	17-e	5.704	2.755
Others	17-a	(11.079)	(32.515)
Gains/(losses) on sale of investment property (+/-)	17-g	(527)	149
Adjusted profit		205.065	186.168
Taxes paid (-)		29.434	(8.013)
Increase/(decrease) in current assets and liabilities			
Increase/(decrease) in receivables (+/-)		929	352
Increase/(decrease) in payables (+/-)		9.845	(16.127)
Increase/(decrease) in other assets and liabilities (+/-)		4.866	6.117
Total net cash flows from/(used in) operating activities		250.139	168.497
2. CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES			
Investments in (-)			
Intangible assets		(1.318)	(1.154)
Property, plant and equipment	7	(2.867)	(2.776)
Investment property	8	(128.862)	(171.368)
Equity investments and financial assets	2-f	(300.317)	(138.756)
Other financial assets	9	(211.886)	(136.976)
		(645.250)	(451.030)
Disposals of (+)			
Investment property	8	450.671	17.054
		450.671	17.054
Total net cash flows from/(used in) investing activities		**(194.579)**	**(433.976)**
3. CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES			
Dividends paid (-)	11	(89.749)	(96.584)
Repayment of bank borrowings (-)	12	(572.925)	(292.657)
Repayment of debts with bondholders (-)	12	(300.700)	(530.799)
Interest paid (+/-)	17	(94.406)	(114.831)
Post-control transactions (+/-)	20	(266)	-
Treasury share transactions (+/-)	11	13.327	(48.883)
		(1.044.719)	(1.083.754)
New bank borrowings obtained (+)	12	609.968	597.412
New bondholder borrowings obtained (+)	12	800.000	650.000
Capital increases (+)	11	591.157	-
Expenses associated with capital increases	11	(6.691)	(1.905)
Other proceeds/(payments) for current financial assets and other (+/-)		(5.874)	(8.850)
		1.988.560	1.236.657
Total net cash flows from/(used in) financing activities		**943.841**	**152.903**
4. NET INCREASE / DECREASE IN CASH AND CASH EQUIVALENTS			
Cash flow for the year		**999.401**	**(112.576)**
Cash and cash equivalents at beginning of year	**12**	**105.200**	**217.776**
Cash and cash equivalents at end of year	**12**	**1.104.601**	**105.200**

The accompanying Notes 1 to 24 and the Appendix are an integral part of the consolidated statement of cash flows for the year ended 31 December 2017.

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries

Notes to the consolidated financial statements for the year ended 31 December 2017

1. Colonial Group business activity

Group activity

Inmobiliaria Colonial, S.A., is a public limited company incorporated in Spain, for an indefinite period, on 8 November 1956. Its registered offices are at Paseo de la Castellana, 52 de Madrid (formerly Avenida Diagonal 532, in Barcelona).

On 29 June 2017, the shareholders at the Parent's Annual General Meeting resolved to adopt the SOCIMI (hereinafter, REIT) Tax Regime and to make the corresponding bylaw amendments to bring the Company's bylaws into line with the requirements stipulated in this regime, which includes changing the corporate name to Inmobiliaria Colonial, SOCIMI, S.A.

On 30 June 2017, the Parent submitted a request to the tax authorities to be included in the REIT Tax Regime, applicable as of 1 January 2017.

The Parent’s corporate purpose, as set out in its bylaws, is as follows:

- the acquisition and development of urban properties for lease;
- the ownership of interests in the share capital of listed real estate investment companies (REITs) or other non-resident entities in Spain with the same corporate purpose, which are subject to a regime similar to that established for REITs in relation to the obligatory profit distribution policy stipulated by law or the bylaws;
- the ownership of interests in the share capital of other resident or non-resident entities in Spain, the main corporate purpose of which is the acquisition of urban properties earmarked for lease, which are subject to the regime established for REITs in relation to the obligatory profit distribution policy stipulated by law or the bylaws and meet the investment requirements stipulated for these companies; and
- the ownership of shares or equity interests in collective real estate investment undertakings governed by Law 35/2003, of 4 November, on collective investment undertakings, or any law that may replace it in the future.

In addition to the economic activity relating to the main corporate purpose, the Parent may also carry on any other ancillary activities, i.e., those that generate income, which in total represents less than 20% of the Parent’s income in each tax period, or those that may be considered ancillary activities under the legislation applicable at any time, including, in any case, the management, refurbishment and operation of properties and the performance of all manner of studies, reports, appraisals, valuations and surveys; and in general, the provision of real estate consulting and advisory services, property asset management, development and marketing services, and technical assistance through contracts with other public or private companies or entities.

Activities that by law are attributable exclusively to special purpose vehicles are expressly excluded from its corporate purpose.

All activities included in the corporate purpose will be carried out as authorised by current legislation any given time, expressly excluding its own activities that are exclusively granted by prevailing legislation to individuals or legal entities other than this Company.

The Parent may also carry out the aforementioned activities, in full or in part, indirectly through ownership interests in other companies with an identical or similar corporate purpose.

Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries ("the Group") carry out their activities in Spain (mainly in Barcelona and Madrid) and in France (Paris) through the group of which it is the parent Société Foncière Lyonnaise, S.A. (hereinafter, the "SFL subgroup" or "SFL" for the subsidiary).

Inmobiliaria Colonial, SOCIMI, S.A. has been listed on the Spanish electronic trading system and Stock Exchange since 19 June 2017, when it was included on the benchmark stock market index, the IBEX-35.

In 2017, the Parent improved the credit rating obtained from Standard & Poor's Rating Credit Market Services Europe Limited, which is now a "BBB" long-term credit rating and an "A-2" short-term credit rating, both with a stable outlook. In addition, the Parent obtained a "Baa2" credit rating with a negative outlook from Moody's. In 2017, the subsidiary SFL also improved its credit rating, which is now "BBB+" with a stable outlook and maintained the "A-2" short-term credit rating.

In view of the business activity carried out by the Group, it has no environmental expenses, assets, provisions or contingencies that might be significant with respect to its equity, financial position or performance. Therefore, no specific disclosures relating to environmental issues are included in these explanatory notes. However, the Group does apply a proactive environmental policy in relation to urban development, construction, maintenance and the preservation of its property portfolio.

2. Basis of presentation of the consolidated financial statements

a) Basis of presentation

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards (EU-IFRSs) as adopted by the European Union, taking into account all mandatory accounting policies and rules and measurement bases, the Spanish Code of Commerce, the Spanish Limited Liability Companies Law, the Spanish Securities Markets Law and other applicable company law, as well as regulations laid down by the Spanish National Securities Market Commission (CNMV), to present a true and fair view of the Colonial Group's consolidated equity and financial position at 31 December 2017 and of the comprehensive income from its operations, the changes in consolidated equity and the consolidated cash flows for the year then ended.

The consolidated financial statements of Inmobiliaria Colonial, SOCIMI, S.A. and Subsidiaries for the year ended 31 December 2017 were prepared on the basis of the accounting records kept by the Parent and by the other companies comprising the Colonial Group and were authorised for issue by the Parent's directors at the Board of Directors meeting held on 22 February 2018.

However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements at 31 December 2017 may differ from those used by certain Group companies, the required adjustments and reclassifications were made on consolidation to unify the policies and bases used and to make them compliant with EU-IFRSs.

In order to present on a consistent basis the various items that make up the consolidated financial statements, the accounting principles and measurement bases used by the Parent were applied to all the companies included in the scope of consolidation.

The Group's consolidated financial statements for the year ended 31 December 2016 were approved by the shareholders of the Parent at the General Meeting held on 29 June 2017.

b) Adoption of International Financial Reporting Standards

The Colonial Group's consolidated financial statements are presented in accordance with EU-IFRSs, pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002. In Spain, the obligation to present consolidated financial statements under European IFRSs is also regulated in final provision eleven of Law 62/2003, of 30 December, on tax, administrative and social measures.

The main accounting principles and measurement bases adopted by the Colonial Group are detailed in Note 4.

Standards and interpretations effective this year

New accounting standards came into force in 2017 and were accordingly taken into account when preparing these consolidated financial statements. The new standards are as follows:

- IAS 7 (Amendment) "Disclosure initiative";

- IAS 12 (Amendment) "Recognition of deferred tax assets and unrealised losses".

- Annual improvements to IFRSs. 2014-2016 Cycle: The amendments affect IFRS 12 "Disclosure of interests in other entities" and relate mainly to a clarification on the scope of the standard.

The impact of the interpretation of these amendments has not been significant.

Standards and interpretations issued but not yet effective

At the date of authorisation for issue of these consolidated financial statements, the following standards, amendments or interpretations were published by the IASB but had not yet come into force, and although early application is permitted, the Group opted not to apply them early:

- IFRS 4 (Amendment) "Applying IFRS 9 'Financial instruments' with IFRS 4 'Insurance contracts'"

- IFRS 9 "Financial instruments"

- IFRS 15 "Revenue from contracts with customers"

- IFRS 15 (Amendment) "Clarifications to IFRS 15 'Revenue from contracts with customers'"

- IFRS 16 "Leases"

- Annual improvements to IFRSs. 2014-2016 Cycle: The amendments affect IFRS 1 and IAS 28 and shall apply to annual periods beginning on or after 1 January 2018. The main amendments refer to:

    - IFRS 1 "First-time adoption of International Financial Reporting Standards": Deletion of short-term exemptions for first-time adopters.

    - IAS 28 "Investments in associates and joint ventures": Valuation of an investment

Based on the analysis carried out to date, Inmobiliaria Colonial considers that out of all these standards, interpretations and amendments, the only ones that may have an impact on the consolidated financial statements would be IFRS 9 and IFRS 15, the entry into force of which is set for 1 January 2018, and IFRS 16, the entry into force of which is set for 1 January 2019.

The main aspects identified by the Group for these standards are as follows:

IFRS 9 “Financial Instruments”

- Valuation of financial assets: The Colonial Group will measure its financial assets at amortised cost, with the exception of investments in equity instruments and derivative financial instruments, which will be measured at fair value. The measurement bases employed with respect to those used up until 31 December 2017 will not have a significant impact.

- Impairment of financial assets: The Colonial Group will apply the general expected loss model for financial assets, with the exception of trade receivables, for which Inmobiliaria Colonial will use the simplified expected loss model, regardless of the financial component that these assets may have. Considering the Group's credit risk management policies and the high credit rating of the receivables, it does not consider that the application of the expected loss model will have a significant impact.

The Colonial Group considers that the application of IFRS 9 will not have a significant impact on equity at 1 January 2018.

IFRS 15 “Revenue from contracts with customers”

In relation to the entry into force of IFRS 15, the Colonial Group considers that, based on the nature of the business, its application will not have a significant impact on the Group's consolidated financial statements.

IFRS 16 “Leases”

The Colonial Group has begun to analyse the impacts of IFRS 16 “Leases”, which stipulates that right-of-use assets and liabilities arising from operating leases, with the exception of short-term lease agreements and those relating to assets with a low value, must be recognised on the consolidated statement of financial position. In addition, the criteria for recognising lease expenses will change, which will now be recognised as a depreciation charge for the asset or finance cost for discounting the lease liability.

The Colonial Group is gathering the data necessary for its operating lease agreements in order to assess the related impacts, however, it does not expect IFRS 16 to have a significant impact on the Group's consolidated financial statements with regard to an associate or joint venture at fair value.

Accordingly, at the date of authorisation for issue of these consolidated financial statements, the following standards, amendments or interpretations were published by the IASB but had not yet come into force, and are subject to approval by the European Union:

- IFRS 10 (Amendment) and IAS 28 (Amendment) “Sale or contribution of assets between an investor and its associate or joint venture”

- IFRS 2 (Amendment) “Classification and measurement of share-based payment transactions”

- IAS 40 (Amendment) “Transfers of investment property”

- IFRIC 22 “Foreign currency transactions and advance consideration”

- IFRS 17 "Insurance contracts"

- IFRIC 23 "Uncertainty over income tax treatments"

- IFRS 9 (Amendment) “Prepayment features with negative compensation”

- IAS 28 (Amendment) “Long-term interests in associates and joint ventures”

- Annual improvements to IFRSs. 2015-2017 Cycle: The amendments affect IFRS 3, IFRS 11, IAS 12 and IAS 23 and shall apply to annual periods beginning on or after 1 January 2019, all of which are subject to adoption by the EU. The main amendments refer to

    - IFRS 3 "Business combinations": An investment previously held in a joint venture is measured again when control over the business is obtained.

    - IFRS 11 "Joint arrangements": An investment previously held in a joint venture is not measured again when joint control over the business is obtained.

    - IAS 12 "Income taxes": All tax consequences relating to the payment of dividends are recognised in the same manner.

    - IAS 23 "Borrowing costs": Any specific loan originally obtained to develop a qualifying asset is considered part of general borrowings when the asset is ready for use or sale.

- IAS 19 (Amendment) "Plan amendment, curtailment or settlement".

The application of new standards, amendments and interpretations will be considered by the Group once they have been ratified and adopted, where appropriate, by the European Union.

The Parent's directors have reviewed the potential impacts of the future application of these standards and consider that their entry into force will not have a significant effect on the consolidated financial statements.

c) Functional currency

These consolidated financial statements are presented in the Group's functional currency, the euro, as this is the currency of the main economic area in which the Group operates.

d) Responsibility for the information provided and estimates and judgements made

The information in these consolidated financial statements is the responsibility of the Parent's directors. Management of the Parent has made estimates based on objective data in order to quantify certain assets, liabilities, income, expenses and commitments reported herein. These estimates and criteria relate to the following:

- The market value of properties for own use and investment property (Notes 7 and 8).

  The market value was obtained from the appraisals periodically made by independent experts. Such appraisals were made on 30 June 2017 and 31 December 2017 in accordance with the methods described in Notes 4-b and 4-c.

- Classification, measurement and impairment of financial investments (Note 4-e).

- Estimate of the appropriate allowances for bad debts (Note 10).

- Measurement of deferred tax liabilities recognised in the consolidated statement of financial position (Notes 4-m and 16).

- Measurement of non-current assets held for sale (Notes 4-s and 21).

- The market value of certain financial assets (Note 9), including derivative financial instruments (Note 13).

- Evaluation of lawsuits, obligations, and contingent assets and liabilities at year-end (Note 15).

Although these estimates were made on the basis of the best available information at the date of authorising these consolidated financial statements for issue, events that take place in the future might make it necessary to modify these amounts (upwards or downwards). Changes in accounting estimates would be made prospectively, with the effects of the changes being recognised in the consolidated statement of comprehensive income.

e) Basis of consolidation

The main consolidation principles applied by the Parent's directors in preparing these consolidated financial statements were as follows:

1. The accompanying consolidated financial statements were prepared from the accounting records of Inmobiliaria Colonial, SOCIMI, S.A. and of the companies controlled thereby, whose financial statements were prepared by each Group company's management. The Parent is considered to have effective control in the circumstances outlined in point 6 below.

2. The results of the subsidiaries acquired or sold during the year are included in consolidated income from the effective date of acquisition and are no longer included from the date of disposal, as appropriate.

3. All accounts receivable and payable and other transactions between the consolidated companies have been eliminated on consolidation.

4. Where necessary, the financial statements of the subsidiaries are adjusted to ensure uniformity with the accounting policies applied by the Parent. All subsidiaries have the same reporting date as the Parent, i.e., 31 December.

5. The interest of non-controlling shareholders is established in proportion to the fair values of the identifiable assets and liabilities recognised. Non-controlling interest in:

   a. Investees' equity: recognised in equity under "Non-controlling interests" in the consolidated statement of financial position.

   b. Profit or loss for the year: recognised under "Profit attributable to non-controlling interests" in the consolidated statement of comprehensive income.

6. The Group used the following criteria to determine the consolidation method applicable to the various companies comprising the Group:

   Full consolidation:

   - Subsidiaries are fully consolidated and are considered to be all entities in which the Group directly or indirectly controls the financial and operating policies such that power is exercised over the investee. This is generally accompanied by an ownership interest of more than half of an entity's voting rights. In addition, to evaluate whether the Group controls another entity, it considers the power over the investee; the exposure or rights to variable returns of the investment; and the ability to use this power over the investee to affect the amount of the investor's returns. When evaluating whether the Group exercises control over an entity, the existence and the effect of any potential voting rights, both those held by the Parent and by third parties, are taken into consideration, provided they are of a substantive nature.

   - Subsidiaries are accounted for using the acquisition method. The acquisition cost is the fair value of the assets delivered, the equity instruments issued and the liabilities incurred or assumed at the acquisition date. Identifiable assets acquired and identifiable liabilities and contingencies incurred in a business combination are measured initially at fair value at the acquisition date, regardless of the effect of non-controlling interests. When the acquisition cost is higher than the fair value of the Group's interest in the identifiable net assets acquired, the difference is recognised as goodwill. If the acquisition cost is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated statement of comprehensive income (details of the companies consolidated at 31 December 2017 and 2016 are included in the Appendix).

7. The accompanying consolidated financial statements do not include the tax effect, if any, of transferring the reserves of the consolidated companies to the Parent's equity, since it is considered that these reserves will be used to finance the operations of each company and any potential distributions will not represent a significant additional tax cost.

f) Changes in the scope of consolidation

The following changes occurred in the scope of consolidation in 2017:

- On 18 May 2017, the subsidiary Inmocol Torre Europa, S.A. (hereinafter, "Inmocol") was incorporated. The initial share capital of 20,000 thousand euros was fully subscribed by the Parent and its shareholder as follows:

    - The shareholders subscribed 50% of the share capital through a non-monetary contribution of land located at Hospitalet del Llobregat, valued at 10,000 thousand euros, on which Inmocol will construct an office building.

    - The remaining 50% of the share capital was subscribed by the Parent, having only paid 25% of the capital subscribed, i.e., 2,500 thousand euros. The unpaid share capital subscribed will be paid by the Parent when agreed upon by the Board of Directors of Inmocol.

- During the first half of 2017, the Parent also acquired 4,700 shares in its subsidiary SFL, for a total of 265 thousand euros, thus increasing its interest in the share capital from 58.55% to 58.56%.

- On 27 September 2017, the Parent acquired all shares of the Spanish company LE Offices Arturo Soria, S.L. (currently Colonial Arturo Soria, S.L., and hereinafter, "Arturo"), the owner of an office building located in Madrid (Note 8). The acquisition price was 19,747 thousand euros, plus associated acquisition costs. Of this amount, 4,200 thousand euros were deferred for up to a maximum of 31 January 2018 and were recognised under "Trade payables" in the consolidated statement of financial position (Note 14). In addition, the loan held by Arturo Soria with a financial institution for 13,159 thousand euros, including interest, was repaid early, and was registered in the Property Registry on 26 November 2017.

- On 27 October 2017, the Parent acquired 61.51% of the share capital of the Spanish company Utopicus Innovación Cultural, S.L. (hereinafter, "Utopicus"), the head of the Utopic_US co-working platform. The acquisition price amounted to 2,633 thousand euros, including associated acquisition costs, and 205 thousand euros were deferred, which were recognised under "Trade payables" in the consolidated statement of financial position (Note 14). On this same date, Utopicus increased its share capital by 1,001 thousand euros, corresponding to 910 shares of one euro par value each, plus a share premium, which was subscribed and paid in full by the Parent, thus increasing its interest in the share capital of Utopicus to 69.60%.

- On 30 November 2017, after the previous tenant left, the subsidiary SFL acquired the Emile Zola property (Note 8) through (i) the acquisition of all share capital of the French company SAS Société Immobilière Victoria, which owns the land and a portion of the buildings of this property, directly from the subsidiary SFL, and (ii) the subsidiary SFL acquired the rest of the property that was not owned by SAS Société Immobilière Victoria. The acquisition cost totalled 165,000 thousand euros.

- On 20 December 2017, the Parent acquired all share capital of the Spanish companies Almacenes Generales Internacionales, S.A. (hereinafter, "Agisa") and Soller, S.A., which own several plots of land located in Madrid (Note 8). The acquisition price was 178,220 thousand euros, plus associated acquisition costs. Of this amount, 41,335 thousand euros were deferred, to the latest, until 31 December 2018, and were recognised under "Trade payables" in the consolidated statement of financial position (Note 14). Several guarantees were extended as collateral for the deferred amount (Note 12-i).

- On 20 and 27 December 2017, Agisa acquired 64.60% of the share capital of the Spanish company Peñalvento, S.L. (hereinafter, "Peñalvento"), which owns a plot of land in Madrid (Note 8). The acquisition price was 12,127 thousand euros, plus associated acquisition costs. Of this amount, 632 thousand euros were deferred until 31 December 2018, and were recognised under "Trade payables" in the consolidated statement of financial position (Note 14). Several guarantees were extended as collateral for the deferred amounts (Note 12-i). In addition, in a single deed, the loan held by Peñalvento with a financial institution for 20,192 thousand euros, including interest, was cancelled early, which is expected to be registered in the Property Registry in February 2018. With the acquisition of the aforementioned ownership interest, together with the 35.40% interest in the share capital of Peñalvento owned by Agisa, the Parent now owns all share capital of Peñalvento.

The following changes arose in the scope of consolidation in 2016:

- On 25 May 2016, the Parent acquired 100% of the share capital of the Spanish company Moorage Inversiones 2014, S.L. (hereinafter, "Moorage"), which owns several plots of land in Barcelona (Note 8). The acquisition price was 44,745 thousand euros, plus associated acquisition costs. Of this amount, 15,680 thousand euros were deferred until 25 May 2018, and were recognised under "Other non-current liabilities" in the consolidated statement of financial position (Note 14). A guarantee was extended as collateral for the deferred portion (Note 12-i). At 31 December 2017, this amount was recognised under "Trade payables" in the consolidated statement of financial position (Note 14).

- On 29 June 2016, the Parent acquired 2,038,956 shares from Reig Capital Group Luxembourg Sàrl (hereinafter, Reig), representing 4.38% of the share capital of the subsidiary SFL. The acquisition was carried out through two transactions: (i) the contribution to the Parent of 1,019,478 shares in SFL in consideration for the subscription of 90,805,920 shares in Colonial (Note 11-a) valued at 63,564 thousand euros; and (ii) the sale to the Parent of 1,019,478 shares, at a price of 50.00 euros per share, for a total of 50,974 thousand euros. Following the transactions, the Parent held 26,765,356 shares in the subsidiary SFL (57.52% of its share capital). Accordingly, equity attributable to the Parent increased by 2,368 thousand euros.

- On 30 June 2016, the Parent acquired 100% of the share capital of the Spanish company Hofinac Real Estate, S.L. (hereinafter, "Hofinac"), owner of two properties in Madrid (Note 8). The acquisition was carried out through the non-monetary contribution of 100% of Hofinac's shares to the Parent, in exchange for the subscription of 288,571,430 shares in Colonial (Note 11-a), valued at 202,000 thousand euros.

- On 4 August 2016, the Parent acquired from APG Strategic Real Estate Pool (hereinafter, "APG") 475,247 shares in the subsidiary SFL (1.02% of its share capital). The acquisition was carried out through two transactions: (i) the contribution to the Parent of 237,463 shares in SFL in consideration for 2,116,508 shares in Colonial valued at 13,922 thousand euros (Note 11-f); and (ii) the sale to the Parent of 237,624 shares, at a price of 50.00 euros per share, for a total of 11,881 thousand euros. Accordingly, equity attributable to the Parent increased by 1,900 thousand euros.

- Lastly, on 29 December 2016, the Parent acquired from Fundación Amparo del Moral 100% of the share capital of the Spanish company Fincas y Representaciones, S.A. (hereinafter, Finresa), which owns a property in Madrid (Note 8), as well as other property, plant and equipment (Note 7), for 47,678 thousand euros and 8,842 thousand euros, respectively.

At 31 December 2017 and 2016, Colonial Invest, S.L.U., Colonial Tramit, S.L.U., SB2 SAS, SB3 SAS and SCI SB3 were inactive subsidiaries.

g) *Comparative information*

The information relating to 2017 included in these notes to the consolidated financial statements is presented, for comparison purposes, with the information relating to 2016.

h) *Grouping of items*

Certain items in the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows are grouped together to make them easier to understand; however, whenever the amounts involved are material, the information is broken down in the related notes to the consolidated financial statements.

i) Correction of errors

No significant errors have been found in the preparation of the accompanying consolidated financial statements that would require a restatement of the amounts included in the consolidated financial statements for 2016.

3. Distribution of profit of the Parent

The distribution of profit from 2017 proposed by the Board of Directors of the Parent and that will be submitted for approval at the General Annual Meeting is as follows:

	Thousands of euros
Profit for the year of the Parent	**32,497**
To the legal reserve	3,250
To dividends	29,247

The Parent's Board of Directors will submit for approval at the Annual General Meeting a proposed distribution of dividends totalling 0.18 euros per share, which would give rise to a total maximum dividend of 78,357 thousand euros based on the current number of outstanding shares. The definitive amount of the dividend, as well as the nature of the reserves to be distributed, will be determined prior to its distribution based on the treasury shares held by the Parent (Note 11-f).

In the past 5 years, the Parent distributed the following dividends:

Thousands of euros	2012	2013	2014	2015	2016
Dividends distributed	-	-	-	47,833	62,749

4. Accounting policies

The main accounting principles used to prepare the consolidated financial statements, in accordance with EU-IFRSs and the interpretations in force when these consolidated financial statements were prepared, are as follows:

a) Business combinations and intangible assets

Business combinations

The acquisition method of accounting is used for business combinations (Note 2-e).

The cost of the business combination is allocated at the acquisition date by recognising, at fair value, all assets, liabilities and contingent liabilities of the acquired entity that meet the criteria for recognition established in IFRS 3. The excess of the cost of a business combination over the acquiree's allocated assets, liabilities and contingent liabilities is recognised as goodwill, which, accordingly, represents advance payments made by the Colonial Group for future economic benefits generated by the assets of the acquiree that are not individually and separately identifiable and recognisable.

The negative different, if any, between the cost of the business combination and the allocation to assets, liabilities and contingent liabilities of the acquired entity, is recognised as profit or loss in the year in which it is incurred.

If a business combination is achieved in stages, the acquirer remeasures its previously held equity interest in the acquiree at fair value at the acquisition date and recognises any resulting gain or loss in the consolidated statement of comprehensive income or under other consolidated comprehensive income, where appropriate.

Intangible assets

As a general rule, intangible assets are initially measured at their acquisition or production cost. They are then measured at cost less the corresponding accumulated amortisation and, where applicable, less any impairment losses. These assets are amortised over their useful life.

b) Property, plant and equipment (Note 7)

Properties for own use, including other property, plant and equipment, are recognised at acquisition cost less any accumulated depreciation and any impairment.

Historical cost includes expenses directly attributable to the acquisition of the properties. Any potential impairment losses on the properties are recognised in accordance with the same valuation assumptions described in Note 4-c.

Subsequent costs are included in the carrying amount of the asset or recognised as a separate asset only when it is probable that the future economic benefits associated with the asset will flow to the Group and the cost of the asset can be determined reliably. Maintenance and upkeep expenses are charged to the consolidated statement of comprehensive income in the year incurred.

Group companies depreciate their property, plant and equipment for own use and other property, plant and equipment using the straight-line method, distributing the cost of the assets over the years of estimated useful life. The years of estimated useful life of property for own use located in Spain and France are as follows:

	Years of estimated useful life	
	Spain	France
Property for own use		
Buildings	50	50
Fixtures	10 to 15	10 to 50
Other property, plant and equipment	4 to 10	5 to 50

Gains or losses arising on the disposal (Note 17-g) or derecognition of an asset (Note 17-f) from this heading are determined as the difference between the sale price and its carrying amount and are recognised in the consolidated statement of comprehensive income.

c) Investment property (Note 8)

"Investment property" in the consolidated statement of financial position reflects the values of the land, buildings and other constructions held to earn rents or for capital appreciation upon disposals due to future increases in their respective market prices.

Investment property is presented at fair value at the end of the reporting period and is not depreciated.

Profit or loss arising from fluctuations in the fair value of investment property is included in income in the same period in which it occurs and recognised under "Changes in fair value of investment property" in the consolidated statement of comprehensive income. These gains or losses are not included in operating profit as the changes in valuation are not directly within the control of the Group's management.

Assets are transferred from investment property in progress to investment property when they are ready for use. The classification of an investment property to the investment property in progress heading takes place only when the refurbishment or reform project will exceed one year in length.

When the Group recognises as an increased fair value of an investment property the cost of an asset that substitutes another already included in such amount, the Group reduces the value of the property by the fair value of the asset replaced, recognising the impact under “Losses due to impairment of assets” in the consolidated statement of comprehensive income (Note 17-f). If the fair value of the assets replaced cannot be determined, it will be recognised by increasing the fair value of the property, and it will later be reassessed periodically on the basis of appraisals performed by independent experts.

In accordance with IAS 40, the Group calculates the fair value of its investment property on a regular basis. Fair value is determined based on the valuations made by independent experts (Jones Lang LaSalle and CB Richard Ellis Valuation in Spain, and Jones Lang La Salle and Cushman & Wakefield in France, in both 2017 and 2016) at the date of preparing the consolidated statement of financial position, so that the year-end fair values for investment property items reflect prevailing market conditions. The valuation reports prepared by independent experts contain only the standard warnings and/or disclaimers concerning the scope of the findings of the appraisals carried out, referring basically to the comprehensiveness and accuracy of the information provided by the Group.

The Discounted Cash Flow (hereinafter, “DCF”) method was primarily used to determine the market value of the Group's investment property in 2017 and 2016.

The DCF method applied over a 10-year horizon is used, in accordance with current market practices, unless the specific characteristics of the investment suggest another course of action. The cash flow is considered throughout the period on a monthly basis to reflect increases in the CPI, the timetable for future rent reviews, the maturity of operating leases, etc.

With regard to the increases in the CPI, the generally accepted forecasts are normally adopted.

Given that the appraiser does not know with certainty whether there will be periods of vacancy in the future, nor their duration, their forecasts are prepared based on the quality and location of the building, and they will generally adopt an average lease period if there is no information about the future intentions of each tenant. The assumptions determined in relation to the periods of vacancy and other factors are explained in each valuation.

The final profitability or Terminal Capitalisation Rate (*hereinafter, “TCR”*) adopted in each case refers not only to the market conditions forecast at the end of each cash flow period, but also to the leasing conditions that are expected to be maintained and the physical location of the property, taking into account any possible improvements planned for the property and included in the analysis.

With regard to acceptable discount rates, conversations are regularly held with various institutions to assess their attitude towards different investment rates. This general consensus, together with the data on any sales made and market forecasts relating to variations in the discount rates, serve as starting points for the appraisers to determine the appropriate discount rate in each case.

The properties were assessed individually, considering each of the lease agreements in force at the end of the reporting period. Buildings with unlet floor space were valued on the basis of future estimated rentals, net of an estimated letting period.

The key inputs in this valuation method are the determination of net income, the period of time over which they are discounted, the estimated realisable value at the end of each period and the target internal rate of return used to discount the cash flows.

The estimated yields are mainly determined by the type, age and location of the properties, by the technical quality of the asset, as well as the type of tenant and occupancy rate, etc.

The yields and other assumptions used in determining future cash flows in 2017 and 2016 are set out in the tables below:

Yields (%) - Offices	Gross	
	31 December 2017	31 December 2016
Barcelona – Prime Yield		
Leased out	4.92	5.10
Total portfolio	5.00	5.17
Madrid – Prime Yield		
Leased out	4.56	4.75
Total portfolio	4.57	4.77
Paris – Prime Yield		
Leased out	3.25	3.70
Total portfolio	3.26	3.70

Assumptions made at 31 December 2017					
Rent increases (%) - Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Leased out	3.0	3.0	3.0	3.0	2.25
Total portfolio	3.0	3.0	3.0	3.0	2.25
Madrid –					
Leased out	3.0	3.0	3.0	3.0	2.5
Total portfolio	3.0	3.0	3.0	3.0	2.5
Paris –					
Leased out	1.0	1.50	2.0	2.0	2.0
Total portfolio	1.0	1.50	2.0	2.0	2.0

Assumptions made at 31 December 2016					
Rent increases (%) - Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Leased out	2.5	2.5	2.5	2.25	2.25
Total portfolio	2.5	2.5	2.5	2.25	2.25
Madrid –					
Leased out	3.0	3.0	3.0	3.0	2.5
Total portfolio	3.0	3.0	3.0	3.0	2.5
Paris –					
Leased out	0.0	1.0	2.0	2.0	2.0
Total portfolio	0.0	1.0	2.0	2.0	2.0

In addition, developments in progress were valued using the Dynamic Residual Method, which was deemed the best approach. This method begins with an estimate of the income yielded by the developed and fully leased property; from this value, development, planning, construction and demolition costs, professional fees, permit and marketing costs, borrowing costs and development profit, among other items, are then deducted, in order to arrive at an implied price which a developer might pay for the asset under development.

A change of one-quarter of one point in yields would have the following impact on the valuations used by the Group at 31 December 2017 and 2016 to determine the value of its investment property:

	Thousands of euros		
Sensitivity of valuations to a change of one quarter of a point in yields	Valuation	Decrease of one quarter of a point	Increase of one quarter of a point
December 2017	8,933,035	639,037	(551,470)
December 2016	7,927,918	518,842	(454,174)

A reconciliation between the valuations used by the Group and the carrying amounts of the headings of the consolidated statement of financial position where the valued assets are recognised, is as follows:

	31 December 2017	31 December 2016
Headings of the consolidated statement of financial position -		
Property, plant and equipment	33,781	38,536
Investment property (Note 8)	8,792,396	7,762,627
Trade and other receivables – Lease incentives (Note 10-b)	78,746	103,125
Total headings of the consolidated statement of financial position	**8,904,923**	**7,904,285**
Unrealised gains on assets recognised under IAS 16	28,292	24,630
Assets not valued	(180)	(1,000)
Valuation	**8,933,035**	**7,927,918**

Although the sensitivity of other key variables was considered, such analysis was not carried out given that reasonable changes that could arise would not lead to a material change in the fair value of the assets.

The income earned in 2017 and 2016 from the lease of investment properties amounted to 283,287 thousand euros and 271,400 thousand euros, respectively (Note 17-a) and is recognised under "Revenue" in the accompanying consolidated statement of comprehensive income.

In addition, the bulk of repair and maintenance expenses incurred by the Colonial Group in connection with the operation of its investment properties is passed on to the respective tenants (Note 4-q).

d) Impairment of property, plant and equipment

At each reporting date, the Colonial Group assesses the carrying amounts of its property, plant and equipment to determine if there are indications that the assets have been impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of the fair value of the asset less costs to sell or otherwise dispose of the asset and value in use. Where the asset does not generate cash inflows that are independent of those from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount; however, the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

e) Financial instruments (excluding derivative financial instruments)

Financial assets (Note 9)

Initial measurement

Financial assets are initially recognised at the fair value of the consideration given, plus any directly attributable transaction costs.

Classification and subsequent measurement

The financial assets held by the Group are classified into the following categories:

- Loans and receivables: this heading includes loans granted to third parties and associates. They are measured at face value and classified according to maturity. This heading also includes non-current deposits and guarantees granted, primarily in relation to deposits placed with official entities in connection with guarantees collected from lessees, in accordance with prevailing legislation.

- Investments held to maturity: this heading includes non-derivative financial assets, such as current and non-current fixed-income securities that are generally held until maturity and measured at amortised cost. Current fixed-income securities are recognised under "Current financial assets" in the consolidated statement of financial position. Interest income is calculated in the year in which it accrues, in accordance with financial criteria.

- Available-for-sale financial assets: this heading includes investments where the Group does not exercise significant influence or control. They are measured at fair value and the profit or loss on changes in this fair value is recognised under other consolidated comprehensive income.

Financial liabilities (Note 12)

Financial liabilities consist primarily of bank borrowings and bond issues and are recognised at amortised cost.

Accounts payable are initially recognised at the fair value of the consideration received, adjusted for directly attributable transaction costs, and subsequently measured at amortised cost.

Financial liabilities are derecognised when the obligations giving rise to them cease to exist. When a debt instrument swap takes place between the Group and a third party, as long as these instruments have substantially different conditions, the Group derecognises the original financial liability and recognises the new financial liability. The difference between the carrying amount of the original liability and the payment received, including any attributable transaction costs, is recognised in the consolidated statement of comprehensive income.

The Group considers that the terms of the financial liabilities are substantially different if the present value of the discounted cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, differs by at least 10% from the present value of the remaining discounted cash flow from the original financial liability.

f) Receivables (Note 10)

Trade receivables are carried at recoverable value, i.e., net, where applicable, of the allowances recognised to cover balances of a certain age whose circumstances reasonably warrant their consideration as doubtful receivables.

g) Cash and cash equivalents (Note 12-j)

This heading includes bank deposits, carried at the lower of cost or market value.

Financial investments that are readily convertible into a known amount of cash and that are not subject to any significant risk of changes in value are deemed to be cash equivalents.

Bank overdrafts are not considered to be cash and cash equivalents.

h) Own equity instruments (Note 11)

An equity instrument represents a residual interest in the equity of the Parent after deducting all of its liabilities.

Equity instruments issued by the Parent are recognised in equity at the proceeds received, net of direct issue costs.

Any Parent shares acquired during the year are recognised as a deduction from equity at the value of the consideration paid. Any gains or losses on the purchase, sale, issue or cancellation of own equity instruments are recognised directly in equity and not in the consolidated statement of comprehensive income.

i) Provisions and contingent liabilities (Note 15)

In preparing the consolidated financial statements, the Parent's directors distinguish between:

- Provisions: payables that cover obligations arising as a consequence of past events which could give rise to liabilities at the Group companies, the nature of which is certain but the amount and timing of which cannot be determined, and

- Contingent liabilities: potential liabilities arising as a consequence of past events, the emergence of which depends on the occurrence of one or more future events which are beyond the control of the consolidated companies.

The consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised but are disclosed (Note 15).

The provisions, which are quantified taking into consideration the best information available concerning the consequences of the events on which they are based, and which are revised at each reporting close, are recognised in order to cover the specific and likely risks for which they were originally recognised and are fully or partially reversed if and when said risks cease to exist or are reduced.

j) Employee benefits

Termination benefits

Under current legislation, the Group is required to pay severance to employees terminated under certain conditions. Severance payments that can be reasonably quantified are recorded as an expense in the year in which the decision to terminate the contract is taken and a valid expectation regarding termination is transmitted to third parties. At 31 December 2017, the Parent did not record any provisions in this connection.

Pension obligations

In 2017 and 2016 the Parent assumed a commitment with executive directors and one member of senior management to make a defined contribution to an external pension plan that meets the requirements established by Royal Decree 1588/1999, of 15 October.

At 31 December 2017 and 2016, the SFL subgroup had several defined benefit pension plans. Defined benefit obligations are calculated on a regular basis by independent actuarial experts. The actuarial assumptions used to calculate these liabilities are adapted the situation and to applicable French legislation, in accordance with IAS 19. The actuarial cost recorded in the consolidated statement of comprehensive income in relation to said plans is the sum of the service costs for the period, the interest expense and actuarial gains and losses. At 31

December 2017, net liabilities for defined benefits amounted to 872 thousand euros (862 thousand euros at 31 December 2016).

Share-based payments (Note 18)

The Group recognises the goods and services received as an asset or an expense, depending on their nature, when they are received, along with an increase in equity if the transaction is settled using equity instruments or the corresponding liability if the transaction is settled at an amount based on the value of the equity instruments.

In the case of transactions settled with equity instruments, both the services rendered and the increase in equity are measured at the grant-date fair value of the equity instruments delivered. If, on the other hand, they are settled in cash, the goods and services received and the corresponding liability are recognised at the fair value of the goods and services received as of the date on which the recognition requirements are met.

k) Derivative financial instruments (Note 13)

The Group uses financial derivatives to manage its exposure to variations in interest rates. All derivative financial instruments, whether or not designated as hedging instruments, are carried at fair value: market value in the case of listed securities, or according to option valuation methods or discounted cash flow analysis for non-listed securities. The fair value of the derivative financial instruments is determined based on the valuations made by independent experts (Solventis in 2017 and 2016).

The following valuation criteria have been applied for accounting purposes:

- Cash flow hedges: fair value gains or losses arising on transactions which classify for hedge accounting are recognised, net of taxes, directly in other consolidated comprehensive income, under “Gains/(losses) on hedging instruments”, until the underlying or expected transaction occurs, at which point they are reclassified, where appropriate, to "Finance costs" or "Finance income" in the consolidated statement of comprehensive income. Any valuation gains and losses on the ineffective portion of the hedge are recognised directly as financial profit or loss in the consolidated statement of comprehensive income.

- Treatment of financial instruments that are not allocated to a specific liability and do not qualify for hedge accounting: gains or losses arising from the restatement at fair value of these financial instruments are recognised directly as financial profit or loss in the consolidated statement of comprehensive income.

In accordance with IFRS 13, the Group estimated its own credit risk and that of the counterparty in the measurement of its derivative portfolio.

Hedge accounting is discontinued when a hedging instrument expires or is sold or exercised, or when the hedge no longer qualifies for hedge accounting. Gains or losses on hedging instruments recognised in other consolidated comprehensive income remain under this heading until the related transaction is performed. Once the related cash flow occurs, any cumulative gain or loss recognised in other consolidated comprehensive income is transferred to consolidated net profit or loss for the year. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in other consolidated comprehensive income is transferred to consolidated net profit or loss for the year.

Prospective and retrospective calculation for hedge effectiveness is carried out on a monthly basis:

- Retrospective tests measure how effectively the instrument would have hedged the liability over its life, using historical interest rates to date.

- Prospective tests measure the instrument’s expected effectiveness on the basis of forward interest rates as published by *Bloomberg* at the measurement date. This is adjusted monthly from the inception of the hedge on the basis of the historical interest rates already established.

The method used to determine the effectiveness of hedging instruments consists of calculating the statistical correlation between the benchmark interest rates at each measurement date for the derivative and the related hedged liability, taking into consideration that the hedging instrument is considered effective if this statistical correlation is between 0.80 and 1.

The Group's use of financial derivatives is governed by a set of approved risk management policies and coverage.

l) Current / non-current

The normal operating cycle is understood to be the period of time between the acquisition of the assets that form part the Group’s various business activities and the realisation of the finished assets in the form of cash or cash equivalents.

The Group's primary business is the lease of assets and its normal business cycle is the calendar year and, therefore, assets and liabilities maturing in one year or less are classified as current assets and those maturing in more than one year are classified as non-current assets, except for receivables arising from the recognition of lease incentives (Notes 4-n and 10-b), which are applied on a straight-line basis over at least the term of the lease agreement and are considered to be current assets.

Bank borrowings are classified as non-current if the Group has the irrevocable right to make payments after twelve months from the end of the reporting period.

m) Income tax (Note 16)

General regime

The expense for Spanish corporate income tax and similar taxes applicable to consolidated foreign operations is recognised in the consolidated statement of comprehensive income, except when the tax expense is generated by a transaction whose gains or losses are taken directly to equity, in which case the corresponding tax is also recognised in equity.

Income tax expense is the sum of the tax payable on profit for the year and the variation in recognised deferred tax assets and liabilities.

Corporate income tax expense for the year is calculated based on taxable profit for the year, which differs from the net profit or loss presented in the consolidated statement of comprehensive income because it excludes certain taxable income and deductible expenses from prior years, as well as other exempt items. The Group's current tax liabilities are calculated using tax rates that have been approved at the reporting date.

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Also, all deferred tax assets that are not recognised in the consolidated statement of financial position are reassessed at the end of each reporting period and are recognised if it has become probable that they will be recovered through future tax benefits. In accordance with IAS 12, changes in deferred tax assets and liabilities caused by changes in tax rates or tax laws are recognised in the consolidated statement of comprehensive income for the year in which these changes are approved.

In accordance with that established in IAS 12, the measurement of the Group's deferred tax liabilities reflects the tax consequences that would follow from the manner in which the carrying amount of its assets is expected to be recovered or settled. In this regard, for deferred tax liabilities that arise from investment properties that are measured using the IAS 40 fair value model, there is a refutable presumption that their carrying amount will be recovered through their sale. Consequently, the deferred tax liabilities arising from the Group's investment properties located in Spain were calculated by applying a tax rate of 25%, less any existing tax credits not recognised at 31 December 2017. The effective settlement rate was therefore 18.75%.

Until 31 December 2016, the Parent was the head of a group of companies filing consolidated tax returns under tax group no. 6/08.

REIT Regime

Effective as of 1 January 2017 (Note 1), the tax regime of the Parent and the majority of its subsidiaries is governed by Law 11/2009, of 26 October, as amended by Law 16/2012, of 27 December, governing listed real estate investment companies (REITs). Article 3 establishes the investment requirements of this type of company, namely:

1. REITs must have invested at least 80% of the value of their assets in urban properties earmarked for lease, in land to develop properties to be earmarked for that purpose, provided that development begins within three years following its acquisition, and in equity investments in other companies referred to in Article 2.1 of the aforementioned Law.

The value of the asset is calculated based on the average of the quarterly individual balance sheets of the year. To calculate this value, the REIT may opt to substitute the carrying amount for the fair value of the items contained in these balance sheets, which will apply to all the balance sheets of the year. Any money or collection rights arising from the transfer of the aforementioned properties or investments made in the year or in prior years will not be included in the calculation unless, in the latter case, the reinvestment period referred to in Article 6 of the aforementioned Law has expired.

This percentage must be calculated on the average of the consolidated balances if the company is the parent of a group, in accordance with the criteria established in Article 42 of the Spanish Commercial Code, regardless of its place of residence and of the obligation to formally prepare consolidated financial statements. Such a group must be composed exclusively of the REIT and the other entities referred to in Article 2.1 of this Law.

2. Similarly, at least 80% of the rental income from the tax period corresponding to each year, excluding the rental income arising from the transfer of the ownership interests and the properties used by the company to achieve its main corporate purpose, once the holding period referred to below has elapsed, should be obtained from the lease of properties and dividends or shares of profits arising from the aforementioned investments.

This percentage must be calculated on the basis of consolidated profit if the company is the parent of a group, in accordance with the criteria established in Article 42 of the Spanish Commercial Code, regardless of its place of residence and of the obligation to formally prepare consolidated financial statements. Such a group must be composed exclusively of the REIT and the other entities referred to in Article 2.1 of this Law.

3. The REIT's real estate assets must be leased for at least three years. The time during which the properties have been made available for lease, up to a maximum of one year, will be included for the purposes of this calculation.

The period will be calculated:

a) For properties that are included in the REIT's assets before the company avails itself of the regime, from the beginning of the first tax period in which the special tax regime set forth in this Law is applied, provided that the property is leased or offered for lease at that date. Otherwise the following shall apply.

b) For properties developed or acquired subsequently by the REIT, from the date on which they were leased or made available for lease for the first time.

c) In the case of shares or investments in entities referred to in Article 2.1 of this Law, they should be retained on the asset side of the REIT's balance sheet for at least three years following their acquisition or, where applicable, from the beginning of the first tax period in which the special tax regime set forth in this Law is applied.

As established in transitional provision one of Law 11/2009, of 26 October, amended by Law 16/2012, of 27 December, governing listed real estate investment companies, these companies may opt to apply the special tax regime under the terms and conditions established in Article 8 of this Law, even if it does not meet the requirements established therein, provided that such requirements are met within two years after the date of the option to apply that regime.

Failure to meet this condition will require the REIT to file income tax returns under the general tax regime from the tax period in which the aforementioned condition is not met unless this situation is rectified in the following tax period. The REIT will also be obliged to pay, together with the amount relating to the aforementioned tax period, the difference between the amount of tax payable under the general tax regime and the amount paid under the special tax regime in the previous tax periods, including any applicable late-payment interest, surcharges and penalties.

The income tax rate for REITs was set at 0%. However, where the dividends that the REIT distributes to its shareholders holding an ownership interest exceeding 5% are exempt from tax or are subject to a tax rate lower than 10%, at the main office of this shareholder, the REIT shall be subject to a special charge of 19%, which shall be considered to be the income tax charge, on the amount of the dividend distributed to these shareholders. If applicable, this special charge must be paid by the REIT within two months after the dividend distribution date.

SIIC regime – SFL subgroup

Since 1 January 2003, the SFL subgroup companies have filed tax returns under the French tax regime applicable to listed real estate investment companies ("the SIIC regime"). This regime enabled the assets allocated to the rental business to be recognised at market value at the date on which it availed itself of this tax regime, currently subject to a tax rate of 19% (hereinafter, "exit tax"), payable within a period of four years, on the capital gains recognised.

This regime affects only real estate activities and is not applicable to companies engaged in sales and services, such as Segpim, S.A. and Locaparis SAS in the SFL subgroup, to properties under finance leases (unless the lease is cancelled early) or to the subgroups and investees in conjunction with third parties.

This regime affords the SFL subgroup an exemption from taxes on earnings generated from its rental business and on capital gains obtained from the sale of properties, provided that 95% of profit from that activity and 60% of the capital gains obtained from property sales of companies under this regime are distributed each year in the form of dividends.

On 30 December 2006, a new amendment to the SIIC regime ("SIIC 4") was approved, which established, among other provisions, that dividends paid annually to shareholders that directly or indirectly hold more than 10% of the share capital of an SIIC and that are exempt from tax or subject to a tax rate that is less than two-thirds of the standard French income tax rate would be subject to a 20% levy, payable by the SIIC. This provision applies to the dividends distributed from 1 July 2007 onwards. At 31 December 2007, the Parent notified SFL that dividends distributed from 1 July 2007 would be taxed in Spain at a rate of over 11.11% as a result of the partial waiver of the exemption for these dividends. As a result, the 20% tax withheld at source described above was not applicable.

After the Parent adhered to the REIT Regime, the 20% tax withheld at source was no longer applicable.

On 18 December 2008, a new amendment to the SIIC regime ("SIIC 5") was approved, which established the requirement limiting the maximum holding of a single shareholder in an SIIC to 60% as of 1 January 2010. The Parent has an ownership interest of less than 60% in SFL.

n) Recognition of revenue and expenses (Note 17)

Revenue and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises.

However, in accordance with the accounting principles established in the EU-IFRS conceptual framework, the Group recognises revenue when it is earned together with all the necessary associated expenses. The sale of goods is recognised when the goods have been delivered and ownership transferred.

Interest income is accrued on a time proportion basis, according to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts the future cash receipts estimated over the expected life of the financial asset from the asset's carrying amount.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established, i.e. when shareholders at the Annual General Meetings of the subsidiaries approve the distribution of the corresponding dividend.

Property leases-

In accordance with IAS 17, leases are classified as finance leases whenever their terms imply that all risks and rewards inherent to ownership of the leased asset have been substantially transferred to the lessee. All other leases are classified as operating leases. At 31 December 2017 and 2016, all of the Group’s leases qualify as operating leases.

Revenue from operating leases is recognised as income on a straight-line basis over the term of the lease, and the initial direct costs incurred in arranging these operating leases are taken to the consolidated statement of comprehensive income on a straight-line basis over the minimum term of the lease agreement.

The minimum term of a lease is considered to be the time elapsed from the start of the lease to the first option for renewing the lease.

Specific lease terms and conditions: lease incentives -

Lease agreements include certain specific conditions linked to incentives or rent-free periods offered by the Group to its customers. In accordance with SIC 15, the Group recognises the aggregate cost of incentives granted as a reduction in rental income of the lease agreement. The effects of the rent-free periods are recognised during the minimum term of the lease agreement on a straight-line basis.

The indemnity payments made by lessees to cancel their lease agreements prior to their minimum termination date are also recognised as income in the consolidated statement of comprehensive income on the date on which they are claimable by the Group.

o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of property developments (Note 8), which require preparation during a significant period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

p) Consolidated statement of cash flows (indirect method)

The terms used in the consolidated statement of cash flows are defined as follows:

- Cash flows: inflows and outflows of cash and cash equivalents. Cash equivalents are highly liquid, low-risk short-term investments.

- Operating activities: the principal revenue-producing activities and other activities that are not investing or financing activities.

- Investing activities: the acquisition, sale or disposal by other means of non-current assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of equity and borrowings that are not part of the operating activities.

q) Costs passed on to lessees

In accordance with EU-IFRSs, the Group does not consider the costs incurred by lessees from its investment properties as income and they are recognised, less the corresponding costs, in the consolidated statement of comprehensive income. In 2017 and 2016, a total of 46,935 thousand euros and 48,400 thousand euros, respectively, were invoiced in this regard.

Direct operating expenses associated with investment properties which generated rental income in 2017 and 2016, included under “Operating profit” in the consolidated statement of comprehensive income, amounted to 65,841 thousand euros and 66,720 thousand euros, respectively, prior to deducting the costs passed on to the lessees. The expenses incurred in connection with investment properties that did not generate rental income were not significant.

r) Related party transactions

The Group's transactions with related parties are all carried out on an arm's length basis. Furthermore, the transfer prices applied are fully documented and supported and the Parent’s directors therefore do not consider that transfer prices pose a significant risk that could give rise to a material liability in the future.

s) Non-current assets held for sale (Note 21)

Non-current assets held for sale are measured at the lower of their carrying amount in accordance with applicable measurement rules and fair value less costs to sell.

Non-current assets are classified as held for sale if it is estimated that their carrying amounts will be recovered principally through a sale rather than through continuing use. This condition is met when the sale of the asset is considered highly probable, the asset is in condition to be sold immediately and the sale is expected to be fully realised within a period of no more than twelve months from its classification as a held-for-sale asset.

The Colonial Group classifies non-current assets as assets held for sale when the Board of Directors or Executive Committee has made an official decision in this respect, and the sale is considered highly probable within a period of twelve months.

t) Fair value hierarchy

Financial assets and liabilities measured at fair value are classified according to the following hierarchy established in IFRS 7 and IFRS 13:

- Level 1: Inputs are based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: Inputs are based on quoted prices for similar assets or liabilities in active markets (not included in level 1), prices quoted for identical or similar assets or liabilities in markets that are not active, techniques based on valuation models for which all relevant inputs are observable in the market or can be corroborated by observable market data.

- Level 3: In general, inputs are unobservable and reflect estimates based on market assumptions to determine the price of the asset or liability. Unobservable data used in the valuation models are significant in the fair values of the assets and liabilities.

In accordance with IFRS 13, the Group estimated the bilateral credit risk in order to reflect both its own risk, as well as counterparty risk in the fair value of its derivatives (Note 4-k). Credit risk at 31 December 2017 and 2016 was not considered to be material.

The detail of the Group's financial assets and liabilities measured at fair value according to the aforementioned levels is as follows:

31 December 2017

	Thousands of euros		
	Level 1	Level 2	Level 3
Assets			
Non-current financial assets available for sale	419,277	-	-
Derivative financial instruments:			
Not classified as hedges	-	1,484	-
Total assets (Note 9)	**419,277**	**1,484**	**-**
Liabilities			
Derivative financial instruments:			
Classified as hedges	-	348	-
Not classified as hedges	-	153	-
Total liabilities (Note 13)	**-**	**501**	**-**

31 December 2016

	Thousands of euros		
	Level 1	Level 2	Level 3
Assets			
Non-current financial assets available for sale	-	-	138,293
Total assets (Note 9)	**-**	**-**	**138,293**
Liabilities			
Derivative financial instruments:			
Classified as hedges	-	2,757	-
Not classified as hedges	-	657	-
Total liabilities (Note 13)	**-**	**3,414**	**-**

5. Earnings per share

Basic earnings per share are calculated by dividing earnings for the year attributable to shareholders of the Parent (after tax and non-controlling interests) by the weighted average number of shares outstanding during that year.

At 31 December 2017 and 2016, there were no instruments that may have had a diluting effect on the Parent's average number of ordinary shares.

	Thousands of euros	
	31 December 2017	31 December 2016
Consolidated profit for the year attributable to shareholders of the Parent:	**682,523**	**273,647**
	No. of shares	No. of shares
Average number of ordinary shares (in thousands)	373,312	336,240
	Euros	Euros
Basic earnings per share:	**1.83**	**0.81**
Diluted earnings per share:	**1.83**	**0.81**

6. Segment reporting

Segmentation criteria

Segment reporting is organised, firstly, on the basis of the Group's business segments, and, secondly, by geographical segment.

The business lines described below have been defined in line with the Colonial Group's organisational structure at 31 December 2017 and 2016, which has been used by the Group's management to analyse the financial performance of the various operating segments.

Basis and methodology for business segment reporting

The segment information below is based on monthly reports prepared by Group management, generated using the same computer application that prepares all of the Group's accounting data.

Segment revenue comprises revenue directly attributable to each segment, as well as gains from the sale of investment properties. Segment revenue excludes both interest and dividend income.

Segment expenses comprise operating expenses directly attributable to each segment and losses on the sale of investment properties. Allocated expenses do not include interest, the income tax expense or general administrative expenses incurred in the provision of general services that are not directly allocated to any business segment.

Segment assets and liabilities are those directly related to the segment's operating activities. The Group has no set criteria for allocating borrowings or equity by business segment. Borrowings are attributed in full to the "Corporate Unit".

Segment information for these businesses is as follows:

2017 segment reporting

	Thousands of euros						
	Rentals					**Corporate Unit**	**Total Group**
	Barcelona	Madrid	Paris	Other	Total Rentals		
Income							
Revenue (Note 17-a)	34,871	52,270	195,780	366	283,287	-	**283,287**
Other income (Note 17-b)	7	69	2,145	-	2,221	493	**2,714**
Net gain/(loss) on sales of assets (Notes 17-g)	8	519	-	-	527	-	**527**
Profit / (Loss) from operations	33,497	46,300	188,513	260	268,570	(60,048)	**208,522**
Changes in fair value of investment property (Note 17-f)	78,155	139,404	715,421	455	933,435	-	**933,435**
Losses due to impairment of assets (Note 17-f)	(287)	(2,129)	-	-	(2,416)	(2,804)	**(5,220)**
Financial profit/(loss) (Note 17-h)	-	-	-	-	-	(79,445)	**(79,445)**
Profit before tax	-	-	-	-	-	1,057,292	**1,057,292**
Consolidated net profit	-	-	-	-	-	1,080,451	**1,080,451**
Net profit/(loss) attributable to non-controlling interests (Notes 17-j)	-	-	-	-	-	(397,928)	**(397,928)**
Net profit/(loss) attributable to shareholders of the Parent (Note 5)	-	-	-	-	-	682,523	**682,523**

There were no significant inter-segment transactions in 2017.

None of the Group's customers represented more than 10% of the income from ordinary activities.

	Thousands of euros						
	Rentals					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total rentals		
Assets							
Intangible assets, property, plant and equipment and investment property (Notes 7 and 8)	906,338	1,759,960	6,119,969	7,691	8,793,958	40,844	**8,834,802**
Financial assets	1,659	3,899	2,181	-	7,739	1,541,224	**1,548,963**
Other non-current assets	-	-	-	-	-	407	**407**
Trade receivables and other current assets	-	-	-	-	-	123,347	**123,347**
Total assets	**907,997**	**1,763,859**	**6,122,150**	**7,691**	**8,801,697**	**1,705,822**	**10,507,519**

	Thousands of euros						
	Rentals					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total rentals		
Liabilities							
Bank borrowings and other financial liabilities (Note 12)	-	-	-	-	-	896,587	**896,587**
Bonds and similar securities issued (Note 12)	-	-	-	-	-	3,321,207	**3,321,207**
Operating liabilities (suppliers and payables)	-	-	-	-	-	143,880	**143,880**
Other liabilities	-	-	-	-	-	466,147	**466,147**
Total liabilities	-	-	-	-	-	**4,827,821**	**4,827,821**

	Thousands of euros						
	Rentals					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total rentals		
Other disclosures							
Investments in intangible assets, property, plant and equipment and investment property	10,447	25,236	96,452	66	132,201	3,648	**135,849**
Depreciation and amortisation	(1)	(118)	(485)	-	(604)	(1,841)	**(2,445)**
Expenses that do not entail outflows of cash other than the depreciation and amortisation for the year:							
- Changes in provisions (Note 17-e)	(61)	(24)	1,915	-	1,830	(7,534)	**(5,704)**
- Changes in value of investment property (Note 17-f)	78,155	139,404	715,421	455	933,435	-	**933,435**
- Losses due to impairment of assets (Note 17-f)	(287)	(2,129)	-	-	(2,416)	(2,804)	**(5,220)**

2016 segment reporting

	Thousands of euros						
	Rentals					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total Rentals		
Income							
Revenue (Note 17-a)	30,343	42,558	198,137	362	271,400	-	**271,400**
Other income (Note 17-b)	8	11	2,640	-	2,659	398	**3,057**
Net gain/(loss) on sales of assets (Notes 17-g)	557	(706)	-	-	(149)	-	**(149)**
Operating profit/(loss)	28,357	35,209	190,522	207	254,295	(41,425)	**212,870**
Changes in value of investment property (Note 17-f)	44,673	77,130	438,040	934	560,777	-	**560,777**
Losses due to impairment of assets (Note 17-f)	(7,531)	-	-	-	(7,531)	3,158	**(4,373)**
Financial profit/(loss) (Note 17-h)	-	-	-	-	-	(104,883)	**(104,883)**
Profit before tax	-	-	-	-	-	664,391	**664,391**
Consolidated net profit	-	-	-	-	-	559,304	**559,304**
Net profit/(loss) attributable to non-controlling interests (Notes 17-j)	-	-	-	-	-	(285,657)	**(285,657)**
Net profit/(loss) attributable to shareholders of the Parent (Note 5)	-	-	-	-	-	273,647	**273,647**

There were no significant inter-segment transactions in 2016.

None of the Group's customers represented more than 10% of income from ordinary activities.

	Thousands of euros						
	Rentals					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total rentals		
Assets							
Intangible assets, property, plant and equipment and investment property (Notes 7 and 8)	807,984	1,349,566	5,605,423	6,761	7,769,734	39,503	**7,809,237**
Financial assets	1,081	1,250	699	-	3,030	253,287	**256,317**
Other non-current assets	-	-	-	-	-	454	**454**
Trade receivables and other current assets	-	-	-	-	-	161,643	**161,643**
Total assets	**893,803**	**1,339,016**	**5,740,847**	**6,391**	**7,980,057**	**247,594**	**8,227,651**

	Thousands of euros						
	Rentals					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total rentals		
Liabilities							
Bank borrowings and other financial liabilities (Note 12)	-	-	-	-	-	871,080	**871,080**
Bonds and similar securities issued (Note 12)	-	-	-	-	-	2,823,883	**2,823,883**
Operating liabilities (suppliers and payables)	-	-	-	-	-	69,760	**69,760**
Other liabilities	-	-	-	-	-	455,009	**455,009**
Total liabilities	-	-	-	-	-	**4,219,732**	**4,219,732**

	Thousands of euros						
	Rentals					Corporate Unit	Total Group
	Barcelona	Madrid	Paris	Other	Total rentals		
Other disclosures							
Investments in intangible assets, property, plant and equipment and investment property	49,147	47,782	67,990	-	164,919	-	**164,919**
Depreciation and amortisation	(4)	-	(489)	-	(493)	(2,416)	**(2,909)**
Expenses that do not entail outflows of cash other than the depreciation and amortisation for the year:							
- Changes in provisions	(1)	(1,545)	743	-	(803)	(1,952)	**(2,755)**
- Changes in value of investment property (Note 17-f)	44,673	77,130	438,040	934	560,777	-	**560,777**
- Losses due to impairment of assets (Note 17-f)	(7,531)	-	-	-	(7,531)	3,158	**(4,373)**

7. Property, plant and equipment

The changes in this heading of the consolidated statement of financial position in 2017 and 2016 were as follows:

	Thousands of euros		
	Properties for own use	Other property, plant and equipment	**Total**
Balance at 31 December 2015	**27,780**	**5,338**	**33,118**
Acquisition cost	***43,112***	***11,980***	***55,092***
Accumulated depreciation	***(7,532)***	***(6,642)***	***(14,174)***
Accumulated impairment	***(7,800)***	***-***	***(7,800)***
Additions	1,671	1,061	**2,732**
Additions to the scope of consolidation (Note 2-f)	-	8,842	**8,842**
Depreciation charge	(282)	(946)	**(1,228)**
Disposals	-	(2,632)	**(2,632)**
Transfers	-	70	**70**
Impairment (Note 17-f)	3,159	-	**3,159**
Balance at 31 December 2016	**32,328**	**11,733**	**44,061**
Acquisition cost	***44,783***	***19,570***	***64,353***
Accumulated depreciation	***(7,814)***	***(7,837)***	***(15,651)***
Accumulated impairment	***(4,641)***	***-***	***(4,641)***
Additions	2,077	982	**3,059**
Additions to the scope of consolidation (Note 2-f)	195	130	**325**
Depreciation charge	(434)	(1,033)	**(1,467)**
Disposals	(97)	(197)	**(294)**
Transfers	(13)	(3,886)	**(3,899)**
Impairment (Note 17-f)	(287)	(2,129)	**(2,416)**
Balance at 31 December 2017	**33,769**	**5,600**	**39,369**
Acquisition cost	***42,697***	***12,814***	***55,511***
Accumulated depreciation	***(4,000)***	***(7,214)***	***(11,214)***
Accumulated impairment	***(4,928)***	***-***	***(4,928)***

At 31 December 2017 and 2016, the Group used two floors of the building located at Avenida Diagonal, 530, in Barcelona, one floor of the building located at Paseo de la Castellana, 52, in Madrid and one floor of the building located at 42 *rue* Washington in Paris for its own use, while the rest of these buildings were destined for leasing purposes. The cost of buildings earmarked for the Group's own use is recognised under "Property for own use".

On 5 September 2017, the subsidiary Finresa sold an asset for 425 thousand euros, resulting in the disposal of 193 thousand euros and a profit of 190 thousand euros.

In 2017 a total of 3,899 thousand euros were reclassified to "Investment property" in the consolidated statement of financial position (Note 8), given that the Group expects to earn rental income or obtain a gain from its sale as a result of future increases in their market prices.

The additions to the scope of consolidation in 2016 amounting to 8,842 thousand euros related to land and two apartments located in Madrid owned by the subsidiary Finresa (Note 2-f). The disposals related to the sale of one of the apartments acquired from Finresa for 2,100 thousand euros, generating a loss of 706 thousand euros.

At 31 December 2017, it became evident that an impairment loss in the amount of 2,416 thousand euros had to be recognised, evidenced by the appraisals performed by independent experts (Note 17-f). In 2016, the impairment loss on the assets recognised in previous years in the amount of 3,159 thousand euros was reversed (Note 17-f).

Lastly, assets amounting to 101 thousand euros were derecognised due to being replaced in 2017 (Note 17-f).

8. Investment property

The movements in this heading of the consolidated statement of financial position in 2017 and 2016 were as follows:

	Thousands of euros		
	Investment property	Investment property in progress	**Total**
Balance at 31 December 2015	**6,574,272**	**169,041**	**6,743,313**
Additions	91,723	73,196	**164,919**
Additions to the scope of consolidation (Note 2-f)	270,050	31,866	**301,916**
Disposals (Note 17-g)	(7,532)	-	**(7,532)**
Transfers	(22,881)	22,572	**(309)**
Changes in fair value (Note 17-f)	557,296	3,024	**560,320**
Balance at 31 December 2016	**7,462,928**	**299,699**	**7,762,627**
Additions	74,277	57,175	**131,452**
Additions to the scope of consolidation (Note 2-f)	359,678	11,033	**370,711**
Disposals (Note 17-g)	(5,049)	-	**(5,049)**
Transfers (Notes 7 and 21)	(271,528)	(132,925)	**(404,453)**
Changes in value (Note 17-f)	925,082	12,026	**937,108**
Balance at 31 December 2017	**8,545,388**	**247,008**	**8,792,396**

<u>Movements in 2017</u>

The additions for the year relate to the following transactions:

- On 30 November 2017, the subsidiary SFL acquired the Emile Zola property through (i) the acquisition of all share capital of the French company SAS Société Immobilière Victoria, which owns the land and a portion of the buildings of this property, resulting in an addition to the scope of consolidation of 107,721 thousand euros, and (ii) the rest of the property that was not owned by SAS Société Immobilière Victoria directly from the subsidiary SFL, resulting in an addition of 62,289 thousand euros.

- The remaining additions relate to development and refurbishment projects, mainly at properties of the SFL subgroup, in the amount of 33,961 thousand euros, and at properties of other Group companies, in the amount of 35,202 thousand euros. The above amounts include 2,591 thousand euros in capitalised borrowing costs.

In addition, as indicated in Note 2-f, the following additions were made to the scope of consolidation:

- On 18 May 2017, the subsidiary Inmocol Torre Europa, S.A. was included in the scope of consolidation, resulting in the addition to the scope of consolidation of land contributed by the shareholder of this company in the amount of 10,000 thousand euros, plus 80 thousand euros in associated acquisition costs.

- On 27 September 2017, the Parent acquired all shares in Colonial Arturo Soria, S.L.U., resulting in the addition to the scope of consolidation of the office building owned by the subsidiary, for 32,579 thousand euros.

- As set forth above in the changes due to additions, on 30 November 2017, the subsidiary SFL acquired the Emile Zola property through the acquisition of all share capital of the French company SAS Société Immobilière Victoria, which owns the land and a portion of the buildings of this property, representing an addition to the scope of consolidation of 107,721 thousand euros.

- On 20 and 27 December 2017, the Parent acquired all shares in Agisa, Soller and Peñalvento, resulting in the addition to the scope of consolidation of the land owned by these companies for 220,331 thousand euros.

The derecognitions in 2017 relate to the following transactions (Notes 4-c and 17-g):

- On 12 January 2017, the Parent disposed of several of its properties located on calle Orense de Madrid, for a total of 5,600 thousand euros, resulting in the disposal of 4,650 thousand euros and a profit of 290 thousand euros.

- On 31 October 2017, Finresa sold an asset for 410 thousand euros, resulting in the disposal of 399 thousand euros and a profit of 11 thousand euros.

Transfers in 2017 relate to the following transactions:

- In the first half of the year, the subsidiary reclassified the In&Out property under non-current assets held for sale (Note 21) once the subsidiary's Board of Directors passed the resolution to sell this asset. The amount transferred totalled 408,352 thousand euros.

- Furthermore, several assets amounting to a total of 3,899 thousand euros were reclassified from “Property, plant and equipment” in the consolidated statement of financial position, given that the Group expects to earn rental income or obtain a gain from their sale as a result of future increases in their market prices (Note 7).

Movements in 2016

The additions in 2016 related to the following transactions:

- On 21 June 2016, the Parent acquired a building at calle José Abascal, 45, Madrid for 35,051 thousand euros, including acquisition costs.

- On 28 December 2016, the Parent acquired a building at calle Travesera de Gràcia, 47-49 in Barcelona for 42,043 thousand euros, including acquisition costs.

- The remaining additions related to development and refurbishment projects, mainly involving properties belonging to the SFL subgroup, in the amount of 67,990 thousand euros, and properties of other Group companies, in the amount of 19,835 thousand euros. The above amounts included 1,177 thousand euros in capitalised borrowing costs.

In addition, as indicated in Note 2-f, the following additions were made to the scope of consolidation:

- On 28 May 2016, the Parent acquired all the shares in Moorage, resulting in the addition in the scope of consolidation of land located on calle Ciudad de Granada in Barcelona, for 53,854 thousand euros.

- On 30 June 2016, the Parent acquired all the shares in Hofinac, resulting in the addition in the scope of consolidation of two properties located at calle Santa Hortensia, 26-28 and calle Serrano, 73, both in Madrid, for a combined amount of 200,384 thousand euros.

- On 29 December 2016, the Parent acquired all the shares in Finresa, resulting in the addition in the scope of consolidation of a property located in Madrid for 47,678 thousand euros.

Assets amounting to 7,532 thousand euros were derecognised due to being replaced in 2016 (Note 17-f).

Changes in value of investment property

“Changes in value of investment property” in the consolidated statement of comprehensive income includes the profit from the revaluation of the investment property for 2017 and 2016, in the amount of 937,108 thousand euros and 560,320 thousand euros (Note 17-f), respectively, in accordance with the appraisals of independent experts at 31 December 2017 and 2016 (Note 4-c).

Capitalised borrowing costs

The table below details the borrowing costs capitalised in 2017 and 2016 (Note 17-h):

	Thousands of euros	
	Amount capitalised during the period	Average interest rate
2017:		
Inmobiliaria Colonial, SOCIMI, S.A.	857	2.53%
Danieltown Spain, S.L.U.	141	2.52%
Moorage inversions 2014, S.L.U.	84	2.53%
SFL subgroup	1,509	1.90%
Total 2017:	**2,591**	**-**
2016:		
Inmobiliaria Colonial, SOCIMI, S.A.	824	2.86%
Danieltown Spain, S.L.U.	43	2.86%
Moorage inversions 2014, S.L.U.	19	2.82%
SFL subgroup	291	1.94%
Total 2016:	**1,177**	**-**

<u>Other disclosures</u>

The total surface area (above and under-ground) of investment property and projects in progress at 31 December 2017 and 2016 is as follows:

Minimum	Total surface area (m^2) of investment property					
	Investment property		Investment property in progress		Total	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Barcelona (*)	286,655	286,216	81,838	59,368	368,493	345,584
Madrid	385,461	355,779	153,165	38,263	538,626	394,042
Rest of Spain	13,048	12,735	-	-	13,048	12,735
Paris (*)	377,426	415,174	64,867	45,855	442,293	461,029
	1,062,590	**1,069,904**	**299,870**	**143,486**	**1,362,460**	**1,213,390**

(*) Including 100% of the floor space of Washington Plaza (a property owned by the Group company SCI Washington, 66%-owned by SFL), the Haussmann, Champs Élysées, 82-88 and Champs Élysées, 90 buildings (owned by the Parholding subgroup, a company 50%-owned by SFL), the Torre del Gas property (owned by Torre Marenostrum, S.L., a company 55%-owned by the Parent) and the Torre Europa, 46-48 building (owned by Inmocol Torre Europa, S.A., a company 50%-owned by the Parent).

At 31 December 2017, the companies of the Parholding subgroup and Torre Marenostrum, S.L. pledged assets as collateral for mortgage loans, the carrying amount of which is 1,048,232 thousand euros, and as collateral for debts in the amount of 237,980 thousand euros (Note 12-e). At 31 December 2016, the corresponding balances totalled 862,787 thousand euros and 241,000 thousand euros, respectively.

In 2016, the subsidiary SFL exercised its 26,000 thousand euro call option on the last finance lease it held, thereby assuming ownership of the building located at Wagram, 131 and generating the related exit tax liability (Notes 4-m and 16).

9. Non-current financial assets

The changes in this heading of the consolidated statement of financial position in 2017 and 2016 were as follows:

	Thousands of euros			
	31 December 2016	Acquisitions or provisions	Additions to the scope of consolidation (Note 2-f)	31 December 2017
Deposits and guarantees given	12,383	4,616	6,590	23,589
Derivative financial instruments	-	1,484	-	1,484
Financial assets available for sale	138,293	280,984	-	419,277
Total	**150,676**	**287,084**	**6,590**	**444,350**

	Thousands of euros		
	31 December 2015	Acquisitions or provisions	31 December 2016
Deposits and guarantees given	8,954	3,429	12,383
Financial assets available for sale	-	138,293	138,293
Total	**8,954**	**141,722**	**150,676**

a) Deposits and guarantees given

Long-term deposits and guarantees basically comprise deposits made with the official bodies in each country for deposits collected from lessees, in accordance with prevailing legislation.

b) Available-for-sale financial assets - Interest in Axiare Patrimonio SOCIMI, S.A.

The movements in this interest in 2017 and 2016 are shown in the following table:

	Thousands of euros	
	2017	2016
Opening balance	**138,293**	-
Acquisitions	211,886	136,976
Adjustments to fair value through other comprehensive income	69,098	1,317
Closing balance	**419,277**	**138,293**

In 2016, the Parent acquired 10,846,541 shares of Axiare Patrimonio SOCIMI, S.A. (hereinafter, "Axiare"), representing 15.09% of its share capital.

In March 2017, the Parent acquired 1,404,000 shares of Axiare, representing 1.78% of the company's current share capital, for 18,801 thousand euros, obtaining an interest of 15.49% in Axiare.

In November 2017, the Parent acquired 10,511,523 shares of Axiare, representing 13.30% of Axiare's current share capital, for a total amount of 193,085 thousand euros, equivalent to 18.36 euros per share, obtaining an interest of 28.79% in Axiare.

In 2017, the Parent received 3,681 thousand euros in dividends from its interest in Axiare, which were recognised under "Finance income" in the consolidated statement of comprehensive income (Note 17-h).

At 31 December 2017, the Parent recognised its shareholding in Axiare Patrimonio SOCIMI, S.A. at the year-end share price of 18.42 euros per share, which represents a cumulative impact on the Parent's equity of 70,415 thousand euros (1,317 thousand euros at 31 December 2016).

The Parent's directors considered that the Parent did not exercise, nor could it exercise, a significant influence over Axiare at 31 December 2017 or 2016, and thus it has been considered to be a financial investment.

c) Voluntary takeover bid to acquire shares of Axiare Patrimonio SOCIMI, S.A. (Note 23-b)

On 28 December 2017, the Spanish National Securities Market Commission authorised the voluntary takeover bid to acquire shares of Axiare Patrimonio SOCIMI, S.A. submitted by the Parent on 24 November 2017, as it considered that its terms were in line with applicable laws and that the contents of the explanatory prospectus were sufficient.

The offer was made for 100% of the share capital of Axiare Patrimonio SOCIMI, S.A. consisting of 79,062,486 shares, admitted for trading on the Barcelona, Bilbao, Madrid and Valencia Stock Exchanges and included in the Spanish Stock Market Interconnection System, not including 22,762,064 shares, representing 28.79% of the share capital, which were blocked by the offeror. Consequently, the offer was effectively extended to the acquisition of 56,300,422 shares of Axiare Patrimonio SOCIMI, S.A., which represent 71.21% of the share capital.

The price offered was 18.36 euros per share; this amount arises through deducting the amount of the dividend paid by Axiare after the takeover bid was announced, of 0.14 euros per share, from the price initially offered of 18.50 euros per share.

On 28 December 2017, the first of the announcements referred to in article 22 of Royal Decree 1066/2007, of 27 July, for the takeover bid for Axiare Patrimonio SOCIMI, S.A. by Inmobiliaria Colonial, SOCIMI, S.A., was published. Consequently, in accordance with the terms set forth in the prospectus of the aforesaid offer, the acceptance period lasts from 29 December 2017 to 29 January 2018, both inclusive.

10. Trade and other receivables

The breakdown of this current asset heading in the accompanying consolidated statement of financial position at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	31 December 2017	31 December 2016
Trade receivables from sales and services	27,049	16,337
Accrual of lease incentives	78,746	103,125
Other receivables	86,564	85,810
Other current assets	386	776
Impairment of receivables -		
- Trade receivables from sales and services	(4,040)	(3,621)
- Other receivables	(85,473)	(85,473)
Total trade and other receivables	**103,232**	**116,954**

a) Trade receivables from sales and services

This mainly includes the amounts receivable from customers, fundamentally from the Group's rentals business in France, that are billed monthly, quarterly or yearly. At 31 December 2017 and 2016, no material amounts were past due.

b) Accrual of lease incentives (Note 4-n)

This includes the amount of the incentives in the operating lease agreements (grace periods, etc.) that the Group offers its customers, which are recognised in the consolidated statement of comprehensive income during the minimum operating lease term. Of that amount, 61,300 thousand euros have a maturity of more than 1 year (87,596 thousand euros at 31 December 2016).

In 2017, a total of 40,321 thousand euros in lease incentives for the In&Out building recognised prior to the sale were derecognised as an increase to the sale price (Note 17-g).

c) Other receivables

At 31 December 2017 and 2016, the amounts owed by Nozar, S.A., resulting from the cancellation of the purchase agreements entered into in July 2007 as a result of failing to comply with the conditions precedent, were recognised under “Other receivables”, and totalled 85,473 thousand euros, including accrued interest.

Nozar, S.A. is currently involved in bankruptcy proceedings; consequently, at 31 December 2017 and 2016, the accompanying consolidated statement of financial position included an impairment loss for the entire amount of this company’s trade receivables.

d) Impairment of trade receivables

In 2017, impairment losses in the amount of 419 thousand euros (2,896 thousand euros in 2016) relating to accounts receivable were charged to “Net change in provisions” in the consolidated statement of comprehensive income for the year (Note 17-e).

At 31 December 2017 and 2016, the Group had no significant receivables past due but not impaired.

11. Equity

a) Share capital

At 31 December 2015, the Parent’s share capital was represented by 3,188,856,640 shares with a par value of 0.25 euros each, which were fully subscribed and paid.

The following changes in the Parent's share capital occurred in 2016:

- At the Annual General Meeting held on 28 June 2016, the shareholders approved the issue of 288,571,430 new shares with a par value of 0.25 euros each, plus a share premium of 0.45 euros per share, as consideration for the non-monetary contribution of shares of Hofinac (Note 2-f). The total amount of the capital increase was 72,143 thousand euros plus 129,857 thousand euros for the share premium. This capital increase was registered with the Barcelona Mercantile Registry on 30 June 2016.

- On the same date, the shareholders also approved the issue of 90,805,920 shares with a par value of 0.25 euros each, plus a share premium of 0.45 euros per share, as consideration for the non-monetary contribution of 1,019,478 shares of SFL (Note 2-f). The total amount of the capital increase was 22,701 thousand euros plus 40,863 thousand euros for the share premium. This capital increase was registered with the Barcelona Mercantile Registry on 30 June 2016.

On 14 July 2016, the Company carried out the resolution calling for a reverse stock split whereby every 10 existing shares would be swapped for one newly-issued share, bringing the total number of shares to 356,823,399 and raising the par value of each share from 0.25 euros to 2.50 euros.

In 2017, the Parent carried out two capital increases, both with a charge to monetary contributions and the disapplication of pre-emption rights, through the accelerated bookbuild offering amongst qualified investors:

- The increase was registered with the Mercantile Registry on 5 May 2017. Its purpose is to reinforce the Parent's equity in order to take full advantage of investment opportunities which are currently available, carry out repositioning and improvement investments to maximise the quality, occupancy and value of the assets that already form part of its portfolio, as well as consolidate its credit rating and possible improve it. As a result of the placement, 35,646,657 new shares were issued each with a par value of 2.50 euros, for a total amount of 253,092 thousand euros, prompting an increase in share capital and the share premium of 89,117 thousand euros and 163,975 thousand euros, respectively. The new shares were admitted to trading on 8 May 2017 on the Barcelona and Madrid stock exchanges.

- The increase aimed at ensuring and optimising the funding for the takeover bid for Axiare Patrimonio SOCIMI, S.A. (Note 9-c) not owned by Colonial was registered with the Mercantile Registry on 29 November 2017. As a result of the placement, 42,847,300 new shares were issued each with a par value of 2.5 euros, for a total amount of 338,065 thousand euros, prompting an increase in share capital and the share premium of 107,118 thousand euros and 230,947 thousand euros, respectively. The new shares were admitted to trading on 4 December 2017 on the Barcelona and Madrid stock exchanges.

As a result, the Company's share capital at 31 December 2017, was represented by 435,317,356 fully subscribed and paid up shares with a par value of 2.50 euros each.

Based on the pertinent notifications regarding the number of company shares to the Spanish National Securities Market Commission (CNMV), the shareholders owning significant direct or indirect interests in the Parent at 31 December 2017 and 2016 were as follows:

	31 December 2017		31 December 2016	
	Number of shares *	% shareholding	Number of shares *	% shareholding
Name or corporate name of the shareholder:				
Finaccess Group	79,378,647	18.23%	41,139,685	11.53%
Qatar Investment Authority	41,610,141	9.56%	41,593,367	11.66%
Aguila Ltd.	28,800,183	6.62%	21,800,184	6.11%
Inmo S.L.	20,011,190	4.60%	-	-
BlackRock Inc	10,955,962	2.52%	10,885,211	3.05%
Deutsche Bank A.G.	8,135,390	1.87%	8,135,390	2.28%
Joseph Charles Lewis	-	-	17,617,708	4.94%
Villar-Mir Group	-	-	11,906,969	3.34%
Fidelity International Limited	-	-	6,248,471	1.75%
Invesco Limited	-	-	3,540,788	0.99%

* Does not include certain financial instruments linked to shares in the Parent.

On 5 January 2018, BlackRock Inc. increased its interest to 11,308,788 shares, equivalent to 2.60% of the Parent's share capital.

At 31 December 2017, Blackrock Inc. and Deutsche Bank AG formally obtained financial instruments associated with the Parent's shares that, in the event the instruments are exercised, could give rise to an additional interest in the share capital of Colonial.

The Parent has no knowledge of other significant equity interests.

During the General Shareholders' Meeting held on 24 April 2015, the Board of Directors was authorised to issue, on behalf of the Parent, on one or several occasions, and for a period of five years, debentures and/or bonds convertible into new shares of the Parent and/or exchangeable for shares of the Parent or any other third-party entity, expressly providing for, in the case of convertible debentures and/or bonds, the power to disapply the pre-emption right of the shareholders and to increase the share capital by the amount necessary to meet the conversion. The total maximum amount of the issue or issues of the securities that may be performed under this authorisation may not exceed a combined amount of 350,000 thousand euros or its equivalent in another currency.

At the General Meeting held on 29 June 2017, the Parent's shareholders authorised the Board of Directors, in accordance with article 297.1 b) of the Spanish Limited Liability Companies Law, to increase share capital, through monetary contributions, by up to half the existing amount, in one or several issues and within a maximum period of five years, at the time and for the amount deemed appropriate. Within the limits indicated, the Board of Directors was also authorised to disapply pre-emption rights, limiting this authorisation to a maximum nominal amount of 20% of total share capital, taken as a whole.

b) Share premium

In 2017, as a result of the two aforementioned accelerated bookbuild offerings, the amount of the share premium increased by 163,975 thousand euros and 230,947 thousand euros, respectively.

As a result of the two capital increases carried out in 2016, the share premium increased by 129,857 thousand euros and 40,863 thousand euros, respectively.

c) Legal reserve

Under the Consolidated Spanish Limited Liability Companies Law, 10% of profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

At 31 December 2015, the legal reserve amounted to 5,080 thousand euros. At 31 December 2016, taking into account the appropriation to the legal reserve included in the distribution of profit for 2015, the legal reserve reached 33,615 thousand euros. At 31 December 2017, taking into account the appropriation to the legal reserve included in the distribution of the Parent's profit for 2016 approved by the shareholders at the General Meeting held on 29 June 2017, the legal reserve amounted to 39,099 thousand euros, although it had not yet reached the stipulated level at the date of authorisation for issue of these consolidated financial statements.

d) Other reserves of the Parent

At 31 December 2015, the Parent had set aside voluntary reserves of 1,158,874 thousand euros, of which 169,439 thousand euros were not freely available.

The resolutions approved by the shareholders at the Annual General Meeting of 28 June 2016 included the distribution of profit for 2015, which included the appropriation of 28,535 thousand euros to the legal reserve and the distribution of 47,832 thousand euros in dividends, and 208,982 thousand euros were allocated to offset prior years' losses. At the General Meeting, the shareholders also approved the partial application of voluntary reserves to offset prior years' losses still existing after the offset included in the proposed distribution of 2015 profit, in the amount of 938,993 thousand euros.

As a result of the capital increases described in Note 11-a, costs of 6,691 thousand euros were reported in 2017 (1,905 thousand euros in 2016), under “Reserves of the Parent” in consolidated equity.

In 2017, the Parent carried out treasury share transactions, which gave rise to a gain of 10,371 thousand euros (a loss of 12 thousand euros in 2016), and which were registered directly in the Parent's equity. The income generated from the delivery of treasury shares to the beneficiaries of the long-term incentives plan (Note 18-a), calculated as the difference between the carrying amount of the shares delivered and the amount of the obligation assumed by the Parent (Note 4-j), which amounted to 1,286 thousand euros in 2017 (945 thousand euros in 2016) was also recognised in the Parent's reserves.

Following both offset exercises, voluntary reserves total 206,019 thousand euros, of which 169,439 thousand euros continue to be restricted.

e) Valuation adjustments recognised in other consolidated comprehensive income - financial instruments

This heading of the consolidated statement of financial position includes the sum of gains and losses arising from changes in the fair value of efficient financial derivatives classified as cash flow hedges (Note 13).

The changes in this heading are as follows:

	Thousands of euros	
	31 December 2017	31 December 2016
Opening balance	**(571)**	**(2,504)**
Changes in the fair value of hedges in the period	(39)	(101)
Transfers to consolidated net profit	51	2,168
Changes in the scope of consolidation (Note 2-f)	-	(134)
Closing balance	**(559)**	**(571)**

f) Treasury shares of the Parent

At 31 December 2017 and 2016, the number of the Parent's treasury shares and their acquisition cost were as follows:

	31 December 2017		31 December 2016	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Opening balance	**5,469,985**	**35,426**	**700,382**	**4,068**
Buyback plan 14 November 2016	6,837,328	46,787	3,162,672	20,249
Buyback plan 16 October 2017	2,260,000	17,797	-	-
Delivery of incentives plan shares (Note 18)	(380,116)	(2,537)	(365,116)	(2,114)
Other acquisitions	-	-	4,088,555	27,145
Other disposals	(9,907,257)	(68,052)	(2,116,508)	(13,922)
Closing balance	**4,279,940**	**29,421**	**5,469,985**	**35,426**

Parent share buyback plans -

On 14 November 2016, the Parent's Board of Directors agreed to carry out a treasury share buyback programme. The purposes of the plan are to complete the coverage of the share plan approved by shareholders at the General Meeting held on 21 January 2014 and additional initiatives that the Board of Directors may consider advisable in the Company's business interest. The maximum monetary amount assigned to the programme amounts to 68,000 thousand euros and a maximum of 10,000,000 shares may be acquired, equivalent to 2.8% of the Parent's share capital as of that date. The maximum duration of the programme was six months, i.e., up to 15 May 2017. However, it would be ended early if the maximum number of shares or the maximum monetary amount was reached before said date. The buyback programme ended in 2017.

On 16 October 2017, the Parent's Board of Directors agreed to implement a new programme involving the repurchase of treasury shares in accordance with the authorisation granted by shareholders at the General Meeting held on 30 June 2014. The maximum monetary amount assigned to the programme amounts to 100,000 thousand euros and the maximum number of shares to be acquired is 12,000,000 shares, equivalent to 3% of the Parent's share capital as of that date. The maximum duration of the programme is six months, i.e., up to 17 April 2018. However, it would be ended early if the maximum number of shares or the maximum monetary amount is reached before said date. On 3 November 2017, the Parent ended the share buyback programme early.

Deliveries of Parent shares deriving from the long-term Incentives Plan (Note 18) -

Every year, the Parent settles the obligations to comply with the previous year's plan through the delivery of shares to the beneficiaries of the Remuneration Plan, once it has assessed the degree of attainment of the indicators included therein.

Other acquisitions -

This heading comprises the Parent's acquisition, on 29 July 2016, of 3,801,417 shares of Mora Banc Grup, S.A. and Mora Assegurances, S.A.U., for 25,495 thousand euros, by virtue of the agreement signed between the two parties on 27 July 2016, and several acquisitions of the Parent's shares, totalling 287,138 shares in the amount of 1,650 thousand euros, to cover the long-term incentives plan (Note 18-a).

Other disposals -

On 29 November 2017, the Parent sold 9,907,257 shares at a price equivalent to the issue price of the new shares issued in the framework of the accelerated bookbuild offering carried out on the same date (Note 11-a), i.e., at 7.89 euros per share.

On 4 August 2016, the Parent delivered 2,116,508 treasury shares to APG in exchange for 237,623 shares in the subsidiary SFL (Note 2-f).

g) Liquidity contracts

The Parent enters into liquidity contracts in order to enhance the liquidity of its transactions and the regularity of its quoted share price.

At 31 December 2017 and 2016, the Parent's treasury shares included in the liquidity contracts and their acquisition cost were as follows:

	31 December 2017		31 December 2016	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Opening balance	**209,603**	**1,329**	**148,701**	**945**
Liquidity contract dated 22 June 2015	30,480	482	60,902	384
Liquidity contract dated 11 July 2017	(10,583)	30	-	-
Closing balance	**229,500**	**1,841**	**209,603**	**1,329**

Liquidity contract dated 22 June 2015 -

On 22 June 2015, the Parent entered into a liquidity contract in order to enhance the liquidity of its transactions and the regularity of its quoted share price, as provided for under CNMV Circular 3/2007, of 19 December.

On 10 July 2017, on the issue of CNMV Circular 1/2017, of 26 April 2017, the Parent terminated the liquidity contract effective as of 10 July 2017.

Liquidity contract dated 11 July 2017 -

On 11 July 2017, the Parent entered into a new liquidity contract in order to enhance the liquidity of its transactions and the regularity of its quoted share price, as provided for under CNMV Circular 1/2017, of 26 April. The contract is valid for 12 months.

h) Treasury shares of SFL

In 2017 the treasury shares of SFL, amounting to 13,056 thousand euros, were reclassified from “Treasury shares” to “Consolidated reserves” in the consolidated statement of financial position.

i) Non-controlling interests

The movement in this heading of the consolidated statement of financial position is as follows:

	Thousands of euros				
	Torre Marenostrum, S.L.	Inmocol Torre Europa, S.A.	Utopicus subgroup	SFL subgroup	**Total**
Balance at 31 December 2015	**22,715**	**-**	**-**	**1,589,333**	**1,612,048**
Profit for the year	1,124	-	-	284,533	**285,657**
Dividends and other	(382)	-	-	(48,272)	**(48,654)**
Changes in the scope of consolidation (Note 2-f)	-	-	-	(144,378)	**(144,378)**
Financial instruments	505	-	-	1,027	**1,532**
Balance at 31 December 2016	**23,962**	**-**	**-**	**1,682,243**	**1,706,205**
Profit for the year	1,954	1,037	(65)	395,002	**397,928**
Dividends and other	(1,547)	(27)	11	(24,446)	**(26,009)**
Changes in the scope of consolidation (Note 2-f)	-	10,000	80	(343)	**9,737**
Financial instruments	9	-	-	-	**9**
Balance at 31 December 2017	**24,378**	**11,010**	**26**	**2,052,456**	**2,087,870**

The breakdown of the items included in “Dividends and other” at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	31 December 2017	31 December 2016
Dividend paid by the SFL subgroup to non-controlling interests	(19,909)	(42,435)
Dividend paid by Washington Plaza to non-controlling interests	(5,516)	(5,934)
Dividend paid by Torre Marenostrum to non-controlling interests	(1,575)	(382)
Other	991	97
Total	**(26,009)**	**(48,654)**

The SFL subgroup has the following shareholders agreements with Prédica:

- Agreement in SCI Washington, in which SFL holds 66%. In the event of a change of control of SFL, Prédica may consent to the change of control, or acquire or sell all of the shares and current accounts held by SFL in the common subsidiary, at a price agreed between the parties or on an arm's length basis.

- Agreement in Parholding, in which SFL holds 50%. In the event of a change of control of SFL, Prédica may consent to the change of control, or acquire or sell all of the shares and current accounts held by SFL in the common subsidiary, at a price agreed between the parties or on an arm's length basis.

12. Bank borrowings, other financial liabilities and issuance of bonds and other similar securities

The detail of these headings of the consolidated statement of financial position, by type of debt and maturity, at 31 December 2017 and 2016 is as follows:

31 December 2017

	Thousands of euros							
	Current	Non-current						Total
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total non-current	
Bank borrowings:								
Lines of credit	33,459	-	-	-	-	-	-	33,459
Loans	4,087	154,151	14,218	79,280	197,217	199,383	644,249	648,336
Syndicated loans	-	-	-	150,000	13,400	-	163,400	163,400
Interest	1,180	-	-	-	-	-	-	1,180
Debt arrangement expenses	(2,276)	(2,085)	(1,742)	(1,458)	(441)	(469)	(6,195)	(8,471)
Total bank borrowings	**36,450**	**152,066**	**12,476**	**227,822**	**210,176**	**198,914**	**801,454**	**837,904**
Other financial liabilities:								
Current accounts	-	55,645	-	-	-	-	55,645	55,645
Interest on current accounts	56	-	-	-	-	-	-	56
Derivative financial instruments (Note 13)	363	-	-	-	-	138	138	501
Other financial liabilities	2,481	-	-	-	-	-	-	2,481
Total other financial liabilities	**2,900**	**55,645**	-	-	-	**138**	**55,783**	**58,683**
Total bank borrowings and other financial liabilities	**39,350**	**207,711**	**12,476**	**227,822**	**210,176**	**199,052**	**857,237**	**896,587**
Bonds and similar securities issued:								
Bond issues	-	375,000	-	500,000	500,000	1,950,000	3,325,000	3,325,000
Interest	17,348	-	-	-	-	-	-	17,348
Arrangement expenses	(3,774)	(3,404)	(3,148)	(3,105)	(2,702)	(5,008)	(17,367)	(21,141)
Total bonds and similar securities issued	**13,574**	**371,596**	**(3,148)**	**496,895**	**497,298**	**1,944,992**	**3,307,633**	**3,321,207**
Total at 31 December 2017	**52,924**	**579,307**	**9,328**	**724,717**	**707,474**	**2,144,044**	**4,164,870**	**4,217,794**

31 December 2016

	Thousands of euros							
	Current	Non-current						Total
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total non-current	
Bank borrowings:								
Lines of credit	84,815	-	-	-	-	-	-	84,815
Loans	5,209	5,268	145,563	56,036	156,331	212,594	575,792	581,001
Syndicated loans	-	-	-	20,000	121,874	-	141,874	141,874
Interest	1,203	-	-	-	-	-	-	1,203
Debt arrangement expenses	(1,729)	(1,723)	(1,524)	(1,155)	(851)	(214)	(5,467)	(7,196)
Total bank borrowings	**89,498**	**3,545**	**144,039**	**74,881**	**277,354**	**212,380**	**712,199**	**801,697**
Other financial liabilities:								
Current accounts	-	63,346	-	-	-	-	63,346	63,346
Interest on current accounts	70	-	-	-	-	-	-	70
Derivative financial instruments (Note 13)	1,428	-	45	-	-	1,941	1,986	3,414
Other financial liabilities	2,553	-	-	-	-	-	-	2,553
Total other financial liabilities	**4,051**	**63,346**	**45**	-	-	**1,941**	**65,332**	**69,383**
Total bank borrowings and other financial liabilities	**93,549**	**66,891**	**144,084**	**74,881**	**277,354**	**214,321**	**777,531**	**871,080**
Bonds and similar securities issued:								
Bond issues	300,700	-	375,000	-	500,000	1,650,000	2,525,000	2,825,700
Interest	16,873	-	-	-	-	-	-	16,873
Arrangement expenses	(3,646)	(3,072)	(2,717)	(2,459)	(2,418)	(4,377)	(15,043)	(18,689)
Total bonds and similar securities issued	**313,927**	**(3,072)**	**372,283**	**(2,459)**	**497,582**	**1,645,623**	**2,509,956**	**2,823,883**
Total at 31 December 2016	**407,476**	**63,818**	**516,367**	**72,422**	**774,936**	**1,859,944**	**3,287,487**	**3,694,963**

The changes in net financial debt in 2017, which arose from cash flows and other, are detailed in the table below:

	Thousands of euros			
	31 December 2016	Cash flows	Changes in control of subsidiaries	31 December 2017
Lines of credit	84,815	(51,356)	-	33,459
Loans	581,001	66,906	429	648,336
Syndicated loans	141,874	21,526	-	163,400
Bond issues	2,825,700	499,300	-	3,325,000
Gross financial debt (gross nominal debt)	**3,633,390**	**536,376**	**429**	**4,170,195**
Cash and cash equivalents	**(105,200)**	**(984,677)**	**(14,724)**	**(1,104,601)**
Net financial debt	**3,528,190**	**(448,301)**	**(14,295)**	**3,065,594**

a) Issues of the Parent’s straight bonds

The breakdown of the issues of straight bonds launched by the Parent at 31 December 2017 and 2016, is as follows (in thousands of euros):

				(Thousands of Euros)		
Issue	Term	Maturity	Fixed-rate coupon payable annually	Amount of the issue	31 December 2017	31 December 2016
05/06/2015	5 years	05 /06/2019	1,863%	750,000	375,000	375,000
05/06/2015	8 years	05/06/2023	2,728%	500,000	500,000	500,000
28/10/2016	8 years	28/10/2024	1,450%	600,000	600,000	600,000
10/11/2016	10 years	10/11/2026	1,875%	50,000	50,000	50,000
28/11/2017	8 years	28/11/2025	1,625%	500,000	500,000	-
28/11/2017	12 years	28/11/2029	2.5%	300,000	300,000	-
Total issues					**2,325,000**	**1,525,000**

The bonds were admitted for trading on the *Irish Stock Exchange's* main *securities market*.

At 31 December 2017 and 2016, the fair value of the bonds issued by the Parent was 2,378,881 thousand euros and 1,545,466 thousand euros, respectively.

European Medium Term Note Programme -

On 5 October 2016, the Parent registered a 12-month European Medium Term Note programme for 3,000,000 thousand euros, which can be extended to 5,000,000 thousand euros, on the Irish Stock Exchange.

On 11 October 2017, the programme was renewed for a further 12 months.

Compliance with financial ratios -

These straight bonds establish the obligation, at 30 June and 31 December of each year, to meet a financial ratio, whereby the value of the non-guaranteed asset of the Colonial Group in the consolidated statement of financial position at each of these dates must at least be equal to the financial debt not guaranteed. This ratio had been met at 31 December 2017 and 2016.

b) Issue of SFL straight bonds

The breakdown of issues of non-convertible bonds by SFL is as follows:

				(Thousands of Euros)		
Issue	Term	Maturity	Fixed-rate coupon payable annually	Amount of the issue	31 December 2017	31 December 2016
28/11/2012	5 years	28/11/2017	3.50%	500,000	-	300,700
20/11/2014	7 years	20/11/2021	1,875%	500,000	500,000	500,000
16/11/2015	7 years	16/11/2022	2,250%	500,000	500,000	500,000
Total issues					**1,000,000**	**1,300,700**

The bonds are unsubordinated obligations, all of which rank pari passu. They are traded on the Euronext Paris exchange.

At 31 December 2017 and 2016, the fair value of the bonds issued by SFL was 1,062,635 thousand euros and 1,371,985 thousand euros, respectively.

In November 2017, the subsidiary SFL settled the bonds maturing from the 2012 issue, with an outstanding nominal amount of 300,700 thousand euros.

In May 2016, the subsidiary SFL settled the bonds maturing from the 2011 issue, with an outstanding nominal amount of 155,800 thousand euros.

c) Syndicated financing of the Parent

The breakdown of the Parent's syndicated financing at 31 December 2017 and 2016 is detailed in the table below:

Thousands of euros	**Maturity**	31 December 2017		31 December 2016	
		Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Loan facility	November 2021	350,000	150,000	350,000	121,874
Loan facility	March 2022	375,000	13,400	-	-
Total syndicated financing of the Parent		**725,000**	**163,400**	**350,000**	**121,874**

The variable interest rate has a spread tied to the EURIBOR.

The main purpose of this syndicated loan maturing in November 2021 is to finance possible acquisitions, as well as refurbishments and other investment requirements on the property assets of the Parent.

In March 2017, the Parent signed a new syndicated credit facility for 375,000 thousand euros, maturing at five years. This line of credit is intended to cover the Parent's general corporate needs. A total of 10 banks took part in the process, with Crédit Agricole acting as lead bank.

Compliance with financial ratios –

The loans are subject to compliance with the following financial ratios on a quarterly basis:

Ratios
Loan-to-value ratio <= 55%
Interest coverage ratio >= 2x
Secured mortgage debt / Value of property assets <=15%
Secured non-mortgage debt / Value of non-property assets <=15%
Value of the consolidated assets >= 4.5 billion euros

At 31 December 2017 and 2016, the Parent complied with all financial ratios.

d) SFL syndicated loan

The breakdown of SFL's syndicated loan at 31 December 2017 and 2016 is as follows:

Thousands of euros	**Maturity**	31 December 2017		31 December 2016	
		Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Loan facility	July 2020	400,000	-	400,000	20,000
Loan facility	October 2019	150,000	-	150,000	-
Total SFL syndicated loan		**550,000**	**-**	**550,000**	**20,000**

The variable interest rate has a spread tied to the EURIBOR.

Compliance with financial ratios -

SFL syndicated loans must meet the following financial ratios every six months:

Ratios
Loan-to-Value Ratio<= 50% Interest coverage ratio >= 2 Secured debt/equity value <= 20% Appraisal value of unmortgaged properties >= 2 billion euros Gross financial debt subsidiaries / Consolidated gross financial debt < 25%

At 31 December 2017 and 2016, SFL complied with the financial ratios stipulated in the respective financing agreements.

e) Mortgage-backed loans

At 31 December 2017 and 2016, the Group held the following mortgage-backed loans for certain investment properties:

	Thousands of euros			
	31 December 2017		31 December 2016	
	Mortgage debt	Market value of asset	Mortgage debt	Market value of asset
Investment property (Note 8)	237,980	1,054,197	241,000	868,866
Total	**237,980**	**1,054,197**	**241,000**	**868,866**

At 31 December 2017, 85% of the mortgage debt (203,320 thousand euros) corresponded to the SFL subgroup and accrues interest at a fixed rate (85% and 205,400 thousand euros, respectively, at 31 December 2016). The remaining mortgage debt corresponds to the subsidiary Torre Marenostrum, S.L., and is tied to the EURIBOR plus an additional spread.

Compliance with financial ratios -

The Group's two mortgage-backed loans are subject to compliance with various financial ratios.

	Ratios
SFL subsidiaries: Pargal, Parchamps and Parhaus	Loan-to-Value Ratio <= 55% individual and 50% consolidated for the subsidiaries. Annual compliance every 30 June. Debt service coverage ratio >= 1.5 individual and 1.7 consolidated for the subsidiaries. Quarterly compliance.
Torre Marenostrum, S.L.	Net financial debt / Shareholders' equity <=3. Annual compliance. Debt service coverage ratio >= 1.05. Annual compliance.

At 31 December 2017 and 2016, the Group complied with the financial ratios required in its financing agreements.

f) Other loans

At 31 December 2017 and 2016, SFL had five bilateral loans not secured by a mortgage guarantee, that were subject to compliance with various ratios. The total limits and balances drawn down are as follows:

Thousands of euros	Maturity	31 December 2017		31 December 2016	
		Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Other loans:					
BECM	April 2019	150,000	150,000	150,000	140,000
Banco Sabadell	June 2020	70,000	10,000	50,000	50,000
BNP Paribas	May 2021	150,000	75,000	150,000	150,000
CADIF	June 2023	175,000	175,000	-	-
Banque Postale	June 2024	75,000	-	-	-
Total other loans		**620,000**	**410,000**	**350,000**	**340,000**

In 2017, the subsidiary SFL signed two new lines of credit with CADIF and Banque Postale for a total of 175,000 thousand euros and 75,000 thousand euros, maturing in 6 and 7 years, respectively. Furthermore, SFL increased the limit of the bilateral loan that it had taken out with Banco Sabadell by 20,000 thousand euros, which was set at 70,000 thousand euros.

In May 2016, the subsidiary SFL arranged a loan with BNP Paribas for a period of five years, with a floating interest rate and a spread tied to the EURIBOR.

Compliance with financial ratios

All these loans are subject to the following financial ratios on a half-yearly basis:

Ratios
Loan-to-Value Ratio<= 50% Interest coverage ratio >= 2 Secured debt/equity value <= 20% Appraisal value of unmortgaged properties >= 2 million euros Gross financial debt subsidiaries / Consolidated gross financial debt < 25%

At 31 December 2017 and 2016, SFL complied with the financial ratios stipulated in the respective financing agreements.

Lastly, at 31 December 2017, the companies of the Utopicus subgroup had five loans drawn down for a total of 356 thousand euros (Note 2-f). These loans are not subject to compliance with any ratio.

g) Lines of credit

The Group has lines of credit of up to 33,459 thousand euros, which at 31 December 2017 were fully drawn down (84,815 thousand euros at 31 December 2016).

h) Other financial liabilities - Current accounts

At 31 December 2017, the Group had a current account in the amount of 55,645 thousand euros extended to the companies of the SCI Washington Group. This current account accrues an additional spread on the three-month Euribor. At 31 December 2016, the Group had two current accounts in the amount of 57,346 thousand euros and 6,000 thousand euros extended to two Group companies, SCI Washington and SAS Parholding, respectively.

i) Guarantees given

At 31 December 2017, the Parent had granted guarantees to government bodies, customers and suppliers in the amount of 1,102,474 thousand euros (27,013 thousand euros at 31 December 2016). These include the following guarantees granted to cover deferred payments deriving from acquisition transactions:

- a bank guarantee before the CNMV as collateral for the voluntary takeover bid for Axiare Patrimonio, SOCIMI, S.A. (Notes 9-c and 23), issued by Caixabank for 1,033,676 thousand euros (Note 12-j), and secured with a cash deposit.

- bank guarantee for the transaction to buy Moorage (Note 2-f), for the sum of 15,680 thousand euros. The amount payable is recognised under “Trade payables” in the consolidated statement of financial position (Note 14).

- bank guarantees for the transaction to buy Agisa, Soller and Peñalvento (Note 2-f), for the sum of 41,767 thousand euros. The amount payable is recognised under “Trade payables” in the consolidated statement of financial position (Note 14).

Of the remaining amount**,** the main guarantees provided are as follows:

- 4,946 thousand euros (5,097 thousand euros in 2016) granted to secure obligations acquired by Asentia. Accordingly, the Parent and this subsidiary have an agreement in place whereby if any of the guarantees are enforced, Asentia must compensate the Parent for any damages sustained within 15 days.

- 5,000 thousand euros granted to secure obligations acquired by the company DUE. In this regard, the Parent has a cash line of credit with BBVA to cover the obligations acquired with DUE (Note 15). The liabilities covered by these guarantees have been provided for in full under “Non-current provisions” in the consolidated statement of financial position.

j) Cash and cash equivalents

At 31 December 2017 and 2016, amounts of 1,104,601 thousand euros and 105,200 thousand euros, respectively, were recognised under “Cash and cash equivalents”, of which 1,045,668 thousand euros and 13,715 thousand euros, respectively, were either restricted or pledged. The balance for 2017 includes 1,033,676 thousand euros corresponding to the necessary cash to be able to carry out the voluntary takeover bid for Axiare Patrimonio, SOCIMI, S.A. (Note 9-c and 23), and which is secured by the bank guarantee delivered to the CNMV as collateral for the takeover bid.

k) Debt arrangement expenses

At 31 December 2017 and 2016, the debt arrangement expenses assumed by the Group and not yet accrued amounted to 29,612 thousand euros and 25,885 thousand euros, respectively. These expenses are taken to the consolidated statement of comprehensive income during the term of the debt in accordance with financial criteria. In this regard, in 2017 and 2016 the Group recognised in the consolidated statement of comprehensive income 5,191 thousand euros and 5,384 thousand euros, respectively, corresponding to the costs paid during the year.

l) Interest rate on borrowings

The interest rate on the Group's borrowings, the Group's average credit spread, with and without accrual of the financing fees for 2017 and 2016, is shown in the table below:

	(Thousands of Euros)			
	2017		2016	
Issue	Without accrual of fees	With accrual of fees	Without accrual of fees	With accrual of fees
Average interest rate of the Group	2.35%	2.49%	2.46%	2.63%
Average credit spread of the Group	1.56%	1.87%	1.62%	1.93%

The interest rate of the Group's outstanding debt at 31 December 2017 is 1.86% (1.96% at 31 December 2016).

The accrued interest outstanding recognised in the consolidated statement of financial position at 31 December 2017 and 2016 amounted to:

	(Thousands of Euros)	
Issue	31 December 2017	31 December 2016
Parent Bonds	15,006	13,550
SFL Bonds	2,342	3,323
Bank borrowings	1,180	1,203
Other financial liabilities - Current accounts	56	70
Total	**18,584**	**18,146**

m) Capital management and risk management policy

Companies operating in the real estate sector need to make heavy upfront investments to ensure development of their projects and growth of their businesses through the purchase of rental properties and/or land.

The Group's financial structure requires its sources of financing to be diversified in terms of entities, products and maturity dates, in order to ensure the continuity of its companies as profitable businesses and to be able to maximise returns for shareholders.

On 5 October 2016, the Parent formally implemented a 12-month Euro Medium Term Note programme to issue bonds up to a maximum of 3,000,000 thousand euros, which may be expanded to 5,000,000 thousand euros, and which was extended in 2017.

The various bond issues launched in 2015, 2016 and 2017 have enabled the Parent to finance its corporate transactions and real estate asset acquisitions carried out during these years, to reduce the finance costs of its borrowings, and to extend and diversify the maturity dates thereof. The Parent's financing is granted entirely over the long term and structured in such a manner that it allows the performance of the underlying business plan.

Financial risk management policy -

The Group efficiently manages its financial risks with the aim of having an adequate financial structure that allows it to maintain high levels of liquidity, minimise borrowing costs, reduce volatility due to changes in capital and ensure compliance with its business plans.

- Interest rate risk: The risk management policy is designed to limit and control the impact of interest rate fluctuations on profit and cash flows, to maintain the level of debt, and to keep overall borrowing costs at reasonable levels in accordance with the Group's credit rating.

  In order to attain these objectives, the Group enters into interest rate hedges to hedge against potential fluctuations in finance costs if necessary. The Group's policy is to arrange instruments that comply with accounting rules to be considered effective hedges and, therefore, to recognise changes in market value directly in the Group's other consolidated comprehensive income. At 31 December 2017, 93% of total debt in Spain and 85% in France was hedged or at fixed rates (92% and 77%, respectively, at 31 December 2016).

- Liquidity risk: Based on the annual cash budget, the Colonial Group draws up the monthly follow-up report on its cash forecasts to manage its liquidity risk and meet its various financing needs.

  The Group considers the following mitigating factors in managing liquidity risk: (i) recurring cash flow generation by the Group's core activities, (ii) its ability to renegotiate and obtain new financing on the basis of long-term business plans, and (iii) the quality of the Group's assets.

Cash surpluses may eventually rise that enable the Group to have lines of credit available but not yet drawn down or highly-liquid deposits with no risk. At 31 December 2017, the Group had sufficient lines of credit available to meet its short-term maturities. The Group does not use high-risk financial products as a method for investing cash surpluses.

- Counterparty risk: the Group mitigates this risk by using top-tier financial institutions to arrange its financing and by accessing the debt market through bond issues.

- Credit risk: the Parent analyses the exposure implied by at-risk accounts receivable on an ongoing basis, monitoring their settlements and recognising charges whenever its receivables are deemed impaired.

13. Derivative financial instruments

The following table details the financial instruments and their fair values at 31 December 2017 and 2016:

Derivative financial instrument	Company	Counterparty	Interest rate	Maturity	Nominal value (thousands of euros)	Fair value – Asset / (Liability)
Swap	SFL	CA-CIB	0.23%	2022	100,000	(103)
Cap	SFL	CADIF	0.25%	2022	100,000	1,484
Swap (redeemed step-up)	Colonial	BBVA	4.40%	2018	4,212	(50)
Cap	Colonial	ING	1.25%	2018	300,000	-
Cap	Colonial	Morgan Stanley	1.25%	2018	130,000	-
Vanilla swap	Torre Marenostrum	CaixaBank	0.94%	2032	27,728	(348)
Total at 31 December 2017					**661,940**	**983**

Derivative financial instrument	Company	Counterparty	Interest rate	Maturity	Nominal value (thousands of euros)	Fair value – Asset / (Liability)
Swap (redeemed step-up)	Colonial	BBVA	4.40%	2018	21,870	(657)
Cap	Colonial	CA-CIB	1.25%	2018	350,000	-
Cap	Colonial	ING	1.25%	2018	300,000	-
Cap	Colonial	Morgan Stanley	1.25%	2018	130,000	-
Vanilla swap	Torre Marenostrum	CaixaBank	2.80%	2024	23,140	(2,757)
Total at 31 December 2016					**825,011**	**(3,414)**

At 31 December 2016, the Parent had arranged 3 CAPs, for a nominal amount of 780,000 thousand euros, with a coverage ratio of 1.25% (strike price) and maturing on 31 December 2018. The premiums paid amounted to 8,580 thousand euros and were recognised in full as hedging expenses in the consolidated statement of comprehensive income for 2014, whereby these CAPs were valued at 0 thousand euros in the consolidated statement of financial position. In 2017 the CA-CIB CAP was sold for 6 thousand euros, which was recognised as income under “Finance income” in the statement of comprehensive income.

The impact for 2017 and 2016 on the consolidated statement of comprehensive income as a result of the recognition of derivative financial instruments was a net finance cost of 322 thousand euros and 3,740 thousand euros, respectively (Note 17-h), corresponding primarily to SFL.

Hedge accounting -

At 31 December 2017 and 2016, hedge accounting was only applied to that arising from the subsidiary Torre Marenostrum and, therefore, the mark-to-market (MtM) differences between the periods were recognised directly in other consolidated comprehensive income.

At 31 December 2017, the accumulated impact on other consolidated comprehensive income as a result of hedge accounting was a balance receivable of 559 thousand euros, net of the tax effect and consolidation adjustments. At 31 December 2016, a balance receivable of 571 thousand euros was recognised in other consolidated comprehensive income (Note 11).

Fair value of derivative financial instruments -

The fair value of the derivatives was calculated by discounting estimated future cash flows based on an interest rate curve and on assigned volatility at 31 December 2017, using the appropriate discount rates established by an independent expert.

14. Trade payables and other non-current liabilities

The breakdown of these headings in the consolidated statement of financial position, by item and maturity, is as follows:

	Thousands of euros			
	31 December 2017		31 December 2016	
	Current	Non-current	Current	Non-current
Trade and other payables	26,487	-	27,326	-
Payables for the purchase of properties	72,636	4,600	15,373	20,280
Advances	17,047	-	17,995	-
Guarantees and deposits received	4,628	39,497	1,733	34,201
Payable to Social Security	2,292	-	1,752	-
Unearned income	4,657	-	2,243	-
Other payables and liabilities	16,133	265	3,338	149
Total	**143,880**	**44,362**	**69,760**	**54,630**

a) Trade and other payables

This heading includes primarily the amounts payable by the Group for business-related purchases and associated costs.

b) Payables for the purchase of properties

This heading includes the amounts payable arising from acquisitions of ownership interest and/or properties. At 31 December 2017, the amount included under this line item relates mainly to:

- the refurbishment or renovation work on various properties carried out by SFL, mainly the Louvre Saint-Honoré building, in the amount of 10,218 thousand euros (15,373 thousand euros at 1 December 2016).

- the amount payable for the acquisition of the ownership interest (Note 2-f) in Moorage (20,280 thousand euros, including the contingent price classified as non-current), in Agisa, Soller and Peñavento (41,967 thousand euros), and in Colonial Arturo Soria, S.L.U. (4,200 thousand euros).

The effect of the updated deferred payments was not material.

c) Advances

This heading includes primarily the amounts paid upfront by lessees for bi-monthly or quarterly rent.

d) Guarantees and deposits received

This heading includes mainly security deposits paid by lessees.

e) Unearned income

This heading includes the amounts received by SFL for rights of entry, which relate to the amounts invoiced by lessees to reserve a unique space, and that were recognised as income on a straight-line basis over the minimum term of the related lease agreement.

f) Average period of payment to suppliers and trade creditors

The table below sets forth the information on the various Spanish Group companies required by final provision two of Law 31/2014, of 3 December, amending the Spanish Limited Liability Companies Law to improve corporate governance, and amending additional provision three of Law 15/2010, of 5 July, amending Law 3/2004, of 29 December, which establishes measures to combat late payment in commercial transactions, all in accordance with that established in the resolution of 29 January 2016 issued by the Spanish Accounting and Audit Institute (ICAC) on disclosures to be included in the notes to the consolidated financial statements with regard to the average period of payment to suppliers in commercial transactions involving the various Spanish companies pertaining to the Group.

	2017	2016
	Days	Days
Average supplier payment period	31	31
Ratio of payments made	31	32
Ratio of payments pending	31	23
	Amount (in thousands of euros)	Amount (in thousands of euros)
Total payments made	93,540	72,009
Total payments pending	5,212	6,715

The figures shown in the foregoing table in relation to payments to suppliers relate to suppliers that because of their nature are trade creditors for the supply of goods and services and, therefore, they include the figures relating to certain line items of “Trade payables” in the accompanying consolidated statement of financial position.

Law 11/2013 on measures to support entrepreneurs, stimulate growth and create employment, which amended the Law on late payments (Law 3/2004, of 29 December), entered into force on 26 July 2013. The new law stipulates that the maximum payment period to suppliers as of 29 July 2013 is 30 days, unless there is an agreement between the parties which increases the maximum period to 60 days.

With regard to payments made after the legally established period, note that these are primarily payments relating to works contracted and property refurbishment, which are paid within the payment terms stipulated in the contracts signed with the various contractors.

15. Provisions and contingent assets and liabilities

Changes in “Current provisions” and "Non-current provisions" in the consolidated statement of financial position for 2017 are as follows:

	Thousands of euros		
	Non-current provisions		Current provisions
	Provisions for employee benefits	Provisions for contingencies and other provisions	Provisions for contingencies and other provisions
Balance at 31 December 2016	**1,029**	**12,645**	**12,719**
Charges	229	-	7,662
Disposals	-	(2,070)	-
Amounts used	(14)	(369)	(98)
Balance at 31 December 2017	**1,244**	**10,206**	**20,283**

a) Non-current provisions

Provisions for the outstanding urban development costs of UE-1. –

As a result of restructuring the financial debt of Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. (hereinafter, “DUE”), a former subsidiary, the Company granted a loan for a maximum of 85,000 thousand euros, the purpose of which, among others, is to finance the development of the project implemented by DUE and to cover the costs of the work yet to be carried out on the UE-1, up to an amount of no more than 20,000 thousand euros. The loan accrues contingent interest, based on compliance with certain conditions. At 31 December 2017 and 2016, no finance income was accrued in this connection. The Parent recognised a provision for the full amount of the loan granted to DUE.

The Parent has a restricted cash line of credit with BBVA to cover the outstanding execution costs of the UE-1, which is drawn when DUE shows that the development work has been carried out. At 31 December 2017, a total of 9,876 thousand euros had been drawn down (9,437 thousand euros at 31 December 2016).

Provisions for employee benefits -

This line item includes the retirement benefits and seniority bonuses of employees of SFL (Note 4-j).

Other non-current provisions -

In 2017, the subsidiary SFL reversed the provision for contingencies recognised in 2016 amounting to 2,070 thousand euros, given that a ruling was handed down on the lawsuit filed with one of its lessees in favour of the interests of the subsidiary SFL.

b) Current provisions

Additions to current provisions include 20,283 thousand euros, reflecting an estimate of the Parent's various future risks, which increased in 2017 by 7,662 thousand euros.

c) Contingent assets

In 2010, the Parent filed certain lawsuits against former directors for transactions carried out between June 2006 and December 2007 regarding the following corporate actions for liability, with the following currently in process:

- A corporate action for liability against certain former directors in relation to the purchase of assets by the Parent for reinvestment of the proceeds by the sellers in shares of the Company, as part of the 29 June 2006 capital increase or otherwise.

- A corporate action for liability against certain former directors in connection with the losses caused by the acquisition of shares of Riofisa in 2007.

Given that the aforementioned lawsuits relate to claims filed against third parties in favour of Colonial, the only contingency that may arise is the payment of legal costs in the event that both cases are lost. At 31 December 2017, the appropriate provision had been recognised to meet any potential costs.

16. Tax matters

a) Adherence to the REIT Tax Regime and dissolution of the tax group, both effective as of 1 January 2017

Up until 31 December 2016, the Parent was the head of a group of companies filing consolidated tax returns since 1 January 2008. This consolidated tax group included only subsidiaries incorporated in Spain, in which the Parent either directly or indirectly owns at least 75% of their share capital (this threshold falls to 70% in the case of listed subsidiaries) and has the majority of the voting rights.

In addition to the Parent, the consolidated tax group for 2016 included Danieltown Spain, S.L.U., Colonial Invest, S.L.U. and Colonial Tramit, S.L.U.

On 30 June 2017, the Parent chose to operate within the REIT Tax Regime (Note 1-a). Adherence to this tax regime entailed the dissolution of the Parent's tax group at 31 December 2016, effective as of 1 January 2017, and the outstanding adjustments to be recovered from the tax group.

In addition to the Parent, the following subsidiaries also chose to operate under the REIT Tax Regime: Danieltown Spain, S.L.U., Moorage Inversions 2014, S.L.U., Hofinac Real Estate, S.L.U. and Fincas y Representaciones, S.A.U.

Likewise, in 2017 the subsidiary Colonial Arturo Soria, S.L.U. was acquired, which had already chosen to operate under the REIT Tax Regime prior to 1 January 2017.

b) Tax receivables and tax payables

The breakdown of "Tax assets" in the accompanying consolidated statement of financial position is as follows:

	Thousands of euros			
	Current		Non-current	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Tax refunds receivable	2	45	-	-
Income tax refunds receivable	13,294	35,815	-	-
VAT refundable	6,819	8,829	-	-
Deferred tax assets	-	-	407	454
Total tax receivables	**20,115**	**44,689**	**407**	**454**

At 31 December 2016, "Income tax refunds receivable" included a balance in favour of the Parent of 35,625 thousand euros arising from minimum income tax prepayments made in 2016 and 2015. The amount of these prepayments corresponds to the minimum payment of 23% and 12% of the accounting result on the date of the prepayment, through the application of the temporary measures in effect for 2016 and 2015, respectively. In January 2017, the tax authorities refunded 23,512 thousand euros relating to the prepayments made by the Parent in 2015 that were included in the settlement for that year. In January 2018, the tax authorities refunded the remaining 12,113 thousand euros.

The breakdown of "Tax liabilities" in the accompanying consolidated statement of financial position is as follows:

	Thousands of euros			
	Current		Non-current	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Income tax payable	2,349	4,962	-	-
Other taxes payable	2,827	2,515	-	-
Exit tax payable (SFL Group)	8,437	6,159	21,390	9,314
VAT payable	5,206	3,692	-	-
Deferred tax liabilities	-	-	349,843	347,344
Total taxes payable	**18,819**	**17,328**	**371,233**	**356,658**

Exit tax SFL (Note 4-m)-

In 2017, the subsidiary SFL acquired Emile Zola, which qualified for the SIIC regime in December 2017, thus generating exit tax in the amount of 21,138 thousand euros, which must be paid in four equal annual payments between 2018 and 2021.

In 2016, the subsidiary SFL executed the call option in the finance lease agreement that it held on the Wagram 131 property (Note 8). This asset was subject to the SIIC regime, giving rise to the corresponding obligation to pay the exit tax totalling 13,012 thousand euros, which must be paid to the French tax authorities in four equal annual payments between 2017 and 2020.

c) Reconciliation of the accounting profit to the taxable profit

The following table reconciles pre-tax accounting profit and taxable profit after temporary differences:

	Thousands of euros	
	2017	2016
Accounting profit before tax (aggregate of individual expenses)	882,811	623,112
SFL profit subject to the SIIC regime (Note 4-m)	(812,025)	(496,315)
REIT profit (Note 4-m)	(8,715)	(*)
Permanent differences	(17,532)	(52,233)
Temporary differences	(20,512)	(8,667)
Aggregate taxable profit before offsetting tax losses	**24,027**	**65,897**
Offset of tax losses	-	(1,344)
Aggregate taxable profit	**24,027**	**64,554**
Recognised taxable profit	28,846	65,871
Unrecognised tax loss	(4,819)	(1,317)

(*) As mentioned above, the adoption of the REIT regime is effective as of 1 January 2017.

d) Reconciliation of income tax expense

Income tax -

Article 29 of Corporate Income Tax Law 27/2014, of 27 November, which entered into force on 1 January 2015, established a standard tax rate of 25% for taxpayers liable for this tax.

The above-mentioned Royal Decree Law also established the limit for tax loss carryforwards at 25% of the tax base, prior to their offset, for companies whose revenue is equal to or greater than 60 million euros

On 30 June 2017, the Parent chose to operate within the REIT Tax Regime, which is applicable effective as of 1 January 2017 (Note 1). After adhering to the REIT regime, the profit arising from REIT activities will be taxed at a rate of 0%, provided that the stipulated requirements are met (Note 4-m).

The breakdown of "Income tax expense" in the consolidated statement of comprehensive income for 2017 and 2016 is as follows:

	Thousands of euros	
	2017	2016
Corporate income tax expense	(9,842)	(22,322)
Deferred tax on the restatement of assets to their fair value (IAS 40)	(56,990)	(11,320)
Reduction in deferred liabilities due to the drop in the tax rate - France	13,779	-
Reduction in deferred liabilities due to reversal liability SIIC-4	72,159	-
New limit on tax loss carryforwards (Royal Decree Law 3/2016, of 2 December, on Corporate Income Tax)	-	(71,438)
Other non-primary components	4,053	(7)
Income tax expense	**23,159**	**(105,087)**

e) *Deferred tax assets*

The breakdown of the deferred tax assets recognised by the Group is as follows:

	Thousands of euros			
	Recognised for accounting purposes			
Deferred tax assets	31 December 2016	Additions	Derecognitions	31 December 2017
Valuation of financial instruments	346	24	(31)	339
Other	108	-	(40)	68
	454	**24**	**(71)**	**407**

Prior years' tax loss carryforwards –

The Corporate Income Tax in force as of 1 January 2016 stipulates that previous years' tax loss carryforwards may be offset in future years without any time limit, although it generally establishes an offset limit of 70% of taxable income, with a minimum of 1 million. In the event that the revenues recognised by the Company or the tax group fall between 20 million euros and 60 million euros, the offset is limited to 50% of taxable income, while if revenues are equal to or exceed 60 million euros the offset limit is reduced to 25% of taxable income.

As indicated above, some of the Group companies formed part of consolidated tax group 6/08, which means that certain transactions among companies included in the tax group were eliminated from the aggregate sum of the individual tax loss balances; they are not included in consolidated taxable profit until the gain or loss on the respective transaction is realised with third parties. In addition, the consolidated tax regime allowed companies with taxable profit to make use of the tax losses generated by other companies within the same consolidated tax group.

The following table reconciles the aggregate of the individual tax losses and the consolidated tax loss for 2016, the difference being the result of application of the foregoing adjustments to companies in the consolidated tax group:

	Thousands of euros	
	At companies that make up the consolidated tax group	At other Group companies
Aggregate of the individual tax loss carryforwards:	**5,398,777**	**5,038**
Adjustments for transactions among companies that make up the consolidated tax group	(9,614)	-
Adjustments for the offset of taxable profit and tax loss carryforwards among companies that make up the consolidated tax group	(9,642)	-
Total tax loss carryforwards of the Group at 31 December 2016	**5,379,521**	**5,038**

Following the dissolution of the Parent's tax group at 31 December 2016, effective as of 1 January 2017, the outstanding adjustments for transactions among the companies of the extinguished consolidated tax group, amounting to 9,614 thousand euros, were recovered, and the resulting tax losses were assigned to each of the companies of the group based on how they contributed to incurring these losses.

The following table shows the aggregate tax loss carryforwards to be offset by Spanish companies following the aforementioned dissolution of the tax group:

	Thousands of euros
Year	Companies forming part of the Group
2000	12,979
2001	5,468
2003	140
2004	38,516
2005	36
2006	25,053
2007	321,571
2008	1,200,383
2009	865,940
2010	530,185
2011	117,894
2012	88,977
2013	86,023
2014	16,624
2015	2,075,151
2016	996
2017	5,853
Total	**5,391,789**

Deferred tax asset for tax credit carryforwards

The nature and amount of unused tax credits at 31 December 2017 by the Group due to insufficient taxable profit in prior years, and the last years for offset are set out below:

	Thousands of euros		
Type	Year incurred	Amount	Last year for use
Double taxation tax credit			
	2008	6,553	n.a.
	2009	238	n.a.
	2010	227	n.a.
	2011	295	n.a.
	2012	168	n.a.
	2013	69	n.a.
	2014	135	n.a.
Tax credit for donations			
	2010	4	2020
	2011	4	2021
	2012	4	2022
	2013	6	2023
	2014	6	2024
	2015	9	2025
	2016	22	2026
Tax credit for training			
	2008	1	2023
	2009	1	2024
	2010	1	2025
Tax credit for reinvestment			
	2002	458	2017
	2003	3,316	2018
	2004	1,056	2019
	2005	92	2020
	2006	1,314	2021
	2007	7,275	2022
	2008	1,185	2023
	2009	434	2024
	2010	713	2025
	2011	39	2026
	2012	123	2027
	2013	112	2028
	2014	24	2029
		23,884	

Tax credit for reinvestment -

As set forth in prevailing legislation, for the tax credit for reinvestment of extraordinary gains to be applicable, the assets acquired with the proceeds must be held for a five-year period (three years, in the case of financial investments), unless the assets failing to comply with the deadline are reinvested within the prevailing timeframe. The terms for holding the amounts reinvested by the Parent are as follows:

	Thousands of euros	
	2018	2019
Reinvested by the Parent	8,786	18,701
Associated profit	946	188

The Parent's directors consider that the Parent will comply with the stipulated timeframes.

f) Deferred tax liabilities

The breakdown of deferred tax liabilities and the changes therein are provided below:

	Thousands of euros				
Deferred tax liabilities	31 December 2016	Additions	Additions to the scope of consolidation (Note 2-f)	Derecognitions	31 December 2017
Asset revaluations	340,650	56,990	32,495	(86,046)	344,089
Asset revaluations (Spain)-	*106,630*	*7,096*	*32,495*	*(108)*	*146,113*
Asset revaluations (France)-	*234,020*	*49,894*	-	*(85,938)*	*197,976*
Deferral for reinvestment	6,308	-	-	(1,150)	5,158
Other	386	-	121	-	596
	347,344	**56,990**	**32,616**	**(87,196)**	**349,843**

Deferred tax liability for asset revaluations –

This deferred tax liability relates mainly to the difference between the accounting cost of investment properties measured at fair value (under IFRS) and their tax cost (acquisition cost less depreciation and any impairment that may be deductible).

Asset revaluations (Spain)

This line item includes the deferred taxes associated with the Group's investment property located in Spain that would be accrued if these assets were transferred at the fair value at which they are recognised, using the effective rate that would be applicable to each of the companies taking into account applicable legislation and any unrecognised tax credits.

Following the adoption of the REIT Tax Regime, the changes in the deferred taxes recognised in 2017 relate mainly to the properties owned by the companies that did not choose to operate under this regime, i.e., Torre Marenostrum, S.L. and Inmocol Torre Europa, S.A., and to certain adjustments arising from corporate transactions. Accordingly, the deferred taxes associated with the investment property of Colonial Group companies, wholly owned by the Parent, were recognised at an effective rate of 18.75% (tax rate of 25% with a limit on tax loss carryforwards of 25%). Consequently, in calculating its deferred tax liabilities, the Group considers applying the deferred tax asset of 33,693 thousand euros arising from the tax losses (the difference between the 25% tax rate and the effective settlement rate applied of 18.75%).

Asset revaluations (France)

"Asset revaluations (France)" records the amount of the deferred taxes associated with the Group's investment property located in France, which would accrue if those assets are sold. It should be noted that practically all of the assets in France are subject to the SIIC regime (Note 4-m), and therefore no additional tax would arise at the time of their sale. Only the assets of the companies forming part of the Parholding subgroup would fall outside of that tax regime at 31 December 2017 and 2016.

The Colonial Group also recognised deferred tax under this heading in connection with the asset revaluations under the SIIC regime (the SIIC-4 liability), calculated as the minimum stipulated dividend under the regime, in the event that all capital gains on the investment properties recognised by the SFL Group are realised, taking into account an effective tax rate for the calculation of the deferred tax of 11.15% Following the adoption of the REIT Tax Regime, and given that the dividend distributed by the subsidiary SFL to the Parent will no longer be subject to this taxation, the deferred tax recognised in this connection amounting to 72,159 thousand euros was reversed.

In 2017 the subsidiary SFL recognised the impact of the gradual reduction in the French tax rate, which dropped from 33.33% to 25%, and which entailed a decrease in the deferred tax liabilities due to the adjustment made to assets of 13,779 thousand euros.

g) Years open to review and tax audits

The Group has the last four years open for review by the tax inspection authorities for all applicable taxes in Spain and France, except income tax of Spanish companies with tax loss carryforwards or unused tax credits, in which case the period under review for this tax is extended to ten years. In 2016 the Parent filed supplementary income tax returns for 2011 to 2014, breaking the statute of limitations for these years.

No additional material liability for the Group is expected to arise in the event of a new tax audit.

h) Disclosure requirements arising from REIT status, Law 11/2009, amended by Law 16/2012

The disclosure requirements arising from the status of the Parent and certain subsidiaries as REITs (Note 16-a) are included in the related notes to the individual financial statements.

i) Adherence to the Code of Best Tax Practices

On 10 December 2015, the Company's Board of Directors agreed to adhere to the Code of Best Tax Practices. This resolution was reported to the tax authorities on 8 January 2016.

17. Income and expenses

a) Revenue

Revenue comprises basically rental income from the Group's rental properties which are concentrated in the cities of Barcelona, Madrid and Paris. The breakdown of revenue, by geographical segment, in 2017 and 2016 is shown in the table below:

Rental segment	Thousands of euros	
	2017	2016
Barcelona	34,871	30,343
Madrid	52,270	42,558
Rest of Spain	366	362
Paris	195,780	198,137
	283,287	**271,400**

Revenue for 2017 and 2016 includes the effect of the lease incentives throughout the minimum term of the lease agreement (Note 4-n). Revenue also includes the accrued amounts received in connection to rights of entry (Note 14-e). At 31 December 2017 and 2016, these accruals increased revenue by 13,061 thousand euros and 33,908 thousand euros respectively.

At 31 December 2017 and 2016, the total minimum future lease payments receivable corresponding to the Group's non-cancellable operating leases, based on the leases currently in force at each date, without taking into account the impact of common expenses, future increases in the CPI or future contractual lease payment revisions based on market parameters, were as follows:

Minimum operating lease payments	Thousands of euros	
	Nominal amount	
	31 December 2017	31 December 2016
Within one year	268,060	274,007
Spain	*83,567*	*75,618*
France	*184,493*	*198,389*
1 to 5 years	562,568	664,884
Spain	*124,389*	*122,155*
France	*438,179*	*542,729*
More than five years	141,118	247,678
Spain	*16,492*	*6,405*
France	*124,626*	*241,273*
Total	**971,746**	**1,186,569**
Spain	***224,448***	***204,178***
France	***747,298***	***982,391***

b) Other operating income

This heading relates mainly to property services rendered, and amounted to 2,714 thousand euros and 3,057 thousand euros at 31 December 2017 and 2016, respectively.

c) Staff costs

The breakdown of "Staff costs" in the accompanying consolidated statement of comprehensive income is as follows:

	Thousands of euros	
	2017	2016
Wages and salaries	18,092	14,849
Social security costs	6,580	5,561
Other employee benefit expenses	4,710	2,278
Contributions to defined benefit plans	239	235
Internal reallocation	(686)	(630)
Total staff costs	**28,936**	**22,293**
Spain	***13,527***	***9,287***
France	***15,409***	***13,006***

"Other employee benefit expenses" includes amounts corresponding to costs accrued in 2017 under the Parent's long-term remuneration plan (Note 18-a) and SFL's share option plan detailed in Note 18-c, totalling 2,880 thousand euros (2,260 thousand euros in 2016).

The contributions made by the Parent in 2017 and 2016 to defined benefit plans amounted to 239 thousand euros and 235 thousand euros, respectively, and are recognised under "Staff costs" in the consolidated statement of comprehensive income. At year-end 2017 and 2016, there were no contributions payable to this pension plan.

The Group headcount at 31 December 2017 and 2016, and the average headcount in 2017 and 2016, by job category and gender, is as follows:

	Number of employees				Average headcount, 2017		Average headcount, 2016	
	2017		2016					
	Men	Women	Men	Women	Men	Women	Men	Women
General and area managers	14	6	12	5	13	5	12	5
Technical graduates and middle managers	32	37	29	32	33	32	27	30
Clerical staff	16	53	18	49	16	52	16	50
Other	5	3	4	1	4	2	1	1
Total employees	**67**	**99**	**63**	**87**	**66**	**91**	**56**	**86**

d) Other operating expenses

The breakdown of "Other operating expenses" in the consolidated statement of comprehensive income is as follows:

	Thousands of euros	
	2017	2016
External and other expenses	17,979	9,621
Taxes other than income tax	22,942	23,860
Total other operating expenses	**40,921**	**33,481**

Operating leases as lessee -

At the end of 2017, the subsidiary Utopicus had agreed the following minimum lease payments with the lessors, based on the leases in force, without taking into account the charging of expenses, future increases in the CPI or other lease payment revisions:

	Thousands of euros
	2017
Less than 12 months	282
1 to 5 years	832
More than 5 years	348
Total minimum operating lease payments as lessee	**1,461**

These amounts relate to the lease agreements signed by Utopicus for the premises at which it offers its co-working services.

e) Net change in provisions

The changes in "Net change in provisions" in the consolidated statement of comprehensive income during the year are as follows:

	Thousands of euros	
	2017	2016
Net charge to operating provisions (Note 15)	(5,592)	(1,929)
Net charge to provisions for doubtful debts and other	(112)	(826)
Total net change in provisions	**(5,704)**	**(2,755)**

f) Changes in the fair value of investment property and Losses due to impairment of assets

The breakdown of “Changes in fair value of investment property” in the consolidated statement of comprehensive income for 2017 and 2016, by types, is as follows:

	Thousands of euros	
	2017	2016
Investment property (Note 8)	937,108	560,320
Non-current assets held for sale – Investment property (Note 21)	(3,673)	457
Changes in fair value of investment property	**933,435**	**560,777**
Spain	***218,014***	***122,737***
France	***715,421***	***438,040***

The breakdown, by nature, of the impairment losses recognised under “Losses due to impairment of assets” in the consolidated statement of comprehensive income is as follows:

	Thousands of euros	
	2017	2016
Impairment/ (Reversal of impairment) of properties for own use (Note 7)	(287)	3,159
Impairment of other property, plant and equipment (Note 7)	(2,129)	-
Other impairment	(2,703)	-
Derecognitions of replaced assets (Notes 7 and 8)	(101)	(7,532)
Losses due to impairment of assets	**(5,220)**	**(4,373)**

g) Net gain/(loss) on sales of assets

The breakdown of the Group's net gains/(losses) on sales of assets (Notes 7, 8 and 21), and their geographical distribution, is detailed as follows:

	Thousands of euros					
	Spain		France		Total	
	2017	2016	2017	2016	2017	2016
Sale price	6,435	17,054	445,000	-	451,435	17,054
Asset derecognition	(5,242)	(16,240)	(404,679)	-	(409,921)	(16,240)
Derecognition grace periods	-	-	(40,321)	-	(40,321)	-
Indirect costs and other	(666)	(963)	-	-	(666)	(963)
Net gain/(loss) on sales of assets	**527**	**(149)**	**-**	**-**	**527**	**(149)**

The carrying amount of the In&Out building sold by the subsidiary SFL already took into account the price of the sale commitment signed on 25 July 2017, which is the reason this sale did not generate any profit at the time of sale.

h) Finance income and costs

The breakdown of financial loss in 2017 and 2016, by type, is as follows:

	Thousands of euros	
	2017	2016
Finance income:		
Revenue from equity investments (Note 9-b)	3,681	-
Other interest and similar income	1,435	1,220
Income from derivative financial instruments (Note 13)	95	1,162
Capitalised borrowing costs (Note 4-c)	2,591	1,177
Total finance income	**7,802**	**3,559**
Finance costs:		
Interest and similar expense	(86,429)	(81,988)
Finance costs associated with the repurchase of bonds	-	(20,904)
Expense on derivative financial instruments (Note 13)	(417)	(4,902)
Total finance costs	**(86,846)**	**(107,794)**
Impairment of financial assets	**(401)**	**(648)**
Total financial loss	**(79,445)**	**(104,883)**

"Finance costs associated with the repurchase of bonds" in 2016 included the costs borne by the Parent to repurchase issued bonds.

i) Related party transactions

The main related party transactions undertaken in 2017 and 2016 were as follows:

	Thousands of euros	
	2017	2016
	Building leases	Building leases
Gas Natural, SDG, S.A. (*)	5,227	5,234
Total	**5,227**	**5,234**

(*) Gas Natural, SDG, S.A. is the shareholder of the Parent in the subsidiary Torre Marenostrum, S.L.

j) Results by company

The contribution of the consolidated companies to consolidated profit for the year was as follows:

Company	Thousands of euros					
	Consolidated net profit		Net profit attributable to non-controlling interests		Net profit for the year attributable to the Parent	
	2017	2016	2017	2016	2017	2016
Inmobiliaria Colonial, SOCIMI, S.A.	154,306	54,131	-	-	154,306	54,131
SFL subgroup	868,431	511,645	(395,002)	(284,533)	473,429	227,112
Torre Marenostrum, S.L.	4,505	2,658	(1,954)	(1,124)	2,551	1,534
Danieltown Spain, S.L.U.	3,311	3,548	-	-	3,311	3,548
Moorage Inversiones 2014, S.L.U.	5,194	(9,610)	-	-	5,194	(9,610)
Hofinac Real Estate, S.L.U.	32,494	(802)	-	-	32,494	(802)
Fincas y representaciones, S.A.U.	3,345	(2,265)	-	-	3,345	(2,265)
Inmocol Torre Europa, S.A.	1,993	-	(1,037)	-	956	-
Colonial Arturo Soria, S.L.U.	3,511	-	-	-	3,511	-
Agisa, S.A.U.	1,842	-	-	-	1,842	-
Soller, S.A.U.	2,421	-	-	-	2,421	-
Peñalvento, S.L.U.	2,019	-	-	-	2,019	-
Utopic_US subgroup	(2,917)	-	65	-	(2,852)	-
Colonial Invest, S.L.U.	(2)	(1)	-	-	(2)	(1)
Colonial Tramit, S.L.U.	(2)	-	-	-	(2)	-
Total	**1,080,451**	**559,304**	**(397,928)**	**(285,657)**	**682,523**	**273,647**

18. Share option plans

a) Long-term remuneration plan linked to fulfilment of several management indicators

On 21 January 2014, shareholders at the Parent's General Shareholders' Meeting set up a long-term remuneration plan for the Chairman and the Managing Director of the Parent and for members of the Group's Management Committee, applicable from 2014 to 2018.

Between 1 and 15 April of each of the following periods, at the proposal of the Nomination and Remuneration Committee, the Board of Directors must determine the number of shares that correspond to each beneficiary of the plan based on fulfilment of the previous year's indicators. The shares will be delivered to the beneficiaries between 15 and 30 April each year.

Shares received under this plan may not be sold or transferred by beneficiaries within the first three years of receiving them, except as required to pay any taxes chargeable in this regard.

The determination of shares to be allocated will be subject to a final adjustment to ensure that the cash value of the shares does not exceed the average Colonial share price for November 2013 by more than 150%.

The plan includes the customary clauses to adapt the number of shares to be received by the beneficiaries in cases of dilution.

In 2017 and 2016, the Parent recognised 1,334 thousand euros and 1,146 thousand euros respectively under “Staff costs - Other employee benefit expenses” in the consolidated statement of comprehensive income to cover the incentive plan (Note 17-c).

On 26 April 2017, the Parent settled the outstanding obligations relating to compliance with the plan once the Board determined the number of shares to be delivered to the beneficiaries of the Plan in accordance with the level of fulfilment of indicators for 2016, which would be 380,116 shares (Note 11). The shares were delivered to the beneficiaries on this date. Of these shares, 175,814 shares were delivered to members of the Board of Directors and 138,140 shares to members of senior management, with a market value upon delivery of 1,257 thousand euros and 988 thousand euros, respectively.

On 11 April 2016, the Board determined the number of shares to be delivered to beneficiaries of the Plan in accordance with the level of fulfilment of indicators for 2015, which would be 365,116 shares (Note 11). The shares were delivered to the beneficiaries on 29 April 2016. Of these shares, 175,814 were delivered to members of the Board of Directors and 138,140 to members of senior management, with a market value upon delivery of 1,196 thousand euros and 939 thousand euros, respectively.

b) Extension of the term of the long-term remuneration plan linked to fulfilment of several management indicators

On 29 June 2017, the shareholders at the General Shareholders' Meeting agreed to extend the term for applying the share delivery plan approved at the General Shareholders' Meeting held on 21 January 2014 for an additional two years, in accordance with the terms and conditions thereof.

c) Share option plans on SFL shares

The subsidiary SFL had two bonus share plans at 31 December 2017, the breakdown of which is as follows:

	Plan 3	Plan 4	Plan 4
Meeting date	22.04,2015	13.11,2015	13.11,2015
Date of Board of Directors' Meeting	17.06,2015	26.04,2016	03.03,2017
Initial target number	27,328	32,036	33,376
Initial expected %	70.83%	70.83%	70.83%
Initial expected number	19,356	22,691	23,640
Amount per share (euros)	36.08	41.49	42.61
Options cancelled	(2,064)	(912)	(784)
Expected % at year-end	150.00%	100.00%	100.00%
Estimated number at year-end	37,895	31,124	32,592

Each allocation plan has been calculated based on the expected number of shares multiplied by the unit fair value of those shares. The expected number of shares is the total number of shares multiplied by the expected percentage of take-up in the grant. The resulting amount is charged on a straight-line basis over the grant period.

The fair value of the shares allocated is determined by the quoted price at the grant date, adjusted by the discounted value of future dividends paid during the acquisition period applying the Capital Asset Pricing Model (CAPM).

At 31 December 2017 and 2016, a total of 1,546 thousand euros and 1,114 thousand euros were recognised in the consolidated statement of comprehensive income relating to these bonus share plans (Note 17-c).

19. Balances with related parties and associates

At 31 December 2017 and 2016 the Group did not have any balances outstanding with related parties and associates.

20. Remuneration and other benefits to the Board of Directors and senior management

a) Composition of the Parent's Board of Directors

The Parent’s Board of Directors was made up of nine men and one woman at 31 December 2017, and ten men and one woman at 31 December 2016.

At 31 December 2017, the composition of the Parent's Board of Directors is as follows:

Director	Position	Type of director
Juan José Brugera Clavero	Chairman	Executive
Pedro Viñolas Serra	Chief Executive Officer	Executive
Carlos Fernández González	Director	Proprietary
Sheikh Ali Jassim M. J. Al-Thani	Director	Proprietary
Adnane Mousannif	Director	Proprietary
Juan Carlos García Cañizares	Director	Proprietary
Carlos Fernández-Lerga Garralda	Lead Director	Independent
Ana Sainz de Vicuña	Director	Independent
Javier Iglesias de Ussel Ordís	Director	Independent
Luis Maluquer Trepat	Director	Independent

In 2017, Juan Villar-Mir de Fuentes resigned from his position as director.

Carlos Fernández González and Adnane Mousannif were appointed as directors in 2016. Directors Francesc Mora Sagués and Grupo Villar Mir, S.A.U. left the Board in 2016, and Luis Maluquer Trepat was reclassified from other director to independent director.

Pursuant to Article 229 of the Spanish Limited Liability Companies Law, the directors have reported that neither they nor any parties related thereto have any direct or indirect conflict with the interests of the Parent.

b) Remuneration of Board members

The breakdown of the remuneration received in 2017 and 2016 by the members of the Board of Directors of the Parent, by item, is as follows:

31 December 2017

	Thousands of euros		
	Parent	Other Group companies	Total
Remuneration earned by executive directors (*):	**4,866**	**150**	**5,016**
Attendance fees of non-executive directors:	**580**	**95**	**575**
Directors' attendance fees	557	95	652
Additional attendance fees of the Chairman and Deputy Chairman	23	-	23
Attendance fees of executive directors:	-	**50**	**50**
Fixed remuneration of non-executive directors:	**780**	**100**	**880**
Directors' remuneration	495	60	555
Additional remuneration of the Audit and Control Committee	135	40	175
Additional remuneration of the Nomination and Remuneration Committee	150	-	150
Fixed remuneration of executive directors:	-	**70**	**70**
Total 2017	**6,226**	**465**	**6,691**

Remuneration earned by executive directors (*):	4,866	270	5,136

(*) Does not include the amount corresponding to expenses accrued in relation to the long-term incentive plan described in Note 18.

31 December 2016

	Thousands of euros		
	Parent	Other Group companies	Total
Remuneration earned by executive directors (*):	**2,610**	**150**	**2,760**
Attendance fees of non-executive directors:	**535**	-	**535**
Directors' attendance fees	521	-	521
Additional attendance fees of the Deputy Chairman	14	-	14
Attendance fees of executive directors:	-	-	-
Fixed remuneration of non-executive directors:	**897**	**90**	**987**
Directors' remuneration	546	90	636
Additional remuneration of the Executive Committee	66	-	66
Additional remuneration of the Audit and Control Committee	150	-	150
Additional remuneration of the Nomination and Remuneration Committee	135	-	135
Fixed remuneration of executive directors:	-	**60**	**60**
Total 2016	**4,042**	**300**	**4,342**
Remuneration earned by executive directors (*):	2,610	210	2,820

(*) Does not include the amount corresponding to expenses accrued in relation to the long-term incentive plan described in Note 18.

At 31 December 2017 and 2016, the Parent had a civil liability insurance policy covering all of its directors, executives and staff, with a premium of 393 thousand euros and 302 thousand euros, respectively. The aforementioned amount includes for the insurance premium paid for both periods for civil liability insurance to cover damages caused by acts or omissions.

The shareholders at the General Shareholders' Meeting held on 28 June 2016 approved the granting of a defined-contribution scheme for executive directors covering retirement and, when applicable, disability and death. At 31 December 2017 and 2016, the Parent recognised 178 thousand euros and 175 thousand euros, respectively, in this connection under “Staff costs” in the consolidated statement of comprehensive income.

In addition to the matters indicated in the preceding paragraph, the Group has not granted any loans and has not taken out any pension plans or life insurance for former or serving members of the Board of Directors of the Parent.

At 31 December 2017 and 2016, two members of the Board of Directors had signed golden parachute clauses in the event of certain cases of termination or change of control, all of which were approved at the General Shareholders’ Meeting.

In 2017 and 2016, there were no finalisations, modifications or early terminations of contracts outside of the normal business activities between the Parent and the members of the Board of Directors or any other person acting on their behalf.

c) Remuneration of senior management

The Parent’s senior management team is formed by senior executives and other persons responsible for the management of the Company, reporting to the CEO. The Company’s senior management team was made up of two men and two women at 31 December 2017 and 2016.

Monetary compensation earned by senior management in 2017 amounted to 1,918 thousand euros. Furthermore, they received 988 thousand euros corresponding to the long-term incentives plan (1,081 thousand euros and 939 thousand euros, respectively, in 2016).

At its meeting held on 27 July 2016, the Board of Directors approved the granting of a defined-contribution scheme for a member of senior management covering retirement and, when applicable, disability and death. At 31 December 2017 and 2016, the Parent recognised 61 thousand euros and 60 thousand euros, respectively, in this connection under "Staff costs" in the consolidated statement of comprehensive income.

At 31 December 2017 and 2016, one member of senior management had signed a golden parachute clause, in the event of termination under certain circumstances or a change of control.

21. Non-current assets held for sale

The movements under this heading in 2017 and 2016 were as follows:

	Thousands of euros
	Investment property
Balance at 31 December 2015	**12,727**
Additions	60
Disposals (Note 17-g)	(13,550)
Transfers	306
Changes in value (Note 17-f)	457
Balance at 31 December 2016	**-**
Transfers (Note 8)	408,352
Disposals (Note 17-g)	(404,679)
Changes in value (Note 17-f)	(3,673)
Balance at 31 December 2017	**-**

Investment property (Note 8) -

Movements in 2017

In the first half of 2017, the subsidiary SFL transferred the In&Out building from "Investment property" in the consolidated statement of financial position amounting to 408,352 thousand euros. The value of the property at 30 June 2017 took into consideration the price of the sale commitment signed by the subsidiary SFL on 25 July 2017, which amounted to 445,000 thousand euros, less transaction costs. In September 2017, the sale commitment was executed for the aforementioned amount (Note 17-g).

"Changes in value of investment property" in the consolidated statement of comprehensive income includes the loss of 3,673 thousand euros and the profit of 457 thousand euros from the revaluation of the non-current assets held for sale for 2017 and 2016 (Note 17-f), respectively, in accordance with the appraisals of independent experts at 31 December 2017 and 2016 (Note 4-c).

Movements in 2016

The Company's directors re-evaluated the sale assumptions for the assets recognised under this heading of the consolidated statement of financial position and, therefore, their carrying amount was transferred to "Investment property" in the consolidated statement of financial position.

On 21 September 2016, the Parent sold the asset located at calle Ausias March in Barcelona for 15,000 thousand euros, obtaining profit net of costs totalling 557 thousand euros (Note 17-g).

22. Auditors' fees

Fees incurred for auditing services in 2017 and 2016 provided to the various companies composing the Colonial Group by the principal auditor and other auditors are set forth below:

Description	Thousands of euros			
	2017		2016	
	Principle auditor	Other auditors	Principle auditor	Other auditors
Audit services	569	239	535	323
Other attest services	91	3	137	-
Total audit and related services	**660**	**242**	**672**	**323**
Tax advisory services	-	-	-	-
Other services	135	542	161	20
Total professional services	**135**	**542**	**161**	**20**

The principal auditor of the Colonial Group for 2017 was PricewaterhouseCoopers Auditores, S.L., whereas the Group's principal auditor for 2016 was Deloitte, S.L.

The fees for other attest services include 88 thousand euros relating to services provided to the Parent for issuing comfort letters and agreed-upon procedure reports on ratios linked to financing agreements.

The principal auditor's fees represent less than 1% of the Group's billings in Spain.

23. Events after the reporting date

From 31 December 2017 to the date on which these consolidated financial statements were authorised for issue, no significant events took place and there were no additional matters worthy of mention apart from the following:

a) Acquisition of LE Offices Egeo, S.A.U.

On 16 January 2018, the Parent acquired 100% of the share capital of the Spanish company LE Offices Egeo, S.A.U. (hereinafter "Egeo"), the owner of an office building located in Madrid. The acquisition price was 49,098 thousand euros, plus associated acquisition costs. In addition, in 2018, the loan held by Egeo with a financial institution for 30,182 thousand euros, including interest, was cancelled early.

b) Business combination between Inmobiliaria Colonial SOCIMI, S.A. (acquiring company) and Axiare Patrimonio SOCIMI, S.A. and subsidiaries (acquired companies)

As indicated in Note 9-c to these consolidated financial statements, the Parent launched a takeover bid for all share capital of Axiare Patrimonio SOCIMI, S.A., the acceptance period of which was from 29 December 2017 to 29 January 2018, both inclusive.

On 2 February 2018, the Spanish National Securities Market Commission published the result of the takeover bid, which was accepted for 45,912,569 shares, representing 81.55% of the shares targeted by the takeover bid and 58.07% of the share capital of Axiare Patrimonio SOCIMI, S.A., which entailed the payment of 842,955 thousand euros.

With this expenditure, the value of the ownership interest in Axiare Patrimonio SOCIMI, S.A. amounted to 1,262,232 thousand euros, including the value of the ownership interest at 31 December 2017, which totalled 419,277 thousand euros (Note 9-b).

Accordingly, taking into consideration the shares already held by the Parent, it now holds 68,674,633 shares, representing the 86.86% of the share capital of Axiare Patrimonio SOCIMI, S.A., and may not exercise the rights of forced sale and purchase.

Reason for the business combination -

As explained in the prospectus of the takeover bid, with the acquisition of Axiare, the Colonial Group consolidated its position as the European platform in the prime office market of Paris, Madrid and Barcelona. Axiare's asset portfolio at

30 September 2017, with 74% relating to offices, of which 93% are located in Madrid, clearly complements the Colonial Group's strategy, which consists of investing in the office markets of Madrid, Barcelona and Paris, with a focus on high-quality buildings. The acquisition of Axiare will enable Colonial to increase the value of its current portfolio and therefore obtain a real estate asset portfolio valued at approximately 10,000 million euros, thus increasing the Group's exposure in Spain. Furthermore, the synergies with the acquisition of Axiare may represent a savings in operating costs. Accordingly, it will potentially enable Axiare's financing structure to be optimised as a result of its inclusion in the Group with a credit rating of BBB by Standard & Poor's and Baa2 by Moody's.

Financial information of Axiare Patrimonio SOCIMI, S.A. -

In accordance with the consolidated financial statements authorised for issue on 14 February 2018, the consolidated equity of Axiare Patrimonio SOCIMI, S.A. and subsidiaries at 31 December 2017 amounts to 1,242,244 thousand euros.

At the date of preparation of these consolidated financial statements, there was no financial information available relating to the date of acquisition and, therefore, the effect of the business combination could not be calculated and the value of the assets and liabilities acquired could not be determined.

The most recent financial information available relates to the consolidated statement of financial position of Axiare Patrimonio SOCIMI, S.A. and subsidiaries at 31 December 2017, which is as follows:

ASSETS	31 December 2017	LIABILITIES	31 December 2017
		EQUITY	**1,242,244**
Intangible assets	1,783		
Property, plant and equipment	663		
Investment property	1,722,655		
Non-current financial assets	21,916	Bank borrowings and	
Deferred tax assets	7,528	other financial liabilities	636,414
Other non-current assets	470	Other non-current liabilities	11,388
NON-CURRENT ASSETS	**1,755,015**	**NON-CURRENT LIABILITIES**	**647,802**
		Bank borrowings and	
Trade and other receivables	11,335	other financial liabilities	37,711
Tax assets	7,282	Trade payables	11,979
Cash and cash equivalents	167,979	Tax liabilities	1,875
CURRENT ASSETS	**186,596**	**CURRENT LIABILITIES**	**51,565**
TOTAL ASSETS	**1,941,611**	**TOTAL EQUITY AND LIABILITIES**	**1,941,611**

The net consolidated profit of Axiare Patrimonio SOCIMI, S.A. and subsidiaries for 2017 amounted to 218,238 thousand euros.

24. Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Group in Spain (see Note 2-a). Certain accounting practices applied by the company that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

APPENDIX

Companies included in the scope of consolidation

At 31 December 2017 and 2016, the fully consolidated subsidiaries and the information thereon were as follows:

	% shareholding				Shareholder	Line of business
	Direct		Indirect			
	31.12.17	31.12.16	31.12.17	31.12.16		
Torre Marenostrum, S.L. (*) Avda. Diagonal 532 08006 Barcelona (Spain)	55%	55%	-	-		Real estate
Colonial Invest, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Colonial Tramit, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Danieltown Spain, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Moorage Inversiones 2014, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Hofinac Real Estate, S.L.U. (*) Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Fincas y representaciones, S.A.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	100%	-	-		Real estate
Inmocol Torre Europa, S.A. (*) Avda. Diagonal 532 08006 Barcelona (Spain)	50%	-	-	-		Real estate
Colonial Arturo Soria, S.L.U. Avda. Diagonal 532 08006 Barcelona (Spain)	100%	-	-	-		Real estate
Almacenes Generales Internacionales, S.A.U. Pº de la Castellana, 52 28046 Madrid (Spain)	100%	-	-	-		Real estate
Soller, S.A.U. Pº de la Castellana, 52 28046 Madrid (Spain)	100%	-	-	-		Real estate
Peñalvento, S.L.U. Pº de la Castellana, 52 28046 Madrid (Spain)	-	-	100%	-	Almacenes Generales Internacionales, S.A.U.	Real estate
Utopicus Innovación Cultural, S.L. Duque de Rivas, 5 28012 Madrid (Spain)	69.60%	-	-	-		Co-working
Zincshower, S.L.U. Duque de Rivas, 5 28012 Madrid (Spain)	-	-	100%	-	Utopicus Innovación Cultural, S.L.	Co-working
Colaboración e Innovación Tecnológica, S.L. Duque de Rivas, 5 28012 Madrid (Spain)	-	-	100%	-	Utopicus Innovación Cultural, S.L.	Co-working

* Company audited in 2017 by PricewaterhouseCoopers

	% shareholding				Shareholder	Line of business
	Direct		Indirect			
	31.12.17	31.12.16	31.12.17	31.12.16		
Société Foncière Lyonnaise, S.A. (SFL) 42, rue Washington 75008 Paris (France)	58.56%	58.55%	-	-		Real estate
Condorcet Holding SNC (**) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
Condorcet PROPCO SNC (**) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	Condorcet Holding SNC	Real estate
SCI Washington (*) 42, rue Washington 75008 Paris (France)	-	-	66%	66%	SFL	Real estate
SCI 103 Grenelle (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SCI Paul Cézanne (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
Segpim, S.A. (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Sale of real estate and provision of services
Locaparis, SAS (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	Segpim	Sale of real estate and provision of services
Maud, SAS (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SAS Société Immobilière Victoria (*) 42, rue Washington 75008 Paris (France)	-	-	100%	-	SFL	Real estate
SB2, SAS (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SB3, SAS (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SCI SB3 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SFL	Real estate
SAS Parholding (*) 42, rue Washington 75008 Paris (France)	-	-	50%	50%	SFL	Real estate
SCI Parchamps (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SAS Parholding	Real estate
SCI Pargal (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SAS Parholding	Real estate
SCI Parhaus (*) 42, rue Washington 75008 Paris (France)	-	-	100%	100%	SAS Parholding	Real estate

* Company audited in 2017 by PricewaterhouseCoopers
** Company audited in 2017 by Deloitte & Associés

At 31 December 2017, the Colonial Group companies were audited by PricewaterhouseCoopers Auditores, S.L., with the exception of the SFL Group, which was audited jointly by Deloitte and PricewaterhouseCoopers.

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Inmobiliaria Colonial, SOCIMI, S.A.
and Subsidiaries

Consolidated Management Report for the year ended 31 December 2017

1. Company situation

Macroeconomic context

According to activity data from the fourth quarter of 2017, certain continuity is expected regarding the growth acceleration of the global economy. This growth acceleration can be seen in both the advanced and emerging economies due to increased confidence by companies and consumers.

The Eurozone continues to show solid growth, exceeding initial expectations, coupled with increased confidence. Again, private consumption is the driving force of economic growth, thanks to favourable credit conditions; improvements in the labour market; and global economic recovery. On a political front, the first phase of Brexit negotiations has successfully concluded, with a pre-agreement between the EU and the UK. This breakthrough heralds the second phase of negotiations on the future trade agreement.

The Spanish economy continues to maintain positive growth, growing at rates above 3%.

In France, with the episode of risk aversion relating to the presidential elections safely behind them, the markets operate in a stable environment, and are driving business sentiment indicators. In this regard, France is leading the PMI Index in the Eurozone with 59.2 points.

Source: "La Caixa" monthly report

Rental market situation

Barcelona

During the fourth quarter of 2017, a total of 73,000 sq m of offices were signed in Barcelona, an increase of 42% compared to the previous quarter, with an amount of 51,514 sq m. The year 2017 closed with a cumulative take-up of 332,000 sq m. This represents an increase with respect to the previous year, confirming the positive trend of the Barcelona office market. Particularly worth mentioning is the 22@ district, the most sought after area in the city, resulting in a significant increase in the number of contracts.

In addition, it is worth mentioning the number of transactions above 5,000 sq m in the last quarter of 2017, with technology and pharmaceutical companies leading the demand. This dynamic resulted in the average vacancy rate in Barcelona continuing its downward trend, decreasing from 12.8% to 7.7% this last year. The vacancy rate in the CBD stood at 5.4%, at historically low levels.

It is important to point out that, due to the lack of large, quality spaces, especially in the city centre, there has been an increase in the number of pre-let transactions, which is quite unusual in the office market in Spain. Therefore, the immediate supply of new product continued to decline in all of the submarkets. As a consequence, maximum rents in the CBD during the fourth quarter of 2017 continued the positive trend which commenced in 2013, reaching rental levels of €23.3/sq m/month.

Madrid

During the fourth quarter of 2017, the take-up in Madrid was 213,000 sq m, with a significant increase with respect to the previous quarter, during which the take-up volume was 94,116 sq m. The cumulative figure reached in 2017 exceeds 560,000 sq m. This figure is the highest it has been in the last decade.

A good level of demand during the last three months of 2017, especially coming from the Public sector, substantially decreased available supply in the city centre. Demand was particularly high for quality refurbished buildings, mainly within the M-30.

Large transactions above 10,000 sq m, compared to the absence of these during the first nine months of the year, led to a vacancy rate decrease at 10.9%, compared to the previous quarter. In particular, the vacancy rate in the CBD was 7.0%.

From a supply point of view, in 2017, 238,000 sq m were made available on the market, of which 163,000 sq m related to refurbishments, upon completion of the works being carried out on 18 properties. Currently 255,000 sq m are under construction and refurbishment, and will be completed during 2018-2019. This figure is below the average of 300,000 sq m constructed during the previous cycle.

Prime rents during the fourth quarter of 2017 continued to increase, reaching €31.25/sq m/month, a figure 2.5% higher than the previous quarter and 10% higher than the previous year, thereby continuing a growing trend.

París

During the fourth quarter of 2017, take-up in the Paris region (Ile-de-France) exceeded 853,000 sqm, an historic high. The year 2017 had a cumulative take-up of 2,619,000 sq m, an 8% year-on-year increase and 15% higher than the average over the last ten years.

In terms of the transactions carried out, of special mention are the number of large transactions (from 5,000 sq m), reaching a total of 88 transactions in 2017, registering 23 transactions more than the previous year. Also worth mentioning is the transaction of SNCF at the SFR campus in Saint-Denis for 43,000 sq m. Demand remains strong from large companies as 52% of the spaces over 5,000 sq m transacted were for buildings pending construction.

Immediate supply of available office space fell below 3.4 million sq m, resulting in a vacancy rate of 6.4%. This decline in supply reached levels similar to the summer of 2009. Due to the lack of supply, a large part of the deliveries continues to be for pre-let spaces.

The vacancy rate in the CBD area stood at 3%, while the area with most availability is the Western Crescent with a vacancy rate of 11.8%.

Prime rental prices in the Paris CBD reached €775/sq m/year at the close of the fourth quarter of 2017, with several transactions above €760/sq m/year and one transaction over €800/sq m/year. Rents in La Défense reached €510/sq m/year.

Sources: Reports by Jones Lang Lasalle, Cushman & Wakefield, CBRE & Savills

Organisational structure and functioning

Colonial is the benchmark SOCIMI in the quality office market in Europe and since the end of June 2017 it is listed on the IBEX 35, the index of reference in the Spanish stock exchange.

The Company has a market capitalization of approximately Euro 3,800 million, with a free float of around 60%. It manages assets exceeding Euro 9,000 million.

The Company's strategy focuses on the generation of industrial value through the creation of a prime product of the highest quality through repositioning action and the transformation of property assets.

In particular, the strategy is based on the following pillars:

- A business model focusing on the transformation and creation of offices of the highest quality in prime locations, principally in CBD's (Central Business District).
- Maximum commitment to the creation of offices that respond to the highest demands of the market, placing special emphasis on efficiency and sustainability.
- A diversified pan- European strategy in the office markets in Barcelona, Madrid and Paris.
- An investment strategy that combines "Core" and "Prime Factory" acquisitions with "value added" components.
- A clearly industrial real estate approach to create value that exceeds the average in the market.

Colonial is now the European Company that most focuses on center city areas and leads the Spanish real estate market in terms of quality, sustainability and efficiency in its office portfolio.

An integral approach for all areas of Corporate Social Responsibility has been adopted and aspires to the highest standards of (1) sustainability and energy efficiency, (2) corporate governance and transparency as well as (3) excellence in HR and social actions, making them an integral part of the Group's strategy.

Over the past three years the Group has successfully executed its acquisition program and made investments exceeding Euro 1,500 million (committed amounts including future Capex). All acquisitions involve assets in good locations with good fundamentals, potential for additional returns through property repositioning, while always maintaining maximum financial discipline.

The capital structure is solid, with an LTV below 40% (one of the lowest in the sector) and one of the best ratings in the Spanish sector.

The Company's strategy involves consolidation as the prime office leader in Europe, placing special emphasis on the markets in Barcelona, Madrid and Paris:

- A solid capital structure with a clear vocation towards maintaining maximum credit rating standards-investment-grade.

- Attractive yields for shareholders based on recurring profitability combined with the creation of property value through "value added" initiatives.

2. *Business performance and results*

Introduction

Revenue totalled 283 million euros at 31 December 2017, and was generated by the Group's recurring business (property rentals).

Profit from operations amounted to 209 million euros.

According to the independent year-end appraisals by CB Richard Ellis, Jones Lang Lasalle and Cushman & Wakefield, the Group's investment property was revalued by 933 million euros in the year. This revaluations, which was registered in France as well as in Spain, is the result of a +12.2% increase like-for-like in the appraisal values of the assets in operation with respect to December 2016 (11.4% in Spain and 12.6% in France).

The Group capitalised 2.6 million euros of borrowing costs related to developments in progress.

The net finance cost amounted to 79 million euros, including 2.6 million euros relating to the finance costs of developments in progress that were capitalised.

Once the results attributable to the minorities of (398) million euros were deducted, the results after taxes attributable to the Group amounted to 683 million euros.

Annual results

The highlights of rental business are as follows:

2017 was an excellent year for the Colonial Group with a Total Shareholder Return of +21% due to an increase in the EPRA Net Asset Value per share of +19% in combination with a dividend yield of +2%.

This return is a consequence of a strategy of specialization on prime offices in the markets of Barcelona, Madrid and Paris, with an approach of real estate value creation – "Prime Factory" -, that priorities quality of return maintaining highest financial discipline.

The Group's successful strategy is reflected in all aspects of the financial and operating results for 2017:

1. Very solid operative parameters

> 99 signed contracts corresponding to more than 134,000 sq m and €48m in annual rental income

> EPRA vacancy at minimum levels of 4%. Barcelona stands out with 1%

> Maximum level of signed rental contract prices in all markets, setting the reference for prime rents

> Capturing rental price increases: +9% vs. ERV December 2016 and +13% of release spreads

2. A +4% like-for-like increase in rental income driven by rental price increases

3. An increase of +22% in recurring income, up to €83m, +14% on EPS

4. Disposal of the IN/OUT asset in Paris for €445m, a premium of +27% on 2016 valuation

5. An increase in asset value of +15% (+12% like-for-like), reaching €9,282m

6. An increase in the net attributable result of +149%, reaching €683m

7. An increase of +19% in Net Asset Value per share reaching €8.60/share

8. A robust capital structure with an LTV of 31%, €2,427m of liquidity and a solid investment grade rating by Standard & Poor's and Moody's

Increase in the recurring results

The recurring earnings amounted to €83m, an increase of 22%, compared to the previous year, mainly due to three factors:

1. A solid 4% year-on-year increase in rental income
2. An improvement in financial results
3. A lower corporate tax expense due to the conversion to SOCIMI

Growth in rental income

The Colonial Group achieved a +4% like-for-like growth in rental income compared to the close of the previous year. This increase is among the highest in the sector.

In Spain, the rental income increased +5% like-for-like, thanks to the strong performance of the Barcelona portfolio with an increase of +10% like-for-like. The Paris portfolio increased +4% like-for-like, with contracts signed on the Edouard VII, #Cloud and Percier buildings.

Real estate value creation

At the close of 2017, the asset value of the Colonial Group amounted to €9,282m (€9,741m including transfer costs), an increase of 12% like-for-like. Including the impact of the new acquisitions and the net sale of IN/OUT, the increase was 15% year-on-year.

The value of the assets in Spain increased by +11% like-for-like in the last 12 months. The portfolios in Madrid as well as Barcelona had +11% year-on-year growth each. It is important to highlight that more than half of the increase in asset values in Spain (+8% in Barcelona and +7% in Madrid) is a result of the increase in market rents on the properties. This increase in prices is based on the Colonial Group's capacity to capture the rental cycle growth with its prime portfolio.

The asset value of the Paris portfolio has increased +13% like-for-like in the last 12 months. An increase in prices makes up +2% of the growth. However, the majority of the value creation is due to projects of real estate transformation. Among these, the Galerie Champs Elysées, Louvre Saint Honoré, Edouard VII and Washington Plaza buildings are highlighted.

In general terms, the increase in asset values is a consequence of three factors:

1. A growing interest by investors in prime assets, driving down yields, especially in the Paris CBD market, which is one of the core markets that attracts the most investors on a global level

2. Rental price increases captured in recent quarters by the Colonial Group's portfolio in the three markets

3. The Group's industrial approach that enables superior value creation through portfolio repositioning and Prime Factory projects

Solid fundamentals in all segments

The Colonial Group's business has had an excellent performance with strong volumes of lettings, maintaining levels close to full occupancy.

Lettings with significant growth in rental prices

The Colonial Group has signed 99 rental contracts, corresponding to 134,831 sq m and an annual rental income of €48m. More than 59,000 sq m correspond to new contracts, mainly concentrated in the Barcelona market.

The Colonial Group's portfolio has captured significant increases in rental prices: +9% versus the ERV at December 2016 (Barcelona +10%, Madrid +8% & Paris +8%). In addition, the increase in renewals (Release Spread) was in the double digits in Spain (Barcelona +19% Madrid +11%).

In the Barcelona portfolio, close to 51,000 sq m were let. It is worth highlighting the 10,000 sq m signed in the fourth quarter corresponding to pre-let transactions by international technology companies. The maximum rental price signed was €23.5/sq m/month, establishing the prime benchmark rate.

In the Madrid portfolio, more than 62,000 sq m were let. The maximum rental price of €32/sq m/month was signed on a 5,000 sq m transaction for the Castellana 43 building.

In the Paris portfolio, more than 21,000 sq m were let in 28 transactions. The maximum office rental price in 2017 was €884/sq m/year signed in a transaction of more than 3,000 sq m on the Ozone building.

High occupancy levels

The excellent letting performance has enabled Colonial to achieve solid ratios close to full occupancy, clearly above the market average in the three cities in which the Group operates.

At the close of 2017, the EPRA vacancy of the Colonial Group was 4%. It is worth highlighting the Barcelona portfolio with only 1% vacancy. The Paris property portfolio had a 3% vacancy.

Vacancy in the Madrid portfolio reached 7%, mainly due to the entry into operation of the recently delivered Discovery project. Excluding this new product, the rest of the Madrid portfolio had a vacancy rate of 2%.

Active portfolio management and growth drivers

The growth strategy of the Colonial Group involves annual organic investments of around €400m in acquisitions of new assets, prioritizing off-market transactions, and identifying assets with value-added potential in market segments with solid fundamentals.

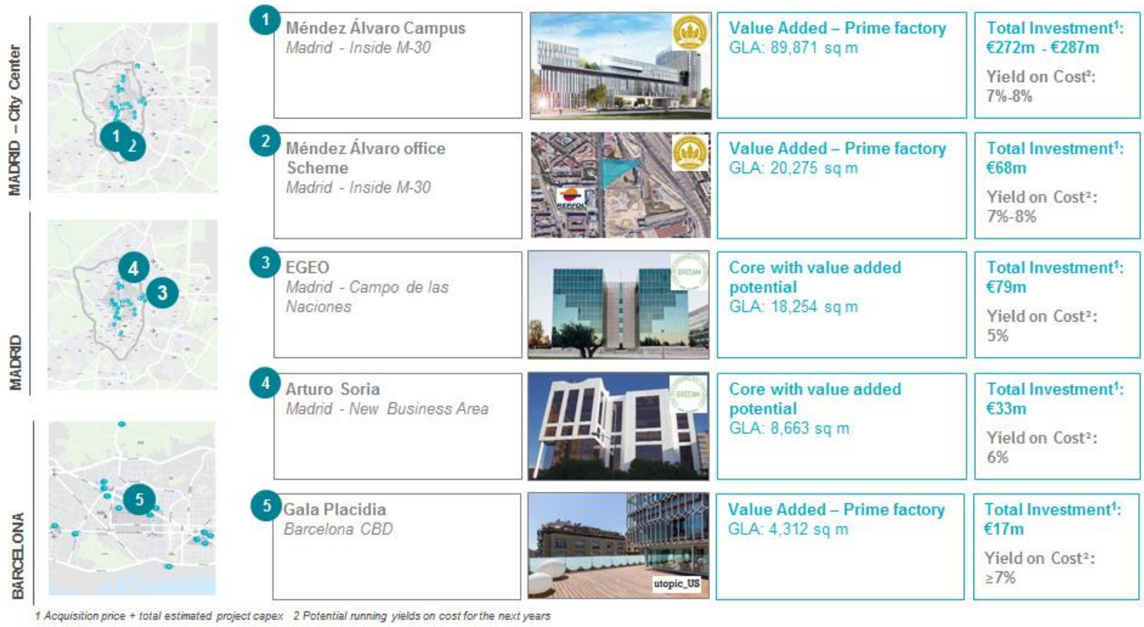
Alpha II acquisitions – achieving the 2017 investment objective

During the first quarter of 2017, the Colonial Group executed the Alpha II acquisition program, corresponding to the purchase of four assets for a total investment volume of almost €400m (acquisition price + future capex). Specifically, three development projects were acquired: Plaza Europa 34 in Barcelona, Paseo de la Castellana 163 in Madrid and 112-122 Av. Emile Zola in Paris, as well as the Spanish headquarters for the Bertelsmann Group, located in the Barcelona CBD.

Alpha III acquisitions – acceleration of the 2018 investment objective

Colonial commenced 2018 with the execution of the Alpha III project, which includes the acquisition of five assets, four in Madrid and one in Barcelona, with a total expected investment of €480m. The investment in Madrid consists of the development of more than 110,000 sq m of offices in the south of the CBD and of the acquisition of two top quality assets in new business areas in the capital. Additionally, Colonial has acquired an asset located in the CBD in Barcelona, where a complete refurbishment will be carried out with the objective of strengthening coworking initiatives.

The main characteristics of the Alpha III acquisitions are as follows:



The Arturo Soria building and the two Méndez Álvaro plots were purchased in 2017, while the EGEO and Gala Placídia assets were purchased in Barcelona in the first quarter of 2018.

Rotation of mature assets

The Colonial Group regularly reviews the potential of future value creation for each one of its assets in the portfolio. As a consequence of this analysis, in September 2017, the disposal of the In&Out office complex in Paris was completed for a price of €445m, representing a premium of +27% on the appraisal valuation prior to the disposal commitment. This sale represents the culmination of the process of real estate value creation for this asset: (1) the transformation of the building through a development project, (2) the signing of a long-term contract for the OECD headquarters, and finally (3) the disposal of the asset at one of the highest prices in this market segment.

The sale proceeds of this mature asset will be reinvested in new projects of the Group, such as the creation of the Emile Zola office complex in the 15th arrondissement in Paris with an approximate investment amount of €265m (purchase price + future capex).

Project portfolio – important source of future value creation

To date, Colonial has a project portfolio of more than 240,000 sq m to create top quality products that offer high returns and therefore future value creation with solid fundamentals.

In Madrid, two projects are highlighted which will be carried out on the plots of land acquired at Méndez Álvaro south of the Madrid CBD, as well as two projects, Príncipe de Vergara 112 and Castellana 163, in the Madrid CBD. In Barcelona, the Parc Glories and Plaza Europa 34 projects are highlighted.

In December 2017, the Discovery project was delivered with more than 10,000 sq m. This asset, located in the CBD, is currently in the commercialization phase.

In the Paris portfolio, it is important to mention three large projects: Emile Zola, Louvre St. Honoré and Iéna. All of them are located in the best areas of the French capital and together make up more than 44,000 sq m of new spaces with enormous value creation potential in the coming years.

Initiatives in the Proptech field

The Colonial Group's strategy involves taking advantage of initiatives in the Proptech field, which enable the Group to maximize the service provided to its clients and to be a leader in emerging trends in the offices sector.

(1) In October 2017, Colonial formalised the acquisition of a controlling stake in the Spanish platform Utopic_US, a leader in the field of flexible spaces and Coworking in Spain. With this acquisition, the Colonial Group has positioned itself in a new strategic line with the objective to complement and reinforce the user strategies of the Group, offering flexibility, integrated services and content.

(2) In August 2017, Colonial incorporated Aleix Valls, the former Managing Director of Mobile World Capital Barcelona, as Digital Senior Advisor to boost initiatives and strategies in the Proptech area of the company.

(3) Colonial is part of a think-tank created by six European companies specialized in the office business line in order to develop and boost best practices in the Proptech, Flexible Office Space, Digitalization and Sustainability fields.

Maximum standards in Corporate Social Responsibility (CSR) and Reporting

The Colonial Group maintains the maximum standards in Financial Reporting as well as Sustainability Reporting. For the third consecutive year, it has obtained the EPRA Gold Award in Financial Reporting, as well as the EPRA Gold Award in Sustainability Reporting for the second consecutive year. The Colonial Group is the only Spanish REIT company (SOCIMI) with the maximum rating in both categories.

Regarding the ratings in relation to CSR, the Colonial Group has achieved the GREEN STAR rating by GRESB, a benchmark institution in CSR ratings in the real estate sector on a global scale.

In addition, the SFL subsidiary has been awarded with the "BREEAM Awards 2017" for the responsible management of its portfolio and the strong commitment of its teams in sustainable development.

It is important to highlight that 93% of the Group's portfolio in operation has maximum Sustainability certificates (BREEAM/LEED), clearly positioning Colonial as a leader in the European offices sector.

Corporate Social Responsibility is an integrated part of Colonial's Group strategy to offer long-term sustainable returns.

Capital structure and share price performance

Active balance sheet management

The year 2017 was characterized by the proactive management of the capital structure to guarantee a solid balance sheet with sufficient flexibility at all times. In this respect, the following milestones are highlighted:

> April: Improvement in Colonial's rating to BBB with stable outlook and its French subsidiary to BBB+ in the following months

> May: Capital increase in the amount of €253m at €7.1/share, with a minimum discount on the share price and a neutral impact with respect to the last reported NAV

> May: Colonial's conversion to a SOCIMI (REIT) with a positive impact on recurring results and expanding Colonial's access to "REIT-only" investors, improving the liquidity of the share price on the stock exchange

> June: Inclusion of Colonial on the el IBEX35, the Spanish benchmark market index, increasing the liquidity of the security on the stock exchange

> October: Share buyback in the amount of €18m at an average price of €7.86/share (a discount of 3% over NAV at June)

> November: Announcement of the takeover bid on Axiare prior to acquisition of shares to hold a 28.8% stake before the takeover bid

> November: Bond issuance in the amount of €800m in two tranches: €500m at 8 years with a coupon of 1.625% and €300m at 12 years with a coupon of 2.5%

> November: Share placement for a volume of €416m at €7.89/share, a premium of +2% over the share price: €338m through the issue of new shares and €78m through the sale of treasury shares

> December: Approval of the takeover bid prospectus on Axiare and start of the acceptation period

The capital market has clearly supported the successful execution of the fulfilment of all of the milestones of the announced Business Plan. The value creation in terms of NAV per share and dividend return is clearly reflected in the share price performance with an annual revaluation of +26%, reaching a price of €8.3/share at the end of 2017, and outperforming the benchmark indices.

Successful takeover bid on Axiare

Colonial successfully executed a takeover bid on Axiare on 13 November 2017, reaching a stake of 87%.

It is important to highlight the following milestones in the process:

> 13/11/2017: Announcement of the takeover bid on Axiare prior acquisition of shares to obtain 28.8%, pre-takeover bid

> 28/12/2017: Approval of the takeover bid prospectus by the CNMV

> 29/12/2017: Start of the acceptance period

> 08/01/2018: Opinion of the Board of Directors of Axiare on the takeover bid

> 29/01/2018: End of the acceptance period of the takeover bid

The acquisition positions Colonial as a European office leader, with almost €10,000m of asset value, a portfolio of 1.7 million sq m of surface area in use and 330,000 sq m under development.

In addition, Colonial reinforces its bet on the office market in Spain, strengthening its positioning in Madrid.

With an 87% majority share in Axiare, the Colonial Group strengthens its growth strategy for the coming years offering an attractive return for the shareholders based on the combination of both companies.

3. Liquidity and capital resources

See "Capital management and risk management policy" under Note 12-m to the consolidated financial statements for the year ended 31 December 2017.

The average payment period (APP) of the Group's Spanish companies to its suppliers was around 31 days in 2017. With regard to payments made after the legally established period, note that these are primarily payments relating to works contracted and property refurbishment, which are paid within the payment terms stipulated in the contracts signed with the various contractors.

The Group has established two payment days per month to comply with the requirements set forth in Law 11/2013, of 26 July. Accordingly, invoices are received on the 5th and the 20th of each month and the related payments are made on the 5th and the 20th of the following month.

4. Risk management policies and objectives

Risk Management

Colonial is exposed to a variety of risk factors arising from the countries in which it operates and from the very nature of its activities. Colonial's Board of Directors is responsible for determining the risk management and control policy, identifying the Group's main risks, and implementing and supervising the Control and Risk Management System that Colonial has developed and which is the foundation for the efficient and effective management of risks throughout the organisation.

Section E of the Annual Corporate Governance Report sets out the main risks that arose during the year and the circumstances that prompted them. The risks associated with the Group's activities are described below.

Strategic risks:

The risks related to the sector and the environment in which the Group carries on its business, the markets in which it operates and the strategies adopted in order to carry out its activities are analysed below.

- Risks associated with the industry climate: The Colonial Group pays special attention to the economic, political, legal and social risks related to the countries in which it operates (Spain and France). The European real estate sector has maintained the dynamism of the previous year in spite of the political uncertainty and economic policies of the last year, characterised by reaching very significant investment levels. The maturity of the French real estate sector and the high level of investment in the Spanish real estate sector in recent years have enabled the Group to have a more optimistic outlook over the coming years in terms of increased returns from its investments and sustainable growth.
- Risks associated with a competitive sector: The real estate sector is characterised as being highly competitive, reaching high levels of investment in recent years, and was driven by specialised international investment funds and by listed real estate investment companies (REITs). The Colonial Group, which in 2017 chose to adhere to the special REIT tax regime, has maintained a benchmark position in the European real estate sector as a result of the high quality and value of its assets and its strategy of focusing mainly on its office rental activities in prime or central business district (CBD) areas. The successful investment and growth strategy implemented by the Colonial Group in 2015, 2016 and 2017, and the successful takeover bid for Axiare at the beginning of 2018 have strengthened the Group's position in the sector.
- Risks related to the value of assets: Every six months the Group carries out appraisals, through independent experts and by applying objective market criteria, on all of its property assets. Colonial 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 to optimise income and returns.

Corporate risks:

Risks relating to the organisational structure, corporate culture, corporate policies and key decision-making processes of the governing bodies are analysed.

- Reputational risk and risks concerning social commitment: The Colonial Group's corporate social responsibility policy sets out the principles and bases of the Group's voluntary commitment to its stakeholders. Management of these expectations forms part of the Group's objectives in terms of sustainability and creating value for these stakeholders.

- Corporate governance risk: The Group's management of corporate governance focuses on maintaining its commitment to continue making progress on a model based on the principles of efficiency, regulatory compliance and transparency, that are in line with the main international regulations and standards.

- Anticipation of new trends: As is the case with other sectors, the real estate sector requires continuous adaptation to emerging trends. The growing implementation of digitalisation in all sectors, the new technology supplied in the real estate sector, and the increase in co-working spaces results in constant changes that specifically affect the real estate sector. In 2017 the Colonial Group assigned specific resources and activities for the purpose of implementing these trends through the acquisition of a co-working platform and the development of digitalisation and new technologies in developing services and new business models the real estate sector.

Operational risks:

Operational risks refer to the risks arising from losses due to failures or flawed management of operations.

- Financial risks: The Group efficiently manages its financial risks with the aim of maintaining adequate levels of liquidity and debt, minimising borrowing costs and ensuring compliance with its business plans:

  - Risk of exposure to interest rate fluctuations: The management of this risk is to reduce interest rate volatility to limit and control the impact of interest rate fluctuations on profit and cash flows and to keep overall borrowing costs at reasonable levels. The Colonial Group analyses the arrangement of financial instruments to hedge interest rate fluctuations. A high percentage of the Group's gross financial debt is at fixed rates.

  - Risks relating to financing and debt: The Group's financial structure calls for diversification of its sources of financing, both by entity and by product and maturity. In 2017 the new bond issue amounting to 800 million euros, the improvement in the credit rating that is now BBB with a stable outlook and the arrangement of the new loan represented an improvement in the Group's financial structure, thus extending and diversifying the maturity of its debt. The Colonial Group's net financial debt is held at suitable levels, measured using the loan-to-value ratio, providing the Group with sufficient financial capacity to carry out both its projects and to take on important growth targets for the coming years.

  - Liquidity risk: As mentioned in the preceding paragraph, the Group has the necessary sources of financing to undertake its current projects in addition to those laid down in its business plan. The Group increased its capacity to attract capital and obtain liquidity and new lines of financing, whereby in 2017 it carried out two accelerated bookbuild offerings, launched a new bond issue and arranged a new loan.

- Asset management risks: Sustainable property management requires that the Group allocate a significant portion of its investments to acquiring, constructing, renovating and maintaining the high quality of its properties, which stand out as a result of their high energy efficiency. This property management strategy is a key part of the Group's organisation and business plan.

- Risk of loss or damage to property assets: The Colonial Group's properties are exposed to general risks of damage as a result of fires, flooding or other events, regardless of whether or not they are attributable to natural causes. Colonial has arranged hedges to cover the reconstruction costs of the properties it owns, as well as any damage caused to third parties.

- Security risk of information systems: The digital revolution brought about great benefits in innovation and growth, however, it also constitutes a source of new threats. The Group, aware of these growing threats, reviews the control measures to secure its information systems and to undertake and mitigate this risk.

Compliance risks:

Potential risks in relation to compliance with obligations arising from applicable legislation, agreements with third parties and obligations self-imposed by the Group, mainly through its Code of Ethics and Code of Conduct, are analysed.

- Regulatory compliance risks: The process of identifying and assessing risks of regulatory or contractual breach that may give rise to legal proceedings against the Group allows it to take the appropriate corrective measures to mitigate these risks or, where applicable, any possible impact thereof, through the controls established in the crime prevention model defined and implemented by the Group. The Company has also taken out insurance to cover any legal costs or possible damage against directors and executives.

- Tax risks: The Colonial Group must adhere to the general tax legislation of the countries in which it operates, as well as any specific regulations for the REIT regime. Accordingly, Colonial has a tax policy, a tax strategy and a tax risk management system, establishing adequate measures to control and monitor the management of risks in this connection.

Reporting risks:

In order to cover any reporting risks that may arise from errors or a failure to comply with requirements concerning the public information to be disclosed by the Group, and to ensure the reliability of this public information, Colonial has developed an Internal Control over Financial Reporting (ICFR) Organisational and Monitoring Model. Internal Audit is responsible for performing the necessary tests to verify compliance with the ICFR policies, manuals and procedures, validating the efficacy of the controls in place in these processes.

5. Events after the reporting period

From 31 December 2017 to the date on which these financial statements were authorised for issue, no significant events took place and there were no additional matters worthy of mention apart from the following:

a) Acquisition of LE Offices Egeo, S.A.U.

On 16 January 2018, the Parent acquired 100% of the share capital of the Spanish company LE Offices Egeo, S.A.U. (hereinafter "Egeo"), the owner of an office building located in Madrid. The acquisition price was 49,098 thousand euros, plus associated acquisition costs. In addition, in 2018, the loan held by Egeo with a financial institution for 30,182 thousand euros, including interest, was cancelled early.

b) Business combination between Inmobiliaria Colonial SOCIMI, S.A. (acquiring company) and Axiare Patrimonio SOCIMI, S.A. and subsidiaries (acquired companies)

As indicated in Note 9-c to these consolidated financial statements, the Parent launched a takeover bid for all share capital of Axiare Patrimonio SOCIMI, S.A., the acceptance period of which was from 29 December 2017 to 29 January 2018, both inclusive.

On 2 February 2018, the Spanish National Securities Market Commission published the result of the takeover bid, which was accepted for 45,912,569 shares, representing 81.55% of the shares targeted by the takeover bid and 58.07% of the share capital of Axiare Patrimonio SOCIMI, S.A., which entailed the payment of 842,955 thousand euros.

With this expenditure, the value of the ownership interest in Axiare Patrimonio SOCIMI, S.A. amounted to 1,262,232 thousand euros, including the value of the ownership interest at 31 December 2017, which totalled 419,277 thousand euros (Note 9-b).

Accordingly, taking into consideration the shares already held by the Parent, it now holds 68,674,633 shares, representing the 86.86% of the share capital of Axiare Patrimonio SOCIMI, S.A., and may not exercise the rights of forced sale and purchase.

Reason for the business combination -

As explained in the prospectus of the takeover bid, with the acquisition of Axiare, the Colonial Group consolidated its position as the European platform in the prime office market of Paris, Madrid and Barcelona. Axiare's asset portfolio at 30 September 2017, with 74% relating to offices, of which 93% are located in Madrid, clearly complements the Colonial Group's strategy, which consists of investing in the office markets of Madrid, Barcelona and Paris, with a focus on high-quality buildings. The acquisition of Axiare will enable Colonial to increase the value of its current portfolio and therefore reach a real estate asset portfolio valued at approximately 10,000 million euros, thus increasing the Group's exposure in Spain. Furthermore, the synergies with the acquisition of Axiare may represent a savings in operating costs. Accordingly, it will potentially enable Axiare's financing structure to be optimised as a result of its inclusion in the Group with a credit rating of BBB by Standard & Poor's and Baa2 by Moody's.

Financial information of Axiare Patrimonio SOCIMI, S.A. -

In accordance with the consolidated financial statements authorised for issue on 14 February 2018, the consolidated equity of Axiare Patrimonio SOCIMI, S.A. and subsidiaries at 31 December 2017 amounts to 1,242,244 thousand euros.

At the date of preparation of these consolidated financial statements, there was no financial information available relating to the date of acquisition and, therefore, the effect of the business combination could not be calculated and the value of the assets and liabilities acquired could not be determined.

The most recent financial information available relates to the consolidated statement of financial position of Axiare Patrimonio SOCIMI, S.A. and subsidiaries at 31 December 2017, which is as follows:

ASSETS	31 December 2017	LIABILITIES	31 December 2017
		EQUITY	**1,242,244**
Intangible assets	1,783		
Property, plant and equipment	663		
Investment property	1,722,655		
Non-current financial assets	21,916	Bank borrowings and	
Deferred tax assets	7,528	other financial liabilities	636,414
Other non-current assets	470	Other non-current liabilities	11,388
NON-CURRENT ASSETS	**1,755,015**	**NON-CURRENT LIABILITIES**	**647,802**
		Bank borrowings and	
Trade and other receivables	11,335	other financial liabilities	37,711
Tax assets	7,282	Trade payables	11,979
Cash and cash equivalents	167,979	Tax liabilities	1,875
CURRENT ASSETS	**186,596**	**CURRENT LIABILITIES**	**51,565**
TOTAL ASSETS	**1,941,611**	**TOTAL EQUITY AND LIABILITIES**	**1,941,611**

The net consolidated profit of Axiare Patrimonio SOCIMI, S.A. and subsidiaries for 2017 amounted to 218,238 thousand euros.

6. Future outlook

The outlook for the Madrid, Barcelona and Paris office markets is as follows:

Barcelona & Madrid

In the Spanish economy, it has been following a positive trend in certain aspects which have driven growth in the Spanish economy in recent years, in particular these are: 1) a favourable evolution of economic activity, positively impacting the employment market; 2) gains in competitiveness; 3) low interest rates and 4) a good outlook for bank credit. In addition, the labour market maintains a positive trend with 1,500,000 more registered workers affiliated to Social Security in the last 3 years.

In the Barcelona market, it is important to point out that, due to the lack of large, quality spaces, especially in the city centre, the forecasts suggest that many projects are going to be delivered already partially or totally pre-let. As a consequence, long-term forecasts remain positive, positioning Barcelona as one of the top European cities in terms of expected rental growth, with an annual growth above 3% between 2017 and 2022. On the other hand, Madrid is positioned as one of the European cities with the best rental growth forecast over the coming years until 2021.

Paris

The Paris market is one of the most important markets worldwide. The last few quarters saw clear signs of an improvement in demand, especially in CBD areas, where there is an apparent lack of prime rentals.

Consequently, leading consultants expect the positive trend that began at the end of 2014 to be consolidated for prime property rentals in CBD areas.

Regarding growth expectations, the main analysts have revised their forecasts upwards and growth is expected to reach 1.8 both in 2017 and 2018, compared to 1.1% in 2016.

Strategy for the future

The investment market showed record high take-up volumes. In the current climate of low interest rates, expectations are that investors will continue to be interested in the Paris market, as one of the Eurozone's major fields of office operations.

In this market context, Colonial is implementing a selective investment policy, in order to maximise value for its shareholders.

In particular, it has focused its efforts on acquiring top-quality properties in high-potential market areas, including assets with the wherewithal to become prime rentals through repositioning.

7. Research and development activities

As a result of the nature of the Group, its business activities and structure, Inmobiliaria Colonial, SOCIMI, S.A. does not habitually carry out any R&D activities.

8. Treasury shares

At 31 December 2017, the Company had 4,509,440 treasury shares with a nominal value of 11,274 thousand euros, which represents 1.04% of the Parent's share capital.

9. Other relevant information

On 10 December 2015, the Parent Company's Board of Directors agreed to adhere to the Code of Best Tax Practices. This resolution was reported to the tax authorities on 8 January 2016.

10. Alternative Performance Measures (European Securities and Markets Authority)

Below follows a glossary of the Alternative Performance Measures, including their definition and relevance for Colonial, in accordance with the recommendations of the European Securities and Markets Authority (ESMA) published in October 2015 (ESMA Guidelines on Alternative Performance Measures). These Alternative Performance Measures have not been audited or reviewed by the Parent.

Alternative Performance Measure .	**Calculation method**	**Definition/Relevance**
EBIT ***(Earnings before interest and taxes)***	Calculated as the "*Operating profit*" plus "*Changes in fair value of investment property*" and "*Losses due to impairment of assets*".	Indicator of the profit generating capacity of the Group, considering only its productive activity less debt and tax effects.
EBITDA **(*Earnings Before Interest, Taxes, Depreciation and Amortization*)**	This calculated as the "*Operating profit*" adjusted for "*Amortisation*" and the "*Net change in provisions*".	Indicator of the profit generating capacity of the Group, considering only its productive activity, eliminating any provisions for amortisation, debt and tax effects.

Alternative Performance Measure .	**Calculation method**	**Definition/Relevance**
Gross financial debt (GFD)	Calculated as the sum of the items *"Bank borrowings and other financial liabilities"* and *"Issuance of bonds and other similar securities"*, excluding *"Interest"* (accrued), *"Arrangement expenses"* and *"Other financial liabilities"* of the consolidated statement of financial position.	Relevant indicator for analysing the financial position of the Group.
EPRA1 **NAV (*EPRA Net Asset Value*)**	Calculated based on the equity of the Company and adjusting specific items according to EPRA recommendations.	Standard analysis ratio for the real estate sector, recommended by EPRA.
EPRA[1] NNNAV (EPRA "triple net")	Calculated by adjusting the following items in the EPRA NAV: The market value of the financial instruments, the market value of the financial debt, any taxes that would be accrued with the sale of assets at market value, applying the reinvestment tax rebate and the tax credit recognised in the statement of financial position taking into account the going concern criteria.	Standard analysis ratio for the real estate sector and recommended by EPRA.
Market Value excluding transaction costs or *Gross Asset Value (GAV) excluding Transfer costs*	Appraisal of all the assets in the Group's portfolio carried out by external appraisers to the Group, deducting the transaction costs or *transfer costs.*	Standard analysis ratio for the real estate sector.
Market Value including transaction costs or *GAV including Transfer costs*	Appraisal of all the assets in the Group's portfolio carried out by external appraisers to the Group, before deducting the transaction costs *transfer costs.*	Standard analysis ratio for the property sector.
***Like-for-like* Rentals**	Amount of rental income from leases included in the item "*Revenue*" comparable between the two periods. To obtain these, the rental income from investments or divestments made between both periods are excluded, together with those from assets included in the portfolio of projects and renovations, as well as other atypical adjustments (for example, compensation for early termination of lease agreements).	This permits the comparison, on a like-for-like basis, of the changes in the rental income of an asset or group of assets.

1 EPRA (*European Public Real Estate Association*) which recommends the standards for best practices to follow in the property sector. The calculation method of these APM has been carried out following the instructions established by EPRA.

Alternative Performance Measure .	Calculation method	Definition/Relevance
***Like-for-like* Appraisal**	Market Value excluding transaction costs or the Market Value including transfer costs, comparable between the two periods. To obtain these, the rental income from investments or divestments made between both periods are excluded.	This permits the comparison, on a like-for-like basis, of the changes in the Market Value of the portfolio.
***Loan-to-Value* Group or LtV Group**	Calculated as the result of dividing the Gross financial debt less the amount of the item *"Cash and cash equivalents"* between the Market Value, including transaction costs, of the Group's portfolio of assets.	This permits an analysis of the relation between the net financial debt and the appraisal value of the Group's asset portfolio.
LtV Holding or LtV Colonial	Calculated as the result of dividing the Gross financial debt less the amount of *"Cash and cash equivalents"* of the Parent and the Spanish subsidiaries wholly owned thereby between the sum of the market value, including transaction costs of the asset portfolio of the head of the Group and the Spanish subsidiaries wholly owned thereby, and the EPRA NAV of the rest of the financial investments in subsidiaries.	This permits an analysis of the relation between the net financial debt and the appraisal value of the portfolio of assets of the parent company of the Group.

The *Alternative Performance Measures* included in the above table are based on items in the consolidated annual financial statements of Inmobiliaria Colonial or in the breakdown of the items (sub-items) included in the corresponding notes to the financial statements, unless otherwise indicated below.

Below follows a reconciliation of those alternative performance measures whose origin does not fully derive from items or sub-items in the consolidated annual financial statements of Inmobiliaria Colonial, as provided for in paragraph 28 of the aforementioned recommendations.

- **EPRA NAV (EPRA *Net Asset Value*)**

EPRA NAV (EPRA *Net Asset Value*)	31/12/2017	31/12/2016
	(Millions of euros)	
"EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT"	**3,592**	**2,302**
Includes:		
(i.a) Revaluation of investment assets	13	11
(i.a) Revaluation of assets under development	n.a.	n.a.
(i.c) Revaluation of other investments	(58)	51
(ii) Revaluation of finance leases	n.a.	n.a.
(iii) Revaluation of assets held for sale	n.a.	n.a.
Excludes:		
(iv) Market value of financial instruments	(1)	2
(v.a) Deferred taxes	198	221
(v.b) Goodwill resulting from deferred assets	n.a.	n.a.
Includes/excludes:		
Adjustments of (i) to (v) in relation to the interests of strategic alliances	n.a.	n.a.
EPRA NAV	**3,744**	**2,587**

- **EPRA NNNAV (EPRA "triple net")**

EPRA NNNAV (EPRA "triple net")	31/12/2017	31/12/2016
	(Millions of euros)	
EPRA NAV	**3,744**	**2,587**
Includes:		
(i) Market value of financial instruments	1	(2)
(ii) Market value of the debt	(117)	(79)
(iii) Deferred taxes	(200)	(222)
EPRA NNNAV	**3,428**	**2,284**

- **Market Value excluding transaction costs or GAV *excluding transfer costs***

Market Value excluding transaction costs or GAV *excluding transfer costs*	31/12/2017	31/12/2016
	(Millions of euros)	
Barcelona	836	761
Madrid	1,497	1,273
Paris	6,064	5,736
Operating portfolio	**8,398**	**7,771**
Projects	**519**	**144**
Other	**16**	**14**
Shareholding value in Axiare	**349**	**141**
Total Market Value excluding transaction costs	**9,282**	**8,069**
Spain	3,053	2,333
France	6,229	5,736

- **Market Value including transaction costs or GAV *including transfer costs***

Market Value including transaction costs or GAV *including transfer costs*	31/12/2017	31/12/2016
	(Millions of euros)	
Total Market Value excluding transaction costs	**9,282**	**8,069**
Plus: transaction costs	459	409
Total Market Value including transaction costs	**9,741**	**8,478**
Spain	3,121	2,387
France	6,619	6,092

▪ ***Like-for-like* Rentals**

***Like-for-like* Rentals**	**Barcelona**	**Madrid**	**Paris**	**TOTAL**
	(Millions of euros)			
Rental income 2015	**27**	**35**	**169**	**231**
Like-for-like	3	1	11	15
Projects and additions	0	(1)	15	14
Investments and divestments	0	7	1	8
Others and compensation	(0)	0	3	3
Rental income 2016	**30**	**43**	**198**	**271**
Like-for-like	3	1	6	10
Projects and additions	0	0	(5)	(5)
Investments and divestments	2	8	(3)	7
Others and compensation	0	0	0	0
Rental income 2017	**35**	**52**	**196**	**283**

▪ ***Like-for-like* Appraisal**

***Like-for-like* appraisal**	**31/12/2017**	**31/12/2016**
	(Millions of euros)	
Valuation at 1 January	**8,069**	**6,913**
Like-for-like Spain	265	151
Like-for-like France	679	494
Acquisitions	625	524
Divestments	(356)	(13)
Valuation at 31 December	**9,282**	**8,069**

▪ ***Loan-to-Value* Group or LtV Group**

***Loan-to-Value* Group or LtV Group**	**31/12/2017**	**31/12/2016**
	(Millions of euros)	
Gross financial debt	4,170	3,633

Less: *"Cash and cash equivalents"*	(1,104)	(105)
(A) Net financial debt	**3,066**	**3,528**
Market Value including transaction costs	9,741	8,478
Plus: Treasury shares of the Parent valued at EPRA NAV	39	41
(B) Market Value including transaction costs and Parent treasury shares	**9,780**	**8,519**
***Loan-to-Value* Group (A)/(B)**	**31.3%**	**41.4%**

- **LtV Holding or LtV Colonial**

LtV Holding or LtV Colonial	**31/12/2017**	**31/12/2016**
Holding Company	*(Millions of euros)*	
Gross financial debt	2,488	1,647
Less: “Cash and cash equivalents” of the Parent and Spanish subsidiaries wholly owned thereby	(1,085)	(80)
(A) Net financial debt	**1,403**	**1,567**
(B) Market Value including transaction costs	**5,562**	**4,439**
***Loan-to-Value* Holding (A)/(B)**	**25.2%**	**35.3%**

11. Annual Corporate Governance Report

Pursuant to Article 538 of the Spanish Limited Liability Companies Law, it is hereby noted that the Annual Corporate Governance Report for 2017 is included in this Management Report in a separate section.

ANNUAL CORPORATE GOVERNANCE REPORT

OF LISTED PUBLIC LIABILITY COMPANIES

ISSUER IDENTIFICATION DATA

REFERENCE REPORTING DATE: 31 December 2017

Tax Identification Number: A-28.027.399

Company name: INMOBILIARIA COLONIAL, SOCIMI, S.A.

Registered Office: Paseo de la Castellana, 52, 28046 Madrid

ANNUAL CORPORATE GOVERNANCE REPORT
OF LISTED PUBLIC LIABILITY COMPANIES

A OWNERSHIP STRUCTURE

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

Date of last change	Share capital (€)	Number of shares	Number of voting rights
30/11/2017	1,088,293,390	435,317,356	435,317,356

Indicate whether there are different types of shares with different associated rights:

Yes **No** X

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

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

Name or company name of the shareholder	Number of direct voting rights	Number of voting rights	% of total voting rights
Qatar Investment Authority	--	41,610,141	9,559
Aguila LTD	--	28,800,183	6,616
Inmo, S.L.	--	20,011,190	4,597
Deutsche Bank, A.G.	8,135,389	--	1,869
BlackRock Inc.	--	11,055,142	2,540

Name or company name of the indirect holder of an ownership interest	Through: Name or company name of the direct holder of an ownership interest	Number of voting rights
Qatar Investment Authority	QH Netherlands BV	41,610,141
Aguila LTD	Park, S.A.R.L.	28,800,183
Inmo, S.L.	Trudonba XXI, S.L.U.	20,011,190
BlackRock Inc.	BlackRock Holding	11,055,142

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

Name or company name of the shareholder	Transaction date	Description of the transaction

Name or company name of the shareholder	Transaction date	Description of the transaction
BlackRock, Inc	20/01/2017	Ownership interest has fallen below 3% of share capital
BlackRock, Inc	24/04/2017	Ownership interest has exceeded 3% of share capital
BlackRock, Inc	09/05/2017	Ownership interest has fallen below 3% of share capital
BlackRock, Inc	11/05/2017	Ownership interest has exceeded 3% of share capital
BlackRock, Inc	19/12/2017	Ownership interest has fallen below 3% of share capital
BlackRock, Inc	28/12/2017	Ownership interest has exceeded 3% of share capital
Inmo, S.L.	05/05/2017	Ownership interest has exceeded 5% of share capital
Inmo, S.L.	24/04/2017	Ownership interest has exceeded 3% of share capital
Inmobiliaria Espacio, S.A.U.	12/01/2017	Ownership interest has fallen below 3% of share capital
Invesco Limited	15/03/2017	Ownership interest has fallen below 1% of share capital
Invesco Limited	28/04/2017	Ownership interest has exceeded 1% of share capital
Invesco Limited	02/05/2017	Ownership interest has fallen below 1% of share capital
Invesco Limited	12/06/2017	Ownership interest has exceeded 1% of share capital
Invesco Limited	13/09/2017	Ownership interest has fallen below 1% of share capital
Fidelity International Limited	18/01/2017	Ownership interest has fallen below 1% of share capital
Fidelity International Limited	29/11/2017	Ownership interest has exceeded 1% of share capital
Fidelity International Limited	04/12/2017	Ownership interest has fallen below 1% of share capital
Joe Lewis	24/04/2017	Ownership interest has fallen below 3% of share capital

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 the director	Number of direct voting rights	Indirect voting rights	% of total voting rights
Mr Juan José Brugera Clavero	148,049	--	0.034
Mr Pedro Viñolas Serra	236,898	--	0.054
Mr Carlos Fernández González	--	79,378,647	18,235
Ms Ana Sainz de Vicuña Bemberg	1,550	--	0.000
Mr Carlos Fernández-Lerga Garralda	6,361	5,670	0.003
Mr Javier Iglesias de Ussel Ordís	1,820	--	0.000
Mr Luis Maluquer Trepat	20,000	2,500	0.005

Name or company name of the indirect holder of an ownership interest	Through: Name or company name of the direct holder of an ownership interest	Number of voting rights
Mr Carlos Fernández González	Grupo Far-Luca, S.A. de C.V.	79,378,647
Mr Carlos Fernández-Lerga Garralda	EUR Consultores, S.L.	5,670
Mr Luis Maluquer Trepat	Ms Marta Maluquer Domingo	2,500

% of total voting rights held by the board of directors	18,331

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 the director	Number of direct rights	Indirect rights		Number of equivalent shares	% of total voting rights
		Direct holder	Number of voting rights		
Mr Juan José Brugera Clavero	148,049	--	--	148,049	0.034
Mr Pedro Viñolas Serra	236,898	--	--	236,898	0.054
Mr Carlos Fernández-Lerga Garralda	6,361	EUR Consultores, S.L.	5,670	12,031	0.003
Mr Carlos Fernández	--	Grupo Far-Luca, S.A.	79,378,647	79,378,647	18,235

González		de C.V.			
Ms Ana Sainz de Vicuña Bemberg	1,550	--	--	1,550	0.000
Sheikh Ali Jassim M.J. Al-Thani	--	--	--	--	0.000
Mr Adnane Mousannif	--	--	--	--	0.000
Mr Carlos García Cañizares	--	--	--	--	0.000
Mr Javier Iglesias de Ussel Ordís	1,820	--	--	1,820	0.000
Mr Luis Maluquer Trepat	20,000	Ms Marta Maluquer Domingo	2,500	22,500	0.005

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. If so, provide a brief description and list the shareholders that are party to the agreement:

Yes **No X**

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**

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

N/A

A.7 Indicate whether any individual 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 them:

Yes **No X**

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

At year-end:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
4,509,440	--	1.04%

(*) Through:

Name or company name of the direct holder of an ownership interest	Number of direct shares
-	-
Total:	**-**

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

Explain the significant changes
During 2017, the Company's portfolio of treasury shares suffered some changes. In January 2017, it held 1.703% and ended the year with a percentage equal to 3.413% of the share capital. To this end, the Company notified the Spanish Securities Market Commission (CNMV) of the changes in treasury shares on 10 January, 27 February and 8 November. In 2017, two buyback programmes were established and reported to the market through regulatory announcements (registration no 244738/registration no 250082/registration no 257437/registration no 258438). Under the aforementioned programmes, the Company acquired shares representing approximately 2.8% of the current share capital. These acquisitions were also reported to the market through the corresponding regulatory announcements. Within the context of the takeover operation of Axiare Patrimonio SOCIMI, S.A., on 28 November 2017, the Company's Board of Directors agreed to sell a maximum number of 13,575,000 of its treasury shares under certain conditions with the purpose of financing said operation appropriately. 9,907,257 treasury shares were placed. On the other hand, the Company signed a liquidity agreement in 2017, the movements of which have also been reported to the market through regulatory announcements.

A.9 Give details of the applicable conditions and current timeline for the general meeting to authorise the board of directors to issue, buy back or transfer treasury shares.

The General Meeting of Shareholders of Inmobiliaria Colonial, SOCIMI, S.A. (the **"Company"** or **"Inmobiliaria Colonial"**) granted authorisation to the Board of Directors, as item five on its agenda, for the derivative acquisition of treasury shares on 29 June 2017 and revoked the authorisation granted through the resolution of 30 June 2014**.** With respect to the terms and conditions of the authorisation: i) the nominal value of the shares acquired, directly or indirectly, in addition to those already held by the Company and its subsidiaries, may not exceed 10% of the share capital subscribed or any maximum amount that may be legally established; ii) the minimum price or consideration for acquisition shall be €0.01 per share and the maximum price or consideration for acquisition shall be the equivalent of the listing price of treasury shares acquired on an official regulated secondary market at the time of acquisition; iii) the procedure for acquisition may be purchase/sale, swap or any other method against payment, as circumstances advise, and iv) the duration of the authorisation is 5 years. 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 option rights, within the scope of the Company's share price-based remuneration systems.

With regard to the authorisation to issue shares, the General Meeting of Shareholders of Inmobiliaria Colonial, SOCIMI, S.A. resolved to authorise the Board of Directors on 29 June 2017 and pursuant to Article 297.1 b) of the Spanish Limited Liability Companies Law to increase share capital through monetary contributions, within a maximum period of 5 years, up to half the amount of share capital, on one or several occasions, at the time and in the amount it deems appropriate, revoking the general authorisation granted through resolution nine of the Company's Ordinary General Meeting of Shareholders on 28 June 2016. Within this maximum amount, the Board of Directors was empowered to disapply preferential subscription rights, limited to a maximum overall nominal amount equal to 20% of the share capital.

A.9 bis Estimated floating capital:

	%
Estimated floating capital	55.45%

A.10 Give details of any restrictions on the transfer of securities and/or voting rights. Indicate, in particular, the existence of any restrictions that may hinder a takeover of the company by means of share acquisitions on the market.

Yes **No X**

A.11 Indicate whether the general meeting has resolved to adopt neutralisation measures to address a takeover bid by virtue of the provisions of Law 6/2007.

Yes **No X**

If applicable, explain the measures approved 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**

Where applicable, state the various classes of shares, and the rights and obligations attached to each class.

B GENERAL MEETING

B.1 Indicate and state, if any, the differences with respect to the minimums stipulated in the Spanish Limited Liability Companies Law (LSC) with regard to the quorum required for the constitution of the general meeting.

Yes **No X**

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

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.

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 the bylaws are amended.

Under the Bylaws, for the General Meeting to validly resolve to increase or reduce share capital or make any other amendment to the Company Bylaws, shareholders holding at least 50% of the subscribed capital with voting rights must be present or represented on first call. On second call, shareholders representing 25% of share capital shall be sufficient. As regards the adoption of resolutions, the Bylaws establish that issues that are substantially independent shall be voted on separately, in particular the amendment of any article or group of articles in the Company Bylaws, which stand alone. Also, a vote in favour by more than 50% of the share capital present in person or by proxy shall be sufficient to adopt resolutions with an absolute majority, whereas a vote in favour by two thirds of the share capital present in person or by proxy at the General Meeting shall be necessary when, on second call, the shareholders present represent 25% or more of the subscribed capital with voting rights, but less than 50%.

B.4 Indicate the attendance figures for the general meetings held during the year and those of the previous fiscal year:

	Attendance information				
			% distance voting		
Date of General Meeting	**% attendance**	**% attendance by proxy**	**Electronic voting**	**Other**	**Total**
28/06/2016	26.00%	44.06%	0.00%	1.63%	71.69%
29/06/2017	36.82%	30.65%	0.00%	10.52%	77.99%

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 Deleted

B.7 Indicate the address and mode of accessing corporate governance content on the company's website, as well as other information on general meetings which must be made available to shareholders on the Company website.

https://www.inmocolonial.com/accionistas-inversores/gobierno-corporativo/juntas-generales

C STRUCTURE OF COMPANY MANAGEMENT

C.1 Board of Directors

C.1.1 The maximum and minimum number of directors stipulated in the Company 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 the director	**Representative**	**Category of the Director**	**Position on the board**	**Date of first appointment**	**Date of last appointment**	**Appointment procedure**
Mr Juan José Brugera Clavero	--	Executive	Chairman	19/06/2008	30/06/2014	Resolution by the General Meeting of Shareholders
Mr Pedro Viñolas Serra	--	Executive	CEO	18/07/2008	30/06/2014	Resolution by the General Meeting of Shareholders
Mr Carlos Fernández González	--	Proprietary	Director	28/06/2016	28/06/2016	Resolution by the General Meeting of Shareholders
Mr Juan Carlos García Cañizares	--	Proprietary	Director	30/06/2014	30/06/2014	Resolution by the General Meeting of Shareholders
Mr Adnane Mousannif	--	Proprietary	Director	28/06/2016	28/06/2016	Resolution by the General Meeting of Shareholders
Sheikh Ali Jassim M. J. Al-Thani	--	Proprietary	Director	12/11/2015	28/06/2016	Resolution by the General Meeting of Shareholders

Name or company name of the director	Representative	Category of the Director	Position on the board	Date of first appointment	Date of last appointment	Appointment procedure
Mr Carlos Fernández-Lerga Garralda	--	Independent	Coordinating Independent Director	19/06/2008	30/06/2014	Resolution by the General Meeting of Shareholders
Ms Ana Sainz de Vicuña Bemberg	--	Independent	Director	30/06/2014	30/06/2014	Resolution - General Meeting of Shareholders
Mr Luis Maluquer Trepat	--	Independent	Director	31/07/2013	30/06/2014	Resolution by the General Meeting of Shareholders
Mr Javier Iglesias de Ussel Ordís	--	Independent	Director	19/06/2008	30/06/2014	Resolution by the General Meeting of Shareholders

Total number of directors	10

Indicate any board members who stepped down during the period considered:

Name or company name of the director	Category of director at date of departure	Date of departure
Mr Juan Villar-Mir de Fuentes	Proprietary	22/05/2017

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

EXECUTIVE DIRECTORS

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

Total number of executive directors	2
% of the total board	20.00%

EXTERNAL PROPRIETARY DIRECTORS

Name or company name of the director	Name or company name of the significant shareholder represented or proposing appointment
Mr Carlos Fernández González	Mr Carlos Fernández González
Mr Juan Carlos García Cañizares	Aguila, LTD
Mr Adnane Mousannif	Qatar Investment Authority
Sheikh Ali Jassim M. J. Al-Thani	Qatar Investment Authority

Total number of proprietary directors	4
% of the total board	40.00%

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of director	Profile
Ms Ana Sainz de Vicuña Bemberg	Graduate in Agricultural Economics from Reading University in the UK, with a Programme for Management Development from Harvard University. She worked at Merrill Lynch in Spain for 18 years (1984-2003). She began her career in Private Banking, and worked in this sector for 12 years. She then joined Sociedad de Valores y Bolsa, which was constituted following the acquisition of FG, a process she headed together with Mr Claudio Aguirre, and subsequently headed Operations, Systems, HR and Finance. She was then appointed General Manager of Merrill Lynch International Bank's Spanish subsidiary. She now sits on the Foundational Committee of the ARPE Foundation (Foundation for Art Research Partnership and Education). Since 2004, she has been a member of the Board and member of the Management Committee of Corporación Financiera Guadalmar (CFG), a Family Office with assets in Spain and Latin America, mainly Argentina and Chile. She supervises the Financial Assets Committee, which manages the securities portfolios and the family's investments in the Security Group -of which she is also a Director- and the Awasi and W Santiago hotel group. In 2011, she was appointed Director of Terold Invest, S.L., and in July 2015, she was appointed Director of Acciona, S.A., where she also sits on the Audit Committee. In February 2017, she was appointed Director of Prosegur Cash, S.A., and also sits on the Appointments and Remuneration Committee.

Name or company name of director	Profile
Mr Carlos Fernández-Lerga Garralda	Law degree from the University of 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 *Collège Universitaire d´études fédéralistes,* Nice, Val d'Aoste. From 1978 to 1983 he was an Advisory Member of the Minister and Secretary of State for Relations with the European Community, participating in negotiations for Spain's accession to the European Union. From 1984 to 1986, he held the position of General Manager of the European Union Advisory Service at the Banco Hispano Americano Group. He has also been a director of Abantia Corporación. He has also been Coordinating Director and chairman of the Appointments and Remuneration Committee at Gamesa Corporación Tecnológica, S.A. (Lead Independent Director) and General Director of La Caixa. Member of the International Secretariat of World Federalist Youth (Amsterdam, the Netherlands); Secretary of the European League for Economic Cooperation (ELEC), Madrid; Secretary of the Foundation for Progress and Democracy, Deputy (Treasurer) of the Governing Board of the Madrid Bar Association, member of the Executive Committee of Real Instituto Elcano and Trustee of the Spain/US and Spain/China Council Foundations. He has also taught extensively in the School of Political Science at the Complutense University and the Institute of European Studies at the University of Alcalá de Henares, among other institutions, and has authored numerous publications on legal issues. He is currently Chairman of Iberdrola Ingeniería y Construcción, S.A. and continues to practise law at his law firm, Carlos Fernández-Lerga Abogados, mainly focusing on legal advice in commercial and civil law. He is currently a member of the Board of Directors at SFL.
Mr Luis Maluquer Trepat	He holds a degree in Law from the University of Barcelona and a Diploma in International Institutions from the University of Geneva. Throughout his career at the law firm Maluquer Advocats, SCP, he has advised different national and international institutions, providing his services in the fields of consultancy, legal advice and lawsuits, arbitration and mediation procedures. He also has teaching experience at various institutions, such as the Barcelona

Name or company name of director	Profile
	Chamber of Commerce, and worked as director at the European Society for Banking and Financial Law (AEDBF Paris). He is the founding partner of Despacho Maluquer Advocats, SCP, and is a board member and secretary to a number of companies, including SFL, where he sits on the board. In addition, he has special powers of attorney and is secretary to the board of various subsidiaries of French and Swiss companies, especially in the infrastructure and agri-food industries. He is currently Chairman of the Argentinian Chamber of Commerce in Spain.
Mr Javier Iglesias de Ussel Ordís	Javier Iglesias de Ussel y Ordís has a wealth of experience in financial circles. In 1974, he joined Lloyds Bank International in London, where he held different positions of responsibility for Corporate Banking in Dubai, São Paulo, Asunción and Madrid over 21 years. In 1995, he joined The Bank of New York and was appointed Country Manager for the Iberian Peninsula. He moved to New York in 2002, and was appointed Division Head for Latin America. From 2008 to December 2013, he ran the Representation Office of Chilean bank Banco de Crédito e Inversiones. Mr Iglesias de Ussel has been an Independent Director of Inmobiliaria Colonial since 2008, and has also been an Independent Director of Aresbank since March 2015. Mr Iglesias de Ussel holds a degree in modern history from the University of Barcelona and throughout his career has been involved in numerous business administration, marketing, risk analysis and money laundering prevention courses. He lived outside Spain for 22 years, and speaks English, French and Portuguese.

Total number of independent directors	4
Total % of the Board	40.00%

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 officer of an entity which maintains or has maintained this relationship.

NO

If applicable, include a statement from the board detailing the reasons why it believes this director may carry out duties as an independent director.

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 managers or its shareholders:

Name or company name of the director	Reasons	Company, director or shareholders to which this person is linked
--	--	--

Total number of other external directors	0
Total % of the board	0

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

Name or company name of the director	Date of change	Prior category	Current category
--	--	--	--

C.1.4 Complete the following table with the information on the number of female directors over the past 4 years and their category:

	Number of female board members				% of total directors of each category			
	2017	2016	2015	2014	2017	2016	2015	2014
Female Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	0	0	0	1	0.00%	0.00%	0.00%	20.00%
Independent	1	1	1	1	25.00%	25.00%	33.33%	33.33%
Other External Female Directors	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	1	1	1	2	10.00%	9.09%	9.09%	18.18%

C.1.5 Explain any measures that have been adopted to have a number of female board members that would produce a balanced ratio between women and men.

Explanation of the measures
The Board Regulations 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 contain any implicit bias that may entail discrimination and, in particular, facilitate the selection of female directors. In this regard, in 2016 the Board of Directors approved a Selection Policy for Candidates to the Board of Inmobiliaria Colonial, S.A. (the "**Selection**

Policy"), which expressly sets a target for a number of female members that is at least 30% of the total number of Directors on the Board by the year 2020. No new member has joined the Board of Directors during 2017.

C.1.6 Explain any measures that may have been agreed by the appointments committee to prevent any implicit bias in selection procedures to hinder the selection of female board members, and for the company to deliberately strive to include women with the professional profile sought as candidates:

Explanation of the measures
Both the Board of Directors and the Appointments and Remuneration Committee (the "**ARC**") have ensured, pursuant to the Company Bylaws and Board Regulations, that the candidates proposed as Board members meet the requirements relating to experience, technical competence and suitability, and the fact that no female directors have been appointed is not due to the existence of any implicit bias in the procedure which prevents them from being selected. In this regard, it should be pointed out that, inter alia, the ARC has the following functions: i) assess competences, knowledge and experience on the Board of Directors, defining the functions and aptitudes necessary in the candidates to fill each vacancy and assess the time and dedication necessary for members to carry out their tasks efficiently; ii) establish a representation target for the less-represented gender on the Board of Directors and; iii) table proposals to the Board to appoint independent directors and/or report proposals for the appointment of other Directors to be appointed by co-opting or submission for a decision by the General Meeting, and proposals to the General Meeting for the re-election or removal of the Directors. No appointment proposals for new directors have been submitted in 2017.

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

Explanation of the reasons
No new appointment of directors has been approved in 2017.

C.1.6.bis Explain the conclusions of the appointments committee on the verification of compliance with the director selection policy. And, specifically, how this policy addresses the objective of female directors accounting for at least 30% of the total number of members of the Board of Directors by 2020.

Explanation of the conclusions
The ARC submitted the Selection Policy to the Board of Directors for approval on 11 April 2016. This policy, which was approved by the Board of Directors on the same date, included the criteria of the ARC in this connection and, in particular, set a goal of having at least 30% of total Board seats occupied by female directors by 2020. The members of the ARC also provided a favourable report on the Company's corporate governance policy during the first semester of 2017. This report provides that the Board must ensure that the procedures for selecting its members promote diversity of gender, experience and knowledge and do not contain any implicit bias that may entail discrimination and, in particular, facilitate the selection of female directors.

C.1.7 Explain the procedure for representation of major shareholders on the board.

In accordance with Colonial's Board regulations, in exercising its powers of proposal to the shareholders at the General Meeting of Shareholders and of co-opting 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 small as possible, based on the Company's shareholding structure. The following shall be considered proprietary directors:

a) Those who have a shareholding greater than or equal to that legally understood as significant, or who have been designated because of their shareholder status, although their shareholding is smaller than this amount.

b) Those representing shareholders as stated in the preceding paragraph. For the purposes of this definition, it shall be assumed that a director represents a shareholder when: (i) The director has been appointed in exercise of the right to proportional representation on the Board of Directors; (ii) The person concerned is a director, senior officer, employee or non-occasional provider of significant services for said shareholder, or for companies forming part of the shareholder's group; (iii) It transpires from corporate documentation that the shareholder understands that the director has been appointed by the shareholder or represents the shareholder; (iv) The person is the spouse or a person with a similar sentimental relationship, or a relation of a significant shareholder to the second degree of consanguinity.

C.1.8 Explain any reasons for which proprietary directors have been appointed at the behest of shareholders accounting for less than 3% of share capital:

Provide details of any rejections of formal requests for board representation from shareholders whose shareholding 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 granted.

Yes **No X**

C.1.9 State whether a director has stepped down from the post prior to the expiry of the term, whether the director has given any reasons for doing so to the board and by which means and, if the director has done so in writing to the entire board, state at least the reasons given by the director:

Name of director	**Reason for departure**
Mr Juan Villar-Mir de Fuentes	Mr Villar-Mir de Fuentes notified his resignation as director of Colonial in a letter to the Chairman of the Board of Directors dated 22 May 2017, since the shareholding in Colonial had fallen below 3%

C.1.10 State any powers delegated to the CEO or CEOs:

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

C.1.11 Identify any Board members working as directors or managers at other companies forming part of the listed company's group:

Name or company name of the director	Group company name	Position	Does the member have executive functions?
Mr Carlos Fernández-Lerga Garralda	SOCIÉTÉ FONCIÈRE LYONNAISE	Director	No
Mr Luis Maluquer Trepat	SOCIÉTÉ FONCIÈRE LYONNAISE	Director	No
Sheikh Ali Jassim M.J. Al-Thani	SOCIÉTÉ FONCIÈRE LYONNAISE	Director	No
Mr Adnane Mousannif	SOCIÉTÉ FONCIÈRE LYONNAISE	Director	No
Mr Juan José Brugera Clavero	SOCIÉTÉ FONCIÈRE LYONNAISE	Director	No
Mr Pedro Viñolas Serra	SOCIÉTÉ FONCIÈRE LYONNAISE	Director	No
Mr Pedro Viñolas Serra	Inmocol Torre Europa, S.A.	Director	No
Mr Pedro Viñolas Serra	Utopicus Innovación Cultural, S.L.	Director	No

C.1.12 Identify any directors at your company who are members of the board of directors at other companies listed on official securities markets outside your group, which have been notified to the company:

Name or company name of the director	Company name of listed company	Position
Mr Carlos Fernández González	Banco Santander, S.A.	Director
Mr Carlos Fernández González	AmRest Holding, S.E.	Director
Ms Ana Sainz de Vicuña Bemberg	Acciona, S.A.	Director
Ms Ana Sainz de Vicuña Bemberg	Prosegur Cash, S.A.	Director
Mr Juan Carlos García Cañizares	Valorem, S.A.	Director

C.1.13 State, and where applicable explain, whether the Company has established rules with respect to the number of boards to which its directors may belong:

Yes X **No**

Explanation of the rules
The Board Regulations state that directors may not sit on more than 3 boards of other Spanish listed companies besides Colonial. The Board of Directors may dispense with this ban in exceptional circumstances. It should also be pointed out that Board Regulations establish, as part of the general duties of directors, that they must carry out their functions and meet the obligations imposed on them by law, the Company Bylaws and other internal regulations with the diligence of an orderly entrepreneur, in due consideration of the nature of the post and the functions assigned to them; their dedication must be appropriate at all times, and they must take the necessary measures for proper

management and control of the Company.

C.1.14 Deleted

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

Remuneration of the Board of Directors (thousands of euros)	8057
Amount of pension rights accumulated by the current directors (thousands of euros).	353
C **Amount of pension rights accumulated by the former directors (thousands of euros).**	0

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C 1.16 List any members of senior management who are not also executive directors and state the total remuneration accrued to them during the year:

Name or corporate name	Position(s)
Mr Alberto Alcober Teixidó	Business Director
Mr Carlos Escosa Farga	Internal Auditor
Ms Nuria Oferil Coll	Legal Director
Ms Carmina Ganyet Cirera	Corporate General Manager

Total remuneration of senior management (thousands of euros)	2,123

CC.1.17 List, if applicable, directors who are also members of the boards of directors of companies with significant holdings and/or in Group companies:

Name or company name of the director	Company name of significant shareholder	Position
Mr Carlos Fernández González	Grupo Finaccess S.A.P.I. de C.V.	Chairman
Mr Carlos Fernández González	AmRest Holdings, S.E.	Director
Mr Juan Carlos García Cañizares	Bevco Lux, S.A.R.L.	Director
Mr Juan Carlos García Cañizares	SNI International Holdings, S.A.R.L.	Director
Mr Juan Carlos García Cañizares	Park, S.A.R.L.	Director
Sheikh Ali Jassim M.J. Al-Thani	Nurabank	Vice President and Director
Sheikh Ali Jassim M.J. Al-Thani	Qatar Navigation Company	Chairman
Sheikh Ali Jassim M.J. Al-Thani	Qatar Abu Dhabi Investment Company	Chairman
Mr Adnane Mousannif	Elypont	Director

List any relevant relationships, other than those included under the previous heading, that link members of the board of directors to 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 regulations during the year:

Yes X **No**

Description of changes
The reasons for the changes made to Board Regulations in 2017 were as follows: i) to adapt them to the new corporate name "Inmobiliaria Colonial, SOCIMI, S.A.", and ii) to establish the maximum number of company boards on which Directors of the Company may sit, pursuant to Recommendation 25 of the *Good Governance Code of listed companies*.

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 Regulations and set out in the Selection Policy approved by the Board at the behest of the ARC. Pursuant to this selection policy, discrimination shall 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 General Meeting or, in the event of early vacancies, by the Board, exercising its power to co-opt. 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 General 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 General Meeting is held, the Company must continuously post on its corporate website the following information, at least, on the persons proposed for appointment, ratification or re-election as Board members: their 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 permanent exercise of the functions of the post. The procedure to evaluate directors is also governed by Board Regulations. In this regard, a plenary session of the Board shall evaluate, once a year, and adopt, where applicable, an action plan to correct any deficiencies identified with respect to: (i) the quality and efficiency of the Board of Directors; (ii) the operations and the composition of its Committees; (iii) the diversity of the composition and competences of the Board of Directors; (iv) the performance of the Chairman of the Board and the chief executive officer of the Company; and (v) the performance and contribution of each director, paying particular attention to those who are in charge of the various Committees of the Board. The evaluation of the Chairman of the Board shall be directed by the Coordinating Director. Regarding the removal of directors, Board Regulations stipulate that directors may be removed from office at any time by the shareholders at the General Meeting even if their removal is not on the agenda.

In addition, directors must tender their resignation to the Board if the Board of Directors deems it appropriate subsequent to a report from the ARC in the cases specified in the Board 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 Company Bylaws, except where just cause is found by the Board, based on a report by the ARC. It shall be understood that there is just cause when the director takes up a new post or takes on new duties that prevent him/her from devoting the necessary time to the performance of the duties associated with the directorship, when the director fails to carry out the duties inherent to his/her post or when the director is involved in circumstances which cause him/her to lose his/her independent status in accordance with the provisions of the legislation applicable. The removal of independent directors may also be proposed following a takeover bid, merger or similar corporate operation entailing changes in the Company's capital structure, when these changes have been propitiated by the proportionality criterion. Without prejudice to the foregoing, the Board Regulations stipulate that independent directors may not retain their status as such for a continuous period of more than 12 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 for exceptional and justifiable reasons 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 leave their post before their term has expired, they shall explain the reasons in a letter submitted to all Board members, notwithstanding notification of the departure as a regulatory announcement, and reporting of the reason for the departure in the Annual Corporate Governance Report.

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 because the self-assessment was satisfactory.

C.1.20.bis Describe the evaluation process and areas evaluated 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 evaluated its composition and competences, the operation and composition of committees and the performance of the Chairman, CEO, Coordinating Independent Director and the Secretary to 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, other Company directors and the Board Secretary, as well as its own composition, competences and operation, for submission to the Board. The ACC also 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.

Following the valuation, the Board of Directors approved the assessment reports on the Board, its committees, the Chairman, the CEO, the Coordinating Independent Director and the Secretary, concluding that: (i) the Board of Directors has the proper composition and exercises the functions and competences attributed to it by the Company Bylaws and Board Regulations in an efficient manner, at all times prioritising the interest of the Company and maximising its economic value; (ii) the Executive Committee, the ARC and the Audit and Control Committee ("ACC") each have the proper composition, and they undertake and carry out in an efficient manner the competences attributed to them by the regulations applicable and by the Company's corporate documentation; (iii) the Chairman and the CEO, have carried out the functions entrusted to them in an satisfactory and appropriate manner; and (iv) the Coordinating Independent Director and the Secretary to the Board have carried out their functions in an effective and diligent manner.

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 Coordinating Independent Director and the secretary to the Board and as external adviser on the remuneration policy of the Board of Directors.

C.1.21 Indicate the cases in which the directors must resign.

Under the Board Regulations, 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. Specifically, proprietary directors shall tender their resignation when the shareholder they represent sells off the entire shareholding in Colonial or when the number of shares held requires a reduction in the number of proprietary directors.

. In events in which, notwithstanding the foregoing paragraph, the Board of Directors considers that there are reasons that justify that the director remains in office, the impact that the new circumstances may have on the qualification of the director will be taken into account.

3. When they have been seriously reprimanded by the ARC for having infringed any of their obligations as directors.

4. 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 Deleted

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.

C.1.24 State 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**

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**

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**

C.1.28 Indicate whether the Bylaws or board regulations stipulate specific rules for proxy votes on the board of directors, the procedures thereof and, in particular, the maximum number of proxy votes 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 Board Regulations, proxy shall be granted in writing and specifically for each meeting, and only in favour of another member of the Board. However, non-executive directors may only assign proxy to another non-executive director. Furthermore, Board Regulations stipulate that when votes are delegated to proxies, the directors must give specific instructions to the proxy on how to vote on the items being discussed.

C.1.29 Indicate the number of board meetings held during the fiscal year. Also state, if applicable, the number of occasions on which the board met without its chairman in attendance. Attendance shall also include proxies appointed with specific instructions.

Number of board meetings	13
Number of board meetings not attended by the chairman	0

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

Number of meetings	0

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

Number of executive or delegate committee meetings	0

Number of audit committee meetings	10
Number of appointments and remuneration committee meetings	8

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

Attendance of directors	13
Number of attendances as % of the total votes during the year	100%

C.1.31 Indicate whether the consolidated and individual annual financial statements submitted for approval by the board are certified previously:

Yes X **No**

Identify, where applicable, the person(s) who certified the company's individual and consolidated annual financial statements to be drawn up by the board:

Name	**Position**
Ms Angels Arderiu Ibars	Chief financial officer

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements prepared by it from being submitted to the general meeting with reservations in the audit report.

The Board Regulations stipulate that the ACC shall strive to ensure that the Board of Directors submits the financial statements to the General Meeting of Shareholders without limitations or reservations in the audit report. In any exceptional cases where these reservations exist, the Chairman of the ACC and, in exceptional circumstances, the auditors shall give a clear account to shareholders of the contents and scope of these limitations or reservations. In any case, based on the functions granted to it in this regard by Board Regulations, the ACC performs ongoing monitoring in the process of preparing the individual and consolidated financial statements to prevent them from being prepared with reservations in the audit report.

C.1.33 Is the secretary to the board a director?

Yes **No X**

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

Name or company name of the secretary	**Representative**
Mr Francisco Palá Laguna	--

C.1.34 Deleted

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

Among the obligations 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) Examine the circumstances behind the resignation of the external auditor, if this were to occur;

(ii) Ensue that the compensation for the external auditor for their work does not compromise their integrity or independence;

(iii) Oversee that the Company notifies the change of auditor as a regulatory announcement to the Spanish Securities Market Commission (CNMV) and that this notification is accompanied by a statement citing any disagreements the Company may have had with the outgoing auditor and, if there were such disagreements, to discuss them;

(iv) Ensure that the Company and the external auditor adhere to current regulations regarding the provision of non-audit services as well as the limits on the auditor's business concentration and, in general, the other rules on 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 shall 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 financial audit regulations. The ACC shall also issue, prior to the audit report, an annual report expressing an opinion on whether the independence of the auditors or audit companies has been compromised. This report shall, in any case, contain the evaluation of the provision of each and every additional service referred to in the preceding section, 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.

Additionally, the ACC has an authorisation procedure of the external auditor's services other than the prohibited ones.

A draft regulation regarding the Audit and Control Committee has also been worked on in 2017 (having been approved by the Board of Directors in a session dated 22 February 2018) in line with the *Technical Guide 3/2017 on audit committees for public interest entities* of the CNMV of 27 June 2017, which established the procedure and specific criteria that define the ACC's activity to preserve, among other things, the independence of external auditors.

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

Yes X **No**

Outgoing auditor	Incoming auditor
Deloitte, S.L.	PriceWaterhouseCoopers Auditores, S.L.

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

Yes **No X**

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)	170	56	226
Amount of other non-audit work/total amount billed by the audit firm (as a %)	43.25%	13.87%	28.40%

C.1.38 Indicate whether the audit report for the annual financial statements of the previous fiscal year included any reservations or qualifications. Indicate the reasons given by the chairman of the audit committee to explain the content and scope of the reservations or qualifications.

Yes **No X**

C.1.39 Indicate the number of consecutive years that the current audit firm has been auditing the annual financial statements of the company and/or the group. Likewise, indicate for how many years the current firm has been auditing the annual 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	1	1
Number of years audited by the current audit firm/number of years the company has been audited (as a %)	3.23%	3.23%

C.1.40 Indicate whether there is a procedure for directors to gain access to external advisory services, and if so, give details:

Yes X **No**

Detail of the procedure
In accordance with Board Regulations, the Company shall establish 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. In this regard, in view of the functions of the Board Chairman, the directors shall send the Chairman requests for external assistance when they deem this necessary. The Chairman is responsible for duly transmitting this request to external advisers. Board Regulations also establish that the committees may engage external advice, when they feel this is necessary to enable them to carry out their functions, following the same procedure outlined above.

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 management bodies sufficiently in advance, and if so, give details:

Yes X **No**

Detail of the procedure
In accordance with Board Regulations, in the discharge of their duties, directors must request and are entitled to obtain from the Company any information they need to meet their obligations. In this respect, directors are invested with the broadest powers to obtain information on any aspect of the Company and to examine its books, records, documents and any other records of corporate operations and to inspect all the company's facilities. Accordingly, unless the Board of Directors has been convened or called for reasons of urgency, the Board Chairman, with the assistance of the Secretary, shall 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. 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 previous sessions.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to report and, where applicable, resign in any circumstances that might jeopardise the company's credit or reputation:

Yes X **No**

Explain the rules
Board Regulations stipulate 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 continuation as a 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.1.43 Indicate whether any of the members of the Board of 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 Limited Liability Companies Law:

Yes **No X**

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, state the action taken by the Board of Directors or the action it intends to take, up to the date of this report.

C.1.44 Detail any significant resolutions taken by the company which will come into force, 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 €350 million, which contains an early maturity clause in the event of a change of control. On 29 March 2017, Colonial arranged a new syndicated loan in the amount of €375 million, which also contains an early maturity clause in the event of a change of control.

Also, on 2 June 2015, a bond issue was launched in the amount of €1,250 million which, in the event of a change of control as defined in Article 42 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 2023, provided the change of control entails a loss of the Investment Grade rating.

Finally, in 2016 and 2017, the following fixed-income issues were carried out as “non-participating securities” on the Euro Medium Term Note programme (“**EMTN Programme**”), which stipulates early maturity of the bonds, at the choice of bondholders, in the event of a change of control: (i) on 21/10/2016, a bond issue in the total nominal amount of €600 million, maturing on 28/10/2024; (ii) on 09/11/2016, an ordinary bond issue in the total nominal amount of €50 million, maturing on 10/11/2026; (iii) on 28/11/2017, an ordinary bond issue in the total nominal amount of €800 million.

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

Number of beneficiaries	3
Type of beneficiary	Chairman, CEO and Corporate General Manager.
Description of the resolutions	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 a waiver or departure from their posts due to a change of control at the Company or significant change in the composition of the Board 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. The compensation consists of, (a) in relation to the Chairman, a gross amount equivalent to two years' fixed and variable remuneration, with a minimum of €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 €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, the guarantee or golden parachute clause triggered in the event of termination under certain circumstances or change of control gives rise to compensation for termination of functions for an amount equal to 3 years' salary. There is also a long-term incentive plan approved by the General Meeting, which entails the delivery of ordinary shares of the Company contingent on meeting certain targets each year. The beneficiaries of the plan are the Chairman of the Board, the CEO and the members of Colonial's Management Committee, which includes the Corporate General Manager. The plan provides that the Board of Directors shall agree early settlement of the plan and the award of a maximum number of outstanding shares to each beneficiary if a "substantial liquidity event” occurs. "Substantial liquidity events” shall occur (i) when a takeover bid is authorised to acquire all Colonial’s share capital, or (ii) when refinancing of all Colonial’s debt is authorised. In the latter case, early settlement of the Plan is subject to the ARC's ratification. If, during the term of the Plan, the Chairman or CEO were unfairly dismissed, the General Meeting did not extend their term or they were dismissed from their positions without just cause, they shall be entitled to early settlement of the Plan and to delivery of the

	maximum number of shares outstanding in the years remaining until the end of the Plan. Beneficiaries shall lose their right to the delivery of shares in the event of justified dismissal, termination for cause or if they resign on their own initiative, and in case of breach of contract in respect of confidentiality, non-solicitation of services or competition. In these cases, the beneficiaries shall lose any rights to shares that have been granted.

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

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

	Yes	**No**
Is the general meeting informed of the clauses?		X

C.2 **Board committees**

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

EXECUTIVE OR DELEGATE COMMITTEE

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

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

Explain the functions attributed to this committee, describe the procedures and rules of its organisation and functioning, and summarise its major activities during the year.

The Executive Committee shall be made up of at least three and not more than eight members. The Chairman and Secretary to the Committee shall be the Chairman and Secretary to 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 shall appoint the members of the Executive Committee, ensuring that its membership structure reflects the various types of directors in a similar manner to that of the Board. To be valid, the appointment of directors who constitute the Executive Committee shall require a vote in favour by two thirds of the members of the Board, and shall not be effective until it has been entered in the Commercial Registry.

The members of the Executive Committee shall cease to be members when they cease to be directors or when the Board so resolves.

The Executive Committee shall be called by its Chairman on his/her own initiative or when this has been requested by two of its members. The meeting must be convened 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.

For an Executive Committee meeting to be validly constituted, the majority of its members must attend, either physically present or represented by proxy. The absolute majority of the members of the Committee shall adopt the resolutions. 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 who are affected by such a conflict of interests and who must abstain shall be deducted for the purposes of calculating the necessary majority of votes. In the event of a tie, the matter shall be submitted to the Board of Directors.

Through its Chairman, the Executive Committee shall report to the Board on the business transacted and the resolutions adopted by the Committee. All Board members must receive a copy of the minutes of Executive Committee meetings. The Executive Committee did not meet in 2017.

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

Yes X **No**

AUDIT COMMITTEE

Name	**Position**	**Category**
Ms Ana Sainz de Vicuña Bemberg	Chairman	Independent
Mr Javier Iglesias de Ussel Ordís	Member	Independent
Mr Carlos Fernández-Lerga Garralda	Member	Independent
Mr Luis Maluquer Trepat	Member	Independent

% of proprietary directors	0.00%
% of independent directors	100.00%
% of other external directors	0.00%

Explain the functions attributed to this committee, describe the procedures and rules of its organisation and functioning, and summarise its major activities during the year.

The ACC comprises a minimum of 3 and a maximum of 8 directors, all of which must be non-executive directors, appointed by the Board. The ACC shall also include the number of independent directors stipulated by law at any given time, and at least one of them shall be appointed in due consideration of the director's knowledge and experience in accounting and/or auditing. The ACC members shall have relevant technical knowledge in relation to the Company's sector of activity. The ACC shall appoint (i) a Chairman, who must be an independent director and shall be replaced every 4 years, and may be re-elected after 1 year has elapsed from the date on which his/her term of office expired; and (ii) a Secretary, who may be Secretary to the Board. The members shall be relieved of their duties once their directorships expire, or when the Board agrees so.

The ACC shall have the following functions, among others:

1. Report to the General 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 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 from it 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 any event it must, 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 related entities.

6. Issue, on an annual basis and prior to the issuance of the annual audit report, a report expressing an opinion on whether the independence of the auditor or audit companies has been jeopardised, which must 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 Board 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 2 of its members, or at the behest of the Chairman, who is responsible for convening it. The 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 the member or a person related thereto has a conflict of interest. In the event of a tie, the Chairman has the casting vote. Minutes are taken of ACC meetings and are made available to the Board.

The major activities of the ACC in 2017 were as follows:

- Act as a communication channel between the Board and the external auditor, assessing the results of each audit.
- Issue a report, prior to the release of the accounts auditing report, in which an opinion is expressed on whether the independence of the accounts auditors or the auditing firms has been compromised.
- Supervise the effectiveness of the 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 audit.
- Approve the risk management and control policy, corporate governance and treasury share reports to be submitted to the board.
- Monitor the Company's corporate social responsibility policy.
- Monitor compliance with the rules of the internal codes of conduct and its corporate social

responsibility policy.

- Oversee the preparation and filing of required financial information.
- Inform about the Annual Corporate Governance Report to be submitted to the Board of Directors for their approval as part of the financial statements.
- Evaluate its own performance within the framework of the self-evaluation of the performance of the Board and its internal Committees.
- Analyse and report on treasury share transactions to be submitted to the Board, and in particular, issue a favourable report on the share buyback plan and monitoring thereof.
- Inform the Board, via the Chairwoman, of the contents of the ACC meetings.
- Review the Company's power structure.
- Update the Company's maps of risks and processes and reviewed and assessed the risk inventory.
- Analyse the impact that the special tax regime for listed real estate investment trusts has had on the Company's activity, as well as its financial impact, according to the reports made by external advisors that were submitted to the Committee by the corporate general manager.
- Also, report on the other corporate operations planned by the Company in that year.
- Report on the issuance of bonds under the "Euro Medium Term Note" programme.
- Oversee compliance with the measures agreed within the framework of the action plan to improve cybersecurity.
- Analysis of the Regulations of the Audit and Control Committee.

Identify the director who is a 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	Ms Ana Sainz de Vicuña Bemberg
Nº of years during which the chairman has held the post	2

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position	Category
Mr Carlos Fernández-Lerga Garralda	Chairman	Independent
Mr Adnane Mousannif	Member	Proprietary
Mr Juan Carlos García Cañizares	Member	Proprietary
Mr Javier Iglesias de Ussel Ordís	Member	Independent
Mr Luis Maluquer Trepat	Member	Independent

% of proprietary directors	40.00%
% of independent directors	60.00%

% of other external directors	0.00%

Explain the functions attributed to this committee, describe the procedures and rules of its organisation and functioning, and summarise its major activities during the year.

The ARC comprises a minimum of 3 and a maximum of 8 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 shall appoint from among its members (i) a chairman, who, in any case, shall be an independent director, and (ii) a secretary, or it may designate the Secretary to the Board. 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 the following functions, among others:

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, laying down guidelines to achieve it.

3. Make appointment proposals to the Board of independent Directors to be co-opted or, if applicable, for submission to a decision by the shareholders at the General Meeting, and proposals for re-election and removal thereof by the General Meeting.

4. Report on proposals for appointment of other Directors to be co-opted or, if applicable, for submission to a decision by the shareholders at the General Meeting, and proposals for re-election and removal of those directors by the General Meeting.

5. Report the proposals for the appointment and removal of senior officers and the basic conditions of their contracts.

6. Examine and organise the succession of the Board Chairman and of the chief executive officer of the Company 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, 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 2 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 shall be considered validly constituted when a majority of its members are present in person or by proxy. Its resolutions shall be adopted by a majority of those present in person or by proxy, and the Chairman will have the casting vote in the event of a tie. 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 deliberations 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.

The major activities of the ARC in 2017 were as follows:

- Coordinate and submit to the Committee the reports assessing the performance of thereof, the ARC and the performance of the Chairman, the CEO, the Coordinating Director and the Secretary to the Board, with the advice of Spencer Stuart.
- Oversee that the compensation policy established by the Company was being complied with and, in particular, propose variable compensation for the Chairman and CEO.
- Examine the qualifications of the Board members in accordance with their corporate documents, the Spanish Limited Liability Companies Law and the corporate governance recommendations.
- Issue a favourable report and propose to the Board the approval of the annual report on remuneration for the directors.

Ensure compliance with the rules on corporate governance. In particular, it has carried out the following tasks: (i) ensure compliance with the Company's rules on corporate governance; and (ii) assess the suitability of the Company's corporate governance system.

- Recorded the appointment of an independent Director, in the subsidiary company, Société Foncière Lyonnaise, and proposed an increase in the set compensation, commissions and attendance allowances for the directors of such subsidiary.
- Propose, based on the achievement of the indicators, the number of shares owed to the beneficiaries of the share allocation plan approved at the General Meeting on 21 January 2014 (the "**Plan**").
- Analyse and monitor possible modifications to the Plan, and report on proposals made by PricewaterhouseCoopers, S. L.
- Agree, in order to motivate and retain the talent of the management team, an extension to the Plan under the same terms that were approved by the General Meeting on 21 January 2014, to remain in force in 2019 and 2020.
- Propose to the Board that the General Meeting set the number of Board members as ten due to the resignation tendered by the director, Mr Juan Villar-Mir de Fuentes.
- Implement and develop the update plan for directors in relation with, among other aspects, the new trends in the sector that are causing disruptions to the property business, with special focus on the "*PropTech*" and "*CoWorking*" phenomena.
- Furnish the Board with a favourable report on the resignation of Sheikh Ali Jassim J.M. Al-Thani as member of the ARC and the appointment of Mr Adnane Mousannif as a new member.

C.2.2 Complete the following table with information concerning the number of female directors on board committees over the last four years:

	Number of female board members							
	2017		**2016**		**2015**		**2014**	
	Number	**%**	**Number**	**%**	**Number**	**%**	**Number**	**%**
Executive committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Audit committee	1	25.00%	1	20.00%	1	20.00%	1	20.00%
Appointments and remuneration committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%

C.2.3 Deleted

C.2.4 Deleted

C.2.5 State any regulation of board committees, the location at which they are available for consultation, and any amendments made during the year. Also state whether any voluntary annual reports have been produced on the activities of each committee.

Board committees are governed by Board Regulations, which are available on the Company's website (www.inmocolonial.com) in the "Corporate governance" section, and on the website of the Spanish Securities Market Commission (www.cnmv.es). Amendments were made to board regulations in 2017 in order to adapt them to the new corporate name Inmobiliaria Colonial, SOCIMI, S.A. and to establish the maximum number of listed company boards on which Colonial directors may sit, pursuant to Recommendation 25 of the Good Governance Code of listed companies. Likewise, in 2017, the Audit and Control Committee Regulations were analysed and worked on, in line with *Technical Guide 3/2017 on audit committees of public interest entities*, which was approved by the Board of Directors at its meeting held on 22 February 2018.

C.2.6 Deleted

D RELATED-PARTY TRANSACTIONS AND INTRAGROUP TRANSACTIONS

D.1 Explain any procedures for the approval of related-party transactions and intragroup transactions.

Procedure for the approval of related-party transactions
In accordance with the Regulations of the Board of Directors, 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: - 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. - For a director, a significant shareholder or his/her representative on the Board, or a related person to sell or otherwise transfer supplies, materials, goods or rights, in general, to Colonial or other companies in its Group in exchange for any type of economic compensation. - For the companies in the Group to transmit supplies, materials, goods or rights, in general, on behalf of a Director, a significant shareholder or his/her representative on the Board, or a related person that are outside the transferor company's normal 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 a related person, 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 a related person has a direct or indirect interest. The aforementioned approval by the Board of Directors shall not be necessary when such transactions have the following three characteristics simultaneously: 1. They are carried out under contracts with standard terms and conditions and are applicable across-the-board to many customers; 2. They are carried out at market prices, generally set by the person supplying the goods or services; and 3. The amount of the operation does not exceed 1% of the Company's annual revenue.

D.2 State any operations which are significant in terms of their value or relevant due to their contents, carried out between the company or companies in its group, and significant shareholders of the company:

Name or company name of the significant shareholder	Name or company name of the company or company in its group	Type of relationship	Type of transaction	Amount (thousands of euros)

D.3 State any operations that are significant in terms of their value or relevant due to their contents, carried out between the company or companies in its group, and company directors or managers:

Name or company name of the directors or managers	Name or company name of the related party	Link	Nature of transaction	Amount (thousands of euros)
--	--	--	--	--

D.4 State any significant transactions carried out by the company with other companies in the same group, provided they are not eliminated during the process of drawing up the consolidated financial statements and do not form part of the company's usual business in terms of its corporate purpose and conditions.

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

Corporate name of the company in the group	Brief description of the transaction	Amount (thousands of euros)
--	--	--

D.5 State the amount of the transactions carried out with other related parties.

0 (in thousands of euros).

D.6 State the mechanisms established to detect, determine and resolve any conflicts of interest between the company and/or the group, directors, managers or significant shareholders.

Under the Company Bylaws, directors shall refrain from taking part in discussions or voting on any resolutions or decisions in which the directors or any persons who are related parties may have a direct or indirect conflict of interests. The votes of the directors who are affected by such a conflict of interests and who must abstain shall be deducted for the purposes of calculating the necessary majority of votes. Resolutions or decisions that affect directors in their capacity as directors, 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. Board Regulations also 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 directors or any persons who are related parties may have a direct or indirect conflict of interests.

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 scantly 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 shall also be applicable if the beneficiary of the actions or prohibited activities is a person related to the director.

The persons stipulated in the Spanish Limited Liability Companies Law shall be considered related persons. In all cases, directors must notify the Board of Directors of any direct or indirect conflict that they or any related persons may have that could affect 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 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 the value of which is greater than 10% of the Company's assets. The Board of Directors may grant authorisation in other cases, 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 it is carried out under market conditions and that the process is transparent. A non-compete obligation may only be waived in the event that no damages are expected for the Company or when damages are expected to be offset by the potential benefits. The General Meeting shall grant dispensation through an express and separate resolution.

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

Yes **No X**

Identify the listed subsidiaries in Spain:

State whether the respective areas of activity and business relations between them, and those of the listed subsidiary with the other group companies, have been accurately defined in a public manner;

Yes **No**

Define any business relations between the parent company and the listed subsidiary, and between the subsidiary and other group companies

Identify the mechanisms in place to resolve any conflicts of interest between the subsidiary and other group companies:

Mechanisms to resolve any conflicts of interest

E RISK MANAGEMENT AND CONTROL SYSTEMS

E.1 Describe the Risk Management System in place at the company, including tax risks.

E.1 Describe the Risk Management System in place at the company, including tax risks.

Risk management is a key aspect of Colonial's organisational culture and, for this reason, the Company has developed a Risk Management and Control System (hereinafter “RMCS”), which establishes certain bases to efficiently and effectively manage risk throughout the organisation, including tax risks.

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 RMCS, 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 RMCS 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 risks.

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.

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 implementation. The Audit and Control Committee (ACC) assists the Board of Directors in managing this policy. The ACC performs, inter alia, the following functions relating to risk control and management:

- Submitting a report on risk policy and management for approval by the Board.
- Conducting a regular review of risk control and management systems, in such a way that the main risks are identified, managed and notified properly.
- Overseeing the preparation, completeness and filing of regulated public information (financial and non-financial).

In addition, the Company has set up a Regulatory Compliance Division (RCD) and Internal Audit Unit to reinforce this objective. The RCD is responsible for ensuring compliance with any laws and regulations that 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 to mitigate risk.

The main responsibilities assigned in relation to the RMCS correspond to the Board of Directors, the Audit and Control Committee and the Internal Audit Unit. The RMCS 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 business targets.

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

- Corporate and sectoral risks arising from political and macroeconomic situations in the countries in which it operates, since the property sector is cyclical by nature, realisation of its activity through the acquisition of other companies or businesses and management of subsidiaries, management of reputation and the corporate image.
- Strategic risks arising from the specific nature of its activity, in relation to the increase in competition and complexity of investments, keeping ahead of new trends in the sector, the high concentration of office rental activities in the *"Central Business Districts"* of Barcelona, Madrid and Paris, anticipation of the real estate cycle in the event of a potential lower appraisal of real estate assets.
- Operating risks arising from management of property assets, the high concentration of customers, damage to real estate assets, management of information systems, maintenance and repair of these systems, liability for action taken by contractors and subcontractors, management of licences for operation of real estate assets, and judicial and extrajudicial claims.
- Risks of a financial nature relating to restrictions in capital markets and in financial debt markets, levels of debt, the drop in credit ratings and interest rate fluctuations.
- Risks arising from compliance with all the regulations and contractual obligations applicable, including tax risks concerning loss of Colonial's REIT status and loss of its French subsidiary Société Foncière Lyonnaise's status as a listed property investment company ("SIIC"), limitations on the offsetting of negative taxable amounts.

E.4 State whether the company 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 potential likelihood of the risk occurring over time.

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 action/controls; 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 2017, the circumstances that caused them and the functioning of the control systems are as follows:

i. CONCENTRATION OF GROUP ACTIVITIES IN SPAIN AND FRANCE

Colonial focuses its business activity 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 these cities. This strategy of focusing its business mainly in CBD areas and its high-quality standards have positioned the Group as a benchmark in the sector. In 2017, the Company also increased its ownership interest in Axiare Patrimonio Socimi, S. A., and also submitted a takeover bid for all the remaining shares of this company, which was accepted in January 2018.

ii. INCREASED COMPETITION IN THE REAL ESTATE SECTOR

Heavy investment continued in 2017 in the real estate sector. This situation entails the continuation of a considerable amount of 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.

iii. IMPAIRMENT OF REAL ESTATE ASSETS

The holding and acquisition of real estate assets imply certain risks, including the possibility that returns on investment shall be lower than estimated or that estimates and valuations performed could prove to be inaccurate or wrong. In addition, the market value of the assets may decline or be adversely affected in certain cases.

Control systems: To mitigate this risk factor, Colonial engages independent experts to appraise all its assets on a six-monthly basis. The Group also regularly reviews the future value creation potential of each of the properties in its portfolio. The Group allocates a significant portion of its resources to investing in and maintaining its real estate assets in order to enhance their value and position on the market and the income obtained from these assets. In this regard, the Group invested €69 million in 2017 in new projects and projects to renovate and improve its real estate assets.

iv. ANTICIPATION OF NEW TRENDS

The property sector, like other sectors, calls for constant adaptation to emerging trends. Increasing development of digitalisation in all sectors, the new technology applied in the property sector and the increase in co-working spaces entail constant changes that specifically affect the real estate sector.

Control systems: The Colonial Group allocates resources and carries out specific activities in order to analyse and, where appropriate, implement these trends in the activities carried out by the Group. In this regard, in 2017, Colonial engaged a digital senior advisor to drive Company initiatives and strategies in relation to 'Proptech' (Property Technologies), a segment that studies the impact of technology and digitalisation on the development of services and new business models in the property sector. Also in 2017, the Colonial Group purchased a controlling stake in the Spanish co-working platform Utopic_US, taking up a position in a new strategic line to enhance and boost the strategy of Group users, offering flexibility and integrated contents and services.

v. FINANCING OF REAL ESTATE ASSETS. FINANCIAL STRUCTURE AND LEVEL OF DEBT

Companies operating in the property sector require a considerable amount of investment to guarantee their projects and business expansion through the acquisition of buildings and/or land.

Control systems: In 2017, Colonial carried out a new bond issue in the total amount of €800 million. Colonial also raised the Standard & Poor's credit rating to BBB in the long term and A-2 in the short term, both with outlook stable; and the rating for SFL to BBB+ in the long term and A-2 in the short term, with outlook stable. Moody's, meanwhile, rated Colonial as Baa2 with outlook negative. Colonial also carried out two share capital increases and sold treasury shares in the total amount of €591 million in 2017. As a result, the Group obtained additional funds to acquire high-quality real estate assets to boost its stake in Axiare and undertake the Axiare takeover bid, while diversifying and increasing the average maturity of its debt, and continuing to optimise its financial costs. At 31 December 2017, the Group's net financial debt amounted to €3,066 million, with an LtV ratio of 31.3%.

vi. APPLICATION OF THE SOCIMI SPECIAL TAX REGIME

In December 2016, an amendment to Spain's Corporation Tax Law reduced the thresholds for offsetting negative taxable amounts from previous years, thereby increasing the theoretical effective tax rate.

Control systems: In the wake of this amendment, following an analysis of the impacts and requirements for the structure of the Group and its shareholders, in 2017, Colonial undertook the special Spanish REIT tax system, establishing the necessary control mechanisms to secure compliance with this system.

E.6 Indicate the plans in place for responding to and supervising the company'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 in one of the following categories according to the Company's response to each:

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

The owners of each risk are responsible for preparing the 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. Risk records state: (i) the objective pursued by the action plan, (ii) description of the course of action, (iii) the owner of the risk, (iv) the cutoff date for taking action, (v) details of the action to be taken with those responsible for implementation, and start and finish dates.

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

F INTERNAL RISK MANAGEMENT AND CONTROL SYSTEMS IN RELATION TO INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms that comprise the risk control and management systems in relation to internal control over financial reporting (ICFR) at your company.

F.1 The company's control environment

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

F.1.1. Which bodies and/or functions are responsible for (i) the existence and maintenance of a proper ICFR system; (ii) its implementation; and (iii) its supervision.

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 Board Regulations ("General Functions and Competences") stipulates, inter alia, the following functions:

1. Determine the Company's general policies and strategies, approve the investment and financing policy, the strategic or business plan, the annual management targets and annual budgets, and the treasury share policy, determine the corporate governance policy of the Company and the Group and the dividend policy, and approve 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 Risk Management and Control 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. Approval of the financial information that all listed companies must periodically disclose.

   To this end, Colonial has published a Manual for Disclosure of Regulated Information that covers the aspects mentioned in this section and has been approved by the ACC.

3. Monitor the effective functioning of the Committees created by the Board and the performance of the delegated bodies and executives designated by the Board.

4. Approve and amend Board Regulations.

The ICFR Organisation and Supervision Model, approved by the ACC, establishes the mechanism that the Board of Directors, 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 tasked with the following functions, among others, regarding the ICFR organisational model:

1. Submit to the Board for approval a report on the risk control and management policy, which identifies at least: (i) types of financial and non-financial risks faced by the Company, including financial and economic risks, contingent liabilities and other off-balance sheet risks; (ii) the level of risk that the Company considers acceptable; (iii) the measures planned to mitigate the impact of identified risks, should they materialise; (iv) and the information and internal control systems to be used to control and manage these risks, including contingent liabilities and off-balance sheet risks.

2. Oversee the preparation and filing of required financial information.

3. In relation to the information and internal control systems: (i) supervise the preparation process and the integrity of financial information on the Company and, where applicable, on the Group, review compliance with the regulatory requirements, the proper delimitation of its scope of consolidation and the correct application of accounting principles; (ii) ensure the independence and effectiveness of the internal audit processes, propose the election, appointment, re-election and removal of the head of the internal audit unit in addition to proposing the budget for this unit, approve both orientation and its operating plans, ensure that the activity is focused mainly on the risks that are relevant to the Company, receive regular information on activities and verify that senior management takes account of the conclusions and recommendations of reports; and (iii) establish and supervise a method that allows employees to make confidential and, if possible and appropriate, anonymous, declarations on any irregularities, especially financial and accounting irregularities, that may potentially be important to 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. It also receives regular information from the auditor on the audit plan and its execution.

5. Inform the Board of Directors of all matters established by law, the Company Bylaws and Board regulations beforehand, in particular regarding:

   a) The financial information that the Company must make public on a periodic basis.

Minutes shall be taken of all Committee meetings and 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 shall 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. Whether the following exist, especially in connection with the financial reporting process:

- Departments and/or mechanisms tasked with: (i) devising and reviewing the organisational structure; (ii) clearly defining the boundaries of responsibility and authority, with proper distribution of tasks and functions; and (iii) ensuring that sufficient procedures are in place to spread awareness of this throughout the company.

The responsibility for developing Colonial's ICFR organisational model lies with the Internal Audit Department and the Operations-Finance Department, as they are the two departments most involved in drawing up and subsequently supervising the financial information to be reported.

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, setting out the main guidelines of operation of the ICFR and senior-level roles and responsibilities.

b) Identification of major risk events, which, if they occur, may materially affect financial information.

c) For risks identified in the relevant processes, specific mitigating controls are implemented to reduce these risks to acceptable levels. The operational Departments concerned 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 of the IT systems.

e) Lastly, the Internal Audit function and the ACC are responsible for overseeing ICFR in order to ensure its operational efficiency.

- 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.

The Company's Board of Directors approved Colonial's Code of Ethics on 28 September 2011. 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 financial information, Article 6.5 of the Code establishes the following:

"Colonial undertakes as a guiding principle for its corporate behaviour with shareholders, investors, analysts and the market in general, to disclose true and complete information which expresses a 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. Corporate action 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 compliance with prevailing regulations in this matter."

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

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 action based on the fines and sanctions detailed in the collective bargaining agreement or employment legislation applicable.

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.

- Whistleblowing channel to report any financial and accounting irregularities to the audit committee, in addition to any breaches of the code of conduct and irregular activities within the organisation, reporting whether this is confidential, as the case may be.

Under Article 32 of Colonial's Board Regulations, the ACC is responsible, inter alia, for:

"In relation to information systems and internal control: ... (iv) for establishing and supervising a method that allows employees to make confidential and, if possible and appropriate, anonymous statements on any irregularities, especially financial and accounting irregularities, that may potentially be important to the company."

As noted in the preceding point, the Regulatory Compliance Division, 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 whistleblowing channel on its intranet where employees can report any irregularities and breaches identified at the Company.

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

- 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 Training Plan covering all business areas according to the specific needs of each. However, the functional business areas themselves, under the coordination and supervision of the Human Resources department, are responsible for devising and proposing specific training plans for their areas.

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

In addition, the Regulatory Compliance Division, 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 Department attended thematic courses and forums outside the Company related to the evaluation of certain internal control and risk management aspects.

F.2 Assessment of risks in relation to financial information

Report, at least, on:

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

- Whether the process exists and is documented.

Colonial has a Risk Management and Control System (RMCS), 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 RMCS, as indicated in sections F.1.1 and F.1.2 of this report.

Colonial's ICFR Organisational and Monitoring Model, 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 RMCS, 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 how often.

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

1) Integrity: 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 rejected data entries. Disclosures "not" identified and, consequently, "not" included in the notes to the financial statements or deliberately omitted.

2) Existence: Transactions "not" authorised that are entered into the company's accounting software. Duplicated transactions. Erroneous adjustments in 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 the determination of market values, amortised values, value in use or due to a depreciation error, as well as adjustments made and not properly 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 proper 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 arising 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 Board Regulations and, specifically the section regarding the responsibilities of the ACC, stipulate that the responsibilities of the Committee include, among others:

"In relation to information systems and internal control: (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 that stipulates, as a basic procedure, the determination of the Group's scope of consolidation at the end of every reporting period.

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 changes.

- Whether the process takes account of other types of risks (operational, technology, financial, legal, tax, reputational, environmental risk etc.), which may affect the financial statements.

As described in the first item of section F.2.1, 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 work together to identify and correct risks.

Colonial’s ICFR Organisation and Supervision Model, 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 involving 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 Board Regulations and, specifically the section regarding the responsibilities of the ACC, stipulate that the responsibilities of the Committee include, among others:

“In relation to information systems and internal control: ... (ii) to conduct a periodic review of the internal control and risk management systems in such a way that the main risks are identified, managed and notified properly.”

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 shall 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 features, if available, on at least the following:

F.3.1. Procedures to review and authorise financial information and the ICFR system description to be published on the securities markets, stating those responsible, 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 closure and the specific review of relevant judgments, 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 that 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) Regulatory Announcements.

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 with the CEO, Board of Directors or the General Meeting of Shareholders 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 auditor.

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 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 information 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 that 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 and supervision.

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 auditing 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 control activities in place 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 of 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 the Accounting Policies Manual.

h) Taxes.

i) Reporting systems, including capture and preparation mechanisms for supporting financial information to be issued.

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 that 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 designed to supervise the management of third party subcontracted activities, in addition to any evaluation, calculation or appraisal tasks entrusted to independent experts that may have a material impact on the financial statements.

As described in section F.3.1, Colonial has identified the key processes that 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 that 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's annual plan includes the monitoring activities needed to ensure the processes described are correctly executed.

F.4 Information and reporting

Report, indicating salient features, 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 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 to capture and prepare the financial information with consistent formats, to be implemented and used by all units in the Company or group, which support the main financial statements and the notes, in addition to any information provided on the 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 templates of financial statements that 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, Colonial uses 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 2017 consisted of approving the Internal Audit Plan for 2017, 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 management 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 of the Board of Directors, and, specifically the section regarding the responsibilities of the ACC, stipulate that the responsibilities of the Committee include, among others:

"The Audit and Control Committee, with respect to the information and internal control systems, shall:

(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 that comprise the internal control system, offering suggestions for improvement.

The ACC has already approved the Internal Audit Plan for 2018, 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. Whether the Company has a discussion procedure whereby the accounts auditor (in accordance with what is set forth in the NTAs), the Internal Audit staff and other experts are able to inform senior management and the Audit Committee or Company directors of any significant weaknesses in internal control identified during the processes of review of annual financial statements or any others entrusted to them. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

Article 8 of Colonial's Board Regulations provides as follows:

"Dealings of the Board of Directors with the external auditor will be through the Audit and Control Committee."

In this regard, Article 32 of the Board Regulations governs 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, in connection with the external auditor, the ACC has the duty to receive regular information from the external auditor on the audit plan and the implementation 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 Board of Directors 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 significant information

No additional issues to disclose have been identified.

F.7 External auditor report

Report by:

F.7.1. If the ICFR information supplied to the market has been reviewed by the external auditor, the corresponding report should be attached. If this is not the case, it should explain why.

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 EXTENT TO WHICH THE CORPORATE GOVERNANCE RECOMMENDATIONS ARE FOLLOWED

Please indicate the extent to which the Company has followed the recommendations of the Code of Good Governance.

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 acquiring shares on the market.

Compliant X **Explain □**

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

a) Their respective areas of activity and possible business relations between them, as well as those of the subsidiary listed company with other companies belonging to the same group.

b) The mechanisms in place to resolve any conflicts of interest that may arise.

Compliant X Partially compliant □ Explain □ Not applicable □

3. During the ordinary 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) Of the changes that have occurred since the last ordinary general meeting.

b) Of the specific reasons why the Company is not following any recommendations of the Code of Corporate Governance and, if any, the alternative rules applied to this matter.

Compliant X **Partially compliant □** **Explain □**

4. The Company shall define and promote a policy of communication and contact with shareholders, institutional investors and proxy advisors, respecting the rules on market abuse and treating shareholders who are in the same position equally.

And that the Company should make this policy public via its website, including information on the way it has been put in practice and identifying the interlocutors or persons responsible for carrying this out.

Compliant X Partially compliant □ Explain □

5. That the Board of Directors does not submit to the general meeting a proposal of delegation of powers to issue shares or convertible securities excluding the right to preferential purchase, for an amount above 20% of the share capital at the time of delegation.

And that when the Board of Directors approves any issue of shares or convertible securities excluding the right to preferential purchase, the Company should immediately publish on its website the reports on this exclusion as laid down in the companies laws.

Compliant X Partially compliant □ Explain □

6. The listed companies which produce the reports listed below, either in mandatory or voluntary form, publish them on their website well in time before the ordinary general meeting is held, although their dissemination is not mandatory:

a) Report on external auditor independence.

b) Reports of proceedings of the audit committees and the Appointments and Remuneration Committee.

c) Audit Committee Report on Related Party Transactions

d) Report on the corporate social responsibility policy.

Compliant X Partially compliant □ Explain □

7. The Company broadcasts live, via its website, the holding of general meetings of shareholders.

Compliant X Explain □

8. The Audit Committee ensures that the Board of Directors should seek to present the accounts to the General Meeting of Shareholders without limitations or qualifications in the audit report and, in exceptional cases where there are qualifications, both the chairman of the Audit Committee and the auditors should clearly explain to shareholders the contents and scope of such limitations or qualifications.

Compliant X Partially compliant □ Explain □

9. The Company should make public on its website, permanently, the requirements and procedures it will accept to prove ownership of shares, the right to attend the general meeting of shareholders and the exercise or delegation of voting rights.

And such requirements and procedures facilitate the shareholders' attendance and the exercise of their rights and are applied in a non-discriminatory manner.

Compliant X Partially compliant □ Explain □

10. Where any legitimate shareholder has exercised, prior to the holding of the general meeting of shareholders, the right to complete the agenda or to submit new resolution proposals, the Company:

a) Immediately disseminates such additional items and new resolution proposals.

b) Makes public the attendance card model or form of proxy or remote voting with the changes required so that the new items on the agenda and alternative resolution proposals can be voted on, on the terms proposed by the Board of Directors.

c) Submits all these items or alternative proposals to vote and the same voting rules are applied to them as those made by the Board of Directors, including, in particular, presumptions or inferences about the meaning of the vote.

d) Announces, after the general meeting of shareholders, the breakdown of the vote on such additional points or alternative proposals.

Compliant X Partially compliant □ Explain □ Not applicable □

11. In the event that the Company plans to pay premiums to attend the general meeting of shareholders, it will previously establish a general policy on such premiums and this policy is stable.

Compliant □ Partially compliant □ Explain □ Not applicable X

12. The Board of Directors shall perform its duties with unity of purpose and independent judgment and it shall treat all shareholders who are in the same position equally and guide itself by the Company's interests which are understood as achieving a profitable and sustainable long-term business, to promote the Company's continuity and maximize its economic value.

In pursuing the Company's interests, in addition to complying with laws and regulations and acting in good faith, ethically and respecting the commonly accepted uses and good practices, the Board of Directors shall endeavour to reconcile the Company's interests with, where applicable, the legitimate interests of its employees, its suppliers, its customers and those of other stakeholders that may be affected, as well as the impact of the Company's activities on the community as a whole and in the environment.

Compliant X Partially compliant □ Explain □

13. The Board of Directors has enough members in order to implement efficient and participative proceedings, which makes it advisable that the Board should have from five to fifteen members.

Compliant X **Explain □**

14. The Board of Directors approves a policy of selection of directors that:

a) Is specific and verifiable.

b) Ensures that proposals for appointment or reappointment are based on a preliminary analysis of the needs of the Board of Directors.

c) Promotes the diversity of knowledge, experience and gender.

The result of the previous analysis of the needs of the Board of Directors is collected in the committee's report justifying the appointments to be published when the general meeting of shareholders is called, in which the ratification, appointment or re-election of each director is submitted.

And the selection policy promotes the goal that by 2020 the number of female directors will represent no less than 30% of the total members of the Board of Directors.

The Appointments Committee shall annually verify compliance with the policy of selection of directors and inform thereof in the annual corporate governance report.

Compliant X **Partially compliant □** **Explain □**

15. The proprietary directors and independent directors constitute a significant majority of the Board of Directors and the number of executive directors is kept to the minimum necessary, having regard to the complexity of the corporate group and the percentage shareholding of the executive directors in the Company's share capital.

Compliant X **Partially compliant □** **Explain □**

16. The percentage of proprietary directors over the total of non-executive directors is not higher than the proportion between the capital represented by such directors and the remainder of the Company's share capital.

This criterion may be reduced:

a) In highly capitalized companies where the shareholdings legally considered significant are low.

b) In companies where there is a diversity of shareholders represented on the Board of Directors and there are no links between them.

Compliant X **Explain □**

17. The number of independent directors represents at least half of all directors.

However, where the Company is not highly capitalized or where, still being so, it has a shareholder or several acting together, who control more than 30% of the share capital, the number of independent directors should represent at least one-third of all directors.

Compliant □ **Explain X**

During the first half of 2017, the Company complied with the recommendation insofar as it was not considered a highly capitalised company. At 31 December 2017, the Company, considered a highly capitalised company, did not comply with the recommendation, although the percentage of independent directors is almost half of the total number of directors, as there are 4 independent directors over a total of 10 directors. In this regard, the number of independent directors of Colonial is equal to the number of proprietary directors and, in any case, greater than the number of executive directors.

Thus, although the percentage of independent directors does not reach the 50% required by the recommendation, the Company estimates that the representation of this type of Directors is high, so all interests are duly represented in the board of directors.

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

a) Professional and biographical profile.

b) Other boards of directors on which they sit, whether or not these belong to listed companies, as well as other remunerated activities in which they may be involved.

c) The category to which he belongs, where applicable, stating, in the case of proprietary Directors, the shareholder to whom he owes his/her office and with whom he is associated.

d) Date when they were first appointed as a director of the Company, as well as the dates of any subsequent reappointments.

e) Their holdings of Company shares and their stock options.

Compliant X **Partially compliant □** **Explain □**

19. The Annual Corporate Governance Report, with prior verification by the Appointments Committee, explains the reasons for the appointment of proprietary directors at the request of shareholders whose shareholding is less than 3% of the share capital; and reasons are given why formal requests for a seat on the board from shareholders with a stake equal to or greater than that of others, at whose request proprietary directors were appointed, have not been respected.

Compliant □ **Partially compliant □** **Explain □** **Not applicable X**

20. Proprietary directors tender their resignation when the shareholders they represent sell their entire shareholding. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Compliant X **Partially compliant □** **Explain □** **Not applicable □**

21. The Board of Directors shall not propose the removal of any independent Director before the statutory period for which they were appointed, except where just cause is found by the Board of Directors following a report from the Appointments Committee. It shall be understood that there is just cause when the Director occupies a new position or takes on new duties that prevent him/her from devoting the necessary time to the performance of the duties associated with the office of Director, when the director fails to fulfil the duties inherent to his/her office or when the director is involved in circumstances which cause him/her to lose his/her independent status in accordance with the provisions of the applicable legislation.

The removal of independent directors from office may also be proposed as a result of public buy-outs, mergers or other similar enterprise-level transactions implying a change in the structure of the Company's capital, where such changes in the Board are due to the proportionality criterion in Recommendation 16.

Compliant X Explain □

22. Companies establish rules obliging directors to provide information and, where appropriate, tender their resignation in cases where it is alleged they could prejudice the good name and reputation of the Company and, in particular, oblige them to inform the Board of Directors of any criminal lawsuits they may be involved in, as well as any subsequent legal 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 corporate law, the Board of Directors shall examine the case as soon as practicable and, in view of the particular circumstances, decide whether or not he/she should remain in office And the Board of Directors gives a reasoned account of such circumstances in the Annual Corporate Governance Report.

Compliant X Partially compliant □ Explain □

23. All directors clearly express their opposition when they consider that a proposal submitted to the Board for Directors for decision could be contrary to the Company's interests. Moreover, independent and other directors in particular, who are not affected by potential conflict of interest, do the same in the case of decisions that could be detrimental to shareholders not directly represented on the Board of Directors.

And when the Board of Directors adopts significant or repeated decisions on matters with regard to which the director has expressed serious reservations and subsequently opts to resign, the ensuing conclusions drawn and reasons for the resignation are explained in the letter referred to in the following recommendation. This recommendation also affects the Secretary to the Board of Directors, even where he/she does not have the status of director.

Compliant X Partially compliant □ Explain □ Not applicable □

24. When, whether due to resignation or any other reason, a director leaves his or her position before the end of the term, the reasons are explained in a letter sent to all the members of the Board of Directors. Irrespective of whether such resignation is filed as a

regulatory announcement, the motive for the same must be explained in the Annual Corporate Governance Report.

Compliant X Partially compliant □ Explain □ Not applicable □

25. In addition, the Appointments and Remuneration Committee shall ensure that non-executive directors have sufficient time to properly perform their duties;

and that the Board regulations sets the maximum number of boards of which the directors may form part.

Compliant X Partially compliant □ Explain □

26. The Board of Directors holds meetings as frequently as required in order to carry out its role effectively, at least eight times a year, following the programme and agenda established at the start of the financial year, with each director able to propose for inclusion alternative items not originally on the agenda.

Compliant X Partially compliant □ Explain □

27. A Director's absence should be limited to the bare minimum and quantified in the Annual Corporate Governance Report. And, when they must occur, instructions are given to proxies.

Compliant X Partially compliant □ Explain □

28. When the directors or the Company secretary express concerns about a particular proposal or, in the case of the directors, about the Company's progress and such concerns are not resolved within the Board of Directors, this is recorded in the minutes at the request of whoever expressed such concerns.

Compliant X Partially compliant □ Explain □ Not applicable □

29. The Company shall establish 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.

Compliant X Partially compliant □ Explain □

30. In addition, regardless of the knowledge required of the Directors to perform their duties, the Company will also offer Directors refresher programs when circumstances so warrant.

Compliant X Explain □ Not applicable □

31. The agenda of the sessions clearly indicates those points on which the Board of Directors shall adopt a decision or agreement so that directors can study or seek, in advance, the information required for its adoption.

When exceptionally, for reasons of urgency, the Chairman wants to submit to the approval of the Board of Directors any decisions or agreements not included in the agenda, this will require the express prior consent of the majority of the directors present, which will be duly recorded in the minutes.

Compliant X Partially compliant □ Explain □

32. Directors should be regularly informed of the movements in shareholders and of the opinion that significant shareholders, investors and rating agencies have on the Company and its group.

Compliant X Partially compliant □ Explain □

33. The Chairman, as responsible for the effective proceedings of the Board of Directors, in addition to exercising the functions legally and statutorily assigned to him/her, prepares and submits to the Board of Directors a program of dates and issues to be addressed; organizes and coordinates the periodic evaluation of the board and, where appropriate, the chief executive officer of the Company; is responsible for the management of the board and the effectiveness of its operation; ensures that sufficient time is devoted to discussion on strategic issues, and arranges and reviews refresher programs for each director, when circumstances so require.

Compliant X Partially compliant □ Explain □

34. When there is a coordinating director, the Bylaws or regulations of the Board of Directors, in addition to the powers legally entitled, attribute him/her the following: chairing the Board of Directors in the absence of the Chairman and Vice-Chairmen, if any; echoing the concerns of non-executive directors; maintaining contacts with investors and shareholders to ascertain their views in order to form an opinion about their concerns, particularly in relation to the corporate governance of the Company; and coordinate the Chair´s plan of succession.

Compliant X Partially compliant □ Explain □ Not applicable □

35. The Secretary to the Board of Directors shall also ensure that the Board of Directors is aware of recommendations on good governance that apply to the Company and that are part of the Code of Good Governance for listed companies.

Compliant X Explain □

36. The complete Board of Directors will evaluate, once a year, and adopt, where applicable, an action plan to correct the deficiencies identified with respect to:

a) the quality and efficiency of the Board of Director's operation;

b) the operations and the composition of its committees;

c) the diversity of Board membership and competences;

d) the performance of the Chairman of the Board of Directors and the Chief Executive Officer of the Company;

e) the performance and contribution of each Director, paying particular attention to those who are in charge of the various board committees.

The evaluation of the various committees will be based on the reports they submit to the Board of Directors, and for the latter, evaluation will be based on the one submitted by the Appointments Committee.

Every three years, the Board of Directors will be assisted to carry out the evaluation by an external consultant, whose independence will be verified by the Appointments Committee.

Business relationships that the consultant or any Company in its group have with the Company or any Company of its group should be detailed in the annual corporate governance report.

The process and the evaluated areas will be further described in the annual corporate governance report.

Compliant X Partially compliant □ Explain □

37. When an Executive Committee exists, the framework for the participation of the different categories of directors will be similar to that of the Board of Directors itself, and its Secretary will be the secretary to the board.

Compliant X Partially compliant □ Explain □ Not applicable □

38. The Board of Directors is always aware of matters dealt with and decisions adopted by the Executive Committee and all the members of the board receive a copy of the minutes of the meetings of the Executive Committee.

Compliant X Partially compliant □ Explain □ Not applicable □

39. The members of the Audit Committee, and especially its chairman, are appointed taking into account their knowledge and expertise in the field of accounting, audit or risk management, and the majority of such members are independent directors.

Compliant X Partially compliant □ Explain □

40. To supervise the division that fulfils the internal audit duties to ensure the proper functioning of the information and internal control systems, which are functionally dependent on the non-executive Chairman of the Board or the Audit Committee.

Compliant X Partially compliant □ Explain □

41. The head of the division that fulfils the internal audit duties shall present its annual work plan to the Audit Committee in which it directly reports any incidents that may have arisen during its implementation, submitting this information at the end of each year in an activity report.

Compliant X Partially compliant □ Explain □ Not applicable □

42. In addition to those as legally established, the Audit Committee is responsible for the following:

1. With regard to information systems and internal control:

a) Supervise the process of preparing and the integrity of the financial information on the Company and, where applicable, to the Group, reviewing compliance with the regulatory requirements, the proper delimitation of its scope of consolidation and the correct application of accounting principles;

b) Ensure the independence and effectiveness of the internal audit processes, proposing the election, appointment, re-election and removal of the head of the internal audit division in addition to proposing the budget for this service, approving both orientation and its operating plans, ensuring that their activity is focused mainly on the risks that are relevant to the Company, receiving regular information on their activities and verifying that senior management is taking into account the conclusions and recommendations of the Committee's reports;

c) Establish and supervise a method that allows employees to make confidential and, if possible and appropriate, anonymous statements on any irregularities, especially financial and accounting irregularities, that may potentially be important to the Company.

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) ensuring that the compensation for the external auditor for their work does not compromise their integrity or independence;

c) overseeing that the Company notifies the change of auditor as a regulatory announcement to Spain's National Securities Market Commission (CNMV) and that this notification is accompanied by a statement citing any disagreements the Company may have had with the outgoing auditor and, if there were such disagreements, to discuss them;

d) Ensure that the external auditor annually holds a meeting with the full Board of Directors to report on the work done and the evolution of the Company´s accounting and risk situation.

e) Ensure that the Company and the external auditor adhere to current regulations regarding the provision of non-audit services as well as the limits on the auditor's business concentration and, in general, the other rules on auditor independence.

Compliant X Partially compliant □ Explain □

43. The Audit Committee may summon any employee or executive of the Company; this includes appearances without the presence of any other executive.

Compliant X Partially compliant □ Explain □

44. The Audit Committee is informed about the operations of structural and corporate changes that the Company plans to carry out, for analysis and preliminary report to the Board of Directors on their economic conditions and their accounting impact, and especially, if any, on the proposed swap equation.

Compliant X Partially compliant □ Explain □ Not applicable □

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

a) The different types of financial and non-financial risks (including operational, technological, legal, business, environmental, political and reputational) that the Company faces, including financial and economic risks, contingent liabilities and other risks not found on balance sheets;

b) Setting the level of risk that the Company considers acceptable;

c) The measures planned to mitigate the impact of identified risks, should they materialize;

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

Compliant X Partially compliant □ Explain □

46. Under the direct supervision of the Audit Committee or, if any, of a specialized committee of the Board of Directors, there is an internal function of risk control and management exercised by a unit or internal department of the Company that has expressly attributed the following functions:

a) to ensure the proper functioning of the control and risk management systems and, in particular, that all the important risks that affect the Company are adequately identified, managed and quantified;

b) to actively participate in the development of a risk strategy and to take part in the important decisions concerning risk management;

c) to ensure that the control and risk management systems in place adequately mitigate the risks within the framework of the policy defined by the Board of Directors.

Compliant X Partially compliant □ Explain □

47. Members of the Appointments and Remuneration Committee – or both Committees if they were separate – are designated by ensuring that they have the knowledge, skills and experience appropriate to the duties that they are to perform and that most of these members are independent directors.

Compliant X Partially compliant □ Explain □

48. Highly-capitalized companies have an Appointments Committee and a separate Remuneration Committee.

Compliant □ Explain X Not applicable □

During the first half of 2017, the recommendation was not applicable to the Company insofar as it was not considered a highly capitalised company. At 31 December 2017, having acquired the status of a highly-capitalised entity, the Company did not comply with this recommendation, although, given the current structure of the Company, it is considered appropriate for it to maintain one single appointments and remuneration committee.

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

Any Director may request that the Appointments Committee take into consideration potential candidates to fill director vacancies if he/she feels that they are suitable.

Compliant X Partially compliant □ Explain □

50. The duties of the remuneration committee must be exercised with independence and include, in addition to those indicated by law, the following:

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) To periodically review the remuneration policy applied to Directors and senior officers, as well as the compensation systems which include shares and how they are implemented, in addition to guaranteeing that their individual compensation is proportional to that which is paid to other Directors and senior officers of the Company.

d) To ensure that any conflicts of interest does not interfere with the independence of the external advice given to the Appointments and Remuneration Committee.

e) To verify the information on Directors and senior officers' remuneration found in various corporate documents, including the annual report on Director compensation.

Compliant X Partially compliant □ Explain □

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

Compliant X Partially compliant □ Explain □

52. The rules regarding the composition and proceedings of the supervising and control committees are listed in the Board Regulations, are consistent with those applicable to the legally mandatory committees under the foregoing recommendations, and include the following:

a) These committees are composed exclusively of nonexecutive directors, with a majority of independent directors.

b) The chairmen of these committees are independent directors.

c) The Board of Directors appoints the members of these committees, taking into account the knowledge, skills and experience of the directors and the responsibilities of each committee; deliberates on its proposals and reports; and, at the first plenary session of the board after their meetings, receives an account of their activity and a report on the work carried out.

d) The Committees may seek outside advice when they deem it necessary to perform their duties.

e) Minutes are taken for all their meetings and copies are sent to all directors.

Compliant □ Partially compliant □ Explain □ Not applicable X

53. The supervision of compliance with the rules of corporate social responsibility policy, the internal codes of conduct and the corporate governance policy is attributed to one or more committees within the Board of Directors; these committees may be the Audit Committee, the Appointments Committee, or the corporate social responsibility committee, if any, or a specialised committee created specifically for such duties by the Board of Directors; and these committees will have the following minimum duties:

a) Overseeing compliance with the Company's internal codes of conduct and its rules of corporate governance;

b) Supervising the Company's communication strategy and its relations with shareholders and investors, including small and medium shareholders;

c) Regular assessment of the adequacy of the Company's corporate governance system so that it may fulfil its mission of promoting its business activity and keep the legitimate interests of other stakeholders in mind;

d) Reviewing the Company's corporate responsibility policy, ensuring that it is aimed at creating value;

e) monitoring the Company's social responsibility strategy and practices and assessing its degree of compliance;

f) supervising and evaluating relations with different stakeholders;

g) Evaluating all matters that relate to the Company's non-financial risks, including operational, technological, legal, social, environmental, political and reputational risks;

h) Coordinating the process of reporting non-financial information and information on diversity, in accordance with applicable regulations and international reference standards.

Compliant X Partially compliant □ Explain □

54. The corporate social responsibility policy includes the principles or commitments, which the Company voluntarily assumes in its relationship with the different stakeholders and identify at least:

a) The objectives of the corporate social responsibility policy and the development of support tools.

b) The corporate strategy related 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) Methods or systems monitoring the results of the implementation of the specific practices identified in the previous point, the associated risks and their management.

e) The mechanisms for monitoring non-financial risk, ethics and business conduct.

f) The channels of communication, participation and dialogue with stakeholders.

g) Responsible communication practices that prevent manipulation of information and protect the integrity and honour.

Compliant X Partially compliant □ Explain □

55. The company should report in a separate document or in the management report on matters related to corporate social responsibility, using any of the internationally accepted methodologies.

Compliant X Partially compliant □ Explain □

56. The compensation of the Directors is what is necessary to attract and retain Directors with a desirable profile, to compensate them for the dedication, qualifications and responsibility that the position entails, and to ensure that to the amount does not interfere with the independence of Non-Executive Directors' decisions;

Compliant X Explain □

57. Executive Directors are restricted to variable remuneration linked to the performance of the Company and to their personal performance, as is the compensation in the form of shares, stock options or rights to shares or instruments that are referenced to the value of the stock and long-term savings systems such as pension plans, retirement schemes or other social security systems.

Delivery of shares as remuneration can be contemplated for non-executive directors on condition that they hold them until they cease to be directors. The foregoing shall not apply to shares that the director needs to dispose of, if appropriate, to meet the costs related to acquisition.

Compliant X Partially compliant □ 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 activity sector or circumstances of this kind.

And in particular, the variable components of remunerations:

a) Are linked to performance criteria that are predetermined and measurable and that these criteria consider the risk taken to obtain a result.

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

c) Are set on the basis of a balance between fulfilling short-, medium- and long-term goals, to remunerate the results from continued performance over a sufficient period of time to appreciate their contribution to sustainable value creation, so that the elements that measure the results do not revolve solely around specific, occasional or extraordinary events.

Compliant X Partially compliant □ Explain □ Not applicable □

59. The payment of a significant part of the variable components of remuneration is deferred for a period sufficient to ensure that the previously established minimum performance conditions have been met.

Compliant X Partially compliant □ 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.

Compliant X Partially compliant □ Explain □ Not applicable □

61. A significant percentage of the variable remuneration of executive directors is linked to the delivery of shares or financial instruments referenced to its value.

Compliant X Partially compliant □ Explain □ Not applicable □

62. Once the shares or options or rights over shares corresponding to the remuneration systems are allocated, directors will not be able to transfer ownership of a number of shares equivalent to twice their fixed annual remuneration, or to exercise the options or rights until at least three years the allocation thereof have elapsed.

The above shall not apply to shares that the director needs to dispose of, if appropriate, to meet the costs related to acquisition.

Compliant X Partially compliant □ Explain □ Not applicable □

63. Contractual agreements include a clause that allows the Company to claim reimbursement of variable components of remuneration when payment has not been adjusted to the return conditions or when they have been paid based on data that are subsequently credited with inaccuracy.

Compliant X Partially compliant □ Explain □ Not applicable □

64. Payments for contract termination do not exceed the established amount equivalent to two years of total annual remuneration and they are not paid until the Company has been able to verify that the director has met the performance criteria previously established.

Compliant X Partially compliant □ Explain □ Not applicable □

H OTHER INFORMATION OF INTEREST

1. If there are any relevant points regarding the corporate governance of the Company or entities of the group that are not contained in the rest of the sections of this report, but which should be included in order to present a more

complete and reasoned view of the governance structure and practices of the Company or its group, describe them briefly

On Colonial joined the Ibex 35 on 19 June 2017, which meant that in the middle of the year it was considered a highly capitalised company in accordance with the recommendations of the *Code of Good Governance for Listed Companies*, approved by the CNMV in February 2015.

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.

A.2. As regards Mr Carlos Fernández González, additionally, and as "other close connections" of directors is the following information:

Name or company name of the director	**Indirect rights**		**Number of equivalent shares**	**% of total voting rights**
	Close connection*	**Number of voting rights**		
Mr Carlos Fernández González	Finaccess México, S.A. de C.V., Sociedad Operadora de Fondos de Inversión **	4,239,062	4,239,062	0.974

*Legal entity or fiduciary legal business whose economic interests are largely equivalent to those of the officer or director.

. The holder of the share is Latin 10, SA de CV, a fund independently managed by Finaccess Mexico, SA de CV (a subsidiary of Grupo Finaccess, which has availed itself of article 26 of Royal Decree 1362/2007).

A.9. bis. The calculation was based on the instructions contained in *Circular 5/2013, dated 12 June, issued by the Spanish Securities Market Commission (CNMV), which establishes the annual corporate governance report models for listed companies, savings banks and other entities that issue securities admitted to trading on official stock markets,* reflecting the share capital that is not held by significant shareholders, the members of the Board of Directors and the members of the Board of Directors, as well as treasury shares.

C.1.11. The Company is the sole director of Colonial Tramit, S.L., Colonial Invest, S.L., Morage Inversiones 2014, S.L. and Danieltown Spain, S.L., and Mr Pedro VIñolas Serra, in his capacity as CEO of Colonial, is the physical representative of the Company, in his capacity as sole director of these entities.

C.1.15. In relation to the amount of the total remuneration of the Board of Directors indicated in the aforementioned section, it is reported that the Directors, in their capacity as such, receive up to a maximum remuneration of €1,900,000, in accordance with the remuneration policy approved by the General Meeting of Shareholders of 29

June 2016. This remuneration dos not apply to directors holding executive positions or functions (Chairman and CEO) do not participate, in accordance with the aforementioned policy.

Consequently, the information contained in the aforementioned section of the Annual Corporate Governance Report includes the total remuneration of directors, both executive and directors who hold only the status of directors.

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

In relation to the functions of the Company's Coordinating Director, during 2017, said director has held three preparatory meetings with the independent directors, attending both to the functions that the Coordinating Director is legally entrusted with (article 529 septies of the Spanish Limited Liability Companies Law), as well as the recommendations on good governance established for this purpose in the Code of Good Governance of Listed Companies, approved in February 2015 by the CNMV (recommendation 34).

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, it will mention whether the Company has adhered to the Code of Good Tax Practice of 20 June 2010.

   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.

This annual corporate governance report was approved by the Company's Board of Directors at its meeting held on 22 February 2018.

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

Inmobiliaria Colonial, SOCIMI, S.A.

Audit Report,
Annual Accounts and Directors' Report
as at 31 December 2017

This version of our report is a free translation of the original, which will be prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

Independent auditor´s report on the annual accounts

To the shareholders of Inmobiliaria Colonial, SOCIMI, S.A.:

Report on the annual accounts

Opinion

We have audited the annual accounts of Inmobiliaria Colonial, SOCIMI, S.A. (the Company), which comprise the balance sheet as at December 31, 2017, and the income statement, statement of changes in equity, cash flow statement and related notes for the year then ended.

In our opinion, the accompanying annual accounts present fairly, in all material respects, the equity and financial position of the Company as at December 31, 2017, as well as its financial performance and cash flows for the year then ended, in accordance with the applicable financial reporting framework (as identified in Note 2 of the notes to the annual accounts), and, in particular, with the accounting principles and criteria included therein.

Basis for opinion

We conducted our audit in accordance with legislation governing the audit practice in Spain. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the annual accounts* section of our report.

We are independent of the Company in accordance with the ethical requirements, including those relating to independence, that are relevant to our audit of the annual accounts in Spain, in accordance with legislation governing the audit practice. In this regard, we have not rendered services other than those relating to the audit of the accounts, and situations or circumstances have not arisen that, in accordance with the provisions of the aforementioned legislation, have affected our necessary independence such that it has been compromised.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts of the current period. These matters were addressed in the context of our audit of the annual accounts as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Key audit matter	How our audit addressed the key audit matter
Measurement of non-current investments in Group companies	
At 31 December 2017 Inmobiliaria Colonial, SOCIMI, S.A. recognises a balance under Non-current investments in group companies amounting to Euro 2,072,989 thousand, as detailed in Notes 4.e) and 8 to the accompanying annual accounts. These investments are significant with respect to the Company's annual accounts as they account for approximately 40% of total assets. As indicated in Note 4.e) to the accompanying annual accounts, the Company carries out an assessment of the possible impairment adjustments by comparing the carrying amount of the shares with the recoverable amount , this being, unless otherwise evidenced, the investee's equity adjusted for any latent capital gains existing at the measurement date. Value adjustments and, if appropriate, their reversal, are recognised in the income statement for the year in which they arise. The quantification of the recoverable amount of such investments requires the use of judgements and significant estimates by Company Management when determining the valuation method and considering the key assumptions established. The materiality of the investments in group companies and the significant judgements described above mean that we consider this matter a key audit matter.	Our audit procedures included, among others, the review of the process implemented by the Company to assess the potential impairment of non-current investments in group companies. Also, we assessed the valuation methodology used by the Company. We obtained the audited balance sheets of the most relevant investees and reviewed the amounts of the capital gains identified and checked them against the valuations of their investment property carried out by independent experts, whom we assessed in terms of the requisite competence and independence, finding no exceptions. We ascertained that these valuations were performed in accordance with the Valuation Rules of the Royal Institution of Chartered Surveyors (RICS), included in the so-called "Red Book" - valuation manual. In this respect, we held meetings with the valuers together with our internal experts and verified for a representative sample of these valuations, the calculations used, final profitability, term of the rental contracts, the type and age of the properties, their location and occupancy rate and the discount rate used. Also, for a sample of assets, we verified, through the relevant purchase deeds, the technical specifications used by the independent experts in determining the fair value of those assets using the purchase deeds. We concluded that Management's approach is consistent and is supported by the available evidence. Lastly, we assessed whether the disclosures of information included in Notes 4.e) and 8 to the accompanying annual accounts in relation to this matter are adequate with respect to those required under applicable accounting regulations.
Valuation of Investment Property	
The Company has real estate assets which are recognised under Investment property amounting to Euro 1,531,337 thousand, representing 29% of total assets. Notes 4.c) and 6 to the accompanying annual accounts include information on the assets included under this heading.	For the purposes of validating their carrying amount before considering any impairment, we verified the annual depreciation of investment property and observed that it is calculated on a straight-line basis, without detecting significant incidents.

Key audit matter	How our audit addressed the key audit matter
As indicated in Note 4.c), these properties are tested for impairment. In order to obtain the recoverable amount of such assets, the Company determines the fair value through independent expert valuations. The methodology used to determine the fair value of the investment properties is mainly the discounted cash flows method, generally applied over a 10 year timeframe, in accordance with standard market practice. Such valuations are based on a series of significant judgements and estimates. We have therefore focused on this area due to the materiality of this heading with respect to the Company's total assets and the significant judgement required on the part of Management. Changes in the assumptions used could lead to a significant variation in the recoverable value of such assets and their impact on the income statement.	We obtained the year-end valuations of these assets by independent experts and we assessed that these experts meet the requirements of competence and independence, finding no exceptions. We determined that the valuations were performed in accordance with the Valuation Rules of the Royal Institution of Chartered Surveyors (RICS), included in the so-called "Red Book" - valuation manual. In this respect, we held meetings with the valuers together with our internal experts and verified for a representative sample of these valuations, the calculations used, final profitability, term of the rental contracts, the type and age of the properties, their location and occupancy rate and the discount rate used. Also, for a sample of assets, we verified the technical specifications used by the independent experts when determining the fair value of those assets using the purchase deeds. Lastly, we verified the relevant disclosures in Notes 4.c) and 6 to the accompanying annual accounts. We consider that we obtained sufficient audit evidence in the course of our work to corroborate the reasonableness of the carrying amount of investment property.
SOCIMI Tax Scheme	
On 30 June 2017 the Company asked the Tax Authorities to include it in the SOCIMI tax scheme as detailed in Notes 1, 4.m) and 16 to the accompanying annual accounts. Adopting this tax scheme entails breaking up the tax group existing at 31 December 2016, effective as from 1 January 2017. The SOCIMI Tax Scheme is governed by Law 11/2009, dated 26 October 2016, as amended by Law 16/2012, that contains very specific requirements for inclusion in that scheme and which are detailed in Note 4.m) to the accompanying annual accounts. We have decided to mention this matter as it is a relevant event for the year and because of its impact on the annual accounts, as a result of the change in the way of accounting for corporate income tax in the Company.	We obtained the certificate dated 30 June 107 through which the Company reported to the Tax Administration State Agency the decision to apply the SOCIMI Tax Scheme and we have seen the documentation relating to the receipt of such communication. We verified that the Company meets the necessary requirements under tax legislation to qualify for the SOCIMI Tax Scheme, without finding exceptions. Additionally, we involved our internal tax experts in order to validate that the effects of the scheme are correctly accounted for and the treatment of temporary differences and their tax impact. We also took into account the relevant disclosures in Notes 1, 4.m) and 16 to the accompanying annual accounts.

Key audit matter	How our audit addressed the key audit matter
	The results of our procedures ended satisfactorily and we did not identify any relevant matters affecting the financial information included in the accompanying annual accounts.
Public offering of shares of Axiare Patrimonio SOCIMI, S.A.	
In November 2017 the Company's interest in Axiare Patrimonio SOCIMI S.A. (hereinafter Axiare) amounted to 28.79%. At 31 December 2017 the Company holds this investment as a financial asset available for sale as the conditions to view it as an investment in an associate are not met, as indicated in Note 8 to the accompanying annual accounts.	In relation to the interest obtained in Axiare Patrimonio SOCIMI, S.A. in November 2017, we took into account the arguments prepared by Management in order to conclude that there was no significant influence over that company. We reviewed that assessment together with our internal legal experts and concluded that Company Management's assessment is adequate.
On 28 December 2017 the Comisión Nacional del Mercado de Valores authorised the voluntary public offer of Axiare shares, covering 100% of the company's share capital, excluding the shares already held by the Company. On 2 February 2018 it was confirmed that the offer had been accepted by 58.07 % of the corresponding shareholders, resulting in the disbursement of Euro 842,955 thousand. As a result, the Company owns 86.86% of Axiare's share capital.	We verified the acceptance on 2 February 2018 of the public offer of Axiare shares through the Comisión Nacional del Mercado de Valores publication, thereby confirming the number of shares and percentage of capital obtained.
As this transactions was completed after the 2017 year-end but before the date of formulation of the annual accounts, accounting regulations require information to be disclosed on the business combination and the disclosure, where appropriate, of the reasons why certain information cannot be included. These disclosures are included in Note 22 to the accompanying annual accounts.	We have determined that the information detailed in Notes 8 and 22 to the accompanying annual accounts relates to the information which is publicly available on the public offer of shares and the financial information published by Axiare for the year ended 31 December 2017 and can conclude that the disclosures are adequate.
We have decided to mention this matter as this is a significant transaction that has a relevant impact on the Company's annual accounts.	

Other Matters

On 24 February 2017 other auditors issued an audit opinion on the annual accounts of the group for the year ended 31 December 2016 in which they expressed an unqualified opinion.

Other information: Management report

Other information comprises only the management report for the 2017 financial year, the formulation of which is the responsibility of the Company´s directors and does not form an integral part of the annual accounts.

Our audit opinion on the annual accounts does not cover the management report. Our responsibility regarding the management report is defined in the legislation governing the audit practice, which establishes two different levels:

a) A specific level that is applicable to certain information included in the Annual Corporate Governance Report (ACGR), as defined in art. 35.2. b) of Law 22/2015, on Audit of Accounts, which consists in verifying only that the aforementioned information has been provided in the management report, and otherwise, to report on it.

b) A general level applicable to the rest of the information included in the management report, which consists of evaluating and reporting on the concordance of the aforementioned information with the annual accounts, based on the Company´s knowledge obtained in the performance of the audit of the aforementioned accounts and without including information other than that obtained as evidence during the same, as well as evaluating and reporting whether the content and presentation of this part of the management report are in accordance with the regulations that result from application. If, based on the work we have done, we conclude that there are material inaccuracies, we are obliged to report it.

On the basis of the work performed, as described above, we have verified that the information mentioned in section a) above is provided in the management report and that the rest of the information contained in the management report is consistent with that contained in the annual accounts for the 2017 financial year, and its content and presentation are in accordance with the applicable regulations.

Responsibility of the directors and the audit committee for the annual accounts

The Company´s directors are responsible for the preparation of the accompanying annual accounts, such that they fairly present the equity, financial position and financial performance of Inmobiliaria Colonial, SOCIMI, S.A., in accordance with the financial reporting framework applicable to the entity in Spain, and for such internal control as the directors determine is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts, the Company´s directors are responsible for assessing the Company´s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the process of preparation and presentation of the annual accounts.

Auditor's responsibilities for the audit of the annual accounts

Our objectives are to obtain reasonable assurance about whether the annual accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor´s report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with legislation governing the audit practice in Spain will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts.

As part of an audit in accordance with legislation governing the audit practice in Spain, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company´s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company´s directors.

- Conclude on the appropriateness of the directors´ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company´s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor´s report to the related disclosures in the annual accounts or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor´s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the annual accounts, including the disclosures, and whether the annual accounts represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Company´s audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Company´s audit committee with a statement that we have complied with relevant ethical requirements, including those relating to independence, and we communicate with the audit committee those matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Company´s audit committee, we determine those matters that were of most significance in the audit of the annual accounts of the current period and are therefore the key audit matters.

We describe these matters in our auditor´s report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

Report to the audit committee

The opinion expressed in this report is consistent with the content of our additional report to the Company's audit committee dated February 22, 2018.

Appointment period

The General Ordinary Shareholders' Meeting held on 28 June 2016 appointed us as auditors for a period of 3 years, as from the year ended 31 December 2017.

Services provided

Services different to the audit of the accounts are indicated in Note 20 to the annual accounts.

PricewaterhouseCoopers Auditores, S.L. (S0242)

Original in Spanish signed by
José M Solé Farre (05565)

February 22, 2018

Inmobiliaria Colonial, SOCIMI, S.A.

Financial Statements
for the Year Ended on
31 December 2017 and
Management Report, together with the
Auditors' Report

Translation of a report originally Issued in Spanish based on our work performed In accordance with the audit regulations In force in Spain and of financial statements originally Issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the company In Spain (see Notes 2 and 23). In the event of a discrepancy, the Spanish-language version prevails.

INMOBILIARIA COLONIAL, SOCIMI, S.A.

BALANCE SHEET AT 31 DECEMBER 2017
(Thousands of Euros)

ASSETS	Notes to the ancial Stateme	31.12.2017	31.12.2016
NON-CURRENT ASSETS:			
Intangible assets-		**1.684**	**1.061**
Industrial property		676	290
Computer software		1.008	771
Property, plant and equipment-	**Note 5**	**17.445**	**15.566**
Land and buildings		18.188	18.030
Plant and other items of property, plant and equipment		4.185	2.177
Impairment of property, plant and equipment		(4.928)	(4.641)
Investment property-	**Note 6**	**1.531.337**	**1.510.105**
Land		1.160.562	1.160.545
Buildings and installations		373.685	396.877
Investment property in progress		76.726	71.272
Impairment of investment property		(79.636)	(118.589)
Non-current investments in Group companies and associates-	**Note 8**	**2.138.741**	**1.857.163**
Non-current equity instruments of the Group		2.075.941	1.865.345
Loans to companies		65.752	-
Impairment of financial investments in Group companies and associates		(2.952)	(8.182)
Non-current financial investments-	**Note 8**	**432.100**	**146.782**
Non-current equity instruments		423.277	138.293
Other non-current financial assets		8.823	8.489
Total non-current assets		**4.121.307**	**3.530.677**
CURRENT ASSETS:			
Trade and other receivables-		**18.587**	**38.880**
Trade receivables from sales and services		1.571	1.393
Trade receivables from Group companies and associates	**Note 18**	210	28
Other receivables	**Note 11**	3.859	1.729
Advances to suppliers		91	96
Employees receivables		4	4
Other accounts receivable from public authorities	**Note 16**	12.852	35.630
Current investments in Group companies and associates-	**Note 18**	**192**	**5.697**
Current loans to Group companies and associates		192	5.697
Current financial investments-	**Note 11**	**9**	**441**
Current equity instruments		9	9
Other current financial assets		-	432
Current prepayments and accrued income		**135**	**43**
Cash and cash equivalents	**Note 14**	**1.069.355**	**79.591**
Total current assets		**1.088.278**	**124.652**
TOTAL ASSETS		**5.209.585**	**3.655.329**

LIABILITIES	Notes to the ancial Stateme	31.12.2017	31.12.2016
EQUITY:			
CAPITAL AND RESERVES-		**2.462.145**	**1.893.270**
Share capital-		**1.088.293**	**892.058**
Registered capital		1.088.293	892.058
Share premium		**1.126.248**	**731.326**
Reserves-		**245.118**	**250.634**
Legal and statutory reserves		39.099	33.615
Other reserves		206.019	217.019
Own shares and equity holdings		**(31.262)**	**(36.755)**
Profit for the year		**32.497**	**54.839**
Other equity instruments		**1.251**	**1.168**
VALUATION ADJUSTMENTS-		**70.415**	**1.317**
Financial assets available for sale		**70.415**	**1.317**
Total equity	**Note 12**	**2.532.560**	**1.894.587**
NON-CURRENT LIABILITIES:			
Non-current provisions-	**Note 13**	**10.289**	**10.671**
Non-current employee benefit obligations		83	97
Other provisions		10.206	10.574
Non-current payables-		**2.488.366**	**1.664.421**
Debt instruments and other held-for-trading liabilities	**Note 14**	2.310.656	1.513.868
Bank borrowings	**Note 14**	160.412	119.927
Derivatives	**Note 9**	-	45
Other non-current financial liabilities	**Note 15**	17.298	30.581
Non-current payables to Group companies and associates-	**Note 18**	**18.094**	**-**
Deferred tax liabilities and other payables to public authorities-	**Note 16**	**39.363**	**36.632**
Total non-current liabilities		**2.556.112**	**1.711.724**
CURRENT LIABILITIES:			
Current provisions	**Note 13**	**19.914**	**11.926**
Current payables-		**11.573**	**11.728**
Debt instruments and other held-for-trading liabilities	**Note 14**	12.120	11.367
Bank borrowings	**Note 14**	(608)	(270)
Derivatives	**Note 9**	50	612
Other current financial liabilities		11	19
Current payables to Group companies and associates	**Note 18**	**48**	**4.704**
Trade and other payables-		**89.368**	**20.650**
Payable to suppliers		78.729	13.760
Other payables		8.273	4.480
Other accounts payable to public authorities	**Note 16**	2.366	2.410
Current accrued expenses and deferred income		**10**	**10**
Total current liabilities		**120.913**	**49.018**
TOTAL EQUITY AND LIABILITIES		**5.209.585**	**3.655.329**

The accompanying Notes 1 to 22 and the Appendix are an integral part of the balance sheet at 31 December 2017.

INMOBILIARIA COLONIAL, SOCIMI, S.A.

INCOME STATEMENT FOR 2017
(Thousands of Euros)

	Notes to the Financial Stateme	Financial Year 2017	Financial Year 2016
CONTINUING OPERATIONS:			
Revenue-	**Note 17**	**100.545**	**119.822**
Sales		70.725	64.746
Services		703	241
Income from holdings in Group companies		29.117	54.835
Other operating income-		**2**	**123**
Non-core and other current operating income		2	123
Staff costs-	**Note 17**	**(13.268)**	**(9.287)**
Wages, salaries and similar expenses		(11.219)	(7.506)
Employee benefits expense		(2.049)	(1.781)
Other operating expenses-		**(27.285)**	**(19.764)**
External services		(16.993)	(11.914)
Taxes other than income tax		(2.197)	(3.512)
Losses on, impairment of and changes in allowances for trade receivables	**Note 17**	(8.073)	(4.376)
Other current operating expenses		(22)	38
Amortisation and depreciation-	**Notes 5 and 6**	**(25.275)**	**(28.170)**
Impairment and gains on disposal of fixed assets-	**Note 17**	**32.499**	**61.133**
Impairment and losses		32.285	61.741
Gains/(losses) on disposals and other		214	(608)
Profit from operations-		**67.218**	**123.857**
Finance income-	**Note 17**	**4.895**	**1.550**
From investments in equity instruments-		**3.681**	**-**
Third parties	**Notes 8 and 17**	3.681	-
Marketable securities and other financial instruments-		**1.214**	**1.550**
Group companies and associates	**Note 18**	268	81
Third parties		946	1.469
Finance costs-	**Note 17**	**(42.151)**	**(55.358)**
On debts to Group companies and associates	**Note 18**	(193)	(1)
On debts to third parties		(41.958)	(55.357)
Change in fair value of financial instruments-	**Note 17**	**(2)**	**(64)**
Trading portfolio and other		(2)	(64)
Impairment and gains/(losses) on disposal of financial instruments-	**Notes 8 and 17**	**5.236**	**(8.172)**
Impairment and losses		5.230	(8.172)
Gains/(losses) on disposals and other		6	-
Financial loss-		**(32.022)**	**(62.044)**
Profit before tax-		**35.196**	**61.813**
Income tax expense	**Note 16**	(2.699)	(6.974)
Profit for the year from continuing operations-		**32.497**	**54.839**
Profit for the year-		**32.497**	**54.839**

Notes 1 to 22 and the Appendix are an integral part of the income statement for 2017.

INMOBILIARIA COLONIAL, SOCIMI, S.A.

STATEMENT OF CHANGES IN EQUITY FOR 2017

A) STATEMENT OF RECOGNISED INCOME AND EXPENSE

(Thousands of Euros)

	Notes to the Financial Stateme	Financial Year 2017	Financial Year 2016
PROFIT FOR THE YEAR (I)		**32.497**	**54.839**
Income and expense recognised directly in equity:			
Cash flow hedges		-	-
Changes in fair value of available-for-sale financial assets	**Note 8**	69.098	1.317
Total income and expense recognised directly in equity (II)		**69.098**	**1.317**
Amounts transferred to income statement:			
Cash flow hedges		-	-
Total amounts transferred to income statement (III)		**-**	**-**
Total recognised income and expense (I+II+III)		**101.595**	**56.156**

Notes 1 to 22 and the Appendix are an integral part of the statement of recognised income and expense for 2017.

INMOBILIARIA COLONIAL, SOCIMI, S.A.

STATEMENT OF CHANGES IN EQUITY FOR 2017

B) STATEMENT OF TOTAL CHANGES IN EQUITY

(Thousands of Euros)

	Notes to the Financial Stateme	Share capital	Share premium	Reserves	Treasury shares	Prior years' profit/(loss)	Profit for the year	Other equity instruments	Valuation adjustments -	Total
Balance at 31 December 2015		**797.214**	**560.606**	**1.163.954**	**(5.013)**	**(1.147.975)**	**285.350**	**1.191**	**-**	**1.655.327**
Total recognised income and expense		-	-	-	-	-	54.839	-	1.317	**56.156**
Transactions with shareholders:	**Note 12**									
Capital increases		94.844	170.720	(1.905)	-	-	-	-	-	**263.659**
Transactions with own shares and equity holdings (net)		-	-	(12)	(33.856)	-	-	-	-	**(33.868)**
Other transactions with shareholders		-	-	(938.993)		938.993				**-**
Distribution of profit		-	-	28.535	-	208.982	(285.350)	-	-	**(47.833)**
Share-based payment transactions:										
Accrual long-term remuneration plan 2016	**Note 17**	-	-	-	-	-	-	1.168	-	**1.168**
Delivery long-term remuneration plan 2015	**Note 19**	-	-	(945)	2.114	-	-	(1.191)	-	**(22)**
Balance at 31 December 2016		**892.058**	**731.326**	**250.634**	**(36.755)**	**-**	**54.839**	**1.168**	**1.317**	**1.894.587**
Total recognised income and expense		-	-	-	-	-	32.497	-	69.098	**101.595**
Transactions with shareholders:	**Note 12**									
Capital increases		196.235	394.922	(6.691)	-	-	-	-	-	**584.466**
Transactions with own shares and equity holdings (net)		-	-	10.371	2.956	-	-	-	-	**13.327**
Offset of prior years' losses		-	-	-	-	-	-	-	-	**-**
Distribution of profit		-	-	(7.910)	-	-	(54.839)	-	-	**(62.749)**
Share-based payment transactions:										
Accrual long-term remuneration plan 2017	**Note 17**	-	-	-	-	-	-	1.334	-	**1.334**
Delivery long-term remuneration plan 2016	**Note 19**	-	-	(1.286)	2.537	-	-	(1.251)	-	**-**
Balance at 31 December 2017		**1.088.293**	**1.126.248**	**245.118**	**(31.262)**	**-**	**32.497**	**1.251**	**70.415**	**2.532.560**

The accompanying Notes 1 to 22 and the Appendix are an integral part of the statement of recognised income and expense for 2017.

INMOBILIARIA COLONIAL, SOCIMI, S.A.

STATEMENT OF CASH FLOWS FOR 2017
(Thousands of Euros)

	Notes to the Financial Statements	Financial Year 2017	Financial Year 2016
CASH FLOWS FROM OPERATING ACTIVITIES (I):		**56.949**	**22.355**
Profit for the year before tax from continuing operations-		**35.196**	**61.813**
Profit/(loss) for the year before tax from discontinued operations-		**-**	**-**
Adjustments for-		**(759)**	**(22.370)**
Amortisation and depreciation	**Notes 5 and 6**	25.275	28.170
Impairment loss allowances	**Note 17**	(32.285)	(61.741)
Changes in provisions	**Notes 13 and 17**	8.073	4.376
Proceeds from disposals of fixed assets	**Note 6**	(214)	608
Impairment and gains/(losses) on disposal of financial instruments	**Notes 8 and 17**	(5.236)	8.172
Finance income	**Note 17**	(4.895)	(1.550)
Income from holdings in Group companies	**Note 18**	(29.117)	(54.835)
Finance costs	**Note 17**	42.151	55.358
Change in fair value of financial instruments	**Notes 9 and 17**	2	64
Other income and expenses		(4.513)	(992)
Changes in working capital-		**13.747**	**(18.514)**
Trade and other receivables		(258)	(1.317)
Other current assets		432	-
Trade and other payables		11.518	(16.370)
Other current liabilities		(8)	2
Other non-current assets and liabilities		2.063	(829)
Other cash flows from operating activities-		**8.765**	**1.426**
Interest paid		(47.315)	(41.975)
Income from holdings in Group companies	**Notes 17 and 18**	29.117	54.835
Finance income		4.038	726
Other taxes received (paid)		23.534	(9.975)
Proceeds from and payments for cancellation of derivatives		(609)	(2.185)
CASH FLOWS FROM INVESTING ACTIVITIES (II)		**(388.896)**	**(354.902)**
Payments for investments-		**(393.853)**	**(369.022)**
Group companies and associates	**Note 8**	(157.356)	(138.568)
Intangible assets		(1.152)	(755)
Property, plant and equipment	**Note 5**	(2.792)	(1.843)
Investment property	**Note 6**	(16.667)	(90.820)
Other financial assets	**Note 8**	(215.886)	(136.976)
Non-current assets held for sale	**Note 10**	-	(60)
Proceeds from sale of investments-		**4.957**	**14.120**
Property, plant and equipment		11	13
Investment property	**Note 6**	4.940	-
Other current financial assets	**Notes 9 and 17**	6	-
Non-current assets held for sale	**Note 10**	-	14.107
CASH FLOWS FROM FINANCING ACTIVITIES (III)		**1.321.711**	**210.506**
Proceeds from and payments for equity instruments-		**535.044**	**(97.529)**
Issue of equity instruments	**Note 12**	591.157	-
Distribution of dividends	**Note 3**	(62.749)	(47.833)
Acquisition/Disposal of own equity instruments	**Note 12**	13.327	(47.791)
Expenses associated with capital increases	**Note 12**	(6.691)	(1.905)
Proceeds from and payments for financial liability instruments-		**786.667**	**308.035**
Issue of bank borrowings	**Note 14**	435.000	314.705
Bonds and similar marketable securities issued	**Note 14**	800.000	650.000
Debt issues with Group companies and associates	**Note 18**	(60.615)	(5.277)
Credit issues with Group companies and associates	**Note 18**	5.938	4.700
Redemption and repayment of bank borrowings	**Note 14**	(393.474)	(260.177)
Redemption and repayment of bonds and similar marketable securities	**Note 14**	-	(395.904)
Redemption and repayment of payables to Group companies and associates	**Note 18**	(182)	(12)
EFFECT OF EXCHANGE RATE FLUCTUATIONS (IV)		-	**-**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III+IV)		**989.764**	**(122.041)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS FROM NON-MONETARY CONTRIBUTIONS		**-**	**-**
Cash and cash equivalents at beginning of year		79.591	201.632
Cash and cash equivalents at end of year		1.069.355	79.591

The accompanying Notes 1 to 22 and the Appendix are an integral part of the statement of cash flows for 2017.

Inmobiliaria Colonial, SOCIMI, S.A.

Notes to the financial statements
for the year ended on
31 December 2017

1. Company's description

Inmobiliaria Colonial, S.A., is a public limited company incorporated in Spain, for an indefinite period, on 8 November 1956. Its registered offices are at Paseo de la Castellana, 52, Madrid (formerly Avenida Diagonal 532, in Barcelona).

On 29 June 2017, the shareholders at the Company's General Shareholders' Meeting resolved to adopt the SOCIMI (hereinafter, REIT) Tax Regime and to make the corresponding Bylaw amendments to bring the Company Bylaws in line with the requirements stipulated in this regime, which included changing the corporate name to Inmobiliaria Colonial, SOCIMI, S.A.

In 2007, Inmobiliaria Colonial, S.A. (formerly Grupo Inmocaral, S.A.) was merged by absorption into Inmobiliaria Colonial, SOCIMI, S.A. (absorbed company) In 2008 Inmobiliaria Colonial S.A. (absorbing company) merged with Subirats-Coslada Logística, S.L.U., Diagonal Les Poxes 2002, S.L.U., Dehesa de Valme, S.L., Urbaplan 2001, S.A.U., Entrenúcleos Desarrollo Inmobiliario, S.L., Inversiones Tres Cantos, S.L. and Inversiones Notenth, S.L. (absorbed companies).

In 2010, the spin-off and contribution to the subsidiary Asentia Project, S.L., hereinafter “Asentia”, of the land and development business, was performed, including shares in the subsidiary Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U., hereinafter “DUE”, to which a project in Seville was transferred. In addition, the non-monetary contribution of the Llacuna property development in Barcelona to the subsidiary Abix Service, S.L.U., hereinafter “Abix”, was carried out. These transactions took place under the scope of the “Framework Refinancing Agreement” signed between the Company and the banks on 19 February 2010.

The aforementioned mergers, spin-offs and non-monetary contributions availed themselves of the tax regime provided for in Title VIII, Chapter VII, of the Spanish Corporate Income Tax Law. In accordance with legal requirements, all relevant information regarding these corporate transactions is detailed in the financial statements for the years concerned.

In 2014, the assets and liabilities of Abix, a wholly-owned company until this date, were transferred en bloc to Inmobiliaria Colonial, S.A. The aforementioned transaction entailed the transfer en bloc by universal succession of all of Abix's assets and liabilities to the Company, and the subsequent dissolution of the investee, all in accordance with article 87.1 of Law 3/2009, of 3 April, on structural changes to trading companies.

On 30 June 2017, the Company submitted a request to the tax authorities to be included in the REIT Tax Regime, applicable as of 1 January 2017.

The Company’s corporate purpose, as set out in its Bylaws, is as follows:

- the acquisition and development of urban properties for lease;

- the ownership of interests in the share capital of listed real estate investment companies (REITs) or other non-resident entities in Spain with the same corporate purpose, which are subject to a regime similar to that established for REITs in relation to the obligatory profit distribution policy stipulated by law or the bylaws;

- the ownership of interests in the share capital of other resident or non-resident entities in Spain, the main corporate purpose of which is the acquisition of urban properties earmarked for lease, which are subject to the regime established for REITs in relation to the obligatory profit distribution policy stipulated by law or the bylaws and meet the investment requirements stipulated for these companies; and

- the ownership of shares or equity interests in collective real estate investment undertakings governed by Law 35/2003, of 4 November, on collective investment undertakings, or any law that may replace it in the future.

In addition to the economic activity relating to the main corporate purpose, the Company may also carry on any other ancillary activities, i.e., those that they generate income representing less than 20%, taken as a whole, of its income in each tax period, or those that may be considered ancillary activities under the legislation applicable at any time, including, in any case, the management, restoration and operation of properties and the performance of all manner of studies, reports, appraisals, valuations and surveys; and in general, the provision of real estate consulting and advisory services, property asset management, development and marketing services, and technical assistance through contracts with other public or private companies or entities.

Activities that by law are attributable exclusively to special purpose vehicles are expressly excluded from its corporate purpose.

All activities included in the corporate purpose will be carried out as authorised by current legislation at any given time, expressly excluding its own activities that are exclusively granted by prevailing legislation to individuals or legal entities other than this Company.

The Company may also carry out the aforementioned activities, in full or in part, indirectly through ownership interests in other companies with an identical or similar corporate purpose.

Inmobiliaria Colonial, SOCIMI, S.A. carries out its activities in Spain (mainly in Barcelona and Madrid) and in France (Paris) through the group of which it is the parent Société Foncière Lyonnaise, S.A. (hereinafter SFL).

Inmobiliaria Colonial, SOCIMI, S.A. has been listed on the Spanish electronic trading system and Stock Exchange since 19 June 2017, when it was included on the benchmark stock market index, the IBEX-35.

In 2017, the Company improved the credit rating obtained from Standard & Poor's Rating Credit Market Services Europe Limited, which is now a "BBB" long-term credit rating and an "A-2" short-term credit rating, both with a stable outlook. In addition, the Company obtained a "Baa2" credit rating with a negative outlook from Moody's.

In view of the business activity carried on by the Company, it does not have any environmental expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position or results. Therefore, no specific disclosures relating to environmental issues are included in these explanatory notes. However, the Company does apply a proactive environmental policy in relation to urban development, construction, maintenance and the preservation of its property portfolio.

The Company is the head of a group of subsidiaries and is obliged under current legislation to prepare consolidated financial statements separately. The consolidated financial statements for 2016 were approved at the General Shareholders' Meeting of Inmobiliaria Colonial, SOCIMI, S.A. held on 29 June 2017, and they were subsequently filed at the Barcelona Mercantile Register.

2. Basis of presentation of the financial statements

a) Financial reporting regulatory framework applicable to the Company

These financial statements have been authorised for issue by the directors in accordance with the financial reporting regulatory framework applicable to the Company, as set out in:

a) The Spanish Commercial Code and other company law.

b) The Spanish National Chart of Accounts approved by Royal Decree 1514/2007, along with Royal Decrees 1159/2010 and 602/2016, amending certain aspects of the Chart of Accounts and its sectorial adaptations and, in particular, the Sectorial Adaptation of the National Chart of Accounts of Property Companies approved by the Order of 28 December 1994, and the provisions approved by the Spanish National Securities Market Commission (CNMV).

c) Mandatory standards approved by the Institute of Accounting and Auditing for the implementation of the National Chart of Accounts and its supplementary regulations, the Securities Market Law and other regulations issued by the CNMV.

d) All other applicable Spanish accounting law.

b) True and fair view

The accompanying financial statements were prepared on the basis of the accounting records kept by the Company and are presented in accordance with the applicable financial reporting regulatory framework and, in particular, with the accounting policies and measurement bases contained therein, to present a true and fair view of the Company’s equity, financial position, income, and cash flows for the year then ended. These financial statements, which have been authorised for issue by the Company's directors, shall be submitted for approval at the General Shareholders’ Meeting, and they are expected to be approved without any changes.

The 2016 financial statements were approved by the shareholders at the General Shareholders' Meeting held on 29 June 2017.

c) Non-mandatory accounting policies applied

No non-mandatory accounting policies have been applied. Accordingly, the directors have authorised these financial statements for issue on the basis of all mandatory accounting policies and standards that have a material effect on such statements. All mandatory accounting policies have been applied.

d) Critical aspects of measurement and estimate of uncertainty

In preparing the accompanying financial statements, estimates were made by the Company's directors in order to measure certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates and criteria relate to the following:

- Impairment losses or reversals of impairment losses recognised in previous years on property for own use and investment property as a result of lower or higher property appraisals carried out by independent experts vis-à-vis the carrying amount recognised for these assets (Notes 5 and 6).

  The market value of the property for own use and of the investment property was obtained from the appraisals periodically made by independent experts. Such appraisals were made on 30 June 2017 and 31 December 2017 in accordance with the methods described in Notes 4-b and 4-c.

- The useful life of property for own use and of investment property (Notes 4-b and 4-c).

- Classification, measurement and impairment of financial investments (Note 4-e).

- Measurement of non-current assets held for sale (Note 4-f).

- Estimation of the appropriate provisions for default of accounts receivable (Note 4-g).

- Measurement of deferred tax liabilities recognised in the balance sheet (Notes 4-m and 16).

- The market value of certain financial assets, including derivative financial instruments (Notes 4-e and 9).

- Evaluation of lawsuits, obligations, and contingent assets and liabilities at year-end (Note 13).

Although these estimates were made on the basis of the best available information at year-end 2017, events that take place in the future might make it necessary to modify these amounts (upwards or downwards) in coming years, which would mean prospectively recognising the effects of said changes in the corresponding income statement.

e) Comparative information

The information included in these notes to the financial statements for 2017 is presented, for comparison purposes, with the information relating to 2016.

f) Grouping of items

Certain items in the balance sheet, income statement, statement of changes in equity and statement of cash flows are grouped together in order to facilitate comprehension. However, whenever the amounts involved are material, the information is broken down in the related notes to the financial statements.

g) Correction of errors

No significant errors have been found in the preparation of the accompanying financial statements that would require a restatement of the amounts included in the 2016 financial statements.

h) Functional currency

These financial statements are presented in euros as this is the currency of the main economic area in which the Company operates.

3. Distribution of profit

The distribution of the 2017 profit proposed by the Board of Directors of the Company for approval at the General Shareholders' Meeting is as follows:

	Thousands of euros
Profit for the year of the Company	**32,497**
To the legal reserve	3,250
To dividends	29,247
Total distributed	**32,497**

The Company's Board of Directors will submit for approval at the General Shareholders' Meeting a proposed distribution of dividends totalling 0.18 euros per share, which would give rise to a total maximum dividend of 78,357 thousand euros based on the current number of outstanding shares. The definitive amount of the dividend, as well as the nature of the reserves to be distributed, will be determined prior to its distribution based on the treasury shares held by the Company (Note 12).

In the past five years, the Company has distributed the following dividends:

Thousands of euros	2012	2013	2014	2015	2016
Dividends distributed	-	-	-	47,833	62,749

4. Recognition and measurement bases

The main recognition and measurement bases used by the Company to prepare its financial statements, in accordance with the National Chart of Accounts, were as follows:

a) *Intangible assets*

As a general rule, intangible assets are initially measured at their acquisition or production cost. They are then measured at cost less the corresponding accumulated amortisation and, where applicable, less any impairment losses. These assets are amortised over their useful life. They are amortised over ten years when their useful life cannot be reliably estimated.

Computer software-

"Computer software" includes mainly the cost of acquiring and implementing an integrated IT system, in addition to subsequent extensions or upgrades of such system. The cost is amortised on a straight-line basis at a rate of 25% per year.

b) *Property, plant and equipment*

Properties for own use, including other property, plant and equipment, are recognised at acquisition cost less any accumulated depreciation and any impairment.

Historical cost includes expenses directly attributable to the acquisition of the properties. Any potential impairment losses on the properties are recognised in accordance with the same valuation assumptions described in Note 4-c.

Subsequent costs are capitalised or recognised as a separate asset only when it is probable that the future economic benefits associated with ownership of the asset will flow to the Company and its cost can be determined reliably. Maintenance and upkeep expenses are charged to the income statement in the year incurred.

The Company depreciates its property, plant and equipment for own use and other items of property, plant and equipment using the straight-line method at annual rates based on the years of estimated useful life, as follows:

	Years of estimated useful life
Property for own use	
Buildings	50
Installations	10 to 15
Other property, plant and equipment	4 to 10

Impairment of property, plant and equipment -

At each reporting date, the Company assesses the carrying amounts of its property, plant and equipment to determine if there are indications that the assets have been impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is the higher of the fair value of the asset less costs to sell or otherwise dispose of the asset and value in use. Where the asset does not generate cash inflows that are independent of those from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount; however, the increased carrying amount cannot exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

c) *Investment property*

“Investment property” in the balance sheet reflects the values of the land, buildings and other constructions held to earn rent or for capital appreciation upon disposals due to future increases in their respective market prices.

Investment property is recognised at acquisition cost, plus any capital gains assigned as a result of the merger (Note 1) between Grupo Inmocaral, S.A. (absorbing company) and Inmobiliaria Colonial, SOCIMI, S.A. (absorbed company), less amortisation and the relevant accumulated impairment losses.

The costs of expansion, modernisation or improvement leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of assets are capitalised as an increase in the cost of the related assets, while upkeep and maintenance costs are expensed currently.

For developments in progress, the only costs capitalised are execution and borrowing costs, provided such expenses were accrued before the asset was ready for use and the construction work lasted over one year.

Investment property in progress is transferred to investment property in operation when the assets are ready for use. The classification of an investment property to the investment property in progress heading takes place only when the refurbishment project exceeds one year in length.

The Company depreciates its investment property by the straight-line method at annual rates based on the years of estimated useful life, as follows:

	Years of estimated useful life
Properties:	
Buildings	50
Installations	10 to 15
Other property, plant and equipment	4 to 10

The Company periodically compares the carrying amount of its investment property with the market value based on valuations made by independent experts for each one of them. The appropriate impairment losses are recognised on investment property when the market value of an item is lower than the carrying amount. The market value is determined on a half-yearly basis: that is, at 30 June and at 31 December of each year, based on the valuations made by independent experts (Jones Lang LaSalle and CB Richard Ellis Valuation in Spain for the years 2017 and 2016), so that the year-end market values for investment property items reflect prevailing market conditions. The valuation reports prepared by independent experts contain only the standard warnings and/or disclaimers concerning the scope of the findings of the appraisals carried out, referring basically to the comprehensiveness and accuracy of the information provided by the Company.

The Discounted Cash Flow (hereinafter, “DCF”) method was primarily used to determine the market value of the Company's investment property in 2017 and 2016.

The DCF method applied over a 10-year horizon is used, in accordance with current market practices, unless the specific characteristics suggest another course of action. The cash flow is considered throughout the period on a monthly basis to reflect increases in the CPI, the timetable for future rent reviews, the expiry of lease arrangements, etc.

With regard to the increases in the CPI, the generally accepted forecasts are normally adopted.

Given that the valuer does not know with certainty whether there will be periods of vacancy in the future, nor their duration, these forecasts are based on the quality and location of the building, and generally use an average lease period if there is no information on the future intentions of each tenant. The assumptions determined in relation to the periods of vacancy and other factors are explained in each valuation.

The resulting profitability or *Terminal Capitalisation Rate* (hereinafter, “TCR”) adopted in each case refers not only to the forecast market conditions at the end of each cash flow period, but also to the rental conditions which are expected to be maintained and the physical location of the property, taking into account any possible improvements planned for the property and included in the analysis.

With regard to acceptable discount rates, conversations are regularly held with various institutions to assess their attitude towards different investment rates. This general consensus, together with the data on any sales made and market forecasts relating to variations in the discount rates, serve as starting points for the valuers to determine the appropriate discount rate in each case.

The properties were assessed individually, considering each of the lease agreements in force at the end of the year. Buildings with unlet floor space were valued on the basis of future estimated rental income, less a period for the marketing thereof.

The key inputs in this valuation method are the determination of net income, the period of time over which they are discounted, the estimated realisable value at the end of each period and the target internal rate of return used to discount the cash flows.

The estimated yields are mainly determined by the type, age and location of the properties, by the technical quality of the asset, as well as the type of tenant and occupancy rate, etc.

The yields and other assumptions used in determining future cash flows in 2017 and 2016 are set out in the tables below:

	Gross	
Exit yields (%) - Offices	31 December 2017	31 December 2016
Barcelona – Prime Yield		
Leased out	4.85	5.05
Total portfolio	4.88	5.08
Madrid – Prime Yield		
Leased out	4.45	4.67
Total portfolio	4.47	4.68

Assumptions made at 31 December 2017					
Rent increases (%) - Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Leased out	3.00	3.00	3.00	3.00	2.25
Total portfolio	3.00	3.00	3.00	3.00	2.25
Madrid –					
Leased out	3.00	3.00	3.00	3.00	2.50
Total portfolio	3.00	3.00	3.00	3.00	2.50

Assumptions made at 31 December 2016					
Rent increases (%) - Offices	Year 1	Year 2	Year 3	Year 4	Year 5 and thereafter
Barcelona –					
Leased out	2.50	2.50	2.50	2.25	2.25
Total portfolio	2.50	2.50	2.50	2.25	2.25
Madrid –					
Leased out	3.00	3.00	3.00	3.00	2.50
Total portfolio	3.00	3.00	3.00	3.00	2.50

Developments in progress were valued using the dynamic residual method, which was deemed the best approach. This method begins with an estimate of the income yielded by the developed and fully leased property; from this value, development, planning, construction and demolition costs, professional fees, permit and marketing costs, borrowing costs and development profit, among other items, are then deducted, in order to arrive at a price that a developer might pay for the asset under development.

A change of one-quarter of one point in yields would have the following impact on the valuations used by the Company to determine the value of its assets recognised under "Property, plant and equipment" and "Investment property" in the balance sheet:

Sensitivity of valuations to a change of one quarter of a point in yields	Thousands of euros		
	Valuation	Decrease of one quarter of a point	Increase of one quarter of a point
December 2017	1,923,747	94,384	(84,360)
December 2016	1,741,691	81,562	(73,221)

Although the sensitivity of other key variables was considered, such analysis was not carried out given that reasonable changes that could arise would not lead to a material change in the fair value of the assets.

The rental income earned in 2017 and 2016 from the lease of these investment property amounted to approximately 70,725 thousand euros and 64,746 thousand euros, respectively, and is recognised under "Revenue" in the income statement (Note 17).

Gains or losses arising on the disposal or derecognition of an asset are determined as the difference between the sale price and its carrying amount and are recognised under "Impairment and gains/(losses) on disposal of fixed assets" in the income statement.

d) Leases

Finance leases-

Leases are classified as finance leases whenever their terms imply that substantially all the risks and rewards incidental to ownership of the leased asset have been transferred to the lessee. All other leases are classified as operating leases. At 31 December 2017 and 2016, all of the Company's leases qualified as operating leases.

Operating leases-

Income and expenses deriving from operating leases are recognised in the income statement in the year in which they accrue.

The acquisition cost of the leased assets is presented in the balance sheet in accordance with the nature of the asset, plus the costs directly attributable to the lease, which are expensed over the term of the lease on the same basis as lease income.

Any collection or payment that might be made when arranging an operating lease will be treated as a prepaid lease collection or payment, which will be allocated to the income statement over the lease term as the benefits of the leased asset are received or given.

e) Financial instruments

Financial assets-

Initial measurement-

Financial assets are initially recognised at the fair value of the consideration given, plus any directly attributable transaction costs.

In the case of equity investments in Group companies that exercise control over subsidiaries, the fees paid to legal advisors and other professionals related to the acquisition of the investment are recognised directly in profit or loss.

Classification-

The financial assets held by the Company are classified in the following categories:

- Loans and receivables: financial assets arising from the sale of goods or the rendering of services in the Company's trading activities, or those not arising from trade that are not equity instruments or derivatives and whose collections are for a fixed or determinable amount and are not traded in an active market.

- Investments held to maturity: debt instruments, with a fixed maturity date and determinable collection amounts traded in an active market and which the Company has expressed its intent and capacity to hold until their maturity date.

- Equity investments in Group companies, associates and jointly controlled entities: Group companies are deemed to be those linked to the Company by a relationship of control, and associates are companies over which the Company exercises a significant influence. In addition, the category of jointly controlled entity includes companies over which, by virtue of an arrangement, joint control is exercised with one or more partners.

- Available-for-sale financial assets: include debt instruments and equity instruments of other companies that are not classified under any of the foregoing categories.

Subsequent measurement-

Loans, receivables and investments held to maturity are measured at their amortised cost.

Investments in Group companies, associates and jointly controlled entities are measured at cost minus, if applicable, any accumulated impairment losses. Such losses are calculated as the difference between the carrying amount and the recoverable amount, where the latter is the higher of fair value less costs to sell and the present value of the future cash flows from the investment. Unless there is better evidence of the recoverable amount, the estimated impairment of these investments takes into account the equity of the investee, adjusted by the unrealised gains existing at the valuation date. The correction of value, and, when applicable, its reversal, is entered in the income statement of the year in which it occurs.

Lastly, available-for-sale financial assets are measured at fair value. Fair value gains and losses are recognised in equity until the asset is disposed of or is determined to be impaired (on a prolonged or permanent basis), at which point the cumulative gains or losses are reclassified to the income statement. Permanent impairment is presumed to exist if the market value of the asset has fallen by more than 40% or if a prolonged decline in the price has occurred over a year and a half without a recovery in value.

Unless better evidence of the recoverable value of the investee companies is available, the EPRA Triple Net Asset Value (EPRA NNNAV) is used.

The Company tests its financial assets that are not carried at fair value for impairment at least at the end of each reporting period. If the recoverable value of the financial asset is lower than its carrying amount, objective evidence of impairment is deemed to exist, in which case, it is recognised in the income statement

In particular, the Company calculates valuation adjustments relating to trade and other receivables by carrying out a case-by-case analysis of the solvency of the debtor.

The Company derecognises financial assets when they expire or when the rights to the cash flows from the financial asset have been assigned and the risks and benefits of ownership have been substantially transferred.

In contrast, the Company does not derecognise financial assets, and it recognises a financial liability for the same amount as the consideration received in assignments of financial assets in which the risks and benefits of ownership are substantially retained.

Financial liabilities-

Financial liabilities are accounts payable by the Company that have arisen from the purchase of goods and services in the course of the Company's business and those which, not arising from trading activities, cannot be considered to be derivative financial instruments.

Accounts payable are initially recognised at the fair value of the consideration received, adjusted for directly attributable transaction costs, and are subsequently measured at amortised cost.

Liability derivative financial instruments are measured at fair value, using the same criteria as those applied to financial assets held for trading described in the preceding section.

The Company derecognises financial liabilities when the obligations giving rise to them cease to exist. When a debt instrument swap takes place between the Company and a third party, as long as these instruments have substantially different conditions, the Company derecognises the original financial liability and recognises the new financial liability. The difference between the carrying amount of the original liability and the payment received, including any attributable transaction costs, is recognised in the income statement.

If debt instruments that do not have substantially different terms are exchanged, the original financial liability is not derecognised and the amount of the fees paid are recognised as an adjustment to its carrying amount. The amortised cost of the financial liability is determined by applying the effective interest rate, which is equal to the carrying amount of the financial liability on the date of modification, and the cash flows will be paid according to the new conditions.

The Company considers that the conditions of the financial liabilities are substantially different if the present value of the discounted cash flows under the new conditions, including any fees paid net of any fees received and discounted using the original effective interest rate, differs by at least 10% from the present value of the discounted cash flows still remaining from the original financial liability.

Own equity instruments (Note 12)-

An own equity instrument represents a residual interest in the equity of the Company after deducting all of its liabilities.

Equity instruments issued by the Company are recognised in equity at the proceeds received, net of direct issue costs.

Treasury shares acquired by the Company during the year are recognised at the value of the consideration delivered in exchange and are deducted directly from equity. Any gains or losses on the purchase, sale, issue or cancellation of own equity instruments are recognised directly in equity and never in the income statement.

Derivative financial instruments (Note 9) -

The Company uses financial derivatives to manage its exposure to variations in interest rates. All derivative financial instruments, whether or not they are designated as hedging instruments, are carried at fair value: market value in the case of listed securities or using option valuation methods or discounted cash flow analysis for non-listed securities. The following valuation criterion has been applied:

- Treatment of financial instruments that are not allocated to a specific liability and do not qualify for hedge accounting: gains or losses arising from the restatement at fair value of these financial instruments are recognised directly in the income statement.

The Company's directors have considered the credit risk in the measurement of the derivatives portfolios, with no significant impact seen as at 31 December 2017 and 2016.

Hedge accounting is discontinued when a hedging instrument expires or is sold or exercised, or when the hedge no longer qualifies for hedge accounting. Gains or losses on hedging instruments accumulated directly in equity remain in equity until the related transaction materialises. Once the related cash flow occurs, any gain or loss accumulated in Company equity is released to the income statement for the period.

Prospective and retrospective testing for hedge effectiveness is carried out on a monthly basis:

- Retrospective tests measure how effectively the instrument would have hedged the liability over its life, using historical interest rates to date.

- Prospective tests measure the instrument's expected effectiveness on the basis of forward interest rates as published by Bloomberg at the measurement date. This is adjusted monthly from the inception of the hedge on the basis of the historical interest rates already established.

The method consists of calculating the statistical correlation between the benchmark interest rates at each measurement date for the derivative and the hedged liability. This is applicable to the hedged portion of the derivative liability.

A hedging instrument is considered effective if this statistical correlation is between 0.8 and 1.

The Company's use of financial derivatives is governed by a set of approved risk management policies and hedges.

f) Non-current assets and disposal groups classified as held for sale

Non-current assets held for sale are measured at cost or at the fair value less costs to sell, whichever is lower.

Non-current assets are classified as held for sale if it is estimated that their carrying amounts will be recovered through a sale rather than through continuing use. This condition is met when the sale of the asset is considered highly probable, the asset is in a condition to be immediately sold and the sale is expected to be fully realised within a period of no more than twelve months from its classification as a held-for-sale asset.

The Company classifies non-current assets as assets held for sale when the Board of Directors or Executive Committee has officially approved the disposal and the sale is considered highly probable within a period of twelve months.

g) Accounts receivable

Trade receivables are carried at recoverable value, i.e., net, where applicable, of the allowances recognised to cover balances of a certain age whose circumstances reasonably warrant their consideration as doubtful receivables. At 31 December 2017 and 2016, there were no unprovisioned at-risk accounts receivable.

In 2017, impairment losses of 67 thousand euros relating to accounts receivable were charged to "Losses, impairment and change of trade provisions" in the income statement for the year (1,545 thousand euros in 2016).

h) Statement of cash flows (indirect method)

The terms used in the statement of cash flows are defined as follows:

- Cash flows: inflows and outflows of cash and cash equivalents, which are highly liquid short-term investments subject to an insignificant risk of changes in value.

- Operating activities: principal revenue-producing activities and other activities that are not investing or financing activities.

- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash equivalents.

- Financing activities: activities that result in changes in the size and composition of equity and borrowings that are not operating activities.

i) Cash and cash equivalents

This heading includes bank deposits, carried at the lower of cost or market value.

Financial investments that are readily convertible into a known amount of cash and that are not subject to any significant risk of changes in value are deemed to be cash equivalents.

Bank overdrafts are not considered to be cash and cash equivalents.

j) Current / non-current

The normal operating cycle is understood to be the period of time between the acquisition of assets that form part of the Company's various business activities and the realisation of the finished assets in the form of cash or cash equivalents.

The Company's primary business is the lease of assets and its normal business cycle is a calendar year. Therefore, assets and liabilities maturing in one year or less are classified as current assets and those maturing in over one year are classified as non-current assets, except for receivables deriving from the recognition of income associated with incentives or grace periods (Notes 4-n and 11), which are applied on a straight-line basis over the term of the lease agreement and are considered to be a current asset.

Bank borrowings are classified as non-current if the Company has the irrevocable right to make payments after twelve months from the end of the reporting period.

k) Provisions and contingent liabilities

In preparing the financial statements, the Company's directors distinguish between:

- Provisions: credit balances covering present obligations deriving from past events, whose cancellation is likely to give rise to an outflow of funds, which are indeterminate with regard to their amount and/or timing of cancellation, and

- Contingent liabilities: possible obligations arising as a consequence of past events, depending on future events over which the Company does not have control.

The financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised but are disclosed in Note 13.

Provisions are measured at the present value of the best possible estimate of the amount necessary to settle or transfer the obligation, taking into account the information available on the event and its consequences. Where discounting is used, any adjustments made to provisions are recognised as a finance cost on an accrual basis.

The receivable from a third party upon settlement of the obligation, when the reimbursement is certain, is recognised as an asset, except where there is a legal obligation to outsource the risk, thereby discharging the Company of this obligation. In this case, the remuneration in question will be taken into account to estimate any amount to be recognised as the provision.

l) Employee benefits

Termination benefits-

Under current legislation, the Company is required to pay severance to employees terminated under certain conditions. Severance payments that can be reasonably quantified are recorded as an expense in the year in which the decision to terminate the contract is taken and a valid expectation regarding termination is transmitted to third parties. At 31 December 2017 and 2016, the Company did not record any provisions in this connection.

Pension obligations (Note 17) -

In 2017 and 2016 the Company assumed a commitment with executive directors and one member of senior management to make a defined contribution to an external pension plan that meets the requirements established by Royal Decree 1588/1999, of 15 October.

Share-based payments (Note 19) -

The Company recognises the goods and services received as an asset or an expense, depending on their nature, when they are received, along with an increase in equity if the transaction is settled using equity instruments or the corresponding liability if the transaction is settled at an amount based on the value of the equity instruments.

In the case of transactions settled with equity instruments, both the services rendered and the increase in equity are measured at the grant-date fair value of the equity instruments delivered. If, on the other hand, they are settled in cash, the goods and services received and the corresponding liability are recognised at the fair value of the goods and services received as of the date on which the recognition requirements are met.

m) Income tax expense (Note 16)

Income tax expense (income) includes the amount of current tax payable (receivable) and deferred tax liability (asset).

Current tax is the amount of income taxes payable (recoverable) as a result of the income tax settlements for a period. Tax credits and other tax benefits, excluding tax withholdings and payments on account, and tax loss carryforwards effectively utilised in the current period, reduce the current income tax expense.

Deferred tax expense or income relates to the recognition and derecognition of deferred tax assets and liabilities. These include the temporary differences, measured at the amount expected to be payable or recoverable, between the carrying amounts of assets and liabilities and their tax bases, as well as the carryforwards of unused tax losses and unused tax credits. These amounts are recognised by applying to the temporary difference or tax credit the tax rate that is expected to apply when the asset is realised or the liability is settled.

Deferred tax liabilities are recognised for all taxable temporary differences, except for those arising from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and affects neither the accounting profit (loss) nor taxable profit (tax loss). Deferred tax assets and liabilities arising from transactions charged or credited directly to equity are also recognised with a balancing entry in equity.

In accordance with the regulations in effect, the measurement of the Company's deferred tax liabilities reflects the tax consequences that would follow from the manner in which the carrying amount of its assets is expected to be recovered or settled. In this regard, for deferred tax liabilities that arise from investment property, it is considered that there is a rebuttable presumption that their carrying amount will be recovered through their sale. When determining the deferred tax attributable to the capital gains assigned to the business combination described in Note 1, a portion of the cost of which was not tax deductible, the 25% tax rate was applied less 25% of the offset of tax loss carryforwards as stipulated by the current limitation established by law at 31 December 2017. The effective rate taken into consideration was 18.75% after the legislative amendment of December 2016 that established new limitations on the offset of tax loss carryforwards, among other matters.

The balance sheet includes those tax credits considered likely to be recoverable within a reasonable timeframe, either because of the performance of the property market itself, or through taxable profits generated by the activities carried out by the Company's management.

The deferred tax assets recognised are reassessed at the end of each reporting period and the appropriate adjustments are made to the extent that there are doubts as to their future recoverability. Also, unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that they will be recovered through future taxable profits.

Until 31 December 2016, the Company was the head of a group of companies filing consolidated tax returns under tax group no. 6/08.

REIT Regime

Effective as of 1 January 2017 (Note 1), the tax regime of the Company and the majority of its Spanish subsidiaries is governed by Law 11/2009, of 26 October, as amended by Law 16/2012, of 27 December, governing listed real estate investment companies (REITs). Article 3 establishes the investment requirements of this type of company, namely:

- REITs must have invested at least 80% of the value of their assets in urban properties earmarked for lease, in land to develop properties to be earmarked for that purpose, provided that development begins within three years following its acquisition, and in equity investments in other companies referred to in Article 2.1 of the aforementioned Law.

  The value of the asset is calculated based on the average of the quarterly individual balance sheets of the year. To calculate this value, the REIT may opt to substitute the carrying amount for the fair value of the items contained in these balance sheets, which will apply to all the balance sheets of the year. Any money or collection rights arising from the transfer of the aforementioned properties or investments made in the year or in prior years will not be included in the calculation unless, in the latter case, the reinvestment period referred to in Article 6 of the aforementioned Law has expired.

  This percentage must be calculated on the average of the consolidated balances if the company belongs to a group, in accordance with the criteria established in Article 42 of the Spanish Commercial Code, regardless of its place of residence and of the obligation to formally prepare consolidated financial statements. Such a group must be composed exclusively of the REIT and the other entities referred to in Article 2.1 of this Law.

- Similarly, at least 80% of the rental income from the tax period corresponding to each year, excluding the rental income arising from the transfer of the ownership interests and the properties used by the company to achieve its main corporate purpose, once the holding period referred to below has elapsed, should be obtained from the lease of properties and dividends or shares of profits arising from the aforementioned investments.

This percentage must be calculated on the basis of consolidated profit if the company belongs to a group, in accordance with the criteria established in Article 42 of the Spanish Commercial Code, regardless of its place of residence and of the obligation to formally prepare consolidated financial statements. Such a group must be composed exclusively of the REIT and the other entities referred to in Article 2.1 of this Law.

The REIT's real estate assets must be leased for at least three years. The time during which the properties have been made available for lease, up to a maximum of one year, will be included for the purposes of this calculation.

The period will be calculated:

- For properties that are included in the REIT's assets before the company avails itself of the regime, from the beginning of the first tax period in which the special tax regime set forth in this Law is applied, provided that the property is leased or offered for lease at that date. Otherwise the following shall apply.

- For properties developed or acquired subsequently by the REIT, from the date on which they were leased or made available for lease for the first time.

- In the case of shares or investments in entities referred to in Article 2.1 of this Law, they should be retained on the asset side of the REIT's balance sheet for at least three years following their acquisition or, where applicable, from the beginning of the first tax period in which the special tax regime set forth in this Law is applied.

As established in transitional provision one of Law 11/2009, of 26 October, amended by Law 16/2012, of 27 December, governing listed real estate investment companies, these companies may opt to apply the special tax regime under the terms and conditions established in Article 8 of this Law, even if it does not meet the requirements established therein, provided that such requirements are met within two years after the date of the option to apply that regime.

Failure to meet this condition will require the REIT to file income tax returns under the general tax regime from the tax period in which the aforementioned condition is not met unless this situation is rectified in the following tax period. The REIT will also be obliged to pay, together with the amount relating to the aforementioned tax period, the difference between the amount of tax payable under the general tax regime and the amount paid under the special tax regime in the previous tax periods, including any applicable late-payment interest, surcharges and penalties.

The income tax rate for REITs was set at 0%. However, where the dividends that the REIT distributes to its shareholders holding an ownership interest exceeding 5% are exempt from tax or are subject to a tax rate lower than 10%, at the main office of this shareholder, the REIT shall be subject to a special charge of 19%, which shall be considered to be the income tax charge, on the amount of the dividend distributed to these shareholders. If applicable, this special charge must be paid by the REIT within two months after the dividend distribution date.

n) Income and expenses

General criteria-

Revenues and expenses are recognised on an accrual basis, i.e. when the actual flow of the related goods and services occurs, regardless of when the resulting monetary or financial flow arises. Revenue is measured at the fair value of the consideration received, less discounts and tax.

Revenue from sales is recognised when the significant risks and rewards from ownership of the sold asset have been transferred to the buyer, where daily management of the asset is not exercised and effective control is not held.

Property leases -

Leases are classified as finance leases whenever their terms imply that substantially all the risks and rewards incidental to ownership of the leased asset have been transferred. All other leases are classified as operating leases. At 31 December 2017 and 2016, all of the Company's leases qualified as operating leases (Note 4-d).

Revenue from operating leases is recognised as income on a straight-line basis over the term of the lease, and the initial direct costs incurred in arranging these operating leases are taken to the income statement on a straight-line basis over the minimum term of the lease agreement.

The minimum term of a lease is considered to be the time elapsed from the start of the lease to the first option for renewing the lease.

Specific lease terms and conditions: lease incentives -

Lease agreements include certain specific conditions linked to incentives or rent-free periods offered by the Company to its customers (Note 4-j). The Company recognises the aggregate cost of incentives granted as a reduction in rental income over the minimum term of the lease on a straight-line basis. The effects of the rent-free periods are recognised during the minimum term of the lease agreement.

The indemnity payments made by lessees to cancel their lease agreements prior to their minimum termination date are also recognised as income in the income statement on the date on which they are claimable.

Interest and dividends received -

Interest received on financial assets is recognised using the effective interest rate method, and dividends are recognised when the right of the shareholder to receive them is declared. Interest and dividends from financial assets accrued subsequent to acquisition are recognised as income in the income statement.

In line with that included in enquiry no. 79 of the Spanish Accounting and Audit Institute Official Gazette (BOICAC), regarding the recognition of certain income (dividends, income from loans to related parties, etc.) for companies whose corporate purpose is the holding of financial assets, the Company recognised dividend income from holdings in SFL and Torre Marenostrum, S.L. (hereinafter Torre Marenostrum) as an addition to "Revenue" in the income statement (Notes 17 and 18).

o) Related party transactions

The Company's transactions with related parties are all carried out on an arm's length basis. Furthermore, the transfer prices applied are fully documented and supported and the directors of the Company therefore do not consider that there is a significant risk that could give rise to a material liability in the future.

p) Costs passed on to lessees

The bulk of repair and maintenance expenses incurred by the Company in connection with the operation of its assets are passed on to the respective lessees of the properties. The Company does not consider the costs incurred by lessees from their property investments as income, and they are recognised as a reduction of the corresponding costs in the income statement. In 2017 and 2016, a total of 18,503 thousand euros and 18,242 thousand euros, respectively, were invoiced in this regard.

Direct operating expenses associated with rented investment property net of costs passed on that generated lease income during 2017 and 2016, included under "Profit from operations" in the income statement, amounted to 5,712 thousand euros and 6,720 thousand euros, respectively. The expenses incurred in connection with investment property that did not generate rental income were not significant.

5. Property, plant and equipment

The movement in this heading in the 2017 and 2016 balance sheet, and the most significant information affecting it, was as follows:

	Thousands of euros								
	Land and buildings			Plant and other items of property, plant and equipment		Total			
	Cost	Accumulated depreciation	Impairment	Cost	Accumulated depreciation	Cost	Accumulated depreciation	Impairment	**Total**
Balance at 31 December 2015	**19,220**	**(1,392)**	**(7,800)**	**9,836**	**(8,941)**	**29,056**	**(10,333)**	**(7,800)**	**10,923**
Additions/charges	251	(49)	-	1,592	(297)	1,843	(346)	-	1,497
Disposals / reversals	-	-	3,159	(378)	365	(378)	365	3,159	3,146
Balance at 31 December 2016	**19,471**	**(1,441)**	**(4,641)**	**11,050**	**(8,873)**	**30,521**	**(10,314)**	**(4,641)**	**15,566**
Additions/charges	216	(55)	(287)	2,576	(475)	2,792	(530)	(287)	1,975
Disposals / reversals	(7)	4	-	(5,714)	5,621	(5,721)	5,625	-	(96)
Balance at 31 December 2017	**19,680**	**(1,492)**	**(4,928)**	**7,912**	**(3,727)**	**27,592**	**(5,219)**	**(4,928)**	**17,445**

The Company occupies two floors of the building located at Avenida Diagonal, 532, in Barcelona and one floor of the building located at Paseo de la Castellana, 52, in Madrid for its own use.

During 2017, the Company derecognised certain assets under “Property, plant and equipment” due to obsolescence, with a net carrying amount of 96 thousand euros, reclassifying them under “Impairment and gains on disposal of fixed assets - Gains/(losses) on disposals and others” in the income statement.

At 31 December 2017, the need to recognise an impairment loss reversal in the amount of 287 thousand euros on properties for own use was evidenced by the appraisals performed by independent experts (Note 4-b). The amount was recognised under “Impairment and gains on disposal of fixed assets - Impairment and losses” in the income statement (Note 17). In the year ended 31 December 2016, a reversal to the impairment of the value of the property for own use amounting to 3,159 thousand euros was recognised.

At year-end 2017 and 2016, the Company had fully depreciated property, plant and equipment still in use amounting to 2,299 thousand euros and 7,417 thousand euros, respectively.

The Company has no property, plant and equipment outside of Spanish territory, and it has no purchase commitments.

The Company's policy is to contract insurance policies to cover any risks affecting elements of property, plant and equipment. At 31 December 2017 and 2016, these elements were fully insured.

6. Investment property

The movement in this heading of the balance sheet in 2017 and 2016, and the most significant information affecting this heading, was as follows:

	Thousands of euros							
	Land	Buildings and installations		Investment property in progress	Total			
	Cost	Cost	Accumulated depreciation	Cost	Cost	Accumulated depreciation	Impairment	**Total**
Balance at 31 December 2015	**1,101,919**	**693,176**	**(321,678)**	**69,002**	**1,864,097**	**(321,678)**	**(152,938)**	**1,389,481**
Additions/charges	60,249	29,124	(27,551)	2,270	91,643	(27,551)	(273)	63,819
Disposals / reversals	-	(22,077)	20,572	-	(22,077)	20,572	58,894	57,389
Transfers (Note 10)	(1,623)	21,760	3,551	-	20,137	3,551	(24,272)	(584)
Balance at 31 December 2016	**1,160,545**	**721,983**	**(325,106)**	**71,272**	**1,953,800**	**(325,106)**	**(118,589)**	**1,510,105**
Additions/charges	17	12,053	(24,214)	5,454	17,524	(24,214)	(694)	(7,384)
Disposals / reversals	-	(13,053)	2,022	-	(13,053)	2,022	39,647	28,616
Balance at 31 December 2017	**1,160,562**	**720,983**	**(347,298)**	**76,726**	**1,958,271**	**(347,298)**	**(79,636)**	**1,531,337**

Movements in 2017

Additions in the year ended on 31 December 2017 are investments made in various properties, both under development and in operation, for a total amount of 17,524 thousand euros, including 857 thousand euros in capitalised finance costs with an average interest rate of 2.53%.

On 12 January 2017, the Company officially sold part of an asset located in calle Orense in Madrid for 5,600 thousand euros, generating a net profit of 290 thousand euros (selling costs included).

Movements in 2016

The additions for the year ending 31 December 2016 mainly related to the acquisition of two properties located in Madrid and Barcelona (Jose Abascal 45 and Travessera de Gracia 47-49, respectively), for the total amount of 77,094 thousand euros, including acquisition costs.

In addition to these acquisitions, investments were made in various properties, both under development and in operation, all of which are located in Barcelona and Madrid, for a total amount of 14,549 thousand euros, including 824 thousand euros in capitalised finance costs at an average interest rate of 2.86%.

During 2016, the Company transferred a property located in Barcelona with a carrying amount of 13,514 thousand euros from "Investment property" to "Non-current assets held for sale" in the balance sheet. This property was sold on 21 September 2016 (Note 10).

As a result of the review of the Company's asset sale plan by directors, in 2016, four properties with a total carrying amount of 12,930 thousand euros were transferred from "Non-current assets held for sale" to "Investment property" in the balance sheet due to the fact that the directors re-estimated the assumptions for their recovery (Note 10).

Also, during 2016, the Company derecognised certain assets under “Investment Property” due to obsolescence. The carrying amount of these assets was 1,197 thousand euros, which was reclassified in “Impairment and gains on disposal of fixed assets - Gains/(losses) on disposals and others” in the income statement.

Impairment

At 31 December 2017, the need to recognise an impairment loss reversal for the amount of 32,572 thousand euros on investment property was evidenced by the appraisals performed by independent experts. Such amount was reclassified under “Impairment and gains on disposal of fixed assets - Impairment and losses” in the income statement (Note 17). In the year ended 31 December 2016, an impairment loss reversal of 58,313 thousand euros was recognised on investment property.

Other disclosures

The total surface area by location (above and under-ground) of investment property and projects in use and in progress at 31 December 2017 and 2016 is as follows:

Location	Total surface area (m2)					
	Investment property in use		Investment property in progress		Total	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Barcelona	244,890	244,452	33,138	29,474	278,028	273,926
Madrid	264,044	270,418	18,717	15,898	282,761	286,316
Rest of Spain	12,735	12,735	-	-	12,735	12,735
	521,669	**527,605**	**51,855**	**45,372**	**573,524**	**572,977**

The Company has no contractual obligations for the acquisition, construction or development of investment property or for repairs and maintenance.

At 31 December 2017 and 2016, the Company did not reflect in its balance sheet any properties recognised under "Investment property" that were secured by a mortgage.

At year-end 2017 and 2016, the Company had fully depreciated investment property still in use amounting to 140,547 thousand euros and 126,280 thousand euros, respectively.

The Company has no property, plant and equipment outside of Spanish territory, and it has no purchase commitments.

The Company takes out insurance policies to cover any risks affecting its investment property. At 31 December 2017 and 2016, these elements were fully insured.

7. Operating leases - Lessor

At year-end 2017 and 2016, the Company had contracted with tenants the following minimum irrevocable lease payments under the leases currently in force, without taking into account the impact of common expenses, future increases in the CPI or future contractual lease payment revisions:

Operating leases minimum lease payments	Thousands of euros	
	Nominal amount	
	31 December 2017	31 December 2016
Within one year	63,972	59,386
1 to 5 years	93,659	78,826
More than five years	16,490	6,097
Total	**174,121**	**144,309**

8. Non-current investments in Group companies and associates and non-current financial investments

Non-current equity instruments in Group companies -

The breakdown by subsidiary at 31 December 2017 and 2016 is as follows:

31 December 2017

	Thousands of euros			
	Opening balance	Additions or charges	Disposals or reversals	Closing balance
Cost:				
Société Foncière Lyonnaise, S.A.	1,511,105	265	-	1,511,370
Torre Marenostrum, S.L.	26,201	-	(1,411)	24,790
Colonial Tramit, S.L.U.	13	-	-	13
Colonial Invest, S.L.U.	13	-	-	13
Danieltown Spain, S.L.U.	30,038	-	-	30,038
Moorage Inversiones 2014, S.L.U.	49,355	-	-	49,355
Hofinac Real Estate, S.L.U.	202,000	-	-	202,000
Fincas y Representaciones, S.A.U.	46,620	61	-	46,681
Inmocol Torre Europa, S.A.	-	10,080	-	10,080
Colonial Arturo Soria, S.L.	-	19,747	-	19,747
Almacenes Generales Internacionales, S.A.U.	-	100,124	-	100,124
Soller, S.A.U.	-	78,096	-	78,096
Utopicus Innovación Cultural, S.L.	-	3,634	-	3,634
Total cost	**1,865,345**	**212,007**	**(1,411)**	**2,075,941**
Impairment:				
Colonial Tramit, S.L.U.	(5)	(3)	-	(8)
Colonial Invest, S.L.U.	(5)	(2)	-	(7)
Moorage Inversiones 2014, S.L.U.	(5,010)	-	5,010	-
Hofinac Real Estate, S.L.U.	(803)	-	803	-
Fincas y Representaciones, S.A.U.	(2,359)	-	2,359	-
Utopicus Innovación Cultural, S.L.	-	(2,937)	-	(2,937)
Total impairment	**(8,182)**	**(2,942)**	**8,172**	**(2,952)**
Net total	**1,857,163**	**209,065**	**6,761**	**2,072,989**

31 December 2016

	Thousands of euros			
	Opening balance	Additions or charges	Disposals or reversals	Closing balance
Cost:				
Société Foncière Lyonnaise, S.A.	1,370,746	140,359	-	1,511,105
Torre Marenostrum, S.L.	26,399	-	(198)	26,201
Colonial Tramit, S.L.U.	13	-	-	13
Colonial Invest, S.L.U.	13	-	-	13
Danieltown Spain, S.L.U.	30,038	-	-	30,038
Moorage Inversiones 2014, S.L.U.	-	49,355	-	49,355
Hofinac Real Estate, S.L.U.	-	202,000	-	202,000
Fincas y Representaciones, S.A.U.	-	46,620	-	46,620
Total cost	**1,427,209**	**438,334**	**(198)**	**1,865,345**
Impairment:				
Colonial Tramit, S.L.U.	(5)	-	-	(5)
Colonial Invest, S.L.U.	(5)	-	-	(5)
Moorage Inversiones 2014, S.L.U.	-	(5,010)	-	(5,010)
Hofinac Real Estate, S.L.U.	-	(803)	-	(803)
Fincas y Representaciones, S.A.U.	-	(2,359)	-	(2,359)
Total impairment	**(10)**	**(8,172)**	**-**	**(8,182)**
Net total	**1,427,199**	**430,162**	**(198)**	**1,857,163**

The information related to Group companies at 31 December 2017 and 2016 is disclosed in Appendix I to these notes.

Movements in 2017

On 18 May 2017, Inmocol Torre Europa, S.A. (hereinafter Inmocol) was incorporated. The initial share capital of 20,000 thousand euros was fully subscribed by the Company and its shareholder as follows:

- The shareholders subscribed 50% of the share capital through a non-monetary contribution of land located at Hospitalet del Llobregat, valued at 10,000 thousand euros, on which Inmocol will construct an office building.

- The remaining 50% of the share capital was subscribed by the Company, having only paid 25% of the capital subscribed, i.e., 2,500 thousand euros. The unpaid share capital subscribed will be paid by the Company when agreed upon by the Board of Directors of Inmocol.

During 2017, the Company also acquired 4,700 shares in its subsidiary SFL, for a total of 265 thousand euros, thus increasing its interest in the share capital from 58.55% to 58.56%.

On 27 September 2017, the Company acquired all shares of the Spanish company LE Offices Arturo Soria, S.L. (currently Colonial Arturo Soria, S.L., and hereinafter, "Arturo"), the owner of an office building located in Madrid. The acquisition price was 19,747 thousand euros. Of this amount, 4,200 thousand euros were deferred, at the latest, until 31 January 2018, and were recognised under “Trade payables” in the balance sheet. In addition, the loan held by Arturo with a financial institution for 13,159 thousand euros, including interest, was cancelled early, and was registered in the Property Registry on 26 November 2017.

On 27 October 2017, the Company acquired 61.51% of the share capital of the Spanish company Utopicus Innovación Cultural, S.L. (hereinafter, "Utopicus"), the head of the coworking Utopic_US platform. The acquisition price amounted to 2,633 thousand euros, and 205 thousand euros were deferred, which were recognised under “Trade payables” in the balance sheet. On this same date, Utopicus increased its share capital by 1,001 thousand euros, corresponding to 910 shares of one euro par value each, plus a share premium, which was subscribed and paid in full by the Company, thus increasing its interest in the share capital of Utopicus to 69.60%.

On 20 December 2017, the Company acquired all share capital of the Spanish companies Almacenes Generales Internacionales, S.A.U. (hereinafter, "Agisa") and Soller, S.A.U., which own several plots of land located in Madrid. The acquisition price was 178,220 thousand euros. Of this amount, 41,335 thousand euros were deferred, at the latest, until 31 December 2018, and were recognised under “Trade payables” in the balance sheet. Several guarantees were extended as collateral for the deferred amount (Note 14).

Movements in 2016

On 25 May 2016, the Company acquired 100% of the share capital of the Spanish company Moorage Inversiones 2014, S.L. (hereinafter, "Moorage"), which owns several plots of land in Barcelona. The acquisition price was 44,755 thousand euros. Of this amount, payment of 15,680 thousand euros was deferred until 25 May 2018, and it was recognised under “Other non-current financial liabilities” in the balance sheet (Note 15). A guarantee was extended to the seller for the deferred portion (Note 14).

In addition, the Company has recognised all of the contingent consideration as an increase in the cost of the interest in Moorage, based on the calculation defined in the aforesaid purchase agreement, totalling 4,600 thousand euros, since the accrual of that consideration has been deemed to be probable. This amount is recognised under “Other non-current financial liabilities” in the accompanying balance sheet (Note 15). The effect of the updated deferred payments is not material.

On 29 June 2016, the Company acquired 2,038,956 shares in the subsidiary SFL (4.38% of its capital) from Reig Capital Group Luxembourg Sàrl (hereinafter, "Reig"). The acquisition was carried out through two transactions: (i) the contribution to the Company of 1,019,478 shares in SFL in consideration for the subscription of 90,805,920 shares in Colonial (Note 12) valued at 63,564 thousand euros; and (ii) the sale to the Company of 1,019,478 shares at the price of 50.00 euros per share (for a total of 50,974 thousand euros).

On 30 June 2016, the Company acquired 100% of the share capital of the Spanish company Hofinac Real Estate S.L. (hereinafter, "Hofinac"), owner of two properties in Madrid. The acquisition was carried out through the non-monetary contribution of 100% of Hofinac's shares to the Company, in exchange for the subscription of 288,571,430 shares in Colonial (Note 12), valued at 202,000 thousand euros.

On 4 August 2016, the Company acquired 475,248 shares in the subsidiary SFL (1.00% of its capital) from APG Strategic Real Estate Pool (hereinafter, "APG"). The acquisition was carried out through two transactions: (i) the contribution to the Company of 237,624 shares in SFL in consideration for the delivery of 2,116,508 treasury shares in Colonial (Note 12) valued at 13,940 thousand euros; and (ii) the sale to the Company of 237,624 shares at the price of 50.00 euros per share (for a total of 11,881 thousand euros).

Following that transaction, the Company held 27,240,604 shares in the subsidiary SFL (58.55% of its share capital).

Finally, on 29 December 2016, the Company acquired 100% of the share capital of the Spanish company Fincas y Representaciones, S.A. (hereinafter “Finresa”), the owner of a property and rural land located in Madrid. The acquisition price was 46,620 thousand euros.

Impairment

In 2017 and 2016, the Company did not recognise impairments of the financial interest in SFL given that the fair value of that interest, calculated based on SFL's EPRA *Triple Net Asset Value* (EPRA NNNAV) at the close of 2017 and 2016, was 80.14 and 66.23 euros per share, respectively, higher than the acquisition cost of the shareholding (Note 4-e).

The price of SFL shares at the close of 2017 and 2016 was 54.61 euros and 48.95 euros per share, respectively.

Non-current investments in Group companies and associates - Loans to companies

The details of the “Loans to companies” heading in the balance sheet are as follows:

	Thousands of euros	
	31 December 2017	31 December 2016
Danieltown Spain, S.L.U.	12,486	-
Moorage Inversiones 2014, S.L.U.	6,035	-
Colonial Arturo Soria, S.L.	13,159	-
Almacenes Generales Internacionales, S.A.U.	11,495	-
Peñalvento, S.L.U.	22,577	-
Total	**65,752**	**-**

Loans to Group companies earn a market interest rate.

Non-current financial investments -

The breakdown at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	31 December 2017	31 December 2016
Fair value:		
Non-current equity instruments		
Axiare Patrimonio SOCIMI, S.A.	419,277	138,293
Advances for purchases of shares	4,000	-
Total fair value	**423,277**	**138,293**
Cost:		
Other non-current financial assets		
Account receivable held with former shareholders	7,751	7,751
Guarantees and deposits	8,823	8,489
Total cost	**16,574**	**16,240**
Impairment:		
Other non-current financial assets		
Account receivable held with former shareholders	(7,751)	(7,751)
Total impairment	**(7,751)**	**(7,751)**
Total non-current financial investments	**432,100**	**146,782**

Axiare Patrimonio SOCIMI, S.A. –

The movements in this shareholding in 2017 and 2016 are shown in the following table:

	Thousands of euros	
	2017	2016
Opening balance	**138,293**	**-**
Acquisitions	211,886	136,976
Adjustments to fair value through other comprehensive income	69,098	1,317
Closing balance	**419,277**	**138,293**

In 2016, the Company acquired 10,846,541 shares of Axiare Patrimonio SOCIMI, S.A., (hereinafter, Axiare) which represented 15.09% of its share capital.

In March 2017, the Company acquired 1,404,000 shares of Axiare representing 1.78% of the company's current share capital, for 15,801 thousand euros, including acquisition costs, obtaining an interest of 15.49% in Axiare.

In November 2017, the Company acquired 10,511,523 shares of Axiare, representing 13.30% of Axiare's current share capital, for a total amount of 193,085 thousand euros, equivalent to 18.36 euros per share, obtaining an interest of 28.79% in Axiare.

In 2017, the Company received 3,681 thousand euros of dividends from its interest in Axiare, which were posted in the "Finance income" heading in the income statement (Note 17).

At 31 December 2017, the Company registered its shareholding in Axiare Patrimonio SOCIMI, S.A. at the year-end share price of 18.42 euros per share, which represents an accumulated impact on the Company's equity of 70,415 thousand euros (1,317 thousand euros at 31 December 2016).

The Company's directors have considered that the Company did not exercise, nor will it exercise, at 31 December 2017 and 2016, a significant influence over Axiare, and thus it has been considered to be a financial investment.

Voluntary takeover bid to acquire shares of Axiare Patrimonio SOCIMI, S.A. (Note 22) –

On 28 December 2017, the Spanish Securities Market Commission authorised the voluntary takeover bid to acquire shares of Axiare Patrimonio SOCIMI, S.A. presented by the Company on 24 November 2017, as it considered that its terms were aligned with applicable laws and that the contents of the explanatory prospectus were sufficient.

The offer was made for 100% of the share capital of Axiare Patrimonio SOCIMI, S.A. consisting of 79,062,486 shares, admitted for trading on the Barcelona, Bilbao, Madrid and Valencia Stock Exchanges and included in the Spanish Stock Market Interconnection System, not including 22,762,064 shares, representing 28.79% of the share capital, which were blocked by the offeror. Consequently, the offer was effectively extended to the acquisition of 56,300,422 shares of Axiare Patrimonio SOCIMI, S.A., which represent 71.21% of the share capital.

The price offered was 18.36 euros per share; this amount arises through deducting the amount of the dividend paid by Axiare after the takeover bid was announced, of 0.14 euros per share, from the price initially offered of 18.50 euros per share.

On 28 December 2017, the first of the announcements referred to in article 22 of Royal Decree 1066/2007, of 27 July, for the takeover bid of Axiare Patrimonio SOCIMI, S.A. by Inmobiliaria Colonial, SOCIMI, S.A., was made. Consequently, in accordance with the terms set forth in the prospectus of the aforesaid offer, the acceptance period lasts from 29 December 2017 to 29 January 2018, inclusively.

Advances for purchases of shares –

During 2017, the Company signed a call option for all shares of a company, the option premium of which amounted to 4,000 thousand euros.

Account receivable held with former shareholders-

"Other non-current financial assets" included the account receivable held with companies of a former shareholder of the Company relating to the tax effect of the difference between the tax and accounting bases of the assets contributed in the capital increase dated 29 June 2006. This receivable is secured by a guarantee on first demand.

In 2015, the Company returned the guarantees corresponding to the amounts deemed unrecoverable, thus recognising on the balance sheet only those amounts considered to be recoverable, totalling 7,751 thousand euros. This amount was fully impaired at 31 December 2017 and 2016.

Non-current deposits and guarantees-

This heading includes the amount of non-current deposits and guarantees granted, primarily in relation to deposits made with official entities in connection with security deposits collected from tenants, in accordance with prevailing legislation.

9. Derivative financial instruments

The derivative financial instruments held by the Company at 31 December 2017 and 2016 are as follows:

31 December 2017

Financial instrument	Counterparty	Interest rate	Maturity	Thousands of euros	
				Nominal amount	Fair value – Asset / (Liability)
Swap (redeemed step-up)	BBVA	4.40%	2018	4,212	(50)
Cap	ING	1.25%	2018	300,000	-
Cap	Morgan Stanley	1.25%	2018	130,000	-
Total at 31 December 2017				**434,212**	**(50)**

31 December 2016

Financial instrument	Counterparty	Interest rate	Maturity	Thousands of euros	
				Nominal amount	Fair value – Asset / (Liability)
Swap (redeemed step-up)	BBVA	4.40%	2018	21,870	(657)
Cap	CA-CIB	1.25%	2018	350,000	-
Cap	ING	1.25%	2018	300,000	-
Cap	Morgan Stanley	1.25%	2018	130,000	-
Total at 31 December 2016				**801. 870**	**(657)**

At 31 December 2016, the Company had arranged 3 CAPs of a total nominal amount of 780,000 thousand euros, with a hedge level of 1.25% (strike), maturing on 31 December 2018. The amount paid for the premiums was 8,580 thousand euros, which was booked in full as a hedging expense in the 2014 income statement, valuing the CAPs at 0 thousand euros in the balance sheet. In 2017, the CA-CIB CAP was sold for 6 thousand euros, resulting in income of that amount in the “Impairment and gains/(losses) on disposal of financial instruments – Gains/(losses) on disposals and others” in the income statement (Note 17).

At 31 December 2017 and 2016, the impact on the income statement of recognising derivative financial instruments amounted to 2 thousand euros and 64 thousand euros in finance costs, respectively (Note 17). This impact is recognised in “Change in fair value of financial instruments – Trading portfolio and others” in the income statement.

The fair value of the derivative financial instruments was calculated by discounting estimated future cash flows based on an interest rate curve and on assigned volatility at each calculation date.

10. Non-current assets held for sale

The movement in this heading of the balance sheet in 2017 and 2016, and the most significant information affecting this heading, was as follows:

	Thousands of euros			
	Cost	Accumulated depreciation	Impairment	**Total**
Balance at 31 December 2015	**44,314**	**(29)**	**(31,678)**	**12,607**
Additions/charges	60	-	(546)	**(486)**
Transfers (Note 6)	(20,137)	(3,551)	24,272	**584**
Disposals / reversals	(24,237)	3,580	7,952	**(12,705)**
Balance at 31 December 2016	-	-	-	-
Balance at 31 December 2017	-	-	-	-

Movements in 2016

During 2016, the Company transferred a property located in Barcelona with a carrying amount of 13,514 thousand euros from "Investment property" to "Non-current assets held for sale" (Note 6). On 21 September 2016, the Company formally sold that property for 15,000 thousand euros, generating a gain of 589 thousand euros (including selling costs), which was recognised in “Gains/(losses) on disposals and others” in the income statement.

As indicated in Note 6, in 2016, as a result of the review of the Company's asset sale plan by directors, four properties with a total carrying amount of 12,930 thousand euros were transferred from "Non-current assets held for sale" to "Investment property" in the balance sheet.

Other disclosures

Based on the valuations performed by an independent expert on the Company's assets at 31 December 2016 (Note 4-c), the Company recognised a reversal of the impairment loss of 269 thousand euros on the value of the investment property held for sale (Note 17).

11. Current financial investments and other receivables

Current financial investments-

The breakdown of the balances in this heading at 31 December 2017 and 2016 is as follows:

	Thousands of euros	
	31 December 2017	31 December 2016
Current financial investments:		
Cost		
Current equity instruments	9	9
Loans to companies (DUE)	74,266	73,866
Other current financial assets	-	432
Total cost	**74,275**	**74,307**
Impairment (DUE)	(74,266)	(73,866)
Total impairment	**(74,266)**	**(73,866)**
Total current financial investments	**9**	**441**

Loan to Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. (DUE)–

As a result of restructuring the financial debt of the then investee DUE, the Company granted a loan for a maximum of 85,000 thousand euros, which was fully impaired at year-end 2017 and 2016, the purpose of which was to finance the development of the project implemented by DUE and to cover the costs related to the work yet to be carried out on the UE-1, inter alia. In this regard, the amount yet to be drawn down at 31 December 2017 totalled 10,214 thousand euros, and for such purpose, in accordance with the obligations assumed, the Company recognised the appropriate provision under “Other non-current provisions” on the balance sheet (Note 13) for the part not drawn.

In accordance with the provisions of the agreement between both companies, the loan granted by the Company is convertible into a participating loan provided that DUE is in the process of being dissolved. In this regard, on 25 June 2015, in response to the request by DUE, 72,451 thousand euros were converted into a participating loan.

During 2016 the Company classified that loan under current items based on its due date.

Lastly, the aforementioned loan accrues contingent interest, based on compliance with certain conditions. At 31 December 2017 and 2016, no finance income was accrued in this connection.

Other receivables –

	Thousands of euros	
	31 December 2017	31 December 2016
Other receivables:		
Cost		
Nozar, S.A.	85,473	85,473
Lease incentives	3,471	1,729
Other	388	-
Total cost	**89,332**	**87,202**
Impairment		
Nozar, S.A.	(85,473)	(85,473)
Total impairment	**(85,473)**	**(85,473)**
Total other receivables	**3,859**	**1,729**

At 31 December 2017 and 2016, the amounts owed by Nozar, S.A. resulting from the termination of purchase contracts formalised in July 2007 due to breach of compliance with the conditions precedent, are recognised under the heading “Other receivables”.

Nozar, S.A. is currently involved in bankruptcy proceedings; consequently, at 31 December 2017 and 2016, the balance sheet includes an impairment loss for the entire amount of this company’s trade receivables.

Lease incentives –

The lease incentives heading includes the amount of the incentives in the operating lease agreements (rent-free periods, etc.) that the Company offers its customers, which are recognised in the income statement during the minimum operating lease term (Note 4-j). Of that amount, 2,360 thousand euros have a maturity of higher than 1 year (1,004 thousand euros at 31 December 2016).

12. Equity

Share capital-

At 31 December 2015, the Company’s share capital comprised 3,188,856,640 shares with a par value of 0.25 euro each, which had been fully subscribed and paid.

The following changes in the Company’s share capital occurred in 2016:

- On 28 June 2016, the General Shareholders' Meeting approved the issue of 288,571,430 new shares with a par value of 0.25 euros each, plus a share premium of 0.45 euros per share, as consideration for the non-monetary contribution of shares of Hofinac. The total amount of the capital increase was 72,143 thousand euros plus 129,857 thousand euros for the share premium. This capital increase was registered with the Barcelona Mercantile Registry on 30 June 2016.

- On the same date, the shareholders also approved the issue of 90,805,920 shares with a par value of 0.25 euros each, plus a share premium of 0.45 euros per share, as consideration for the non-monetary contribution of 1,019,478 shares of SFL. The total amount of the capital increase was 22,701 thousand euros plus 40,863 thousand euros for the share premium. This capital increase was registered with the Barcelona Mercantile Registry on 30 June 2016.

On 14 July 2016, the Company carried out the resolution calling for a reverse stock split whereby every 10 existing shares would be swapped for one newly-issued share, bringing the total number of shares to 356,823,399 and raising the par value of each share from 0.25 euros to 2.50 euros.

In 2017, the Company carried out two capital increases, both charged to monetary contributions and excluding the right to preferential subscription for the accelerated bookbuild offering for qualified investors:

- The increase was registered in the Mercantile Registry on 5 May 2017. Its purpose is to reinforce the Company's equity in order to take full advantage of investment opportunities which are currently available, carry out repositioning and improvement investments to maximise the quality, occupancy and value of the assets that already form part of its portfolio, as well as to consolidate its credit rating and possible improve it. As a result of the placement, 35,646,657 new shares were issued each with a par value of 2.50 euros, for a total amount of 253,092 thousand euros, prompting an increase in share capital and a share premium of 89,117 thousand euros and 163,975 thousand euros, respectively. The new shares were admitted to trading on 8 May 2017 on the Barcelona and Madrid Stock Exchanges.

- The increase aimed at ensuring and optimising the funding for the takeover bid for the shares of Axiare Patrimonio SOCIMI, S.A. (Note 8) not owned by Colonial was registered in the Mercantile Registry on 29 November 2017. As a result of the placement, 42,847,300 new shares were issued each with a par value of 2.5 euros, for a total amount of 338,065 thousand euros, prompting an increase in share capital and the share premium of 107,118 thousand euros and 230,947 thousand euros, respectively. The new shares were admitted to trading on 4 December 2017 on the Barcelona and Madrid stock exchanges.

As a result, the Company's share capital at 31 December 2017 was represented by 435,317,356 fully subscribed and paid up shares with a par value of 2.50 euros each.

Based on the pertinent notifications regarding the number of company shares to the Spanish National Securities Market Commission (CNMV), the shareholders owning significant direct or indirect interests in the Company at 31 December 2017 and 2016 were as follows:

	31 December 2017		31 December 2016	
	Number of shares*	% shareholding	Number of shares*	% shareholding
Name or corporate name of the shareholder:				
Finaccess Group	79,378,647	18.23%	41,139,685	11.53%
Qatar Investment Authority	41,610,141	9.56%	41,593,367	11.66%
Aguila Ltd.	28,800,183	6.62%	21,800,184	6.11%
Inmo S.L.	20,011,190	4.60%	-	-
BlackRock Inc	10,955,962	2.52%	10,885,211	3.05%
Deutsche Bank A.G.	8,135,390	1.87%	8,135,390	2.28%
Joseph Charles Lewis	-	-	17,617,708	4.94%
Villar-Mir Group	-	-	11,906,969	3.34%
Invesco Limited	-	-	3,540,788	0.99%
Fidelity International Limited	-	-	6,248,471	1.75%

* Does not include certain financial instruments linked to shares in the Company.

On 5 January 2018, BlackRock Inc. increased its interest to 11,308,788 shares, equivalent to 2.60% of the Company's share capital.

At 31 December 2017, Blackrock Inc. and Deutsche Bank AG formally obtained financial instruments associated with Company shares which, in the event the instruments are exercised, could give rise to an additional interest in the share capital of Colonial.

The Company has no knowledge of other significant equity interests.

At the General Shareholders' Meeting held on 24 April 2015, the Board of Directors was authorised to issue, on behalf of the Company, on one or several occasions, and for a period of five years, debentures and/or bonds convertible into new shares of the Company and/or exchangeable for shares of the Company or of any other third-party entity, expressly providing for, in the case of convertible debentures and/or bonds, the power to exclude the pre-emptive subscription right of the shareholders and to increase the share capital by the amount necessary to meet the conversion. The total maximum amount of the issue or issues of the securities that may be performed under this authorisation may not exceed a combined amount of 350,000 thousand euros or its equivalent in another currency.

At the General Meeting held on 29 June 2017, the shareholders of the Company authorised the Board of Directors, in accordance with article 297.1 b) of the Spanish Limited Liability Companies Law, to increase share capital, through monetary contributions, by up to half the existing amount, in one or several issues and within a maximum period of five years, at the time and for the amount deemed appropriate. Within the limits indicated, the Board of Directors was also authorised to exclude preferential subscription rights, limiting this authorisation to a maximum nominal amount of 20% of total share capital, taken as a whole.

Share premium –

In 2017, as a result of the aforementioned accelerated bookbuilding processes, the amount of the share premium increased by 163,975 thousand euros and 230,947 thousand euros, respectively.

As a result of the capital increases carried out in 2016, the share premium increased by 129,857 thousand euros and 40,863 thousand euros, respectively.

Legal reserve –

Under the Consolidated Spanish Limited Liability Companies Law, 10% of profit for each year must be transferred to the legal reserve until the balance of this reserve reaches at least 20% of the share capital.

The legal reserve can be used to increase capital provided that the remaining reserve balance does not fall below 10% of the increased share capital amount. Otherwise, until the legal reserve exceeds 20% of share capital, it can only be used to offset losses, provided that sufficient other reserves are not available for this purpose.

At 31 December 2015, the legal reserve amounted to 5,080 thousand euros. At 31 December 2016, taking into account the appropriation to the legal reserve included in the distribution of profit for 2015, the legal reserve reached 33,615 thousand euros. At 31 December 2017, taking into account the allocation to the legal reserve included in the Company's distribution of 2016 profit approved by the General Shareholders' Meeting on 29 June 2017, the legal reserve amounted to 39,099 thousand euros, although it had not yet reached the stipulated level at the date of authorisation for issue of these financial statements.

Voluntary reserves –

At 31 December 2015, the Company had set aside voluntary reserves of 1,158,874 thousand euros, of which 169,439 thousand euros were not freely available.

The resolutions approved by the shareholders at the General Shareholders' Meeting of 28 June 2016 included the distribution of profit for 2015, which included the appropriation of 28,535 thousand euros to the legal reserve and the distribution of 47,832 thousand euros in dividends, and 208,982 thousand euros were allocated to offset prior years' losses. At the meeting, the shareholders also approved the partial application of voluntary reserves to offset prior years' losses still existing after the offset included in the proposed distribution of 2015 profit, in the amount of 938,993 thousand euros.

As a result of the capital increases described above, costs of 6,691 thousand euros were registered in 2017 (1,905 thousand euros in 2016), which were registered in the "Reserves" heading of equity.

In 2017, the Company carried out transactions with its own shares, with income of 10,371 thousand euros (12 thousand euros of losses in 2016), and which were registered directly in the Company's equity. The income generated from the delivery of treasury shares to the beneficiaries of the long-term incentives plan (Note 19), calculated as the difference between the carrying amount of the shares delivered and the amount of the obligation assumed by the Company, which amounted to 1,286 thousand euros in 2017 (945 thousand euros in 2016) was also registered in the Company's reserves.

Following both offset exercises, at 31 December 2017, voluntary reserves stood at 206,019 thousand euros, of which 169,439 thousand euros continued to be restricted.

Treasury shares –

At 31 December 2017 and 2016, the number of the Company's treasury shares and their acquisition cost were as follows:

	31 December 2017		31 December 2016	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Opening balance	**5,469,985**	**35,426**	**700,382**	**4,068**
Buyback plan 14 November 2016	6,837,328	46,787	3,162,672	20,249
Buyback plan 16 October 2017	2,260,000	17,797	-	-
Delivery of incentives plan shares (Note 19)	(380,116)	(2,537)	(365,116)	(2,114)
Other acquisitions	-	-	4,088,555	27,145
Other disposals	(9,907,257)	(68,052)	(2,116,508)	(13,922)
Closing balance	**4,279,940**	**29,421**	**5,469,985**	**35,426**

Company share buyback schemes -

On 14 November 2016, the Company's Board of Directors agreed to carry out a treasury share buyback scheme. The purposes of the scheme are to complete the coverage of the share plan approved by shareholders at the General Meeting held on 21 January 2014 and additional initiatives that the Board of Directors may consider advisable for the corporate interest. The maximum monetary amount assigned to the scheme amounted to 68,000 thousand euros and a maximum of 10,000,000 shares may be acquired, equivalent to 2.8% of the Company's share capital as of that date. The maximum duration of the scheme was six months, i.e. up to 15 May 2017. However, it would be ended early if the maximum number of shares or the maximum monetary amount was reached before said date. At 31 December 2016, 3,162,672 shares had been acquired under the framework of the buyback scheme, for the amount of 20,249 thousand euros. At 31 December 2017, the Company has acquired the remaining 6,837,328 shares so completing the buyback plan, for the amount of 46,787 thousand euros.

On 16 October 2017, the Company's Board of Directors agreed to implement a scheme involving the repurchase of treasury shares in accordance with the authorisation granted by shareholders at the General Meeting held on 30 June 2014. The maximum monetary amount assigned to the scheme amounts to 100,000 thousand euros and the maximum number of shares to be acquired is 12,000,000 shares, equivalent to 3% of the share capital of the Company as of that date. The maximum duration of the scheme is six months, i.e. up to 17 April 2018. However, it would be ended early if the maximum number of shares or the maximum monetary amount is reached before said date. On 3 November 2017, the Company considered that the share buyback scheme had been completed, having acquired up to that point 2,260,000 shares for 17,797 thousand euros.

Deliveries of Company shares deriving from the long-term Incentives Plan (Note 19) -

Every year, the Company settles the obligations to comply with the previous year's plan through the delivery of shares to the beneficiaries of the Remuneration Plan, once it has assessed the degree of attainment of the indicators included therein.

Other acquisitions -

The Company's acquisition, on 29 July 2016, of 3,801,417 shares of Mora Banc Grup S.A. and Mora Assegurances, S.A.U., for 25,495 thousand euros, by virtue of the agreement signed between the two parties on 27 July 2016, and several acquisitions of the Company's shares, totalling 287,138 shares for the amount of 1,650 thousand euros, to cover the long-term incentives plan (Note 19).

No other acquisitions were made in 2017.

Other disposals -

On 29 November 2017, the Company sold 9,907,257 shares at a price equivalent to the issue price of the new shares emitted in the framework of the Accelerated Bookbuild Offering carried out on the same date, i.e. at 7.89 euros per share.

On 4 August 2016, the Company gave 2,116,508 treasury shares to APG in exchange for 237,624 shares in the subsidiary SFL (Note 8).

Liquidity contracts –

The Company draws up liquidity contracts to assist in the liquidity of its transactions and the regularity of its quoted share price.

At 31 December 2017 and 2016, the number of the Company's treasury shares included in the liquidity contracts and their acquisition cost were as follows:

	31 December 2017		31 December 2016	
	No. of shares	Thousands of euros	No. of shares	Thousands of euros
Opening balance	**209,603**	**1,329**	**148,701**	**945**
Liquidity contract dated 22 June 2015	30,480	482	60,902	384
Liquidity contract dated 11 July 2017	(10,583)	30	-	-
Closing balance	**229,500**	**1,841**	**209,603**	**1,329**

Liquidity contract dated 22 June 2015 -

On 22 June 2015, the Company drew up a liquidity contract to assist in the liquidity of its transactions and the regularity of its quoted share price, as provided for under Circular 3/2007, of 19 December, of the Spanish Securities Market Commission.

On 10 July 2017, on the issue of Circular 1/2017, of 26 April 2017, of the Spanish Securities Market Commission, the Company terminated the liquidity contract.

Liquidity contract dated 11 July 2017 -

On 11 July 2017, the Company drew up a new liquidity contract to assist in the liquidity of its transactions and the regularity of its quoted share price, as provided for under Circular 1/2017, of 26 April, of the Spanish Securities Market Commission. The contract is valid for 12 months.

Adjustments due to change in value –

This balance sheet heading includes the sum of gains and losses arising from the changes in the value of financial investments available for sale described in Note 8.

13. Provisions and contingencies

Provisions –

The breakdown of current and non-current provisions in the balance sheet at year-end 2017 and 2016, as well as the main changes in 2017, are as follows:

	Thousands of euros			
	Current	Non-current		
	Provisions for contingencies and charges	Provisions for personnel	Provisions for contingencies and charges	Total non-current
Balance at 31 December 2016	**11,926**	**97**	**10,574**	**10,671**
Charges	7,988	-	-	-
Disposals / amounts used	-	(14)	-	(14)
Transfers	-	-	(368)	(368)
Balance at 31 December 2017	**19,914**	**83**	**10,206**	**10,289**

Provision for contingencies and charges - Current

Additions to current provisions include 19,914 thousand euros, reflecting an estimate of the Company's various future risks, which increased in 2017 by 7,988 thousand euros.

Provision for contingencies and charges - Non-current

As a result of restructuring the financial debt of Desarrollos Urbanísticos Entrenúcleos 2009, S.L.U. (hereinafter, "DUE"), the Company granted a loan for a maximum of 85,000 thousand euros, the purpose of which, among others, is to finance the development of the project implemented by DUE and to cover the costs of the work yet to be carried out on the UE-1, up to an amount of no higher than 20,000 thousand euros. The loan accrues contingent interest, based on compliance with certain conditions. At 31 December 2017 and 2016, no finance income was accrued in this connection. The Company recognised a provision for the full amount of the loan granted to DUE.

The Company has a cash line of credit with BBVA to cover the outstanding execution costs of the UE-1, which is drawn when DUE demonstrates the execution of the development works. At 31 December 2017, 9,786 thousand euros had been drawn down (9,437 thousand euros at 31 December 2016) (Note 11).

Contingent assets –

In 2010, the Company filed certain lawsuits on behalf of the Company against former directors for transactions carried out between June 2006 and December 2007 regarding the following corporate actions for liability:

- A corporate action for liability against certain former directors in relation to the purchase of assets by the Company for reinvestment of the proceeds by the sellers in shares of the Company, as part of the 29 June 2006 capital increase or otherwise.

- A corporate action for liability against certain former directors in connection with the losses caused to the Company by the acquisition of shares of Riofisa in 2007.

Given that the aforementioned lawsuits relate to claims filed against third parties in favour of Colonial, the only contingency that may arise is the payment of legal costs in the event that both cases are lost. The Company's directors do not expect such possible rulings to have a significant impact on the financial statements, given that at 31 December 2017, the appropriate provision had been recognised to meet any possible costs.

14. Bank borrowings, bonds and other marketable securities

At 31 December 2017 and 2016, the breakdown by debt type and maturity is as follows:

31 December 2017

	Thousands of euros							
	Current	Non-current						
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total non-current	Total
Bank borrowings:								
Syndicated loans	-	-	-	150,000	13,400	-	163,400	163,400
Fees and interest	372	-	-	-	-	-	-	372
Debt arrangement	(980)	(980)	(983)	(911)	(114)	-	(2,988)	(3,968)
Total bank borrowings	**(608)**	**(980)**	**(983)**	**149,089**	**13,286**	**-**	**160,412**	**159,804**
Debt instruments and other marketable securities:								
Bonds issues	-	375,000	-	-	-	1,950,000	2,325,000	2,325,000
Fees and interest	15,006	-	-	-	-	-	-	15,006
Debt arrangement	(2,886)	(2,530)	(2,273)	(2,267)	(2,267)	(5,007)	(14,344)	(17,230)
Total debt instruments and other marketable securities	**12,120**	**372,470**	**(2,273)**	**(2,267)**	**(2,267)**	**1,944,993**	**2,310,656**	**2,322,776**
Total at 31 December 2017	**11,512**	**371,490**	**(3,256)**	**146,822**	**11,019**	**1,944,993**	**2,471,068**	**2,482,580**

31 December 2016

	Thousands of euros							
	Current	Non-current						
	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total non-current	Total
Bank borrowings:								
Syndicated loans	-	-	-	-	121,874	-	121,874	121,874
Fees and interest	234	-	-	-	-	-	-	234
Debt arrangement	(504)	(504)	(504)	(504)	(435)	-	(1,947)	(2,451)
Total bank borrowings	**(270)**	**(504)**	**(504)**	**(504)**	**121,439**	**-**	**119,927**	**119,657**
Debt instruments and other marketable securities:								
Bonds issues	-	-	375,000	-	-	1,150,000	1,525,000	1,525,000
Fees and interest	13,549	-	-	-	-	-	-	13,549
Debt arrangement	(2,182)	(2,182)	(1,829)	(1,572)	(1,565)	(3,984)	(11,132)	(13,314)
Total bonds and other marketable securities	**11,367**	**(2,182)**	**373,171**	**(1,572)**	**(1,565)**	**1,146,016**	**1,513,868**	**1,525,235**
Total at 31 December 2016	**11,097**	**(2,686)**	**372,667**	**(2,076)**	**119,874**	**1,146,016**	**1,633,795**	**1,644,892**

Issues of the Company's straight bonds–

The breakdown of the issues of straight bonds made by the Company at 31 December 2017 and 2016, is as follows (in thousands of euros):

				Thousands of euros		
Issue	Duration	Maturity	Fixed-rate coupon payable annually	Amount of the issue	31 December 2017	31 December 2016
05/06/2015	5 years	05 /06/2019	1.86%	750,000	375,000	375,000
05/06/2015	8 years	05/06/2023	2.73%	500,000	500,000	500,000
28/10/2016	8 years	28/10/2024	1.45%	600,000	600,000	600,000
10/11/2016	10 years	10/11/2026	1.88%	50,000	50,000	50,000
28/11/2017	8 years	28/11/2025	1.68%	500,000	500,000	-
28/11/2017	12 years	28/11/2029	2.50%	300,000	300,000	-
Total issues				**2,700,000**	**2,325,000**	**1,525,000**

The bonds were admitted for trading on the Irish Stock Exchange's main *securities market*.

The bonds issued by the Company that are traded on a regulated market had a fair value of 2,378,881 thousand euros and 1,545,466 thousand euros (par value of 2,325,000 thousand euros and 1,525,000 thousand euros, respectively) at 31 December 2017 and 2016.

European Medium Term Note Programme -

On 5 October 2016, the Company registered a 12-month EMTN (*European Medium Term Note*) programme for 3,000,000 thousand euros, which can be extended to 5,000,000 thousand euros, on the Irish Stock Exchange.

On 11 October 2017, the programme was renewed for a further 12 months.

Compliance with financial ratios -

These straight bonds establish the obligation, at 30 June and 31 December of each year, to meet a financial ratio whereby the value of the non-guaranteed asset in the balance sheet at each of these dates must at least be equal to the financial debt not guaranteed. This ratio had been met at 31 December 2017 and 2016.

Syndicated Loans –

The breakdown of the Company's syndicated debt at 31 December 2017 and 2016 is provided below:

Thousands of euros	**Maturity**	31 December 2017		31 December 2016	
		Limit	Nominal amount drawn down	Limit	Nominal amount drawn down
Loan facility	November 2021	350,000	150,000	350,000	121,874
Loan facility	March 2022	375,000	13,400	-	-
Company's total syndicated financing		**725,000**	**163,400**	**350,000**	**121,874**

The variable interest rate has a spread tied to EURIBOR.

The main purpose of this syndicated loan maturing in November 2021 is to finance possible acquisitions, as well as refurbishments and other investment requirements of the Company's property assets.

In March 2017, the Company signed a new syndicated loan facility for 375,000 thousand euros, maturing at five years. The Company will use this line of credit to cover its general corporate needs. A total of 10 banks took part in the process, with Crédit Agricole acting as lead bank.

Compliance with financial ratios –

The loans are subject to compliance with the following financial ratios on a quarterly basis:

Ratios
Loan-to-value ratio <= 55%
Interest coverage ratio >= 2x
Secured mortgage debt / Value of property assets <=15%
Secured non-mortgage debt / Value of non-property assets <=15%
Value of the consolidated assets >= 4.5 billion euros

At 31 December 2017 and 2016, the Company complied with all the financial ratios.

Mortgage loans-

At 31 December 2017 and 2016, the Company did not have any loans secured by mortgages.

Other guarantees delivered –

At 31 December 2017, the Company has granted guarantees to government bodies, customers and suppliers in the amount of 1,091,123 thousand euros (27,013 thousand euros at 31 December 2016). These include the following guarantees granted to cover deferred payments deriving from acquisition transactions:

- a bank guarantee before the Spanish Securities Market Commission to guarantee the voluntary takeover bid to acquire shares of Axiare Patrimonio, SOCIMI, S.A. (Notes 8 and 22), issued by Caixabank for 1,033,676 thousand euros, and guaranteed with a cash deposit.

- bank guarantee for the transaction to buy Moorage, for the sum of 15,680 thousand euros. The amount of the account payable is recognised in “Suppliers” on the balance sheet.

- bank guarantees for the transaction to buy the companies Agisa and Soller, for the sum of 41,767 thousand euros. The amount of the accounts payable is recognised in “Suppliers” on the balance sheet.

Of the remaining amount**,** the principal guarantees provided are as follows:

- 4,946 thousand euros granted to secure obligations acquired by the company Asentia. The Company and Asentia have an agreement in place whereby if any of the guarantees is enforced, Asentia must compensate the Company for any damage sustained within 15 days.

- 5,000 thousand euros granted to secure obligations acquired by the company DUE. In this regard, the Company has a cash line of credit with BBVA to cover the obligations acquired with DUE. The liabilities covered by these guarantees have been provided for in full under “Non-current provisions – Other provisions” in the balance sheet (Note 11).

Fees and interest-

The borrowing interest rate, the average credit spread of the Company, with and without accrual of lending fees for 2017 and 2016, is shown in the following table:

	Thousands of euros			
	2017		2016	
Issue	Without accrual of fees	With accrual of fees	Without accrual of fees	With accrual of fees
Average interest rate	2.55%	2.69%	2.68%	2.87%
Average credit spread	1.61%	1.94%	1.71%	1.99%

The interest rate on the outstanding debt at 31 December 2017 is 1.99% (2.00% at 31 December 2016).

The accrued interest outstanding recognised in the balance sheet at 31 December 2017 and 2016 amounts to:

	Thousands of euros	
Issue	31 December 2017	31 December 2016
Company Bonds	15,006	13,549
Bank borrowings	372	234
Total	**15,378**	**13,783**

Debt arrangement expenses –

At 31 December 2017 and 2016, the debt arrangement expenses assumed by the Company and not yet accrued amounted to 21,198 thousand euros and 15,765 thousand euros, respectively. These expenses are taken to the income statement during the term of the debt generating them on a time proportion basis. In this regard, in 2017 and 2016, the Company recognised 2,045 thousand euros and 4,072 thousand euros, respectively, in the income statement, corresponding to the costs repaid during the year.

Cash and cash equivalents-

At 31 December 2017 and 2016, amounts of 1,069,355 thousand euros and 79,591 thousand euros, respectively, were recognised under “Cash and cash equivalents”, of which 11,992 thousand euros and 11,215 thousand euros, respectively, were either restricted or pledged. The balance for 2017 includes 1,033,676 thousand euros with the necessary cash to be able to carry out the voluntary takeover bid for the acquisition of shares of Axiare Patrimonio, SOCIMI, S.A. (Notes 8 and 22).

15. Other non-current financial liabilities

The “Other non-current financial liabilities” heading, which totalled 30,581 thousand euros at 31 December 2016, also included, in addition to the guarantees received from lessees and other deposits received, the deferred payment and the contingent consideration on the acquisition of the shares in Moorage totalling 15,680 thousand euros and 4,600 thousand euros, respectively (Note 8).

At 31 December 2017, this heading amounted to 17,298 thousand euros relating to the guarantees received from lessees and other deposits received, the contingent consideration on the acquisition of the shares in Moorage, and the deferred payment for the acquisition of Utopicus shares, which amounted to 4,600 thousand euros and 72 thousand euros, respectively.

16. Public authorities and tax matters

Up until 31 December 2016, Inmobiliaria Colonial, S.A. was the parent of a group of companies filing consolidated tax returns, since 1 January 2008. This consolidated tax group included only subsidiaries incorporated in Spain in which the Company owned at least 75%, either directly or indirectly (this threshold falls to 70% in the case of listed subsidiaries), and in which it held the majority of voting rights.

On 30 June 2017, the Company chose to operate within the REIT Tax Regime (Note 1). By choosing this tax regime, the fiscal Group valid at 31 December 2016 is no longer applicable from 1 January 2017.

The detail of current balances with the tax authorities at 31 December 2017 and 2016 is as follows:

	Thousands of euros			
	Receivable		Payable	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
Tax receivables and payables	-	-	1,079	1,600
Value added tax payable	64	5	1,008	520
Current taxes	12,788	35,625	-	-
Other deferred taxes	-	-	187	219
Social Security payables	-	-	92	71
Total current balances	**12,852**	**35,630**	**2,366**	**2,410**
Deferred tax due to the merger (Note 1)	-	-	33,731	29,938
Other deferred taxes	-	-	5,632	6,694
Total non-current balances	**-**	**-**	**39,363**	**36,632**

Current taxes –

At 31 December 2017, the Company held a balance in its favour of 12,113 thousand euros deriving from income tax prepayments made during 2016 and withholdings made by third parties to the Company. In January 2018, the National Tax Agency refunded it.

The reconciliation of accounting profit to taxable profit for income tax purposes at 31 December 2017 and 2016 is as follows:

31 December 2017

	Thousands of euros		
	General regime	REIT	TOTAL
Accounting profit for the period (before tax)	**32,120**	**3,076**	**35,196**
Permanent differences:			
Dividends SFL (Note 18)	-	(28,603)	(28,603)
Dividends Torre Marenostrum, S.L. (Note 18)	-	(514)	(514)
Plan contribution (Note 19)	-	239	239
Recovery of the tax impairment	-	4,289	4,289
Non-deductible provision	(1,168)	1,251	83
Capital increase costs (Note 12)	-	(6,691)	(6,691)
Other	(10)	57	47
Temporary differences:			
Arising in prior years-			
Deferral for reinvestment	750	-	750
Non-deductible provisions	(3,150)	-	(3,150)
Impairment of the portfolio (Note 8)	(8,171)	-	(8,171)
Non-deductible amortisation	(1,339)	-	(1,339)
Arising in the year-			
Impairment of the portfolio (Note 8)	-	2,941	2,941
Amortisation of SFL financial goodwill	-	(283)	(283)
Non-deductible provisions	-	11,169	11,169
Retirements from deferred tax on asset gains	(20,229)	-	(20,229)
Non-deductible finance costs	(835)	22,671	21,836
Other	(273)	1	(272)
Taxable income (taxable profit)	**(2,305)**	**9,603**	**7,298**

Royal Decree Law 3/2016, of 2 December, on Corporate Income Tax came into force on 1 January 2016, establishing the limit to the carrying forward of tax losses at 25% of the tax base, prior to said carry-forward, for companies whose revenue is equal to or greater than 60 million euros.

The part of the accounting profit which will be under the General Regime has been differentiated from the part which falls under the REIT Regime. The following table shows the main differences between accounting profit and taxable profit for 2017:

General regime

- Recovery of impairment of equity interests with Group companies, considered not tax deductible in prior years.

- Pursuant to Law 16/2012, of 27 December, the depreciation of property, plant and equipment, intangible assets and property investments for the tax periods initiated within 2013 and 2014 would be deductible from taxable profit up to 70 per cent of that which would be tax deductible. In this regard, the Company carried out the corresponding adjustments to its taxable profit. In 2017, and according to the provisions of the Law, the Company has recovered a tenth part of the allocations made to depreciation in 2013 and 2014, which were considered non-deductible.

- Recovery of impairment of properties which were not deductible.

- Other provisions which were not tax deductible in prior years.

REIT Regime

- Dividends from the subsidiaries SFL and Torre Marenostrum, S.L. in application of the exemption as provided for under article 21 of the Corporate Income Tax Law.

- Impairments of equity interests allocated in 2017 with Group companies, considered not tax deductible.

- In accordance with the resolution in Royal Decree-Law 12/2012, of 30 March, amending Article 20 of the Corporate Income Tax Law, the Company has temporarily adjusted the finance cost that exceeds 30% of the yearly profit.

- Non-deductible provisions (Notes 8 and 13).

31 December 2016

	Thousands of euros	
	General regime	REIT (*)
Accounting profit for the period (before tax)	**61,813**	**n.a.**
Permanent differences:		
Dividends SFL (Note 18)	(54,565)	n.a.
Dividends Torre Marenostrum, S.L. (Note 18)	(270)	n.a.
Plan contribution	235	n.a.
Recovery of the tax provision	4,300	n.a.
Capital increase costs	(1,905)	n.a.
Other	(26)	n.a.
Temporary differences:		
Arising in prior years-		
Deferral for reinvestment	762	n.a.
Arising in the year-		
Impairment of the portfolio (Note 8)	8,173	n.a.
Amortisation of SFL financial goodwill	(283)	n.a.
Non-deductible provisions	967	n.a.
Retirements from deferred tax on asset gains	(44,800)	n.a.
Non-deductible finance costs	26,605	n.a.
Non-deductible amortisation	(1,339)	n.a.
Non-deductible impairment	181	n.a.
Other	9	n.a.
Taxable income (taxable profit)	**(143)**	**n.a.**

(*) On 30 June 2017, the Company chose to operate within the REIT tax Regime with backdated effects from 1 January 2017.

The difference between the accounting profit and the taxable profit taxed under the General Regime for income tax purposes for 2016 primarily corresponds to the following:

- The dividends received from the French subsidiary SFL in application of the exemption on dividends from non-resident companies, amounting to 54,565 thousand euros. SFL files income tax under the special SIIC regime which, inter alia, provides that shareholders with more than 10% of the share capital of an SIIC and which are exempt from taxation or subject to a tax that is two thirds lower than the standard income tax rate shall be subject to a 20% withholding at the SIIC source on the dividend originating from the income subject to that special system.

The Company notified the Board of Directors of SFL that it has partially paid tax on such dividends and, consequently, SFL need not make the withholding at source referred to above. The Company has also assured SFL that it would cover any amounts that were to be settled in France as a result of this interpretation.

- Impairment of equity interests and of loans with Group companies, considered not tax deductible.

- In accordance with the resolution in Royal Decree-Law 12/2012, of 30 March, amending Article 20 of the Corporate Income Tax Law, the Company has temporarily adjusted the finance cost that exceeds 30% of the yearly profit.

- In accordance with Law 16/2012 of 27 December, adopting various tax measures aimed at consolidating public finance and promoting economic activity, it is established that the amortisation and depreciation for accounting purposes on property, plant and equipment, intangible assets and investment property for tax periods beginning in 2013 and 2014, only up to 70% of the taxable income which would have been tax deductible can be deducted. In this regard, the Company carried out the corresponding adjustments to its taxable income. In 2016, and according to the provisions of the Law, the Company has recovered a tenth part of the allocations made to depreciation in 2013 and 2014, which were considered non-deductible.

- Non-deductible provisions (Notes 8 and 13).

The breakdown of tax that would have been directly recognised in the Company's equity at 31 December 2017 and 2016 is as follows:

31 December 2017

	Thousands of euros			
	Tax base			Tax (*)
	Increases	Decreases	Total	Total
In deferred tax: Adjustments due to changes in value - Available-for-sale financial assets (Note 8).	69,098	-	69,098	-
Total deferred tax	**69,098**	**-**	**69,098**	**-**
In current tax: Capital increase costs (Note 12)	-	(6,691)	(6,691)	-
Total current tax	**-**	**(6,691)**	**(6,691)**	**-**
Total tax directly recognised in equity	**69,098**	**(6,691)**	**62,407**	**-**

(*) Does not generate tax as the REIT regime rate is 0%

31 December 2016

	Thousands of euros			
	Tax base			Tax (*)
	Increases	Decreases	Total	Total
In deferred tax:				
Adjustments due to changes in value - Available-for-sale financial assets (Note 8).	1,317	-	1,317	(329)
Total deferred tax	**1,317**	**-**	**1,317**	**(329)**
In current tax:				
Capital increase costs (Note 12)	-	(1,905)	(1,905)	476
Total current tax	**-**	**(1,905)**	**(1,905)**	**476**
Total tax directly recognised in equity	**1,317**	**(1,905)**	**(588)**	**147**

(*) Not recognised for accounting purposes

The reconciliation between the accounting profit and the income tax expense recognised in the income statement for 2017 and 2016 is as follows:

	Thousands of euros	
	2017 (*)	2016
Accounting profit before tax	35,196	61,813
Permanent differences (**)	(31,150)	(52,231)
Adjusted accounting profit	**4,046**	**9,582**
- REIT Regime	(26,896)	-
- General regime	30,942	9,582
Accounting profit adjusted to the General Regime	**30,942**	**9,582**
- Unregistered tax deferrals offset in the year	(13,768)	-
Taxable profit with the General Regime	**17,174**	**9,582**
Corporate income tax expense at 25%	4,294	-
Activation shield	(689)	-
Other adjustments	(906)	6,974
Total tax expense recognised in the income statement	**2,699**	**6,974**
- Current tax	3,605	-
- Deferred tax	(906)	6,974

(*) income tax expenditure is calculated for the accounting result which is taxed under the General Regime. The rest of the accounting result which is taxed under the special REIT regime will be at a rate of 0% and does not generate tax expenditure.
(**) The 6,691 thousand euros and 1,905 thousand euros of capital increase expenses posted directly in the Company's equity in 2017 and 2016 are not included.

Deferred tax assets –

The breakdown of deferred tax assets at 31 December 2017 and 2016 by item is as follows:

31 December 2017

Deferred tax assets (Tax base)	Thousands of euros	
	General Regime Base	REIT base
Tax loss carryforwards	5,379,360	-
Non-deductible impairment	-	287
Impairment of the non-deductible portfolio	8	2,941
Non-deductible finance costs	397,779	22,671
Non-deductible amortisation	9,377	-
Non-deductible provisions	157,712	11,169
Other	100	-
Total tax credits and deferred tax assets	**5,994,336**	**37,068**
By transactions in tax group	3	-
Total transactions with tax group companies	**3**	**-**
Total deferred tax assets	**5,994,339**	**37,068**
Balance recognised for accounting purposes (*)	**-**	**-**

(*) In accordance with the above, when determining the deferred tax liability at 31 December 2017, the Company has considered the application of tax credits totalling 5,057 thousand euros, with these being calculated at the effective settlement rate, estimated at 18.75% (Note 4-m).

31 December 2016

Deferred tax assets	Thousands of euros
	Amount
Tax loss carryforwards	5,376,264
Non-deductible impairment	272
Impairment of the non-deductible portfolio	8,180
Non-deductible finance costs	398,614
Non-deductible amortisation	10,716
Non-deductible provisions	160,864
Other	100
Total deferred tax assets	**5,955,010**
By transactions in tax group	3
Total transactions with tax group companies	**3**
Total deferred tax assets	**5,955,013**
Balance recognised for accounting purposes (*)	**-**

(*) In accordance with the above, when determining the deferred tax liability at 31 December 2016, the Company has considered the application of tax credits totalling 9,979 thousand euros, with these being calculated at the effective settlement rate, estimated at 18.75% (Note 4-m).

Deferred tax assets relating to prior year tax loss carryforwards –

The Income Tax Law in force as of 1 January 2015 stipulates that prior years' tax loss carryforwards may be offset in future years without any time limit.

The following table detail the tax loss carryforwards (TLC) generated by the Company as at 31 December 2017:

Year of origin	Thousands of euros	
	Tax base General regime	Tax base REIT
2000	12,979	-
2001	5,468	-
2003	140	-
2004	38,516	-
2005	36	-
2006	25,053	-
2007	321,571	-
2008	1,200,383	-
2009	865,940	-
2010	530,183	-
2011	117,893	-
2012	85,756	-
2013	83,618	-
2014	15,028	-
2015	2,074,346	-
2016	145	-
2017	2,305	-
Total	**5,379,360**	-

From 2008 until 31 December 2016, the Company formed part of the 06/08 Tax Group, so that when the Group was broken up after it changed to the REIT regime, the tax loss carryforwards generated during those years have been distributed between the companies which formed part of that tax group in proportion to how they contributed to generating them.

Deferred tax liabilities –

The breakdown of deferred tax liabilities at 31 December 2017 and 2016 by item is as follows:

31 December 2017

Deferred tax liabilities	Thousands of euros Tax Base
Deferral for reinvestment outstanding	19,656
Deferred liability for financial goodwill	2,180
Deferred liability from gains allocated to investment properties and financial assets	264,382
Capitalised tax credits	(129,457)
Total deferred tax liabilities	**156,761**
Balance recognised for accounting purposes (tax credit)	**39,550**

31 December 2016

Deferred tax liabilities	Thousands of euros Tax Base
Deferral for reinvestment outstanding	24,384
Deferred liability for financial goodwill	1,892
Deferred liability from gains allocated to investment properties and financial assets	244,152
Capitalised tax credits	(124,040)
Total deferred tax liabilities	**146,388**
Balance recognised for accounting purposes (tax credit)	**36,851**

Tax credit for reinvestment –

As set forth in prevailing legislation, for the tax credit for reinvestment of extraordinary gains to be applicable, the assets acquired with the proceeds must be held for a five-year period (three years, in the case of financial investments), unless the assets failing to comply with the deadline are reinvested within the prevailing timeframe under applicable laws. The terms for holding the amounts reinvested by the Company are as follows:

	Thousands of euros	
	2018	2019
Reinvested by the Company	8,786	18,701
Associated profit	946	188

The Company's Directors consider that the Company will comply with the stipulated timeframes.

Deferred liability for gains allocated to property investments and financial assets –

The deferred tax attributable to the capital gains assigned to the merger of Grupo Inmocaral, S.A. and Inmobiliaria Colonial, SOCIMI, S.A. (Note 1) was calculated based on a 25% tax rate on 41,077% of the total capital gains attributable to those assets, as determined in 2015 by an independent third party (Loan Agency Services).

“Deferred liability for gains allocated to investment property and financial assets”, as detailed in Note 4-m, includes the amount of deferred taxes associated with the Company’s investment property that would accrue if these assets were transferred using the effective rate that would be applicable, taking into account applicable legislation and any unrecognised tax credits. Accordingly, the deferred taxes associated with the Company's investment property were recognised at an effective rate of 18.75% (tax rate of 25% with a limit on tax loss carryforwards of 25%).

Total unused tax credits –

The breakdown of unused tax credits due to insufficient taxable profit at 31 December 2017 and 2016 by item is as follows:

	Thousands of euros	
	2017	2016
Unused tax credits for dividends receivable	7,685	7,685
Unused tax credits for reinvestment	16,141	16,141
Unused tax credits for deductions for donations	55	55
Unused tax credits for training	3	3
Total unused tax credits	**23,884**	**23,844**
Balance recognised for accounting purposes	**-**	**-**

At 31 December 2017, the unused tax credits for reinvestment due to insufficient taxable profit and the corresponding last year for use are as follows:

Year of origin	Thousands of euros	
	Amount	Last year for use
2002	458	2017
2003	3,316	2018
2004	1,056	2019
2005	92	2020
2006	1,314	2021
2007	7,275	2022
2008	1,185	2023
2009	434	2024
2010	713	2025
2011	39	2026
2012	123	2027
2013	112	2028
2014	24	2029
	16,141	

Deferred tax assets for other deductions –

The nature and amount of the unused tax credits at 31 December 2017 due to insufficient taxable profit in prior years and the corresponding last year for use are as follows:

Type	Thousands of euros		
	Year of origin	Unrecognised for accounting purposes	Last year for use
Double taxation tax credit	2008	6,553	n.a.
	2009	238	n.a.
	2010	227	n.a.
	2011	295	n.a.
	2012	168	n.a.
	2013	69	n.a.
	2014	135	n.a.
Tax credit for donations	2010	4	2020
	2011	4	2021
	2012	4	2022
	2013	6	2023
	2014	6	2024
	2015	9	2025
	2016	22	2026
Tax credit for training	2008	1	2023
	2009	1	2024
	2010	1	2025
		7,743	

Years open to inspection and tax audits-

The Company has the last four years open for review by the tax inspection authorities for all applicable taxes. In 2015, the Company filed supplementary income tax returns for 2011 to 2014, breaking the statute of limitations for these years.

No additional material liability for the Company is expected to arise in the event of a new inspection.

Adherence to the Code of Best Tax Practices –

On 10 December 2015, the Company's Board of Directors agreed to adhere to the Code of Best Tax Practices. This resolution was reported to the tax authorities on 8 January 2016.

Disclosure requirements arising from REIT status, Law 11/2009

a) Reserves arising from years prior to the application of the tax regime established in this Law.

	Thousands of euros
Share premium	1,126,248
Legal and statutory reserves	39,099
Other reserves	
Restricted reserve	169,439
Other reserves	36,580
Total reserves 31/12/2017	**1,371,366**

b) Reserves from years in which the tax system established under this Law was applied, differentiating the part arising from income subject to the tax rate of 0%, or of 19%, with respect to those which, where appropriate, were taxed at the general taxation rate.

Not applicable, as 2017 was the first year in which the REIT Regime applied.

c) Dividends distributed with a charge to profit for each year in which the tax system established under this Law was applicable, differentiating the part arising from income subject to the tax rate of 0%, or of 19%, with respect to that which, where appropriate, was taxed at the general taxation rate.

Not applicable, as 2017 was the first year in which the REIT Regime applied.

d) In the event of the distribution of dividends with a charge to reserves, designation of the year in which the reserve used was set up, and whether such reserves were subject to the tax rate of 0%.19% or a general rate.

e) Date on which it was resolved to distribute the dividends referred to in letters c) and d) above.

f) Acquisition date of the properties earmarked for lease and of the equity interests in companies referred to in Article 2.1 of this Law.

Property	**Location**	**Acquisition date**	**Maintenance start date**
Pedralbes Centre	Barcelona	29-12-92	01-01-17
Avda. Diagonal, 530	Barcelona	29-12-92	01-01-17
A.S.A.M Claret 436	Barcelona	29-12-92	01-01-17
Alcala, 30-32	Madrid	14-06-94	01-01-17
Amigo 11-17	Barcelona	28-12-94	01-01-17
Berlin-Numancia	Barcelona	15-04-97	01-01-17
Avda Diagonal, 682	Barcelona	30-12-97	01-01-17
Pº Castellana.52	Madrid	28-07-98	01-01-17
Vía Augusta.21-23	Barcelona	26-10-98	01-01-17
Francisco Silvela, 42	Madrid	25-10-04	01-01-17

Property	**Location**	**Acquisition date**	**Maintenance start date**
Alfonso XII	Madrid	28-03-00	01-01-17
Ramírez De Arellano, 37	Madrid	30-11-99	01-01-17
Sant Cugat - Sant Joan	Sant Cugat Del Valles	24-12-99	01-01-17
Les Glories - Diagonal	Barcelona	09-06-00	01-01-17
Jose Ortega Y Gasset, 100 (Lista 100)	Madrid	05-07-00	01-01-17
Pg.Dels Til.Lers, 2-6 (Los Tilos)	Barcelona	15-09-00	01-01-17
Poeta Joan Maragall	Madrid	18-04-01	01-01-17
Avda. Diagonal, 409	Barcelona	09-10-01	01-01-17
Agustín De Foxá 29	Madrid	30-01-03	01-01-17
Parc Central 22@ A.1.6 - A.1.7	Barcelona	17-02-05	01-01-17
Recoletos, 37-41	Madrid	21-10-05	01-01-17
Pº Castellana, 43	Madrid	21-10-05	01-01-17
Miguel Ángel, 11	Madrid	21-10-05	01-01-17
José Abascal, 56	Madrid	21-10-05	01-01-17
López Hoyos, 35	Madrid	21-10-05	01-01-17
Martinez Villergas, 49	Madrid	24-03-06	01-01-17
Orense, 46-48	Madrid	27-06-05	01-01-17
Pérez Rozas, 25	Santa Cruz De Tenerife	17-06-02	01-01-17
Botanico, 8	Puerto De La Cruz	17-06-02	01-01-17
Hotel Mojacar	Mojacar	03-07-06	01-01-17
Parraco Ramón Glez Guedes, 15	Las Palmas De Gran Canaria	17-06-02	01-01-17
Plaza Europa 42-44	L'Hospitalet Llobregat	30-12-14	01-01-17
Príncipe de Vergara, 112-114	Madrid	14-07-15	01-01-17
Génova, 17	Madrid	28-07-15	01-01-17
Santa Engracia	Madrid	17-12-15	01-01-17
José Abascal, 45	Madrid	21-06-16	01-01-17

Property	Location	Acquisition date	Maintenance start date
Travessera de Gracia 47-49	Barcelona	28-12-16	01-01-17
Avda. Diagonal, 609	Barcelona	29-12-92	01-01-17
Torre Bcn	Barcelona	31-10-01	01-01-17
Travessera de Gracia, 11	Barcelona	28-12-94	01-01-17
Hotel Centro Norte	Madrid	16-10-02	01-01-17
Illacuna	Barcelona	06-05-14	01-01-17
Ricard Roca, 1	Palma de Mallorca	29-12-92	01-01-17

Financial investment	Acquisition date	Maintenance start date
Société Foncière Lyonnaise, S.A	09-06-04	01-01-17
Danieltown, S.L.U.	28-05-15	01-01-17
Moorage Inversiones 2014, S.L.U.	25-05-16	01-01-17
Hofinac Real State, S.L.U.	30-06-16	01-01-17
Fincas y Representaciones, S.A.U.	29-12-16	01-01-17
Colonial Arturo Soria, S.L.	27-09-17	27-09-17
Axiare Patrimonio Socimi, S.A.	13-11-17	13-11-17
Almacenes Generales Internacionales, S.A.U. (AGISA)	20-12-17	(*)
Soller, S.A.U.	20-12-17	(*)

(*) Adoption of REIT Regime planned with effect from 1 January 2018, once its Bylaws are amended and resolutions are passed by the General Shareholders' Meeting.

g) Identification of the asset included in the 80% referred to in Article 3.1 of this Law.

All the properties in the above list are included within the 80%.

The consolidated balance sheet of the Colonial Group company meets the minimum 80% investment requirement.

h) Reserves from years in which the special tax system established under this Law was applied, used in the tax period, which are not intended for distribution or to offset losses, identifying the year from which such reserves originate.

Not applicable.

17. Income and expenses

Revenue -

The Company's ordinary revenue was earned mainly in Barcelona, Madrid and Paris. The detail by type of business activity is as follows:

Activity	Thousands of euros	
	2017	2016
Building leases (Note 4-c)	70,725	64,746
Services	703	241
Income from holdings in Group companies and associates (Note 4-n)	29,117	54,835
Total	**100,545**	**119,822**

Geographic markets	Thousands of euros	
	2017	2016
Barcelona	29,644	25,109
Madrid	40,714	39,275
Paris (*)	28,603	54,565
Others (**)	1,584	873
Total	**100,545**	**119,822**

(*) The total amount corresponds to finance income from dividends of SFL (Note 18).
(**) Includes 514 thousand euros and 270 thousand euros in 2017 and 2016, respectively, relating to dividends from the shareholding in Torre Marenostrum, S.L. whose only asset is in Barcelona (Note 18).

Income from 2017 and 2016 include the effect of incentives to leasing throughout the minimum duration of the contract (Note 4-n), which has led to an increase in revenue of 1,742 thousand euros and 1,682 thousand euros, respectively.

Staff costs -

The detail of this heading in the income statement is as follows:

	Thousands of euros	
	2017	2016
Wages and salaries	11,219	7,506
Social security costs	883	827
Other employee benefit expenses	1,612	1,349
Contributions to defined-benefit pension plans	239	235
Internal reallocation	(685)	(630)
Total	**13,268**	**9,287**

At 31 December 2017 and 2016, "Other employee benefit expenses" included 1,334 thousand euros and 1,146 thousand euros, respectively, relating to the amount accrued in the year from the long-term remuneration plan described in Note 19.

The contributions made by the Company in 2017 and 2016 to defined benefit plans amounted to 239 thousand euros and 235 thousand euros, respectively, and are recognised under “Staff costs” in the income statement. At year-end 2017 and 2016, there were no contributions payable to this pension plan (Note 4-l).

Losses on, impairment of and changes in allowances for trade receivables -

The breakdown of “Losses on, impairment of and changes in allowances for trade receivables” in the income statement is as follows:

	Thousands of euros	
	2017	2016
Charge to provision for insolvency (Note 4-g)	85	1,563
Reversal of provision for insolvency (Note 4-g)	(18)	(18)
Charge to provision for contingencies and charges (Note 13)	7,988	2,831
Charge to provision for other trade balances	18	-
Total impairment/charges	**8,073**	**4,376**

Impairment of property assets

The changes in the impairment of property assets in the various balance sheet headings at 31 December 2017 and 2016 are presented below:

	Thousands of euros			
	Property, plant and equipment (Note 5)	Investment property (Note 6)	Non-current assets held for sale (Note 10)	Total
Balance at 31 December 2015	**(7,800)**	**(152,938)**	**(31,678)**	**(192,416)**
Charge	-	(273)	(546)	(819)
Reversal	3,159	58,586	815	62,560
Disposals	-	308	7,137	7,445
Transfers	-	(24,272)	24,272	-
Balance at 31 December 2016	**(4,641)**	**(118,589)**	**-**	**(123,230)**
Charge	(287)	(694)	-	(981)
Reversal	-	33,266	-	33,266
Disposals	-	6,381	-	6,381
Transfers	-	-	-	-
Balance at 31 December 2017	**(4,928)**	**(79,636)**	**-**	**(84,564)**

The reconciliation with the income statement is as follows:

	Thousands of euros	
	2017	2016
Provisions for non-current assets	(981)	(819)
Use of provisions for non-current assets	33,266	62,560
Total impairment/charges	**32,285**	**61,741**

Gains/(losses) on disposals

On 12 January 2017, the Company officially sold part of an asset located in calle Orense in Madrid for 5,600 thousand euros, generating a net profit of 290 thousand euros (selling costs included).

On 21 September 2016, the Company officially sold part of a property in Barcelona for 15,000 thousand euros, generating a profit of 589 thousand euros (selling costs included).

Also, during 2016, the Company derecognised certain assets included in the "Investment property" heading, which had a carrying amount of 1,197 thousand euros, due to obsolescence.

Finance income and costs

The breakdown of financial loss in 2017 and 2016, by type, is as follows:

	Thousands of euros	
	2017	2016
Finance income and other	89	645
Income from investments in equity instruments (Note 8)	3,681	-
Capitalised borrowing costs (Note 6)	857	824
Finance income from Group companies and associates (Note 18)	268	81
Total finance income	**4,895**	**1,550**
Interest on borrowings and bonds	(39,608)	(34,274)
Costs associated with the repurchase of bonds	-	(20,904)
Other finance costs	(2,350)	(179)
Finance costs - Group companies and associates (Note 18)	(193)	(1)
Total finance costs	**(42,151)**	**(55,358)**
Change in derivative instruments (Note 9)	(2)	(64)
Change in fair value of financial instruments	**(2)**	**(64)**
Impairment of the Hofinac Real Estate, S.L.U. equity interest (Note 8)	803	(803)
Impairment of the Fincas y Representaciones, S.A.U equity interest (Note 8)	2,359	(2,359)
Impairment of the Moorage Inversiones 2014, S.L.U equity interest (Note 8)	5,010	(5,010)
Impairment of Utopicus Innovación Cultural, S.L. equity interest (Note 8)	(2,937)	-
Impairment of Colonial Tramit, S.L.U. equity interest (Note 8)	(3)	-
Impairment of Colonial Invest, S.L.U. equity interest (Note 8)	(2)	-
Use of provision for contingencies and charges (Note 13)	368	648
Impairment of credit facilities with investee DUE	(368)	(648)
Impairment and gains/(losses) on disposal of financial instruments	**5,230**	**(8,172)**
Sale of derivatives (Note 9)	6	-
Gains/(losses) on disposals and other	**6**	**-**
Total financial profit (loss)	**(32,022)**	**(62,044)**

18. Related-party transactions and balances

Related party transactions -

The breakdown of transactions with related parties in 2017 and 2016 is as follows:

2017

	Thousands of euros		
	Services rendered	Dividends received	Interest income/ (cost)
Torre Marenostrum, S.L.	162	514	-
Société Foncière Lyonnaise, S.A.	-	28,603	-
Danieltown Spain, S.L.U.	60	-	183
Moorage Inversiones 2014, S.L.U.	60	-	85
Hofinac Real Estate, S.L.U.	122	-	(193)
Fincas y Representaciones, S.A.U.	84	-	-
Inmocol Torre Europa, S.A.	137	-	-
Colonial Arturo Soria, S.L.	15	-	-
Total 2017	**640**	**29,117**	**75**

2016

	Thousands of euros		
	Services rendered	Dividends received	Interest income/ (cost)
Torre Marenostrum, S.L.	160	270	-
Société Foncière Lyonnaise, S.A.	-	54,565	-
Danieltown Spain, S.L.U.	-	-	58
Moorage Inversiones 2014, S.L.U.	-	-	23
Hofinac Real Estate, S.L.U.	60	-	(1)
Total 2016	**220**	**54,835**	**80**

In addition to the transactions listed in the preceding table, at 31 December 2017 and 2016 the Company received extraordinary dividends charged to reserves from Torre Marenostrum totalling 1,411 thousand euros and 198 thousand euros, respectively, which were recognised as a reduction of the equity interest (Note 8).

On 29 July 2016, the Company acquired 3,801,417 treasury shares from Mora Banc Grup, S.A. and Mora Assegurances, S.A.U. (former Company shareholders), for a total amount of 25,495 thousand euros, by virtue of an agreement concluded between the parties on 27 July 2016 (Note 12).

Balances with related parties -

2017

At 31 December 2017 and 2016, the Company recognised the following balances with related parties in the balance sheet:

	Thousands of euros				
	Current accounts receivable	Non-current loans extended	Non-current payables to Group companies	Current loans granted	Current payables to Group companies
Torre Marenostrum, S.L.	16	-	-	-	-
Danieltown Spain, S.L.U.	73	12,486	-	-	(25)
Moorage Inversiones 2014, S.L.U.	73	6,035	-	152	(23)
Hofinac Real Estate, S.L.U.	12	-	(10,594)	18	-
Fincas y Representaciones, S.A.U.	8	-	-	22	-
Inmocol Torre Europa, S.A.	22	-	(7,500)	-	-
Colonial Arturo Soria, S.L.	6	13,159	-	-	-
Almacenes Generales Internac., S.A.U	-	11,495	-	-	-
Peñalvento, S.L.U	-	22,577	-	-	-
Total	**210**	**65,752**	**(18,094)**	**192**	**(48)**

2016

	Thousands of euros		
	Current accounts receivable	Current loans granted	Current payables to Group companies
Torre Marenostrum, S.L.	16	-	-
Moorage Inversiones 2014, S.L.U.	-	2,165	-
Hofinac Real Estate, S.L.U.	12	8	(4,700)
Danieltown Spain, S.L.U.	-	3,524	(4)
Total	**28**	**5,697**	**(4,704)**

19. Director and senior management remuneration and other benefits

The Company's Board of Directors was made up of nine men and one woman at 31 December 2017, and ten men and one woman at 31 December 2016.

At 31 December 2017, its composition was as follows:

Director	Position	Type of director
Juan José Brugera Clavero	Chairman	Executive
Pedro Viñolas Serra	Chief Executive Officer	Executive
Carlos Fernández González	Director	Proprietary
Sheikh Ali Jassim M. J. Al-Thani	Director	Proprietary
Juan Carlos García Cañizares	Director	Proprietary
Adnane Mousannif	Director	Proprietary
Carlos Fernández-Lerga Garralda	Lead Director	Independent
Ana Sainz de Vicuña	Director	Independent
Javier Iglesias de Ussel Ordís	Director	Independent
Luis Maluquer Trepat	Director	Independent

In 2017, Juan Villar-Mir de Fuentes resigned from his position as director.

Carlos Fernández González and Adnane Mousannif were appointed as directors in 2016. In 2016 the directors Francesc Mora Sagués and Grupo Villar Mir, S.A.U. (represented by Juan-Miguel Villar Mir) left the board, and the classification of Luis Maluquer Trepat was changed from other director to independent director.

In accordance with the provisions of Article 229 of the Spanish Limited Liability Companies Law, at the end of 2017 the Company's directors did not report to other members of the Board any direct or indirect conflict of interest that they, or any person associated with them as defined by the Spanish Limited Liability Companies Law, may have with respect to the Company.

Remuneration of Board members –

Remuneration received in 2017 and 2016 by members of the Board of Directors of the Company, by item, is as follows:

	Thousands of euros	
	2017	2016
Remuneration earned by executive directors (*):	**4,866**	**2,610**
Attendance fees:	**580**	**535**
Directors' attendance fees	557	521
Additional attendance fees of the Chairman and Deputy Chairman	23	14
Fixed remuneration:	**780**	**897**
Directors' remuneration	495	546
Additional remuneration of the Executive Committee	-	66
Additional remuneration of the Audit and Control Committee	135	150
Additional remuneration of the Nomination and Remuneration Committee	150	135
Total	**6,226**	**4,042**
Remuneration earned by executive directors (*):	**4,866**	**2,610**

(*) Does not include the amount corresponding to expenses accrued in relation to the long-term incentive plan subsequently described.

At 31 December 2017 and 2016, the Company had taken out a civil liability insurance policy covering all of its directors, executives and employees, for a total of 393 thousand euros and 302 thousand euros, respectively. The aforementioned amount includes the insurance premium paid for both periods for civil liability insurance to cover damages caused by acts or omissions.

The General Shareholders' Meeting held on 28 June 2016 approved the granting of a defined-contribution scheme for executive directors covering retirement and, when applicable, disability and death, with overall annual contributions of 178 thousand euros and 175 thousand euros in 2017 and 2016, respectively.

In addition to the matters indicated in the preceding paragraph, the Company has not granted any loans or taken out any additional pension plans or life insurance for former or serving members of the Company's Board of Directors.

At 31 December 2017 and 2016, two members of the Board of Directors had signed guarantee or golden parachute clauses in the event of certain cases of termination or change of control, all of which were approved at the General Shareholders' Meeting.

In 2017 and 2016, there were no finalisations, modifications or early terminations of contracts outside of the normal business activities between the Company and the members of the Board of Directors or any other person acting on their behalf.

Remuneration of senior management –

The Company's senior management team is formed by senior executives and other persons responsible for the management of the Company, reporting to the CEO, as per the definition provided in the Good Governance Code for listed companies. The Company's senior management team was made up of two men and two women at 31 December 2017 and 2016.

Monetary compensation earned by senior management in 2017 amounted to 1,818 thousand euros. Furthermore, they received 988 thousand euros corresponding to the long-term incentives plan (1,038 thousand euros and 939 thousand euros, respectively, in 2016).

At its meeting held on 27 July 2016, the Board of Directors approved the granting of a defined-contribution scheme for a member of senior management covering retirement and, when applicable, disability and death. At 31 December 2017 and 2016, the Company recognised an annual contribution for this item under "Staff costs" in the income statement of 61 thousand euros and 60 thousand euros, respectively.

At 31 December 2017 and 2016, one member of the senior management team had signed a guarantee or "golden parachute" clause in the event of certain cases of termination or change of control.

Long-term bonus scheme linked to compliance with several management indicators –

On 21 January 2014, the Company's General Shareholders' Meeting set up a long-term bonus scheme for the Chairman and Chief Executive Officer of Inmobiliaria Colonial, SOCIMI, S.A. and for members of the Company's Executive Committee that will apply from 2014 to 2018.

Following a proposal submitted by the Nomination and Remuneration Committee, from 1 to 15 April in each of these years, the Board of Directors must determine the number of shares to be allocated to each beneficiary under the plan based on compliance with the indicators for the previous year. The shares will be delivered to the beneficiaries between 15 and 30 April each year.

Shares received under this plan may not be sold or transferred by beneficiaries within the first three years of receiving them, except as required to pay any taxes chargeable in this regard.

The determination of shares to be allocated will be subject to a final adjustment to ensure that the cash value of the shares does not exceed the average Colonial share price for November 2013 by more than 150%.

The plan includes the customary clauses to adapt the number of shares to be received by the beneficiaries in cases of dilution.

In 2017 and 2016, the Company recognised 1,334 thousand euros and 1,146 thousand euros (Note 17) under "Staff costs", respectively, to cover said incentives plan.

On 26 April 2017, the Company settled the outstanding obligations relating to compliance with the plan once the Board determined the number of shares to be delivered to the beneficiaries of the Plan in accordance with the level of fulfilment of indicators for 2016 would be 380,116 shares (Note 12). The shares were delivered to the beneficiaries on 26 April 2017. Of these shares, 175,814 shares were delivered to members of the Board of Directors and 138,140 shares to members of senior management, with a market value upon delivery of 1,257 thousand euros and 988 thousand euros, respectively.

On 11 April 2016, the Board determined the number of shares to be delivered to beneficiaries of the Plan in accordance with the level of fulfilment of indicators for 2015 would be 365,116 shares (Note 12). The shares were delivered to the beneficiaries on 29 April 2016. Of these shares, 175,814 were delivered to members of the Board of Directors and 138,140 to members of senior management, with a market value upon delivery of 1,196 thousand euros and 939 thousand euros, respectively.

Extension of the term of the long-term remuneration plan linked to fulfilment of several management indicators –

On 29 June 2017, the shareholders at the General Shareholders' Meeting approved to extend the term for applying the share delivery plan approved at the General Shareholders' Meeting held on 21 January 2014 for an additional two years, in accordance with the terms and conditions thereof.

20. Other disclosures

Employees

The number of Company employees at 31 December 2017 and 2016, as well as the average number of employees for 2017 and 2016, by job category and gender, is as follows:

	No. of employees at 31 December				Average no. of employees			
	2017		2016		2017		2016	
Job category	Men	Women	Men	Women	Men	Women	Men	Women
General and area managers	5	3	5	3	5	3	5	3
Technical graduates and middle managers	11	8	9	7	12	6	9	7
Clerical staff	14	32	15	31	14	33	15	31
Total	**30**	**43**	**29**	**41**	**31**	**42**	**29**	**41**

The Company also had one female employee with a disability equal to or exceeding 33% at 31 December 2017 and 2016.

Audit fees

Fees incurred for auditing services to the Company in 2017 and 2016 by the principal auditor and other auditors are set forth below:

	Thousands of euros	
	Services provided by PricewaterhouseCoopers, S.L. and by related companies	Services rendered by Deloitte, S.L. and related companies
Description	2017	2016
Audit services	223	310
Other verification services	88	135
Total auditing services and related	**311**	**445**
Tax advisory services	-	-
Other services	82	141
Total professional services	**82**	**141**

The principal auditor of the Company for 2017 was PricewaterhouseCoopers Auditores, S.L., whereas the Company's principal auditor for 2016 was Deloitte, S.L.

The fees for other attest services include 88 thousand euros relating to services provided to the Company for issuing comfort letters and agreed-upon procedure reports on covenants linked to financing agreements.

Capital management: Policies and objectives

As indicated in Note 1, the Company is the parent of the Colonial Group.

Companies operating in the real estate sector need to make heavy upfront investments to ensure development of their projects and growth of their businesses through the purchase of rental properties and/or land.

The Company's financial structure requires its sources of financing to be diversified in terms of entities, products and maturity dates, in order to ensure the continuity of its companies as profitable businesses and to be able to maximise returns for shareholders.

On 5 October 2016, the Company formally implemented a 12-month Euro Medium Term Note programme to issue bonds up to a maximum of 3,000,000 thousand euros, which may be expanded to 5,000,000 thousand euros, and which was extended in 2017 (Note 14).

The various bond issues launched in recent years have enabled the Company to finance its corporate transactions and real estate asset acquisitions carried out during these years, to reduce the finance costs of its borrowings, and to extend and diversify the maturity dates thereof. The Company's financing is granted in full at long term, structured in such a manner that it allows the development of its underlying business plan.

Financial risk management policy –

The Company efficiently manages its financial risks with the aim of having an adequate financial structure that allows it to maintain high levels of liquidity, minimise borrowing costs, reduce volatility due to changes in capital and ensure compliance with its business plans.

- Interest rate risk: The risk management policy is designed to limit and control the impact of interest rate fluctuations on profit and cash flows, to maintain the level of debt, and to keep overall borrowing costs at reasonable levels in accordance with the Company's credit rating.

  In order to attain these objectives, the Group enters into interest rate hedges to hedge against potential fluctuations in finance costs if necessary. The Company’s policy is to arrange instruments that comply with accounting rules to be considered effective hedges and, therefore, to recognise changes in market value directly in the Company's income statement. At 31 December 2017, 93% of total debt in Spain and 85% in France was hedged or at fixed rates (92% and 77%, respectively, at 31 December 2016).

- Liquidity risk: Based on the annual cash budget, the Company draws up the monthly follow-up report on its cash forecasts to manage its liquidity risk and meet its various financing needs.

  The Company considers the following mitigating factors in managing liquidity risk: (i) recurring cash flow generation by the Company's core activities; and (ii) its ability to renegotiate and obtain new financing on the basis of long-term business plans and (iii) the quality of the Company's assets.

  Cash surpluses may eventually rise that enable the Group to have lines of credit available but not yet drawn down or highly-liquid deposits with no risk. At 31 December 2017, the Company had sufficient lines of credit available to meet its short-term maturities. The Company does not use high-risk financial products as a method for investing cash surpluses.

- Counterparty risk: the Company mitigates this risk by using top-level financial institutions.

- Credit risk: the Company analyses the exposure implied by at-risk accounts receivable on an ongoing basis, monitoring their settlements and recognising charges whenever its receivables are deemed impaired.

The Company holds a majority stake in several companies (Note 8). The accompanying financial statements cover the Company individually and, therefore, do not reflect any changes in the components of equity that would be recognised if the aforementioned subsidiaries were to be consolidated. The Company prepares its consolidated financial statements on the basis of the International Financial Reporting Standards (IFRSs). According to the consolidated financial statements, shareholders' equity at the company at 31 December 2017 amounted to 3,591,828 thousand euros, attributable consolidated profit to 682,523 thousand euros, and assets and revenue to 10,507,519 thousand euros and 283,287 thousand euros, respectively.

21. Average supplier payment period

Following is the information required by Final Provision Two of Law 31/2014 of 3 December, which amends Spanish Limited Liability Companies Law with a view to improving corporate governance, and which also amends Additional Provision Three of Law 15/2010 of 5 July, amending Law 3/2004 of 29 December, establishing measures on combating late payment in commercial transactions, all in accordance with the provisions set forth in the resolution of 29 January 2016 of the Spanish Accounting and Audit Institute (ICAC) regarding the information to be included in the notes to the financial statements in relation to the average payment period to suppliers in commercial transactions.

	2017	2016
	Days	Days
Average supplier payment period	30	31
Ratio of payments made	30	32
Ratio of payments pending	29	22
	Amount (in thousands of euros)	Amount (in thousands of euros)
Total payments made	67,232	57,992
Total payments pending	3,803	6,176

The figures in the table above on payments to suppliers refer to suppliers which by their nature are trade creditors because they are suppliers of goods and services. Therefore, they include the figures for "Payables - suppliers" and "Other payables" on the attached balance sheet.

Law 11/2013 on measures to support entrepreneurs, stimulate growth and create employment, which amended the Law on late payments (Law 3/2004, of 29 December), entered into force on 26 July 2013. The new law stipulates that the maximum payment period to suppliers as of 29 July 2013 is 30 days, unless there is an agreement between the parties that increases the maximum period to 60 days.

With regard to payments made after the legally established period, note that these are primarily payments relating to works contracted and property refurbishment, which are paid within the payment terms stipulated in the contracts signed with the various contractors.

22. Events after the reporting period

From 31 December 2017 to the date on which these financial statements were authorised for issue, no significant events took place and there were no additional matters worthy of mention apart from the following:

Acquisition of LE Offices Egeo, S.A.U. –

On 16 January 2018, the Company acquired 100% of the share capital of the Spanish company LE Offices Egeo, S.A.U. (hereinafter "Egeo"), the owner of an office building located in Madrid. The acquisition price was 49,098 thousand euros. In addition, in 2018, the loan held by Egeo with a financial institution for 30,182 thousand euros, including interest, was repaid early.

Gala Placidia –

On 18 January 2018, the Company acquired a property in Barcelona for 13,400 thousand euros.

Business combination between Inmobiliaria Colonial SOCIMI, S.A. (acquiring company) and Axiare Patrimonio SOCIMI, S.A. and subsidiaries (acquired companies) –

As indicated in Note 8-c to these financial statements, the Company launched a takeover bid for all share capital of Axiare Patrimonio SOCIMI, S.A., the acceptance period of which was from 29 December 2017 to 29 January 2018, both inclusive.

On 2 February 2018, the Spanish National Securities Market Commission published the result of the takeover bid, which was accepted for 45,912,569 shares, representing 81.55% of the shares targeted by the takeover bid and 58.07% of the share capital of Axiare Patrimonio SOCIMI, S.A., which entailed the payment of 842,955 thousand euros.

With this expenditure, the value of the ownership interest in Axiare Patrimonio SOCIMI, S.A. amounted to 1,262,232 thousand euros, including the value of the ownership interest at 31 December 2017, which totalled 419,277 thousand euros (Note 8-b).

Accordingly, taking into consideration the shares already held by the Company, it now holds 68,674,633 shares, representing the 86.86% of the share capital of Axiare Patrimonio SOCIMI, S.A., and may not exercise the rights of forced sale and purchase.

Reason for the business combination -

As explained in the prospectus of the takeover bid, with the acquisition of Axiare, the Colonial Group consolidated its position as the European platform in the prime office market of Paris, Madrid and Barcelona. Axiare's asset portfolio at 30 September 2017, with 74% relating to offices, of which 93% are located in Madrid, clearly complements the Colonial Group's strategy, which consists of investing in the office markets of Madrid, Barcelona and Paris, with a focus on high-quality buildings. The acquisition of Axiare will enable Colonial to increase the value of its current portfolio and therefore reach a real estate asset portfolio valued at approximately 10,000 million euros, thus increasing the Group's exposure in Spain. Furthermore, the synergies with the acquisition of Axiare may represent a savings in operating costs. Accordingly, it will potentially enable Axiare's financing structure to be optimised as a result of its inclusion in the Group with a credit rating of BBB by Standard & Poor's and Baa2 by Moody's.

Financial information of Axiare Patrimonio SOCIMI, S.A. -

In accordance with the consolidated financial statements authorised for issue on 14 February 2018, the consolidated equity of Axiare Patrimonio SOCIMI, S.A. and subsidiaries at 31 December 2017 amounts to 1,242,244 thousand euros.

At the date of preparation of these financial statements, there was no financial information available relating to the date of acquisition and, therefore, the effect of the business combination could not be calculated and the value of the assets and liabilities acquired could not be determined.

The most recent financial information available relates to the consolidated statement of financial position of Axiare Patrimonio SOCIMI, S.A. and subsidiaries at 31 December 2017, which is as follows:

ASSETS	31 December 2017	LIABILITIES	31 December 2017
		EQUITY	**1,242,244**
Intangible assets	1,783		
Property, plant and equipment	663		
Investment property	1,722,655		
Non-current financial assets	21,916	Bank borrowings and	
Deferred tax assets	7,528	other financial liabilities	636,414
Other non-current assets	470	Other non-current liabilities	11,388
NON-CURRENT ASSETS	**1,755,015**	**NON-CURRENT LIABILITIES**	**647,802**
		Bank borrowings and	
Trade and other receivables	11,335	other financial liabilities	37,711
Tax assets	7,282	Trade payables	11,979
Cash and cash equivalents	167,979	Tax liabilities	1,875
CURRENT ASSETS	**186,596**	**CURRENT LIABILITIES**	**51,565**
TOTAL ASSETS	**1,941,611**	**TOTAL EQUITY AND LIABILITIES**	**1,941,611**

The net consolidated profit Axiare Patrimonio SOCIMI, S.A. and subsidiaries for 2017 amounted to 218,238 thousand euros.

23. Explanation added for translation to English

These financial statements are presented on the basis of the regulatory financial reporting framework applicable to the Company in Spain (see Note 2.a). Certain accounting practices applied by the company that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

APPENDIX I

NON-CURRENT INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

		Thousands of euros								Thousands of euros
2017	Domicile	Share capital	Reserves, share premium and interim dividend	Profit/(loss)	Valuation adjustments	Dividend (Note 18)	Direct	Indirect	Shareholder	Cost (Note 8)
HOLDINGS IN GROUP COMPANIES AND ASSOCIATES:										
Torre Marenostrum, S.L. (*)	Avda. Diagonal 532, 08006 Barcelona, Spain	5,334	9,322	1,525	(954)	514	55%	-	-	24,790
Colonial Tramit, S.L.U.	Avda. Diagonal 532, 08006 Barcelona, Spain	3	4	(2)	-	-	100%	-	-	13
Colonial Invest, S.L.U.	Avda. Diagonal 532, 08006 Barcelona, Spain	3	5	(2)	-	-	100%	-	-	13
Danieltown Spain, S.L.U.	Avda. Diagonal 532, 08006 Barcelona, Spain	541	22,844	(340)	-	-	100%	-	-	30,038
Moorage Inversiones 2014, S.L.U.	Avda. Diagonal 532, 08006 Barcelona, Spain	63	21,707	10	-	-	100%	-	-	49,355
Hofinac Real Estate, S.L. (*)	Avda. Diagonal 532, 08006 Barcelona, Spain	24,943	138,789	4,896	-	-	100%	-	-	202,000
Fincas y Representaciones, S.A.U.	Avda. Diagonal 532, 08006 Barcelona, Spain	926	1,579	1,149	-	-	100%	-	-	46,681
Inmocol Torre Europa, S.A. (*)	Avda. Diagonal 532, 08006 Barcelona, Spain	12,500	-	(61)	-	-	50%	-	-	10,080
Colonial Arturo Soria, S.L.	Avda. Diagonal 532, 08006 Barcelona, Spain	3	12,026	425	-	-	100%	-	-	19,747
Almacenes Generales Internac., S.A.U.	Paseo de la Castellana 52, 28046 Madrid, (Spain)	2,083	36,008	(3,414)	-	-	100%	-	-	100,124
Soller, S.A.U.	Paseo de la Castellana 52, 28046 Madrid, (Spain)	2,524	8,093	428	-	-	100%	-	-	78,096
Utopicus Innovación Cultural, S.L.	C/ Duque de Rivas 5, 28012 Madrid (España)	252	1,038	(405)	-	-	69.60%	-	-	3,634
Société Foncière Lyonnaise, S.A. (*) (**)	42, rue Washington 75008 Paris, France	93,058	587,202	272,390	-	28,603	58.56%	-	-	1,511,370
Segpim, S.A. (*)	42, rue Washington 75008 Paris, France	39	167	624	-	-	-	100%	SFL	-
Locaparis, SAS (*)	42, rue Washington 75008 Paris, France	153	15	583	-	-	-	100%	Segpim	-
MAUD SAS (*)	42, rue Washington 75008 Paris, France	80	(1,510)	735	-	-	-	100%	SFL	-
SB2, SAS (*)	42, rue Washington 75008 Paris, France	40	(21)	(2)	-	-	-	100%	SFL	-
SB3, SAS (*)	42, rue Washington 75008 Paris, France	40	(21)	(2)	-	-	-	100%	SFL	-
SCI SB3 (*)	42, rue Washington 75008 Paris, France	2	(7)	-	-	-	-	100%	SFL	-
SCI Washington (*)	42, rue Washington 75008 Paris, France	94,872	-	9,319	-	-	-	66%	SFL	-
SAS Parholding	42, rue Washington 75008 Paris, France	15,000	2,867	7,505	-	-	-	50%	SFL	-
SC Parchamps (*)	42, rue Washington 75008 Paris, France	1,558	(4,350)	4,219	-	-	-	100%	SAS Parholding	-
SC Pargal (*)	42, rue Washington 75008 Paris, France	9,120	16	4,111	-	-	-	100%	SAS Parholding	-
SC Parhaus (*)	42, rue Washington 75008 Paris, France	1,500	-	4,167	-	-	-	100%	SAS Parholding	-

2017	Domicile	Thousands of euros Share capital	Reserves, share premium and interim dividend	Profit/(loss)	Valuation adjustments	Dividend (Note 18)	Direct	Indirect	Shareholder	Thousands of euros Cost (Note 8)
HOLDINGS IN GROUP COMPANIES AND ASSOCIATES:										
SCI 103 Grenelle (*)	42, rue Washington 75008 Paris, France	-	-	3,360	-	-	-	100%	SFL	-
SC Paul Cézanne (*)	42, rue Washington 75008 Paris, France	56,934	101,249	7,062	-	-	-	100%	SFL	-
SAS Société Immobilière Victoria (*)	42, rue Washington 75008 Paris, France	244	90,973	-	-	-	-	100%	SFL	-
Condorcet Holding SNC (**)	42, rue Washington 75008 Paris, France	10	(1)	10,915	-	-	-	100%	SFL	-
Condorcet PropCo SNC (**)	42, rue Washington 75008 Paris, France	20,500	-	7,703	-	-	-	100%	Condorcet Holding SNC	-

* Company audited by PricewaterhouseCoopers
** Company audited by Deloitte & Associés

NON-CURRENT INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

		Thousands of euros								Thousands of euros
2016	Domicile	Share capital	Reserves, share premium and interim dividend	Profit/(loss)	Valuation adjustments	Dividend (Note 18)	Direct	Indirect	Shareholder	Cost (Note 8)
HOLDINGS IN GROUP COMPANIES AND ASSOCIATES:										
Torre Marenostrum, S.L.	Avda. Diagonal 532, 08006 Barcelona, Spain	5,334	11,873	1,038	(1,037)	270	55%	-	-	26,201
Colonial Tramit, S.L.U.	Avda. Diagonal 532, 08006 Barcelona, Spain	3	4	-	-	-	100%	-	-	13
Colonial Invest, S.L.U.	Avda. Diagonal 532, 08006 Barcelona, Spain	3	5	-	-	-	100%	-	-	13
Danieltown Spain, S.L.U.	Avda. Diagonal 532, 08006 Barcelona, Spain	541	22,859	(15)	-	-	100%	-	-	30,038
Moorage Inversiones 2014, S.L.U.	Avda. Diagonal 532, 08006 Barcelona, Spain	63	22,603	(895)	-	-	100%	-	-	49,355
Hofinac Real Estate, S.L.	Avda. Diagonal 532, 08006 Barcelona, Spain	24,943	139,638	(900)	-	-	100%	-	-	202,000
Fincas y Representaciones, S.A.U.	C/ Juan Ramón Jiménez 7, 28036 Madrid (Spain)	926	(30)	1,610	-	-	100%	-	-	46,620
Société Foncière Lyonnaise, S.A.	42, rue Washington 75008 Paris, France	93,058	665,993	(30,279)	-	54,565	58.55%	-	-	1,511,105
Segpim, S.A.	42, rue Washington 75008 Paris, France	39	166	694	-	-	-	100%	SFL	-
Locaparis, SAS	42, rue Washington 75008 Paris, France	153	15	582	-	-	-	100%	Segpim	-
MAUD SAS	42, rue Washington 75008 Paris, France	80	(586)	(924)	-	-	-	100%	SFL	-
SB2, SAS	42, rue Washington 75008 Paris, France	40	(19)	(1)	-	-	-	100%	SFL	-
SB3, SAS	42, rue Washington 75008 Paris, France	40	(19)	(1)	-	-	-	100%	SFL	-
SCI SB3	42, rue Washington 75008 Paris, France	2	(6)	-	-	-	-	100%	SFL	-
SCI Washington	42, rue Washington 75008 Paris, France	94,872	-	10,885	-	-	-	66%	SFL	-
SAS Parholding	42, rue Washington 75008 Paris, France	15,000	2,859	3,638	-	-	-	50%	SFL	-
SC Parchamps	42, rue Washington 75008 Paris, France	1,558	(6,826)	2,475	-	-	-	100%	SAS Parholding	-
SC Pargal	42, rue Washington 75008 Paris, France	9,120	16	4,998	-	-	-	100%	SAS Parholding	-
SC Parhaus	42, rue Washington 75008 Paris, France	1,500	-	3,874	-	-	-	100%	SAS Parholding	-
SCI 103 Grenelle	42, rue Washington 75008 Paris, France	-	-	4,440	-	-	-	100%	SFL	-
SC Paul Cézanne	42, rue Washington 75008 Paris, France	56,934	101,249	10,813	-	-	-	100%	SFL	-
Condorcet Holding SNC	42, rue Washington 75008 Paris, France	10	(1)	-				100%	SFL	
Condorcet PropCo SNC	42, rue Washington 75008 Paris, France	20,500	(4,193)	7,406	-	-	-	100%	Condorcet Holding SNC	-

Inmobiliaria Colonial, S.A.

Management Report
for the year ended
31 December 2017

1. Company situation

Macroeconomic context

According to activity data from the fourth quarter of 2017, certain continuity is expected regarding the growth acceleration of the global economy. This growth acceleration can be seen in both the advanced and emerging economies due to increased confidence by companies and consumers.

The Eurozone continues to show solid growth, exceeding initial expectations, coupled with increased confidence. Again, private consumption is the driving force of economic growth, thanks to favourable credit conditions; improvements in the labour market; and global economic recovery. On a political front, the first phase of Brexit negotiations has successfully concluded, with a pre-agreement between the EU and the UK. This breakthrough heralds the second phase of negotiations on the future trade agreement.

The Spanish economy continues to maintain positive growth, growing at rates above 3%.

Spanish Rental market situation

Barcelona

During the fourth quarter of 2017, a total of 73,000 sq m of offices were signed in Barcelona, an increase of 42% compared to the previous quarter, with an amount of 51,514 sq m. The year 2017 closed with a cumulative take-up of 332,000 sq m. This represents an increase with respect to the previous year, confirming the positive trend of the Barcelona office market. Particularly worth mentioning is the 22@ district, the most sought after area in the city, resulting in a significant increase in the number of contracts.

In addition, it is worth mentioning the number of transactions above 5,000 sq m in the last quarter of 2017, with technology and pharmaceutical companies leading the demand. This dynamic resulted in the average vacancy rate in Barcelona continuing its downward trend, decreasing from 12.8% to 7.7% this last year. The vacancy rate in the CBD stood at 5.4%, at historically low levels.

It is important to point out that, due to the lack of large, quality spaces, especially in the city centre, there has been an increase in the number of pre-let transactions, which is quite unusual in the office market in Spain. Therefore, the immediate supply of new product continued to decline in all of the submarkets. As a consequence, maximum rents in the CBD during the fourth quarter of 2017 continued the positive trend which commenced in 2013, reaching rental levels of €23.3/sq m/month.

Madrid

During the fourth quarter of 2017, the take-up in Madrid was 213,000 sq m, with a significant increase with respect to the previous quarter, during which the take-up volume was 94,116 sq m. The cumulative figure reached in 2017 exceeds 560,000 sq m. This figure is the highest it has been in the last decade.

A good level of demand during the last three months of 2017, especially coming from the Public sector, substantially decreased available supply in the city centre. Demand was particularly high for quality refurbished buildings, mainly within the M-30.

Large transactions above 10,000 sq m, compared to the absence of these during the first nine months of the year, led to a vacancy rate decrease at 10.9%, compared to the previous quarter. In particular, the vacancy rate in the CBD was 7.0%.

From a supply point of view, in 2017, 238,000 sq m were made available on the market, of which 163,000 sq m related to refurbishments, upon completion of the works being carried out on 18 properties. Currently 255,000 sq m are under construction and refurbishment, and will be completed during 2018-2019. This figure is below the average of 300,000 sq m constructed during the previous cycle.

Prime rents during the fourth quarter of 2017 continued to increase, reaching €31.25/sq m/month, a figure 2.5% higher than the previous quarter and 10% higher than the previous year, thereby continuing a growing trend.

Sources: "La Caixa" monthly report, reports by Jones Lang Lasalle, Cushman & Wakefield, CBRE & Savills

Organisational structure and functioning

Colonial is the benchmark SOCIMI in the quality office market in Europe and since the end of June 2017 it is listed on the IBEX 35, the index of reference in the Spanish stock exchange.

The Company has a market capitalization of approximately Euro 3,800 million, with a free float of around 60%. It manages assets exceeding Euro 9,000 million.

The Company's strategy focuses on the generation of industrial value through the creation of a prime product of the highest quality through repositioning action and the transformation of property assets.

In particular, the strategy is based on the following pillars:

- A business model focusing on the transformation and creation of offices of the highest quality in prime locations, principally in CBD's (Central Business District).
- Maximum commitment to the creation of offices that respond to the highest demands of the market, placing special emphasis on efficiency and sustainability.
- A diversified pan- European strategy in the office markets in Barcelona, Madrid and Paris.
- An investment strategy that combines "Core" and "Prime Factory" acquisitions with "value added" components.
- A clearly industrial real estate approach to create value that exceeds the average in the market.

Colonial is now the European Company that most focuses on center city areas and leads the Spanish real estate market in terms of quality, sustainability and efficiency in its office portfolio.

An integral approach for all areas of Corporate Social Responsibility has been adopted and aspires to the highest standards of (1) sustainability and energy efficiency, (2) corporate governance and transparency as well as (3) excellence in HR and social actions, making them an integral part of the Group's strategy.

Over the past three years the Group has successfully executed its acquisition program and made investments exceeding Euro 1,500 million (committed amounts including future Capex). All acquisitions involve assets in good locations with good fundamentals, potential for additional returns through property repositioning, while always maintaining maximum financial discipline.

The capital structure is solid, with an LTV below 40% (one of the lowest in the sector) and one of the best ratings in the Spanish sector.

The Company's strategy involves consolidation as the prime office leader in Europe, placing special emphasis on the markets in Barcelona, Madrid and Paris:

- A solid capital structure with a clear vocation towards maintaining maximum credit rating standards-investment-grade.

- Attractive yields for shareholders based on recurring profitability combined with the creation of property value through “value added” initiatives.

2. Business performance and results

Introduction

Total income for rentals amounts to 70,725 thousand euros and profit (loss) from operations totals 67,218 thousand euros

The Company's net financial loss amounted to 32,022 thousand euros, which is due mainly to the net payables to third parties, totalling 41,958 thousand euros.

Profit after tax from continuing operations amounted to 32,497 thousand euros.

Rental business

The surface above-ground in operation at December 2017 amounted to 351,965 sq m, with an occupancy rate of 98.2% (99.0% in Barcelona y 97.5% in Madrid).

In 2017, the Company reviewed/renewed leases representing a total above-ground surface area of 102,137 sq m (29% of the surface above-ground in operation at December 2017).

3. Liquidity and capital resources

See Note 20 to the financial statements for the year ended 31 December 2017**.**

The Company's average payment period to its suppliers was around 30 days in 2017. With regard payments made after the legally established period, note that these are primarily payments relating to works contracted and property refurbishment, which are paid within the payment terms stipulated in the contracts signed with the various contractors. The Company has established two payment days per month to comply with the requirements set forth in Law 11/2013. Accordingly, invoices are received on the 5th and the 20th of each month and the related payments are made on the 5th and the 20th of the following month (Note 21).

4. Risk management policies and objectives

Colonial is exposed to a variety of risk factors arising from the countries in which it operates and from the very nature of its activities. Colonial's Board of Directors is responsible for determining the risk management and control policy, identifying the Group's main risks, and implementing and supervising the Control and Risk Management System that Colonial has developed and which is the foundation for the efficient and effective management of risks throughout the organisation.

Section E of the Annual Corporate Governance Report sets out the main risks that arose during the year and the circumstances that prompted them. The risks associated with the Company's activities are described below.

Strategic risks:

The risks related to the sector and the environment in which the Company carries on its business, the markets in which it operates and the strategies adopted in order to carry out its activities are analysed.

- Risks associated with the industry climate: The Colonial Group pays special attention to the economic, political, legal and social risks related to the countries in which it operates (Spain and France). In spite of the political uncertainty and economic policies of the last year, the European real estate sector has reached very significant investment levels. The maturity of the French real estate sector and the high level of investment in the Spanish real estate sector in recent years have enabled Colonial to have a more optimistic outlook over the coming years in terms of increased returns from its investments and sustainable growth.
- Risks associated with a competitive sector: The real estate sector is characterised as being highly competitive, reaching high levels of investment in recent years, and was driven by specialised international investment funds

and by listed real estate investment companies (REITs). The Colonial Group, which in 2017 chose to adhere to the special REIT tax regime, has maintained a benchmark position in the European real estate sector as a result of the high quality and value of its assets and its strategy of focusing mainly on its office rental activities in prime or central business district (CBD) areas. The successful investment and growth strategy implemented by the Colonial Group in 2015, 2016 and 2017, and the successful takeover bid for Axiare at the beginning of 2018 have further strengthened the Company's solid position in the sector.

- Risks related to the value of assets: Every six months the Company carries out appraisals, through independent experts and by applying objective market criteria, on all of its property assets. Colonial 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 to optimise income and returns.

Corporate risks:

Risks relating to the organisational structure, corporate culture, corporate policies and key decision-making processes of the governing bodies are analysed.

- Reputational risk and risks concerning social commitment: The Colonial Group's corporate social responsibility policy sets out the principles and bases of Colonial's voluntary commitment to its stakeholders. Management of these expectations forms part of the Company's objectives in terms of sustainability and creating value for these stakeholders.
- Corporate governance risk: Colonial's management of corporate governance focuses on maintaining its commitment to continue making progress on a model based on the principles of efficiency, regulatory compliance and transparency, that are in line with the main international regulations and standards.
- Anticipation of new trends: As is the case with other sectors, the real estate sector requires continuous adaptation to emerging trends. The growing implementation of digitalisation in all sectors, the new technology supplied in the real estate sector, and the increase in coworking spaces results in constant changes that specifically affect the real estate sector. In 2017, the Colonial Group assigned specific resources and activities for the purpose of implementing these trends through the acquisition of a coworking platform and the development of digitalisation and new technologies in developing services and new business models in the real estate sector.

Operational risks:

Operational risks refer to the risks arising from losses due to failures or flawed management of operations.

- Financial risks: The Company efficiently manages its financial risks with the aim of maintaining adequate liquidity and debt levels, minimising borrowing costs and ensuring compliance with its business plans:
  - ✓ Risk of exposure to interest rate fluctuations: Management of this risk aims to reduce interest rate volatility to limit and control the impact of interest rate fluctuations on profit and cash flows and to keep overall borrowing costs at reasonable levels. Colonial analyses the arrangement of financial instruments to hedge interest rate fluctuations. The Company maintains a high percentage of its gross financial debt tied to fixed rates.
  - ✓ Risks relating to financing and debt: Colonial’s financial structure warrants diversification of its sources of financing by entity, product and maturity. In 2017, the new bond issue amounting to 800 million euros, the improvement in the credit rating that is now BBB with a stable outlook and the arrangement of the new loan represented an improvement in the Company's financial structure, thus extending and diversifying the maturity of its debt. Colonial's net financial debt is held at suitable levels, measured using the loan-to-value ratio, providing the Company with sufficient financial capacity to carry out both its projects and to take on important growth targets for the coming years.
  - ✓ Liquidity risk: As mentioned in the preceding paragraph, Colonial has the necessary sources of financing to undertake its current projects in addition to those laid down in its business plan. The Company increased its capacity to attract capital and obtain liquidity and new lines of financing, whereby in 2017 it carried out two accelerated bookbuild offerings, launched a new bond issue and arranged a new loan.
- Asset management risks: Sustainable property management requires that Colonial allocate a significant portion of its investments to acquiring, constructing, renovating and maintaining the high quality of its properties, which stand out as a result of their high energy efficiency. This property management strategy is incorporated into the Company's organisation and business plan.

- Risk of impairment loss or damage to property assets: Colonial's properties are exposed to general risks of damage as a result of fire, flooding or other events, regardless of whether or not they are attributable to natural causes. The Company has arranged hedges to cover the reconstruction costs of the properties it owns, as well as any damage caused to third parties.
- Security risk of information systems: The digital revolution brought about great benefits in innovation and growth, however, it also constitutes a source of new threats. The Company, aware of these growing threats, reviews the control measures to secure its information systems and to undertake and mitigate this risk.

Compliance risks:

Potential risks in relation to compliance with obligations arising from applicable legislation, agreements with third parties and obligations self-imposed by the Company, mainly through its Code of Ethics and Code of Conduct, are analysed.

- Regulatory compliance risks: The process of identifying and assessing risks of regulatory or contractual breach that may give rise to legal proceedings against Colonial allows it to take the appropriate corrective measures to mitigate these risks or, where applicable, any possible impact thereof, through the controls established in the crime prevention model defined and implemented by the Company. Colonial has also taken out insurance to cover any legal costs or possible damage against directors and executives.
- Tax risks: Colonial must adhere to the general tax legislation of the countries in which it operates, as well as any specific regulations for the REIT regime. Accordingly, the Company has a tax policy, a tax strategy and a tax risk management system, establishing adequate measures to control and monitor the management of risks in this connection.

Reporting risks:

In order to cover any reporting risks that may arise from errors or a failure to comply with requirements concerning the public information to be disclosed by the Company, and to ensure the reliability of this public information, Colonial has developed an Internal Control over Financial Reporting (ICFR) Organisational and Monitoring Model. Internal Audit is responsible for performing the necessary tests to verify compliance with the ICFR policies, manuals and procedures, validating the efficacy of the controls in place in these processes.

5. Events after the reporting period

From 31 December 2017 to the date on which these financial statements were authorised for issue, no significant events took place and there were no additional matters worthy of mention apart from the following:

Acquisition of LE Offices Egeo, S.A.U. –

On 16 January 2018, the Company acquired 100% of the share capital of the Spanish company LE Offices Egeo, S.A.U. (hereinafter "Egeo"), the owner of an office building located in Madrid. The acquisition price was 49,098 thousand euros. In addition, the loan held by Egeo with a financial institution for 30,182 thousand euros, including interest, was cancelled early.

Gala Placidia –

On 18 January 2018, the Company acquired a property in Barcelona for 13,400 thousand euros.

Business combination between Inmobiliaria Colonial SOCIMI, S.A. (acquiring company) and Axiare Patrimonio SOCIMI, S.A. and subsidiaries (acquired companies) –

As indicated in Note 8 to these financial statements, the Company launched a takeover bid for all share capital of Axiare Patrimonio SOCIMI, S.A., the acceptance period of which was from 29 December 2017 to 29 January 2018, both inclusive.

On 2 February 2018, the Spanish National Securities Market Commission published the result of the takeover bid, which was accepted for 45,912,569 shares, representing 81.55% of the shares targeted by the takeover bid and 58.07% of the share capital of Axiare Patrimonio SOCIMI, S.A., which entailed the payment of 842,955 thousand euros.

With this expenditure, the value of the ownership interest in Axiare Patrimonio SOCIMI, S.A. amounted to 1,262,232 thousand euros, including the value of the ownership interest at 31 December 2017, which totalled 419,277 thousand euros (Note 8-b).

Accordingly, taking into consideration the shares already held by the Company, it now holds 68,674,633 shares, representing 86.86% of the share capital of Axiare Patrimonio SOCIMI, S.A., and it may not exercise the rights of forced sale and purchase.

Reason for the business combination –

As explained in the prospectus of the takeover bid, with the acquisition of Axiare, the Colonial Group consolidated its position as the European platform in the prime office market of Paris, Madrid and Barcelona. Axiare's asset portfolio at 30 September 2017, with 74% relating to offices, of which 93% are located in Madrid, clearly complements the Colonial Group's strategy, which consists of investing in the office markets of Madrid, Barcelona and Paris, with a focus on high-quality buildings. The acquisition of Axiare will enable Colonial to increase the value of its current portfolio and therefore obtain a real estate asset portfolio valued at approximately 10,000 million euros, thus increasing the Group's exposure in Spain. Furthermore, the synergies with the acquisition of Axiare may represent a savings in operating costs. Accordingly, it will potentially enable Axiare's financing structure to be optimised as a result of its inclusion in the Group with a credit rating of BBB by Standard & Poor's and Baa2 by Moody's.

Financial information of Axiare Patrimonio SOCIMI, S.A. –

In accordance with the consolidated financial statements authorised for issue on 14 February 2018, the consolidated equity of Axiare Patrimonio SOCIMI, S.A. and subsidiaries at 31 December 2017 amounts to 1,242,244 thousand euros.

At the date of preparation of these financial statements, there was no financial information available relating to the date of acquisition and, therefore, the effect of the business combination could not be calculated and the value of the assets and liabilities acquired could not be determined.

The most recent financial information available relates to the consolidated statement of financial position of Axiare Patrimonio SOCIMI, S.A. and subsidiaries at 31 December 2017, which is as follows:

ASSETS	31 December 2017	LIABILITIES	31 December 2017
		EQUITY	**1,242,244**
Intangible assets	1,783		
Property, plant and equipment	663		
investment property	1,722,655		
Non-current financial assets	21,916	Bank borrowings and	
Deferred tax assets	7,528	other financial liabilities	636,414
Other non-current assets	470	Other non-current liabilities	11,388
NON-CURRENT ASSETS	**1,755,015**	**NON-CURRENT LIABILITIES**	**647,802**
		Bank borrowings and	
Trade and other receivables	11,335	other financial liabilities	37,711
Tax assets	7,282	Trade payables	11,979
Cash and cash equivalents	167,979	Tax liabilities	1,875
CURRENT ASSETS	**186,596**	**CURRENT LIABILITIES**	**51,565**
TOTAL ASSETS	**1,941,611**	**TOTAL EQUITY AND LIABILITIES**	**1,941,611**

The net consolidated profit Axiare Patrimonio SOCIMI, S.A. and subsidiaries for 2017 amounted to 218,238 thousand euros.

6. Future outlook

Despite sources of uncertainty, global economic activity indicators continue to post notable increases. Growth forecasts by analysts remain at 3.6% in 2017, compared to 3.2% in 2016. Regarding price levels, according to CaixaBank Research forecasts, no worrying inflationary tensions are evidenced. On the other hand, there are still some sources of political and commercial uncertainty which could affect the baseline scenario.

In the Eurozone, the main analysts forecast a GDP growth of 2.4%, in contrast to previous forecasts at the beginning of the year of 1.7%. Activity indicators indicate that the Eurozone's growth momentum shall continue.

It has been following a positive trend in certain aspects which have driven growth in the Spanish economy in recent years, in particular these are: 1) a favourable evolution of economic activity, positively impacting the employment market; 2) gains in competitiveness; 3) low interest rates and 4) a good outlook for bank credit. In addition, the labour market maintains a positive trend with 1,500,000 more registered workers affiliated to Social Security in the last 3 years.

In the Barcelona market, it is important to point out that, due to the lack of large, quality spaces, especially in the city centre, the forecasts suggest that many projects are going to be delivered already partially or totally pre-let. As a consequence, long-term forecasts remain positive, positioning Barcelona as one of the top European cities in terms of expected rental growth, with an annual growth above 3% between 2017 and 2022. On the other hand, Madrid is positioned as one of the European cities with the best rental growth forecast over the coming years until 2021.

7. Research and development activities

As a result of the nature of the Company, its business activities and structure, Inmobiliaria Colonial S.A. does not habitually carry out any R&D activities.

8. Treasury shares

At 31 December 2017, the Company had 4,509,440 treasury shares with a nominal value of 11,274 thousand euros, which represents 1.04% of the Company's share capital.

9. Other relevant information

On 10 December 2015, the Company's Board of Directors agreed to adhere to the Code of Best Tax Practices. This resolution was reported to the tax authorities on 8 January 2016.

10. Alternative Performance Measures (European Securities and Markets Authority)

Following is an explanatory glossary of the Alternative Performance Measures, including their definition and relevance for Inmobiliaria Colonial, S.A., in accordance with the recommendations of the European Securities and Markets Authority (ESMA) published in October 2015 (ESMA Guidelines on Alternative Performance Measures). These Alternative Performance Measures have not been audited or reviewed by the Company auditor.

Alternative Performance Measure .	**Calculation method**	**Definition/Relevance**
EBIT ***(Earnings before interest and taxes)***	Calculated as the "*Operating profit*" plus "*Variations in value of investment property*" and "*Profit (loss) due to variation in value of assets and impairment*".	Indicator of the profit generating capacity of the Group, considering only its productive activity less debt and tax effects.

Alternative Performance Measure .	Calculation method	Definition/Relevance
EBITDA **(*Earnings Before Interest, Taxes, Depreciation and Amortisation*)**	Calculated as the "*Operating profit*" adjusted for "*Amortisation*" and the "*Net change in provisions*".	Indicator of the profit generating capacity of the Group, considering only its productive activity, eliminating any provisions for amortisation, debt and tax effects.
Gross financial debt (GFD)	Calculated as the sum of the items *"Bank borrowings and other financial liabilities"* and *"Issuance of bonds and other similar securities"*, excluding *"Interest"* (accrued), *"Arrangement expenses"* and *"Other financial liabilities"* in the consolidated statement of financial position.	Relevant indicator for analysing the financial position of the Group.
EPRA[1] NAV **(*EPRA Net Asset Value*)**	Calculated based on the Company's equity, adjusting specific items according to EPRA recommendations.	Standard analysis ratio for the real estate sector, recommended by EPRA.
EPRA[1] NNNAV **(EPRA "triple net")**	Calculated by adjusting the following items in the EPRA NAV: The market value of the financial instruments, the market value of the financial debt, any taxes that would be accrued with the sale of assets at market value, applying the reinvestment tax rebate and the tax credit recognised in the balance sheet taking into account the going concern criteria.	Standard analysis ratio for the real estate sector and recommended by EPRA.
Market Value excluding transaction costs or *Gross Asset Value (GAV) excluding transfer costs*	Valuation of all the assets in the Group's portfolio carried out by external Group valuers, deducting the transaction or *transfer costs.*	Standard analysis ratio for the real estate sector.
Market Value including transaction costs or *GAV including transfer costs*	Appraisal of all the assets in the Group's portfolio carried out by external Group valuers, before deducting the transaction or *transfer costs.*	Standard analysis ratio for the property sector.

Alternative Performance Measure .	Calculation method	Definition/Relevance
***Like-for-like* Rentals**	Amount of rental income from leases included in "*Revenue*", comparable between the two periods. To obtain these, the rental income from investments or divestments made between both periods are excluded, together with those from assets included in the portfolio of projects and renovations, as well as other atypical adjustments (for example, compensation for early termination of lease agreements).	This permits the comparison, on a like-for-like basis, of the changes in the rental income of an asset or group of assets.
***Like-for-like* appraisal**	Market Value excluding transaction costs or the Market Value including transaction costs, comparable between the two periods. To obtain these, the rental income from investments or divestments made between both periods are excluded.	This permits the comparison, on a like-for-like basis, of the changes in the Market Value of the portfolio.
***Loan to Value* Group or LtV Group**	Calculated as the result of dividing the gross financial debt less the amount of *"Cash and cash equivalents"* between the Market Value, including transaction costs, of the Group's asset portfolio.	This permits an analysis of the relation between the net financial debt and the appraisal value of the Group's asset portfolio.
LtV Holding or LtV Colonial	Calculated as the result of dividing the gross financial debt less the amount of "Cash and cash equivalents" of the Parent and the Spanish subsidiaries wholly owned thereby between the sum of the market value, including transaction costs of the asset portfolio of the head of the Group and the Spanish subsidiaries wholly owned thereby, and the EPRA NAV of the rest of the financial investments in subsidiaries.	This permits an analysis of the relation between the net financial debt and the appraisal value of the asset portfolio of the Group's parent.

[1] EPRA (European Public Real Estate Association) which recommends the best practices standards to follow in the real estate sector. The calculation method for these APM has been carried out following the instructions established by EPRA.

The Alternative Performance Measures included in the above table are based on items in the consolidated annual financial statements of Inmobiliaria Colonial or on the breakdown of the items (sub-items) included in the corresponding explanatory notes to the financial statements, unless otherwise indicated below.

Following is a reconciliation of those alternative performance measures whose origin does not fully derive from items or sub-items in the consolidated annual financial statements of Inmobiliaria Colonial, as provided for in paragraph 28 of the aforementioned recommendations.

- **EPRA NAV (EPRA *Net Asset Value*)**

EPRA NAV (EPRA *Net Asset Value*)	**31/12/2017**	**31/12/2016**
	(Millions of euros)	
"EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT"	**3,592**	**2,302**
Includes:		
(i.a) Revaluation of investment assets	13	11
(i.a) Revaluation of assets under development	n.a.	n.a.
(i.c) Revaluation of other investments	(58)	51
(ii) Revaluation of finance leases	n.a.	n.a.
(iii) Revaluation of assets held for sale	n.a.	n.a.
Excludes:		
(iv) Market value of financial instruments	(1)	2
(v.a) Deferred taxes	198	221
(v.b) Goodwill resulting from deferred assets	n.a.	n.a.
Includes/excludes:		
Adjustments of (i) to (v) in relation to the interests of strategic alliances	n.a.	n.a.
EPRA NAV	**3,744**	**2,587**

- **EPRA NNNAV (EPRA “triple net”)**

EPRA NNNAV (EPRA “triple net”)	**31/12/2017**	**31/12/2016**
	(Millions of euros)	
EPRA NAV	**3,744**	**2,587**
Includes:		
(i) Market value of financial instruments	1	(2)
(ii) Market value of the debt	(117)	(79)
(iii) Deferred taxes	(200)	(222)
EPRA NNNAV	**3,428**	**2,284**

- **Market Value excluding transaction costs or GAV *excluding transfer costs***

Market Value excluding transaction costs or GAV *excluding transfer costs*	31/12/2017	31/12/2016
	(Millions of euros)	
Barcelona	836	761
Madrid	1,497	1,273
Paris	6,064	5,736
Operating portfolio	**8,398**	**7,771**
Projects	**519**	**144**
Other	**16**	**14**
Shareholding value in Axiare	**349**	**141**
Total Market Value excluding transaction costs	**9,282**	**8,069**
Spain	3,053	2,333
France	6,229	5,736

- **Market Value including transaction costs or GAV *including transfer costs***

Market Value including transaction costs or GAV *including transfer costs*	31/12/2017	31/12/2016
	(Millions of euros)	
Total Market Value excluding transaction costs	**9,282**	**8,069**
Plus: transaction costs	459	409
Total Market Value including transaction costs	**9,741**	**8,478**
Spain	3,121	2,387
France	6,619	6,092

- ***Like-for-like* rentals**

Like-for-like rentals	Barcelona	Madrid	Paris	TOTAL
	(Millions of euros)			
Rental income 2015	**27**	**35**	**169**	**231**
Like-for-like	3	1	11	15
Projects and additions	0	(1)	15	14
Investments and divestments	0	7	1	8
Others and compensation	(0)	0	3	3
Rental income 2016	**30**	**43**	**198**	**271**
Like-for-like	3	1	6	10
Projects and additions	0	0	(5)	(5)
Investments and divestments	2	8	(3)	7
Others and compensation	0	0	0	0
Rental income 2017	**35**	**52**	**196**	**283**

- ***Like-for-like* appraisal**

Like-for-like appraisal	31/12/2017	31/12/2016
	(Millions of euros)	
Valuation at 1 January	**8,069**	**6,913**
Like-for-like Spain	265	151
Like-for-like France	679	494
Acquisitions	625	524
Divestments	(356)	(13)
Valuation at 31 December	**9,282**	**8,069**

- ***Loan to Value*** **Group or LtV Group**

	31/12/2017	31/12/2016
Loan to Value **Group or LtV Group**	*(Millions of euros)*	
Gross financial debt	4,170	3,633
Less: *"Cash and cash equivalents"*	(1,104)	(105)
(A) Net financial debt	**3,066**	**3,528**
Market Value including transaction costs	9,741	8,478
Plus: Treasury shares of the Parent valued at EPRA NAV	39	41
(B) Market Value including transaction costs and Parent treasury shares	**9,780**	**8,519**
Loan to Value **Group (A)/(B)**	**31.3%**	**41.4%**

- **LtV Holding or LtV Colonial**

LtV Holding or LtV Colonial	31/12/2017	31/12/2016
Holding Company	*(Millions of euros)*	
Gross financial debt	2,488	1,647
Less: “Cash and cash equivalents” of the Parent and Spanish subsidiaries wholly owned thereby	(1,085)	(80)
(A) Net financial debt	**1,403**	**1,567**
(B) Market Value including transaction costs	**5,562**	**4,439**
Loan to Value **Holding (A)/(B)**	**25.2%**	**35.3%**

11. Annual Corporate Governance Report

Pursuant to Article 538 of the Spanish Limited Liability Companies Law, it is hereby noted that the Annual Corporate Governance Report for 2017 is included in this Management Report in a separate section.

ANNUAL CORPORATE GOVERNANCE REPORT

OF LISTED PUBLIC LIABILITY COMPANIES

ISSUER IDENTIFICATION DATA

REFERENCE REPORTING DATE: 31 December 2017

Tax Identification Number: A-28.027.399

Company name: INMOBILIARIA COLONIAL, SOCIMI, S.A.

Registered Office: Paseo de la Castellana, 52, 28046 Madrid

ANNUAL CORPORATE GOVERNANCE REPORT
OF LISTED PUBLIC LIABILITY COMPANIES

A OWNERSHIP STRUCTURE

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

Date of last change	Share capital (€)	Number of shares	Number of voting rights
30/11/2017	1,088,293,390	435,317,356	435,317,356

Indicate whether there are different types of shares with different associated rights:

Yes **No** X

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

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

Name or company name of the shareholder	Number of direct voting rights	Number of voting rights	% of total voting rights
Qatar Investment Authority	--	41,610,141	9,559
Aguila LTD	--	28,800,183	6,616
Inmo, S.L.	--	20,011,190	4,597
Deutsche Bank, A.G.	8,135,389	--	1,869
BlackRock Inc.	--	11,055,142	2,540

Name or company name of the indirect holder of an ownership interest	Through: Name or company name of the direct holder of an ownership interest	Number of voting rights
Qatar Investment Authority	QH Netherlands BV	41,610,141
Aguila LTD	Park, S.A.R.L.	28,800,183
Inmo, S.L.	Trudonba XXI, S.L.U.	20,011,190
BlackRock Inc.	BlackRock Holding	11,055,142

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

Name or company name of the shareholder	Transaction date	Description of the transaction

Name or company name of the shareholder	Transaction date	Description of the transaction
BlackRock, Inc	20/01/2017	Ownership interest has fallen below 3% of share capital
BlackRock, Inc	24/04/2017	Ownership interest has exceeded 3% of share capital
BlackRock, Inc	09/05/2017	Ownership interest has fallen below 3% of share capital
BlackRock, Inc	11/05/2017	Ownership interest has exceeded 3% of share capital
BlackRock, Inc	19/12/2017	Ownership interest has fallen below 3% of share capital
BlackRock, Inc	28/12/2017	Ownership interest has exceeded 3% of share capital
Inmo, S.L.	05/05/2017	Ownership interest has exceeded 5% of share capital
Inmo, S.L.	24/04/2017	Ownership interest has exceeded 3% of share capital
Inmobiliaria Espacio, S.A.U.	12/01/2017	Ownership interest has fallen below 3% of share capital
Invesco Limited	15/03/2017	Ownership interest has fallen below 1% of share capital
Invesco Limited	28/04/2017	Ownership interest has exceeded 1% of share capital
Invesco Limited	02/05/2017	Ownership interest has fallen below 1% of share capital
Invesco Limited	12/06/2017	Ownership interest has exceeded 1% of share capital
Invesco Limited	13/09/2017	Ownership interest has fallen below 1% of share capital
Fidelity International Limited	18/01/2017	Ownership interest has fallen below 1% of share capital
Fidelity International Limited	29/11/2017	Ownership interest has exceeded 1% of share capital
Fidelity International Limited	04/12/2017	Ownership interest has fallen below 1% of share capital
Joe Lewis	24/04/2017	Ownership interest has fallen below 3% of share capital

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 the director	Number of direct voting rights	Indirect voting rights	% of total voting rights
Mr Juan José Brugera Clavero	148,049	--	0.034
Mr Pedro Viñolas Serra	236,898	--	0.054
Mr Carlos Fernández González	--	79,378,647	18,235
Ms Ana Sainz de Vicuña Bemberg	1,550	--	0.000
Mr Carlos Fernández-Lerga Garralda	6,361	5,670	0.003
Mr Javier Iglesias de Ussel Ordís	1,820	--	0.000
Mr Luis Maluquer Trepat	20,000	2,500	0.005

Name or company name of the indirect holder of an ownership interest	Through: Name or company name of the direct holder of an ownership interest	Number of voting rights
Mr Carlos Fernández González	Grupo Far-Luca, S.A. de C.V.	79,378,647
Mr Carlos Fernández-Lerga Garralda	EUR Consultores, S.L.	5,670
Mr Luis Maluquer Trepat	Ms Marta Maluquer Domingo	2,500

% of total voting rights held by the board of directors	18,331

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 the director	Number of direct rights	Indirect rights		Number of equivalent shares	% of total voting rights
		Direct holder	Number of voting rights		
Mr Juan José Brugera Clavero	148,049	--	--	148,049	0.034
Mr Pedro Viñolas Serra	236,898	--	--	236,898	0.054
Mr Carlos Fernández-Lerga Garralda	6,361	EUR Consultores, S.L.	5,670	12,031	0.003
Mr Carlos Fernández	--	Grupo Far-Luca, S.A.	79,378,647	79,378,647	18,235

González		de C.V.			
Ms Ana Sainz de Vicuña Bemberg	1,550	--	--	1,550	0.000
Sheikh Ali Jassim M.J. Al-Thani	--	--	--	--	0.000
Mr Adnane Mousannif	--	--	--	--	0.000
Mr Carlos García Cañizares	--	--	--	--	0.000
Mr Javier Iglesias de Ussel Ordís	1,820	--	--	1,820	0.000
Mr Luis Maluquer Trepat	20,000	Ms Marta Maluquer Domingo	2,500	22,500	0.005

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. If so, provide a brief description and list the shareholders that are party to the agreement:

Yes **No X**

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**

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

N/A

A.7 Indicate whether any individual 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 them:

Yes **No X**

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

At year-end:

Number of direct shares	Number of indirect shares (*)	Total % of share capital
4,509,440	--	1.04%

(*) Through:

Name or company name of the direct holder of an ownership interest	Number of direct shares
-	-
Total:	**-**

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

Explain the significant changes
During 2017, the Company's portfolio of treasury shares suffered some changes. In January 2017, it held 1.703% and ended the year with a percentage equal to 3.413% of the share capital. To this end, the Company notified the Spanish Securities Market Commission (CNMV) of the changes in treasury shares on 10 January, 27 February and 8 November. In 2017, two buyback programmes were established and reported to the market through regulatory announcements (registration no 244738/registration no 250082/registration no 257437/registration no 258438). Under the aforementioned programmes, the Company acquired shares representing approximately 2.8% of the current share capital. These acquisitions were also reported to the market through the corresponding regulatory announcements. Within the context of the takeover operation of Axiare Patrimonio SOCIMI, S.A., on 28 November 2017, the Company's Board of Directors agreed to sell a maximum number of 13,575,000 of its treasury shares under certain conditions with the purpose of financing said operation appropriately. 9,907,257 treasury shares were placed. On the other hand, the Company signed a liquidity agreement in 2017, the movements of which have also been reported to the market through regulatory announcements.

A.9 Give details of the applicable conditions and current timeline for the general meeting to authorise the board of directors to issue, buy back or transfer treasury shares.

The General Meeting of Shareholders of Inmobiliaria Colonial, SOCIMI, S.A. (the **"Company"** or **"Inmobiliaria Colonial"**) granted authorisation to the Board of Directors, as item five on its agenda, for the derivative acquisition of treasury shares on 29 June 2017 and revoked the authorisation granted through the resolution of 30 June 2014**.** With respect to the terms and conditions of the authorisation: i) the nominal value of the shares acquired, directly or indirectly, in addition to those already held by the Company and its subsidiaries, may not exceed 10% of the share capital subscribed or any maximum amount that may be legally established; ii) the minimum price or consideration for acquisition shall be €0.01 per share and the maximum price or consideration for acquisition shall be the equivalent of the listing price of treasury shares acquired on an official regulated secondary market at the time of acquisition; iii) the procedure for acquisition may be purchase/sale, swap or any other method against payment, as circumstances advise, and iv) the duration of the authorisation is 5 years. 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 option rights, within the scope of the Company's share price-based remuneration systems.

With regard to the authorisation to issue shares, the General Meeting of Shareholders of Inmobiliaria Colonial, SOCIMI, S.A. resolved to authorise the Board of Directors on 29 June 2017 and pursuant to Article 297.1 b) of the Spanish Limited Liability Companies Law to increase share capital through monetary contributions, within a maximum period of 5 years, up to half the amount of share capital, on one or several occasions, at the time and in the amount it deems appropriate, revoking the general authorisation granted through resolution nine of the Company's Ordinary General Meeting of Shareholders on 28 June 2016. Within this maximum amount, the Board of Directors was empowered to disapply preferential subscription rights, limited to a maximum overall nominal amount equal to 20% of the share capital.

A.9 bis Estimated floating capital:

	%
Estimated floating capital	55.45%

A.10 Give details of any restrictions on the transfer of securities and/or voting rights. Indicate, in particular, the existence of any restrictions that may hinder a takeover of the company by means of share acquisitions on the market.

Yes **No X**

A.11 Indicate whether the general meeting has resolved to adopt neutralisation measures to address a takeover bid by virtue of the provisions of Law 6/2007.

Yes **No X**

If applicable, explain the measures approved 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**

Where applicable, state the various classes of shares, and the rights and obligations attached to each class.

B GENERAL MEETING

B.1 Indicate and state, if any, the differences with respect to the minimums stipulated in the Spanish Limited Liability Companies Law (LSC) with regard to the quorum required for the constitution of the general meeting.

Yes **No X**

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

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.

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 the bylaws are amended.

Under the Bylaws, for the General Meeting to validly resolve to increase or reduce share capital or make any other amendment to the Company Bylaws, shareholders holding at least 50% of the subscribed capital with voting rights must be present or represented on first call. On second call, shareholders representing 25% of share capital shall be sufficient. As regards the adoption of resolutions, the Bylaws establish that issues that are substantially independent shall be voted on separately, in particular the amendment of any article or group of articles in the Company Bylaws, which stand alone. Also, a vote in favour by more than 50% of the share capital present in person or by proxy shall be sufficient to adopt resolutions with an absolute majority, whereas a vote in favour by two thirds of the share capital present in person or by proxy at the General Meeting shall be necessary when, on second call, the shareholders present represent 25% or more of the subscribed capital with voting rights, but less than 50%.

B.4 Indicate the attendance figures for the general meetings held during the year and those of the previous fiscal year:

	Attendance information				
			% distance voting		
Date of General Meeting	**% attendance**	**% attendance by proxy**	**Electronic voting**	**Other**	**Total**
28/06/2016	26.00%	44.06%	0.00%	1.63%	71.69%
29/06/2017	36.82%	30.65%	0.00%	10.52%	77.99%

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 Deleted

B.7 Indicate the address and mode of accessing corporate governance content on the company's website, as well as other information on general meetings which must be made available to shareholders on the Company website.

https://www.inmocolonial.com/accionistas-inversores/gobierno-corporativo/juntas-generales

C STRUCTURE OF COMPANY MANAGEMENT

C.1 Board of Directors

C.1.1 The maximum and minimum number of directors stipulated in the Company 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 the director	Representative	Category of the Director	Position on the board	Date of first appointment	Date of last appointment	Appointment procedure
Mr Juan José Brugera Clavero	--	Executive	Chairman	19/06/2008	30/06/2014	Resolution by the General Meeting of Shareholders
Mr Pedro Viñolas Serra	--	Executive	CEO	18/07/2008	30/06/2014	Resolution by the General Meeting of Shareholders
Mr Carlos Fernández González	--	Proprietary	Director	28/06/2016	28/06/2016	Resolution by the General Meeting of Shareholders
Mr Juan Carlos García Cañizares	--	Proprietary	Director	30/06/2014	30/06/2014	Resolution by the General Meeting of Shareholders
Mr Adnane Mousannif	--	Proprietary	Director	28/06/2016	28/06/2016	Resolution by the General Meeting of Shareholders
Sheikh Ali Jassim M. J. Al-Thani	--	Proprietary	Director	12/11/2015	28/06/2016	Resolution by the General Meeting of Shareholders

Name or company name of the director	Representative	Category of the Director	Position on the board	Date of first appointment	Date of last appointment	Appointment procedure
Mr Carlos Fernández-Lerga Garralda	--	Independent	Coordinating Independent Director	19/06/2008	30/06/2014	Resolution by the General Meeting of Shareholders
Ms Ana Sainz de Vicuña Bemberg	--	Independent	Director	30/06/2014	30/06/2014	Resolution - General Meeting of Shareholders
Mr Luis Maluquer Trepat	--	Independent	Director	31/07/2013	30/06/2014	Resolution by the General Meeting of Shareholders
Mr Javier Iglesias de Ussel Ordís	--	Independent	Director	19/06/2008	30/06/2014	Resolution by the General Meeting of Shareholders

Total number of directors	10

Indicate any board members who stepped down during the period considered:

Name or company name of the director	Category of director at date of departure	Date of departure
Mr Juan Villar-Mir de Fuentes	Proprietary	22/05/2017

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

EXECUTIVE DIRECTORS

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

Total number of executive directors	2
% of the total board	20.00%

EXTERNAL PROPRIETARY DIRECTORS

Name or company name of the director	Name or company name of the significant shareholder represented or proposing appointment
Mr Carlos Fernández González	Mr Carlos Fernández González
Mr Juan Carlos García Cañizares	Aguila, LTD
Mr Adnane Mousannif	Qatar Investment Authority
Sheikh Ali Jassim M. J. Al-Thani	Qatar Investment Authority

Total number of proprietary directors	4
% of the total board	40.00%

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of director	Profile
Ms Ana Sainz de Vicuña Bemberg	Graduate in Agricultural Economics from Reading University in the UK, with a Programme for Management Development from Harvard University. She worked at Merrill Lynch in Spain for 18 years (1984-2003). She began her career in Private Banking, and worked in this sector for 12 years. She then joined Sociedad de Valores y Bolsa, which was constituted following the acquisition of FG, a process she headed together with Mr Claudio Aguirre, and subsequently headed Operations, Systems, HR and Finance. She was then appointed General Manager of Merrill Lynch International Bank's Spanish subsidiary. She now sits on the Foundational Committee of the ARPE Foundation (Foundation for Art Research Partnership and Education). Since 2004, she has been a member of the Board and member of the Management Committee of Corporación Financiera Guadalmar (CFG), a Family Office with assets in Spain and Latin America, mainly Argentina and Chile. She supervises the Financial Assets Committee, which manages the securities portfolios and the family's investments in the Security Group -of which she is also a Director- and the Awasi and W Santiago hotel group. In 2011, she was appointed Director of Terold Invest, S.L., and in July 2015, she was appointed Director of Acciona, S.A., where she also sits on the Audit Committee. In February 2017, she was appointed Director of Prosegur Cash, S.A., and also sits on the Appointments and Remuneration Committee.

Name or company name of director	Profile
Mr Carlos Fernández-Lerga Garralda	Law degree from the University of 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 *Collège Universitaire d´études fédéralistes,* Nice, Val d'Aoste. From 1978 to 1983 he was an Advisory Member of the Minister and Secretary of State for Relations with the European Community, participating in negotiations for Spain's accession to the European Union. From 1984 to 1986, he held the position of General Manager of the European Union Advisory Service at the Banco Hispano Americano Group. He has also been a director of Abantia Corporación. He has also been Coordinating Director and chairman of the Appointments and Remuneration Committee at Gamesa Corporación Tecnológica, S.A. (Lead Independent Director) and General Director of La Caixa. Member of the International Secretariat of World Federalist Youth (Amsterdam, the Netherlands); Secretary of the European League for Economic Cooperation (ELEC), Madrid; Secretary of the Foundation for Progress and Democracy, Deputy (Treasurer) of the Governing Board of the Madrid Bar Association, member of the Executive Committee of Real Instituto Elcano and Trustee of the Spain/US and Spain/China Council Foundations. He has also taught extensively in the School of Political Science at the Complutense University and the Institute of European Studies at the University of Alcalá de Henares, among other institutions, and has authored numerous publications on legal issues. He is currently Chairman of Iberdrola Ingeniería y Construcción, S.A. and continues to practise law at his law firm, Carlos Fernández-Lerga Abogados, mainly focusing on legal advice in commercial and civil law. He is currently a member of the Board of Directors at SFL.
Mr Luis Maluquer Trepat	He holds a degree in Law from the University of Barcelona and a Diploma in International Institutions from the University of Geneva. Throughout his career at the law firm Maluquer Advocats, SCP, he has advised different national and international institutions, providing his services in the fields of consultancy, legal advice and lawsuits, arbitration and mediation procedures. He also has teaching experience at various institutions, such as the Barcelona

Name or company name of director	Profile
	Chamber of Commerce, and worked as director at the European Society for Banking and Financial Law (AEDBF Paris). He is the founding partner of Despacho Maluquer Advocats, SCP, and is a board member and secretary to a number of companies, including SFL, where he sits on the board. In addition, he has special powers of attorney and is secretary to the board of various subsidiaries of French and Swiss companies, especially in the infrastructure and agri-food industries. He is currently Chairman of the Argentinian Chamber of Commerce in Spain.
Mr Javier Iglesias de Ussel Ordís	Javier Iglesias de Ussel y Ordís has a wealth of experience in financial circles. In 1974, he joined Lloyds Bank International in London, where he held different positions of responsibility for Corporate Banking in Dubai, São Paulo, Asunción and Madrid over 21 years. In 1995, he joined The Bank of New York and was appointed Country Manager for the Iberian Peninsula. He moved to New York in 2002, and was appointed Division Head for Latin America. From 2008 to December 2013, he ran the Representation Office of Chilean bank Banco de Crédito e Inversiones. Mr Iglesias de Ussel has been an Independent Director of Inmobiliaria Colonial since 2008, and has also been an Independent Director of Aresbank since March 2015. Mr Iglesias de Ussel holds a degree in modern history from the University of Barcelona and throughout his career has been involved in numerous business administration, marketing, risk analysis and money laundering prevention courses. He lived outside Spain for 22 years, and speaks English, French and Portuguese.

Total number of independent directors	4
Total % of the Board	40.00%

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 officer of an entity which maintains or has maintained this relationship.

NO

If applicable, include a statement from the board detailing the reasons why it believes this director may carry out duties as an independent director.

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 managers or its shareholders:

Name or company name of the director	Reasons	Company, director or shareholders to which this person is linked
--	--	--

Total number of other external directors	0
Total % of the board	0

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

Name or company name of the director	Date of change	Prior category	Current category
--	--	--	--

C.1.4 Complete the following table with the information on the number of female directors over the past 4 years and their category:

	Number of female board members				% of total directors of each category			
	2017	**2016**	**2015**	**2014**	**2017**	**2016**	**2015**	**2014**
Female Executive	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Proprietary	0	0	0	1	0.00%	0.00%	0.00%	20.00%
Independent	1	1	1	1	25.00%	25.00%	33.33%	33.33%
Other External Female Directors	0	0	0	0	0.00%	0.00%	0.00%	0.00%
Total:	1	1	1	2	10.00%	9.09%	9.09%	18.18%

C.1.5 Explain any measures that have been adopted to have a number of female board members that would produce a balanced ratio between women and men.

Explanation of the measures
The Board Regulations 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 contain any implicit bias that may entail discrimination and, in particular, facilitate the selection of female directors. In this regard, in 2016 the Board of Directors approved a Selection Policy for Candidates to the Board of Inmobiliaria Colonial, S.A. (the "**Selection**

Policy"), which expressly sets a target for a number of female members that is at least 30% of the total number of Directors on the Board by the year 2020. No new member has joined the Board of Directors during 2017.

C.1.6 Explain any measures that may have been agreed by the appointments committee to prevent any implicit bias in selection procedures to hinder the selection of female board members, and for the company to deliberately strive to include women with the professional profile sought as candidates:

Explanation of the measures
Both the Board of Directors and the Appointments and Remuneration Committee (the "**ARC**") have ensured, pursuant to the Company Bylaws and Board Regulations, that the candidates proposed as Board members meet the requirements relating to experience, technical competence and suitability, and the fact that no female directors have been appointed is not due to the existence of any implicit bias in the procedure which prevents them from being selected. In this regard, it should be pointed out that, inter alia, the ARC has the following functions: i) assess competences, knowledge and experience on the Board of Directors, defining the functions and aptitudes necessary in the candidates to fill each vacancy and assess the time and dedication necessary for members to carry out their tasks efficiently; ii) establish a representation target for the less-represented gender on the Board of Directors and; iii) table proposals to the Board to appoint independent directors and/or report proposals for the appointment of other Directors to be appointed by co-opting or submission for a decision by the General Meeting, and proposals to the General Meeting for the re-election or removal of the Directors. No appointment proposals for new directors have been submitted in 2017.

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

Explanation of the reasons
No new appointment of directors has been approved in 2017.

C.1.6.bis Explain the conclusions of the appointments committee on the verification of compliance with the director selection policy. And, specifically, how this policy addresses the objective of female directors accounting for at least 30% of the total number of members of the Board of Directors by 2020.

Explanation of the conclusions
The ARC submitted the Selection Policy to the Board of Directors for approval on 11 April 2016. This policy, which was approved by the Board of Directors on the same date, included the criteria of the ARC in this connection and, in particular, set a goal of having at least 30% of total Board seats occupied by female directors by 2020. The members of the ARC also provided a favourable report on the Company's corporate governance policy during the first semester of 2017. This report provides that the Board must ensure that the procedures for selecting its members promote diversity of gender, experience and knowledge and do not contain any implicit bias that may entail discrimination and, in particular, facilitate the selection of female directors.

C.1.7 Explain the procedure for representation of major shareholders on the board.

In accordance with Colonial's Board regulations, in exercising its powers of proposal to the shareholders at the General Meeting of Shareholders and of co-opting 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 small as possible, based on the Company's shareholding structure. The following shall be considered proprietary directors:

a) Those who have a shareholding greater than or equal to that legally understood as significant, or who have been designated because of their shareholder status, although their shareholding is smaller than this amount.

b) Those representing shareholders as stated in the preceding paragraph. For the purposes of this definition, it shall be assumed that a director represents a shareholder when: (i) The director has been appointed in exercise of the right to proportional representation on the Board of Directors; (ii) The person concerned is a director, senior officer, employee or non-occasional provider of significant services for said shareholder, or for companies forming part of the shareholder's group; (iii) It transpires from corporate documentation that the shareholder understands that the director has been appointed by the shareholder or represents the shareholder; (iv) The person is the spouse or a person with a similar sentimental relationship, or a relation of a significant shareholder to the second degree of consanguinity.

C.1.8 Explain any reasons for which proprietary directors have been appointed at the behest of shareholders accounting for less than 3% of share capital:

Provide details of any rejections of formal requests for board representation from shareholders whose shareholding 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 granted.

Yes **No X**

C.1.9 State whether a director has stepped down from the post prior to the expiry of the term, whether the director has given any reasons for doing so to the board and by which means and, if the director has done so in writing to the entire board, state at least the reasons given by the director:

Name of director	**Reason for departure**
Mr Juan Villar-Mir de Fuentes	Mr Villar-Mir de Fuentes notified his resignation as director of Colonial in a letter to the Chairman of the Board of Directors dated 22 May 2017, since the shareholding in Colonial had fallen below 3%

C.1.10 State any powers delegated to the CEO or CEOs:

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

C.1.11 Identify any Board members working as directors or managers at other companies forming part of the listed company's group:

Name or company name of the director	Group company name	Position	Does the member have executive functions?
Mr Carlos Fernández-Lerga Garralda	SOCIÉTÉ FONCIÈRE LYONNAISE	Director	No
Mr Luis Maluquer Trepat	SOCIÉTÉ FONCIÈRE LYONNAISE	Director	No
Sheikh Ali Jassim M.J. Al-Thani	SOCIÉTÉ FONCIÈRE LYONNAISE	Director	No
Mr Adnane Mousannif	SOCIÉTÉ FONCIÈRE LYONNAISE	Director	No
Mr Juan José Brugera Clavero	SOCIÉTÉ FONCIÈRE LYONNAISE	Director	No
Mr Pedro Viñolas Serra	SOCIÉTÉ FONCIÈRE LYONNAISE	Director	No
Mr Pedro Viñolas Serra	Inmocol Torre Europa, S.A.	Director	No
Mr Pedro Viñolas Serra	Utopicus Innovación Cultural, S.L.	Director	No

C.1.12 Identify any directors at your company who are members of the board of directors at other companies listed on official securities markets outside your group, which have been notified to the company:

Name or company name of the director	Company name of listed company	Position
Mr Carlos Fernández González	Banco Santander, S.A.	Director
Mr Carlos Fernández González	AmRest Holding, S.E.	Director
Ms Ana Sainz de Vicuña Bemberg	Acciona, S.A.	Director
Ms Ana Sainz de Vicuña Bemberg	Prosegur Cash, S.A.	Director
Mr Juan Carlos García Cañizares	Valorem, S.A.	Director

C.1.13 State, and where applicable explain, whether the Company has established rules with respect to the number of boards to which its directors may belong:

Yes X **No**

Explanation of the rules
The Board Regulations state that directors may not sit on more than 3 boards of other Spanish listed companies besides Colonial. The Board of Directors may dispense with this ban in exceptional circumstances. It should also be pointed out that Board Regulations establish, as part of the general duties of directors, that they must carry out their functions and meet the obligations imposed on them by law, the Company Bylaws and other internal regulations with the diligence of an orderly entrepreneur, in due consideration of the nature of the post and the functions assigned to them; their dedication must be appropriate at all times, and they must take the necessary measures for proper

management and control of the Company.

C.1.14 Deleted

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

Remuneration of the Board of Directors (thousands of euros)	8057
Amount of pension rights accumulated by the current directors (thousands of euros).	353
C **Amount of pension rights accumulated by the former directors (thousands of euros).**	0

.

C 1.16 List any members of senior management who are not also executive directors and state the total remuneration accrued to them during the year:

Name or corporate name	Position(s)
Mr Alberto Alcober Teixidó	Business Director
Mr Carlos Escosa Farga	Internal Auditor
Ms Nuria Oferil Coll	Legal Director
Ms Carmina Ganyet Cirera	Corporate General Manager

Total remuneration of senior management (thousands of euros)	2,123

CC.1.17 List, if applicable, directors who are also members of the boards of directors of companies with significant holdings and/or in Group companies:

Name or company name of the director	Company name of significant shareholder	Position
Mr Carlos Fernández González	Grupo Finaccess S.A.P.I. de C.V.	Chairman
Mr Carlos Fernández González	AmRest Holdings, S.E.	Director
Mr Juan Carlos García Cañizares	Bevco Lux, S.A.R.L.	Director
Mr Juan Carlos García Cañizares	SNI International Holdings, S.A.R.L.	Director
Mr Juan Carlos García Cañizares	Park, S.A.R.L.	Director
Sheikh Ali Jassim M.J. Al-Thani	Nurabank	Vice President and Director
Sheikh Ali Jassim M.J. Al-Thani	Qatar Navigation Company	Chairman
Sheikh Ali Jassim M.J. Al-Thani	Qatar Abu Dhabi Investment Company	Chairman
Mr Adnane Mousannif	Elypont	Director

List any relevant relationships, other than those included under the previous heading, that link members of the board of directors to 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 regulations during the year:

Yes X **No**

Description of changes
The reasons for the changes made to Board Regulations in 2017 were as follows: i) to adapt them to the new corporate name "Inmobiliaria Colonial, SOCIMI, S.A.", and ii) to establish the maximum number of company boards on which Directors of the Company may sit, pursuant to Recommendation 25 of the *Good Governance Code of listed companies*.

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 Regulations and set out in the Selection Policy approved by the Board at the behest of the ARC. Pursuant to this selection policy, discrimination shall 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 General Meeting or, in the event of early vacancies, by the Board, exercising its power to co-opt. 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 General 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 General Meeting is held, the Company must continuously post on its corporate website the following information, at least, on the persons proposed for appointment, ratification or re-election as Board members: their 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 permanent exercise of the functions of the post. The procedure to evaluate directors is also governed by Board Regulations. In this regard, a plenary session of the Board shall evaluate, once a year, and adopt, where applicable, an action plan to correct any deficiencies identified with respect to: (i) the quality and efficiency of the Board of Directors; (ii) the operations and the composition of its Committees; (iii) the diversity of the composition and competences of the Board of Directors; (iv) the performance of the Chairman of the Board and the chief executive officer of the Company; and (v) the performance and contribution of each director, paying particular attention to those who are in charge of the various Committees of the Board. The evaluation of the Chairman of the Board shall be directed by the Coordinating Director. Regarding the removal of directors, Board Regulations stipulate that directors may be removed from office at any time by the shareholders at the General Meeting even if their removal is not on the agenda.

In addition, directors must tender their resignation to the Board if the Board of Directors deems it appropriate subsequent to a report from the ARC in the cases specified in the Board 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 Company Bylaws, except where just cause is found by the Board, based on a report by the ARC. It shall be understood that there is just cause when the director takes up a new post or takes on new duties that prevent him/her from devoting the necessary time to the performance of the duties associated with the directorship, when the director fails to carry out the duties inherent to his/her post or when the director is involved in circumstances which cause him/her to lose his/her independent status in accordance with the provisions of the legislation applicable. The removal of independent directors may also be proposed following a takeover bid, merger or similar corporate operation entailing changes in the Company's capital structure, when these changes have been propitiated by the proportionality criterion. Without prejudice to the foregoing, the Board Regulations stipulate that independent directors may not retain their status as such for a continuous period of more than 12 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 for exceptional and justifiable reasons 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 leave their post before their term has expired, they shall explain the reasons in a letter submitted to all Board members, notwithstanding notification of the departure as a regulatory announcement, and reporting of the reason for the departure in the Annual Corporate Governance Report.

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 because the self-assessment was satisfactory.

C.1.20.bis Describe the evaluation process and areas evaluated 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 evaluated its composition and competences, the operation and composition of committees and the performance of the Chairman, CEO, Coordinating Independent Director and the Secretary to 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, other Company directors and the Board Secretary, as well as its own composition, competences and operation, for submission to the Board. The ACC also 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.

Following the valuation, the Board of Directors approved the assessment reports on the Board, its committees, the Chairman, the CEO, the Coordinating Independent Director and the Secretary, concluding that: (i) the Board of Directors has the proper composition and exercises the functions and competences attributed to it by the Company Bylaws and Board Regulations in an efficient manner, at all times prioritising the interest of the Company and maximising its economic value; (ii) the Executive Committee, the ARC and the Audit and Control Committee ("ACC") each have the proper composition, and they undertake and carry out in an efficient manner the competences attributed to them by the regulations applicable and by the Company's corporate documentation; (iii) the Chairman and the CEO, have carried out the functions entrusted to them in an satisfactory and appropriate manner; and (iv) the Coordinating Independent Director and the Secretary to the Board have carried out their functions in an effective and diligent manner.

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 Coordinating Independent Director and the secretary to the Board and as external adviser on the remuneration policy of the Board of Directors.

C.1.21 Indicate the cases in which the directors must resign.

Under the Board Regulations, 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. Specifically, proprietary directors shall tender their resignation when the shareholder they represent sells off the entire shareholding in Colonial or when the number of shares held requires a reduction in the number of proprietary directors.

. In events in which, notwithstanding the foregoing paragraph, the Board of Directors considers that there are reasons that justify that the director remains in office, the impact that the new circumstances may have on the qualification of the director will be taken into account.

3. When they have been seriously reprimanded by the ARC for having infringed any of their obligations as directors.

4. 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 Deleted

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.

C.1.24 State 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**

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**

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**

C.1.28 Indicate whether the Bylaws or board regulations stipulate specific rules for proxy votes on the board of directors, the procedures thereof and, in particular, the maximum number of proxy votes 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 Board Regulations, proxy shall be granted in writing and specifically for each meeting, and only in favour of another member of the Board. However, non-executive directors may only assign proxy to another non-executive director. Furthermore, Board Regulations stipulate that when votes are delegated to proxies, the directors must give specific instructions to the proxy on how to vote on the items being discussed.

C.1.29 Indicate the number of board meetings held during the fiscal year. Also state, if applicable, the number of occasions on which the board met without its chairman in attendance. Attendance shall also include proxies appointed with specific instructions.

Number of board meetings	13
Number of board meetings not attended by the chairman	0

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

Number of meetings	0

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

Number of executive or delegate committee meetings	0

Number of audit committee meetings	10
Number of appointments and remuneration committee meetings	8

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

Attendance of directors	13
Number of attendances as % of the total votes during the year	100%

C.1.31 Indicate whether the consolidated and individual annual financial statements submitted for approval by the board are certified previously:

Yes X **No**

Identify, where applicable, the person(s) who certified the company's individual and consolidated annual financial statements to be drawn up by the board:

Name	**Position**
Ms Angels Arderiu Ibars	Chief financial officer

C.1.32 Explain the mechanisms, if any, established by the Board of Directors to prevent the individual and consolidated financial statements prepared by it from being submitted to the general meeting with reservations in the audit report.

The Board Regulations stipulate that the ACC shall strive to ensure that the Board of Directors submits the financial statements to the General Meeting of Shareholders without limitations or reservations in the audit report. In any exceptional cases where these reservations exist, the Chairman of the ACC and, in exceptional circumstances, the auditors shall give a clear account to shareholders of the contents and scope of these limitations or reservations. In any case, based on the functions granted to it in this regard by Board Regulations, the ACC performs ongoing monitoring in the process of preparing the individual and consolidated financial statements to prevent them from being prepared with reservations in the audit report.

C.1.33 Is the secretary to the board a director?

Yes **No X**

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

Name or company name of the secretary	**Representative**
Mr Francisco Palá Laguna	--

C.1.34 Deleted

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

Among the obligations 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) Examine the circumstances behind the resignation of the external auditor, if this were to occur;

(ii) Ensue that the compensation for the external auditor for their work does not compromise their integrity or independence;

(iii) Oversee that the Company notifies the change of auditor as a regulatory announcement to the Spanish Securities Market Commission (CNMV) and that this notification is accompanied by a statement citing any disagreements the Company may have had with the outgoing auditor and, if there were such disagreements, to discuss them;

(iv) Ensure that the Company and the external auditor adhere to current regulations regarding the provision of non-audit services as well as the limits on the auditor's business concentration and, in general, the other rules on 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 shall 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 financial audit regulations. The ACC shall also issue, prior to the audit report, an annual report expressing an opinion on whether the independence of the auditors or audit companies has been compromised. This report shall, in any case, contain the evaluation of the provision of each and every additional service referred to in the preceding section, 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.

Additionally, the ACC has an authorisation procedure of the external auditor's services other than the prohibited ones.

A draft regulation regarding the Audit and Control Committee has also been worked on in 2017 (having been approved by the Board of Directors in a session dated 22 February 2018) in line with the *Technical Guide 3/2017 on audit committees for public interest entities* of the CNMV of 27 June 2017, which established the procedure and specific criteria that define the ACC's activity to preserve, among other things, the independence of external auditors.

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

Yes X **No**

Outgoing auditor	Incoming auditor
Deloitte, S.L.	PriceWaterhouseCoopers Auditores, S.L.

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

Yes **No X**

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)	170	56	226
Amount of other non-audit work/total amount billed by the audit firm (as a %)	43.25%	13.87%	28.40%

C.1.38 Indicate whether the audit report for the annual financial statements of the previous fiscal year included any reservations or qualifications. Indicate the reasons given by the chairman of the audit committee to explain the content and scope of the reservations or qualifications.

Yes **No X**

C.1.39 Indicate the number of consecutive years that the current audit firm has been auditing the annual financial statements of the company and/or the group. Likewise, indicate for how many years the current firm has been auditing the annual 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	1	1
Number of years audited by the current audit firm/number of years the company has been audited (as a %)	3.23%	3.23%

C.1.40 Indicate whether there is a procedure for directors to gain access to external advisory services, and if so, give details:

Yes X **No**

Detail of the procedure
In accordance with Board Regulations, the Company shall establish 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. In this regard, in view of the functions of the Board Chairman, the directors shall send the Chairman requests for external assistance when they deem this necessary. The Chairman is responsible for duly transmitting this request to external advisers. Board Regulations also establish that the committees may engage external advice, when they feel this is necessary to enable them to carry out their functions, following the same procedure outlined above.

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 management bodies sufficiently in advance, and if so, give details:

Yes X **No**

Detail of the procedure
In accordance with Board Regulations, in the discharge of their duties, directors must request and are entitled to obtain from the Company any information they need to meet their obligations. In this respect, directors are invested with the broadest powers to obtain information on any aspect of the Company and to examine its books, records, documents and any other records of corporate operations and to inspect all the company's facilities. Accordingly, unless the Board of Directors has been convened or called for reasons of urgency, the Board Chairman, with the assistance of the Secretary, shall 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. 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 previous sessions.

C.1.42 Indicate and, where appropriate, give details of whether the company has established rules obliging directors to report and, where applicable, resign in any circumstances that might jeopardise the company's credit or reputation:

Yes X **No**

Explain the rules
Board Regulations stipulate 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 continuation as a 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.1.43 Indicate whether any of the members of the Board of 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 Limited Liability Companies Law:

Yes **No X**

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, state the action taken by the Board of Directors or the action it intends to take, up to the date of this report.

C.1.44 Detail any significant resolutions taken by the company which will come into force, 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 €350 million, which contains an early maturity clause in the event of a change of control. On 29 March 2017, Colonial arranged a new syndicated loan in the amount of €375 million, which also contains an early maturity clause in the event of a change of control.

Also, on 2 June 2015, a bond issue was launched in the amount of €1,250 million which, in the event of a change of control as defined in Article 42 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 2023, provided the change of control entails a loss of the Investment Grade rating.

Finally, in 2016 and 2017, the following fixed-income issues were carried out as “non-participating securities” on the Euro Medium Term Note programme (“**EMTN Programme**”), which stipulates early maturity of the bonds, at the choice of bondholders, in the event of a change of control: (i) on 21/10/2016, a bond issue in the total nominal amount of €600 million, maturing on 28/10/2024; (ii) on 09/11/2016, an ordinary bond issue in the total nominal amount of €50 million, maturing on 10/11/2026; (iii) on 28/11/2017, an ordinary bond issue in the total nominal amount of €800 million.

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

Number of beneficiaries	3
Type of beneficiary	Chairman, CEO and Corporate General Manager.
Description of the resolutions	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 a waiver or departure from their posts due to a change of control at the Company or significant change in the composition of the Board 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. The compensation consists of, (a) in relation to the Chairman, a gross amount equivalent to two years' fixed and variable remuneration, with a minimum of €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 €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, the guarantee or golden parachute clause triggered in the event of termination under certain circumstances or change of control gives rise to compensation for termination of functions for an amount equal to 3 years' salary. There is also a long-term incentive plan approved by the General Meeting, which entails the delivery of ordinary shares of the Company contingent on meeting certain targets each year. The beneficiaries of the plan are the Chairman of the Board, the CEO and the members of Colonial's Management Committee, which includes the Corporate General Manager. The plan provides that the Board of Directors shall agree early settlement of the plan and the award of a maximum number of outstanding shares to each beneficiary if a "substantial liquidity event” occurs. "Substantial liquidity events” shall occur (i) when a takeover bid is authorised to acquire all Colonial’s share capital, or (ii) when refinancing of all Colonial’s debt is authorised. In the latter case, early settlement of the Plan is subject to the ARC's ratification. If, during the term of the Plan, the Chairman or CEO were unfairly dismissed, the General Meeting did not extend their term or they were dismissed from their positions without just cause, they shall be entitled to early settlement of the Plan and to delivery of the

	maximum number of shares outstanding in the years remaining until the end of the Plan. Beneficiaries shall lose their right to the delivery of shares in the event of justified dismissal, termination for cause or if they resign on their own initiative, and in case of breach of contract in respect of confidentiality, non-solicitation of services or competition. In these cases, the beneficiaries shall lose any rights to shares that have been granted.

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

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

	Yes	**No**
Is the general meeting informed of the clauses?		X

C.2 **Board committees**

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

EXECUTIVE OR DELEGATE COMMITTEE

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

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

Explain the functions attributed to this committee, describe the procedures and rules of its organisation and functioning, and summarise its major activities during the year.

The Executive Committee shall be made up of at least three and not more than eight members. The Chairman and Secretary to the Committee shall be the Chairman and Secretary to 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 shall appoint the members of the Executive Committee, ensuring that its membership structure reflects the various types of directors in a similar manner to that of the Board. To be valid, the appointment of directors who constitute the Executive Committee shall require a vote in favour by two thirds of the members of the Board, and shall not be effective until it has been entered in the Commercial Registry.

The members of the Executive Committee shall cease to be members when they cease to be directors or when the Board so resolves.

The Executive Committee shall be called by its Chairman on his/her own initiative or when this has been requested by two of its members. The meeting must be convened 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.

For an Executive Committee meeting to be validly constituted, the majority of its members must attend, either physically present or represented by proxy. The absolute majority of the members of the Committee shall adopt the resolutions. 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 who are affected by such a conflict of interests and who must abstain shall be deducted for the purposes of calculating the necessary majority of votes. In the event of a tie, the matter shall be submitted to the Board of Directors.

Through its Chairman, the Executive Committee shall report to the Board on the business transacted and the resolutions adopted by the Committee. All Board members must receive a copy of the minutes of Executive Committee meetings. The Executive Committee did not meet in 2017.

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

Yes X **No**

AUDIT COMMITTEE

Name	**Position**	**Category**
Ms Ana Sainz de Vicuña Bemberg	Chairman	Independent
Mr Javier Iglesias de Ussel Ordís	Member	Independent
Mr Carlos Fernández-Lerga Garralda	Member	Independent
Mr Luis Maluquer Trepat	Member	Independent

% of proprietary directors	0.00%
% of independent directors	100.00%
% of other external directors	0.00%

Explain the functions attributed to this committee, describe the procedures and rules of its organisation and functioning, and summarise its major activities during the year.

The ACC comprises a minimum of 3 and a maximum of 8 directors, all of which must be non-executive directors, appointed by the Board. The ACC shall also include the number of independent directors stipulated by law at any given time, and at least one of them shall be appointed in due consideration of the director's knowledge and experience in accounting and/or auditing. The ACC members shall have relevant technical knowledge in relation to the Company's sector of activity. The ACC shall appoint (i) a Chairman, who must be an independent director and shall be replaced every 4 years, and may be re-elected after 1 year has elapsed from the date on which his/her term of office expired; and (ii) a Secretary, who may be Secretary to the Board. The members shall be relieved of their duties once their directorships expire, or when the Board agrees so.

The ACC shall have the following functions, among others:

1. Report to the General 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 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 from it 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 any event it must, 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 related entities.

6. Issue, on an annual basis and prior to the issuance of the annual audit report, a report expressing an opinion on whether the independence of the auditor or audit companies has been jeopardised, which must 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 Board 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 2 of its members, or at the behest of the Chairman, who is responsible for convening it. The 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 the member or a person related thereto has a conflict of interest. In the event of a tie, the Chairman has the casting vote. Minutes are taken of ACC meetings and are made available to the Board.

The major activities of the ACC in 2017 were as follows:

- Act as a communication channel between the Board and the external auditor, assessing the results of each audit.
- Issue a report, prior to the release of the accounts auditing report, in which an opinion is expressed on whether the independence of the accounts auditors or the auditing firms has been compromised.
- Supervise the effectiveness of the 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 audit.
- Approve the risk management and control policy, corporate governance and treasury share reports to be submitted to the board.
- Monitor the Company's corporate social responsibility policy.
- Monitor compliance with the rules of the internal codes of conduct and its corporate social

responsibility policy.

- Oversee the preparation and filing of required financial information.
- Inform about the Annual Corporate Governance Report to be submitted to the Board of Directors for their approval as part of the financial statements.
- Evaluate its own performance within the framework of the self-evaluation of the performance of the Board and its internal Committees.
- Analyse and report on treasury share transactions to be submitted to the Board, and in particular, issue a favourable report on the share buyback plan and monitoring thereof.
- Inform the Board, via the Chairwoman, of the contents of the ACC meetings.
- Review the Company's power structure.
- Update the Company's maps of risks and processes and reviewed and assessed the risk inventory.
- Analyse the impact that the special tax regime for listed real estate investment trusts has had on the Company's activity, as well as its financial impact, according to the reports made by external advisors that were submitted to the Committee by the corporate general manager.
- Also, report on the other corporate operations planned by the Company in that year.
- Report on the issuance of bonds under the "Euro Medium Term Note" programme.
- Oversee compliance with the measures agreed within the framework of the action plan to improve cybersecurity.
- Analysis of the Regulations of the Audit and Control Committee.

Identify the director who is a 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	Ms Ana Sainz de Vicuña Bemberg
Nº of years during which the chairman has held the post	2

APPOINTMENTS AND REMUNERATION COMMITTEE

Name	Position	Category
Mr Carlos Fernández-Lerga Garralda	Chairman	Independent
Mr Adnane Mousannif	Member	Proprietary
Mr Juan Carlos García Cañizares	Member	Proprietary
Mr Javier Iglesias de Ussel Ordís	Member	Independent
Mr Luis Maluquer Trepat	Member	Independent

% of proprietary directors	40.00%
% of independent directors	60.00%

% of other external directors	0.00%

Explain the functions attributed to this committee, describe the procedures and rules of its organisation and functioning, and summarise its major activities during the year.

The ARC comprises a minimum of 3 and a maximum of 8 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 shall appoint from among its members (i) a chairman, who, in any case, shall be an independent director, and (ii) a secretary, or it may designate the Secretary to the Board. 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 the following functions, among others:

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, laying down guidelines to achieve it.

3. Make appointment proposals to the Board of independent Directors to be co-opted or, if applicable, for submission to a decision by the shareholders at the General Meeting, and proposals for re-election and removal thereof by the General Meeting.

4. Report on proposals for appointment of other Directors to be co-opted or, if applicable, for submission to a decision by the shareholders at the General Meeting, and proposals for re-election and removal of those directors by the General Meeting.

5. Report the proposals for the appointment and removal of senior officers and the basic conditions of their contracts.

6. Examine and organise the succession of the Board Chairman and of the chief executive officer of the Company 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, 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 2 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 shall be considered validly constituted when a majority of its members are present in person or by proxy. Its resolutions shall be adopted by a majority of those present in person or by proxy, and the Chairman will have the casting vote in the event of a tie. 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 deliberations 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.

The major activities of the ARC in 2017 were as follows:

- Coordinate and submit to the Committee the reports assessing the performance of thereof, the ARC and the performance of the Chairman, the CEO, the Coordinating Director and the Secretary to the Board, with the advice of Spencer Stuart.
- Oversee that the compensation policy established by the Company was being complied with and, in particular, propose variable compensation for the Chairman and CEO.
- Examine the qualifications of the Board members in accordance with their corporate documents, the Spanish Limited Liability Companies Law and the corporate governance recommendations.
- Issue a favourable report and propose to the Board the approval of the annual report on remuneration for the directors.

Ensure compliance with the rules on corporate governance. In particular, it has carried out the following tasks: (i) ensure compliance with the Company's rules on corporate governance; and (ii) assess the suitability of the Company's corporate governance system.

- Recorded the appointment of an independent Director, in the subsidiary company, Société Foncière Lyonnaise, and proposed an increase in the set compensation, commissions and attendance allowances for the directors of such subsidiary.
- Propose, based on the achievement of the indicators, the number of shares owed to the beneficiaries of the share allocation plan approved at the General Meeting on 21 January 2014 (the "**Plan**").
- Analyse and monitor possible modifications to the Plan, and report on proposals made by PricewaterhouseCoopers, S. L.
- Agree, in order to motivate and retain the talent of the management team, an extension to the Plan under the same terms that were approved by the General Meeting on 21 January 2014, to remain in force in 2019 and 2020.
- Propose to the Board that the General Meeting set the number of Board members as ten due to the resignation tendered by the director, Mr Juan Villar-Mir de Fuentes.
- Implement and develop the update plan for directors in relation with, among other aspects, the new trends in the sector that are causing disruptions to the property business, with special focus on the "*PropTech*" and "*CoWorking*" phenomena.
- Furnish the Board with a favourable report on the resignation of Sheikh Ali Jassim J.M. Al-Thani as member of the ARC and the appointment of Mr Adnane Mousannif as a new member.

C.2.2 Complete the following table with information concerning the number of female directors on board committees over the last four years:

	Number of female board members							
	2017		**2016**		**2015**		**2014**	
	Number	**%**	**Number**	**%**	**Number**	**%**	**Number**	**%**
Executive committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Audit committee	1	25.00%	1	20.00%	1	20.00%	1	20.00%
Appointments and remuneration committee	0	0.00%	0	0.00%	0	0.00%	0	0.00%

C.2.3 Deleted

C.2.4 Deleted

C.2.5 State any regulation of board committees, the location at which they are available for consultation, and any amendments made during the year. Also state whether any voluntary annual reports have been produced on the activities of each committee.

Board committees are governed by Board Regulations, which are available on the Company's website (www.inmocolonial.com) in the "Corporate governance" section, and on the website of the Spanish Securities Market Commission (www.cnmv.es). Amendments were made to board regulations in 2017 in order to adapt them to the new corporate name Inmobiliaria Colonial, SOCIMI, S.A. and to establish the maximum number of listed company boards on which Colonial directors may sit, pursuant to Recommendation 25 of the Good Governance Code of listed companies. Likewise, in 2017, the Audit and Control Committee Regulations were analysed and worked on, in line with *Technical Guide 3/2017 on audit committees of public interest entities*, which was approved by the Board of Directors at its meeting held on 22 February 2018.

C.2.6 Deleted

D RELATED-PARTY TRANSACTIONS AND INTRAGROUP TRANSACTIONS

D.1 Explain any procedures for the approval of related-party transactions and intragroup transactions.

Procedure for the approval of related-party transactions
In accordance with the Regulations of the Board of Directors, 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: - 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. - For a director, a significant shareholder or his/her representative on the Board, or a related person to sell or otherwise transfer supplies, materials, goods or rights, in general, to Colonial or other companies in its Group in exchange for any type of economic compensation. - For the companies in the Group to transmit supplies, materials, goods or rights, in general, on behalf of a Director, a significant shareholder or his/her representative on the Board, or a related person that are outside the transferor company's normal 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 a related person, 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 a related person has a direct or indirect interest. The aforementioned approval by the Board of Directors shall not be necessary when such transactions have the following three characteristics simultaneously: 1. They are carried out under contracts with standard terms and conditions and are applicable across-the-board to many customers; 2. They are carried out at market prices, generally set by the person supplying the goods or services; and 3. The amount of the operation does not exceed 1% of the Company's annual revenue.

D.2 State any operations which are significant in terms of their value or relevant due to their contents, carried out between the company or companies in its group, and significant shareholders of the company:

Name or company name of the significant shareholder	**Name or company name of the company or company in its group**	**Type of relationship**	**Type of transaction**	**Amount (thousands of euros)**

D.3 State any operations that are significant in terms of their value or relevant due to their contents, carried out between the company or companies in its group, and company directors or managers:

Name or company name of the directors or managers	Name or company name of the related party	Link	Nature of transaction	Amount (thousands of euros)
--	--	--	--	--

D.4 State any significant transactions carried out by the company with other companies in the same group, provided they are not eliminated during the process of drawing up the consolidated financial statements and do not form part of the company's usual business in terms of its corporate purpose and conditions.

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

Corporate name of the company in the group	Brief description of the transaction	Amount (thousands of euros)
--	--	--

D.5 State the amount of the transactions carried out with other related parties.

0 (in thousands of euros).

D.6 State the mechanisms established to detect, determine and resolve any conflicts of interest between the company and/or the group, directors, managers or significant shareholders.

Under the Company Bylaws, directors shall refrain from taking part in discussions or voting on any resolutions or decisions in which the directors or any persons who are related parties may have a direct or indirect conflict of interests. The votes of the directors who are affected by such a conflict of interests and who must abstain shall be deducted for the purposes of calculating the necessary majority of votes. Resolutions or decisions that affect directors in their capacity as directors, 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. Board Regulations also 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 directors or any persons who are related parties may have a direct or indirect conflict of interests.

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 scantly 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 shall also be applicable if the beneficiary of the actions or prohibited activities is a person related to the director.

The persons stipulated in the Spanish Limited Liability Companies Law shall be considered related persons. In all cases, directors must notify the Board of Directors of any direct or indirect conflict that they or any related persons may have that could affect 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 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 the value of which is greater than 10% of the Company's assets. The Board of Directors may grant authorisation in other cases, 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 it is carried out under market conditions and that the process is transparent. A non-compete obligation may only be waived in the event that no damages are expected for the Company or when damages are expected to be offset by the potential benefits. The General Meeting shall grant dispensation through an express and separate resolution.

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

Yes **No X**

Identify the listed subsidiaries in Spain:

State whether the respective areas of activity and business relations between them, and those of the listed subsidiary with the other group companies, have been accurately defined in a public manner;

Yes **No**

Define any business relations between the parent company and the listed subsidiary, and between the subsidiary and other group companies

Identify the mechanisms in place to resolve any conflicts of interest between the subsidiary and other group companies:

Mechanisms to resolve any conflicts of interest

E RISK MANAGEMENT AND CONTROL SYSTEMS

E.1 Describe the Risk Management System in place at the company, including tax risks.

E.1 Describe the Risk Management System in place at the company, including tax risks.

Risk management is a key aspect of Colonial's organisational culture and, for this reason, the Company has developed a Risk Management and Control System (hereinafter "RMCS"), which establishes certain bases to efficiently and effectively manage risk throughout the organisation, including tax risks.

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 RMCS, 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 RMCS 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 risks.

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.

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 implementation. The Audit and Control Committee (ACC) assists the Board of Directors in managing this policy. The ACC performs, inter alia, the following functions relating to risk control and management:

- Submitting a report on risk policy and management for approval by the Board.
- Conducting a regular review of risk control and management systems, in such a way that the main risks are identified, managed and notified properly.
- Overseeing the preparation, completeness and filing of regulated public information (financial and non-financial).

In addition, the Company has set up a Regulatory Compliance Division (RCD) and Internal Audit Unit to reinforce this objective. The RCD is responsible for ensuring compliance with any laws and regulations that 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 to mitigate risk.

The main responsibilities assigned in relation to the RMCS correspond to the Board of Directors, the Audit and Control Committee and the Internal Audit Unit. The RMCS 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 business targets.

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

- Corporate and sectoral risks arising from political and macroeconomic situations in the countries in which it operates, since the property sector is cyclical by nature, realisation of its activity through the acquisition of other companies or businesses and management of subsidiaries, management of reputation and the corporate image.
- Strategic risks arising from the specific nature of its activity, in relation to the increase in competition and complexity of investments, keeping ahead of new trends in the sector, the high concentration of office rental activities in the *"Central Business Districts"* of Barcelona, Madrid and Paris, anticipation of the real estate cycle in the event of a potential lower appraisal of real estate assets.
- Operating risks arising from management of property assets, the high concentration of customers, damage to real estate assets, management of information systems, maintenance and repair of these systems, liability for action taken by contractors and subcontractors, management of licences for operation of real estate assets, and judicial and extrajudicial claims.
- Risks of a financial nature relating to restrictions in capital markets and in financial debt markets, levels of debt, the drop in credit ratings and interest rate fluctuations.
- Risks arising from compliance with all the regulations and contractual obligations applicable, including tax risks concerning loss of Colonial's REIT status and loss of its French subsidiary Société Foncière Lyonnaise's status as a listed property investment company ("SIIC"), limitations on the offsetting of negative taxable amounts.

E.4 State whether the company 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 potential likelihood of the risk occurring over time.

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 action/controls; 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 2017, the circumstances that caused them and the functioning of the control systems are as follows:

i. CONCENTRATION OF GROUP ACTIVITIES IN SPAIN AND FRANCE

Colonial focuses its business activity 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 these cities. This strategy of focusing its business mainly in CBD areas and its high-quality standards have positioned the Group as a benchmark in the sector. In 2017, the Company also increased its ownership interest in Axiare Patrimonio Socimi, S. A., and also submitted a takeover bid for all the remaining shares of this company, which was accepted in January 2018.

ii. INCREASED COMPETITION IN THE REAL ESTATE SECTOR

Heavy investment continued in 2017 in the real estate sector. This situation entails the continuation of a considerable amount of 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.

iii. IMPAIRMENT OF REAL ESTATE ASSETS

The holding and acquisition of real estate assets imply certain risks, including the possibility that returns on investment shall be lower than estimated or that estimates and valuations performed could prove to be inaccurate or wrong. In addition, the market value of the assets may decline or be adversely affected in certain cases.

Control systems: To mitigate this risk factor, Colonial engages independent experts to appraise all its assets on a six-monthly basis. The Group also regularly reviews the future value creation potential of each of the properties in its portfolio. The Group allocates a significant portion of its resources to investing in and maintaining its real estate assets in order to enhance their value and position on the market and the income obtained from these assets. In this regard, the Group invested €69 million in 2017 in new projects and projects to renovate and improve its real estate assets.

iv. ANTICIPATION OF NEW TRENDS

The property sector, like other sectors, calls for constant adaptation to emerging trends. Increasing development of digitalisation in all sectors, the new technology applied in the property sector and the increase in co-working spaces entail constant changes that specifically affect the real estate sector.

Control systems: The Colonial Group allocates resources and carries out specific activities in order to analyse and, where appropriate, implement these trends in the activities carried out by the Group. In this regard, in 2017, Colonial engaged a digital senior advisor to drive Company initiatives and strategies in relation to 'Proptech' (Property Technologies), a segment that studies the impact of technology and digitalisation on the development of services and new business models in the property sector. Also in 2017, the Colonial Group purchased a controlling stake in the Spanish co-working platform Utopic_US, taking up a position in a new strategic line to enhance and boost the strategy of Group users, offering flexibility and integrated contents and services.

v. FINANCING OF REAL ESTATE ASSETS. FINANCIAL STRUCTURE AND LEVEL OF DEBT

Companies operating in the property sector require a considerable amount of investment to guarantee their projects and business expansion through the acquisition of buildings and/or land.

Control systems: In 2017, Colonial carried out a new bond issue in the total amount of €800 million. Colonial also raised the Standard & Poor's credit rating to BBB in the long term and A-2 in the short term, both with outlook stable; and the rating for SFL to BBB+ in the long term and A-2 in the short term, with outlook stable. Moody's, meanwhile, rated Colonial as Baa2 with outlook negative. Colonial also carried out two share capital increases and sold treasury shares in the total amount of €591 million in 2017. As a result, the Group obtained additional funds to acquire high-quality real estate assets to boost its stake in Axiare and undertake the Axiare takeover bid, while diversifying and increasing the average maturity of its debt, and continuing to optimise its financial costs. At 31 December 2017, the Group's net financial debt amounted to €3,066 million, with an LtV ratio of 31.3%.

vi. APPLICATION OF THE SOCIMI SPECIAL TAX REGIME

In December 2016, an amendment to Spain's Corporation Tax Law reduced the thresholds for offsetting negative taxable amounts from previous years, thereby increasing the theoretical effective tax rate.

Control systems: In the wake of this amendment, following an analysis of the impacts and requirements for the structure of the Group and its shareholders, in 2017, Colonial undertook the special Spanish REIT tax system, establishing the necessary control mechanisms to secure compliance with this system.

E.6 Indicate the plans in place for responding to and supervising the company'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 in one of the following categories according to the Company's response to each:

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

The owners of each risk are responsible for preparing the 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. Risk records state: (i) the objective pursued by the action plan, (ii) description of the course of action, (iii) the owner of the risk, (iv) the cutoff date for taking action, (v) details of the action to be taken with those responsible for implementation, and start and finish dates.

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

F INTERNAL RISK MANAGEMENT AND CONTROL SYSTEMS IN RELATION TO INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)

Describe the mechanisms that comprise the risk control and management systems in relation to internal control over financial reporting (ICFR) at your company.

F.1 The company's control environment

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

F.1.1. Which bodies and/or functions are responsible for (i) the existence and maintenance of a proper ICFR system; (ii) its implementation; and (iii) its supervision.

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 Board Regulations ("General Functions and Competences") stipulates, inter alia, the following functions:

1. Determine the Company's general policies and strategies, approve the investment and financing policy, the strategic or business plan, the annual management targets and annual budgets, and the treasury share policy, determine the corporate governance policy of the Company and the Group and the dividend policy, and approve 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 Risk Management and Control 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. Approval of the financial information that all listed companies must periodically disclose.

   To this end, Colonial has published a Manual for Disclosure of Regulated Information that covers the aspects mentioned in this section and has been approved by the ACC.

3. Monitor the effective functioning of the Committees created by the Board and the performance of the delegated bodies and executives designated by the Board.

4. Approve and amend Board Regulations.

The ICFR Organisation and Supervision Model, approved by the ACC, establishes the mechanism that the Board of Directors, 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 tasked with the following functions, among others, regarding the ICFR organisational model:

1. Submit to the Board for approval a report on the risk control and management policy, which identifies at least: (i) types of financial and non-financial risks faced by the Company, including financial and economic risks, contingent liabilities and other off-balance sheet risks; (ii) the level of risk that the Company considers acceptable; (iii) the measures planned to mitigate the impact of identified risks, should they materialise; (iv) and the information and internal control systems to be used to control and manage these risks, including contingent liabilities and off-balance sheet risks.

2. Oversee the preparation and filing of required financial information.

3. In relation to the information and internal control systems: (i) supervise the preparation process and the integrity of financial information on the Company and, where applicable, on the Group, review compliance with the regulatory requirements, the proper delimitation of its scope of consolidation and the correct application of accounting principles; (ii) ensure the independence and effectiveness of the internal audit processes, propose the election, appointment, re-election and removal of the head of the internal audit unit in addition to proposing the budget for this unit, approve both orientation and its operating plans, ensure that the activity is focused mainly on the risks that are relevant to the Company, receive regular information on activities and verify that senior management takes account of the conclusions and recommendations of reports; and (iii) establish and supervise a method that allows employees to make confidential and, if possible and appropriate, anonymous, declarations on any irregularities, especially financial and accounting irregularities, that may potentially be important to 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. It also receives regular information from the auditor on the audit plan and its execution.

5. Inform the Board of Directors of all matters established by law, the Company Bylaws and Board regulations beforehand, in particular regarding:

   a) The financial information that the Company must make public on a periodic basis.

Minutes shall be taken of all Committee meetings and 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 shall 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. Whether the following exist, especially in connection with the financial reporting process:

- Departments and/or mechanisms tasked with: (i) devising and reviewing the organisational structure; (ii) clearly defining the boundaries of responsibility and authority, with proper distribution of tasks and functions; and (iii) ensuring that sufficient procedures are in place to spread awareness of this throughout the company.

The responsibility for developing Colonial's ICFR organisational model lies with the Internal Audit Department and the Operations-Finance Department, as they are the two departments most involved in drawing up and subsequently supervising the financial information to be reported.

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, setting out the main guidelines of operation of the ICFR and senior-level roles and responsibilities.

b) Identification of major risk events, which, if they occur, may materially affect financial information.

c) For risks identified in the relevant processes, specific mitigating controls are implemented to reduce these risks to acceptable levels. The operational Departments concerned 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 of the IT systems.

e) Lastly, the Internal Audit function and the ACC are responsible for overseeing ICFR in order to ensure its operational efficiency.

- 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.

The Company's Board of Directors approved Colonial's Code of Ethics on 28 September 2011. 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 financial information, Article 6.5 of the Code establishes the following:

"Colonial undertakes as a guiding principle for its corporate behaviour with shareholders, investors, analysts and the market in general, to disclose true and complete information which expresses a 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. Corporate action 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 compliance with prevailing regulations in this matter."

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

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 action based on the fines and sanctions detailed in the collective bargaining agreement or employment legislation applicable.

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.

- Whistleblowing channel to report any financial and accounting irregularities to the audit committee, in addition to any breaches of the code of conduct and irregular activities within the organisation, reporting whether this is confidential, as the case may be.

Under Article 32 of Colonial's Board Regulations, the ACC is responsible, inter alia, for:

"In relation to information systems and internal control: ... (iv) for establishing and supervising a method that allows employees to make confidential and, if possible and appropriate, anonymous statements on any irregularities, especially financial and accounting irregularities, that may potentially be important to the company."

As noted in the preceding point, the Regulatory Compliance Division, 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 whistleblowing channel on its intranet where employees can report any irregularities and breaches identified at the Company.

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

- 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 Training Plan covering all business areas according to the specific needs of each. However, the functional business areas themselves, under the coordination and supervision of the Human Resources department, are responsible for devising and proposing specific training plans for their areas.

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

In addition, the Regulatory Compliance Division, 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 Department attended thematic courses and forums outside the Company related to the evaluation of certain internal control and risk management aspects.

F.2 Assessment of risks in relation to financial information

Report, at least, on:

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

- Whether the process exists and is documented.

Colonial has a Risk Management and Control System (RMCS), 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 RMCS, as indicated in sections F.1.1 and F.1.2 of this report.

Colonial's ICFR Organisational and Monitoring Model, 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 RMCS, 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 how often.

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

1) Integrity: 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 rejected data entries. Disclosures “not” identified and, consequently, “not” included in the notes to the financial statements or deliberately omitted.

2) Existence: Transactions “not” authorised that are entered into the company’s accounting software. Duplicated transactions. Erroneous adjustments in 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 the determination of market values, amortised values, value in use or due to a depreciation error, as well as adjustments made and not properly 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 proper 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 arising 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 Board Regulations and, specifically the section regarding the responsibilities of the ACC, stipulate that the responsibilities of the Committee include, among others:

“In relation to information systems and internal control: (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 that stipulates, as a basic procedure, the determination of the Group's scope of consolidation at the end of every reporting period.

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 changes.

- Whether the process takes account of other types of risks (operational, technology, financial, legal, tax, reputational, environmental risk etc.), which may affect the financial statements.

As described in the first item of section F.2.1, 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 work together to identify and correct risks.

Colonial's ICFR Organisation and Supervision Model, 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 involving 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 Board Regulations and, specifically the section regarding the responsibilities of the ACC, stipulate that the responsibilities of the Committee include, among others:

"In relation to information systems and internal control: ... (ii) to conduct a periodic review of the internal control and risk management systems in such a way that the main risks are identified, managed and notified properly."

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 shall 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 features, if available, on at least the following:

F.3.1. Procedures to review and authorise financial information and the ICFR system description to be published on the securities markets, stating those responsible, 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 closure and the specific review of relevant judgments, 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 that 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) Regulatory Announcements.

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 with the CEO, Board of Directors or the General Meeting of Shareholders 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 auditor.

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 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 information 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 that 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 and supervision.

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 auditing 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 control activities in place 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 of 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 the Accounting Policies Manual.

h) Taxes.

i) Reporting systems, including capture and preparation mechanisms for supporting financial information to be issued.

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 that 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 designed to supervise the management of third party subcontracted activities, in addition to any evaluation, calculation or appraisal tasks entrusted to independent experts that may have a material impact on the financial statements.

As described in section F.3.1, Colonial has identified the key processes that 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 that 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's annual plan includes the monitoring activities needed to ensure the processes described are correctly executed.

F.4 Information and reporting

Report, indicating salient features, 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 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 to capture and prepare the financial information with consistent formats, to be implemented and used by all units in the Company or group, which support the main financial statements and the notes, in addition to any information provided on the 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 templates of financial statements that 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, Colonial uses 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 2017 consisted of approving the Internal Audit Plan for 2017, 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 management 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 of the Board of Directors, and, specifically the section regarding the responsibilities of the ACC, stipulate that the responsibilities of the Committee include, among others:

"The Audit and Control Committee, with respect to the information and internal control systems, shall:

(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 that comprise the internal control system, offering suggestions for improvement.

The ACC has already approved the Internal Audit Plan for 2018, 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. Whether the Company has a discussion procedure whereby the accounts auditor (in accordance with what is set forth in the NTAs), the Internal Audit staff and other experts are able to inform senior management and the Audit Committee or Company directors of any significant weaknesses in internal control identified during the processes of review of annual financial statements or any others entrusted to them. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

Article 8 of Colonial's Board Regulations provides as follows:

"Dealings of the Board of Directors with the external auditor will be through the Audit and Control Committee."

In this regard, Article 32 of the Board Regulations governs 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, in connection with the external auditor, the ACC has the duty to receive regular information from the external auditor on the audit plan and the implementation 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 Board of Directors 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 significant information

No additional issues to disclose have been identified.

F.7 External auditor report

Report by:

F.7.1. If the ICFR information supplied to the market has been reviewed by the external auditor, the corresponding report should be attached. If this is not the case, it should explain why.

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 EXTENT TO WHICH THE CORPORATE GOVERNANCE RECOMMENDATIONS ARE FOLLOWED

Please indicate the extent to which the Company has followed the recommendations of the Code of Good Governance.

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 acquiring shares on the market.

Compliant X **Explain □**

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

a) Their respective areas of activity and possible business relations between them, as well as those of the subsidiary listed company with other companies belonging to the same group.

b) The mechanisms in place to resolve any conflicts of interest that may arise.

Compliant X Partially compliant □ Explain □ Not applicable □

3. During the ordinary 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) Of the changes that have occurred since the last ordinary general meeting.

b) Of the specific reasons why the Company is not following any recommendations of the Code of Corporate Governance and, if any, the alternative rules applied to this matter.

Compliant X **Partially compliant □** **Explain □**

4. The Company shall define and promote a policy of communication and contact with shareholders, institutional investors and proxy advisors, respecting the rules on market abuse and treating shareholders who are in the same position equally.

And that the Company should make this policy public via its website, including information on the way it has been put in practice and identifying the interlocutors or persons responsible for carrying this out.

Compliant X Partially compliant □ Explain □

5. That the Board of Directors does not submit to the general meeting a proposal of delegation of powers to issue shares or convertible securities excluding the right to preferential purchase, for an amount above 20% of the share capital at the time of delegation.

And that when the Board of Directors approves any issue of shares or convertible securities excluding the right to preferential purchase, the Company should immediately publish on its website the reports on this exclusion as laid down in the companies laws.

Compliant X Partially compliant □ Explain □

6. The listed companies which produce the reports listed below, either in mandatory or voluntary form, publish them on their website well in time before the ordinary general meeting is held, although their dissemination is not mandatory:

a) Report on external auditor independence.

b) Reports of proceedings of the audit committees and the Appointments and Remuneration Committee.

c) Audit Committee Report on Related Party Transactions

d) Report on the corporate social responsibility policy.

Compliant X Partially compliant □ Explain □

7. The Company broadcasts live, via its website, the holding of general meetings of shareholders.

Compliant X Explain □

8. The Audit Committee ensures that the Board of Directors should seek to present the accounts to the General Meeting of Shareholders without limitations or qualifications in the audit report and, in exceptional cases where there are qualifications, both the chairman of the Audit Committee and the auditors should clearly explain to shareholders the contents and scope of such limitations or qualifications.

Compliant X Partially compliant □ Explain □

9. The Company should make public on its website, permanently, the requirements and procedures it will accept to prove ownership of shares, the right to attend the general meeting of shareholders and the exercise or delegation of voting rights.

And such requirements and procedures facilitate the shareholders' attendance and the exercise of their rights and are applied in a non-discriminatory manner.

Compliant X Partially compliant □ Explain □

10. Where any legitimate shareholder has exercised, prior to the holding of the general meeting of shareholders, the right to complete the agenda or to submit new resolution proposals, the Company:

a) Immediately disseminates such additional items and new resolution proposals.

b) Makes public the attendance card model or form of proxy or remote voting with the changes required so that the new items on the agenda and alternative resolution proposals can be voted on, on the terms proposed by the Board of Directors.

c) Submits all these items or alternative proposals to vote and the same voting rules are applied to them as those made by the Board of Directors, including, in particular, presumptions or inferences about the meaning of the vote.

d) Announces, after the general meeting of shareholders, the breakdown of the vote on such additional points or alternative proposals.

Compliant X Partially compliant □ Explain □ Not applicable □

11. In the event that the Company plans to pay premiums to attend the general meeting of shareholders, it will previously establish a general policy on such premiums and this policy is stable.

Compliant □ Partially compliant □ Explain □ Not applicable X

12. The Board of Directors shall perform its duties with unity of purpose and independent judgment and it shall treat all shareholders who are in the same position equally and guide itself by the Company's interests which are understood as achieving a profitable and sustainable long-term business, to promote the Company's continuity and maximize its economic value.

In pursuing the Company's interests, in addition to complying with laws and regulations and acting in good faith, ethically and respecting the commonly accepted uses and good practices, the Board of Directors shall endeavour to reconcile the Company's interests with, where applicable, the legitimate interests of its employees, its suppliers, its customers and those of other stakeholders that may be affected, as well as the impact of the Company's activities on the community as a whole and in the environment.

Compliant X Partially compliant □ Explain □

13. The Board of Directors has enough members in order to implement efficient and participative proceedings, which makes it advisable that the Board should have from five to fifteen members.

Compliant X **Explain □**

14. The Board of Directors approves a policy of selection of directors that:

a) Is specific and verifiable.

b) Ensures that proposals for appointment or reappointment are based on a preliminary analysis of the needs of the Board of Directors.

c) Promotes the diversity of knowledge, experience and gender.

The result of the previous analysis of the needs of the Board of Directors is collected in the committee's report justifying the appointments to be published when the general meeting of shareholders is called, in which the ratification, appointment or re-election of each director is submitted.

And the selection policy promotes the goal that by 2020 the number of female directors will represent no less than 30% of the total members of the Board of Directors.

The Appointments Committee shall annually verify compliance with the policy of selection of directors and inform thereof in the annual corporate governance report.

Compliant X **Partially compliant □** **Explain □**

15. The proprietary directors and independent directors constitute a significant majority of the Board of Directors and the number of executive directors is kept to the minimum necessary, having regard to the complexity of the corporate group and the percentage shareholding of the executive directors in the Company's share capital.

Compliant X **Partially compliant □** **Explain □**

16. The percentage of proprietary directors over the total of non-executive directors is not higher than the proportion between the capital represented by such directors and the remainder of the Company's share capital.

This criterion may be reduced:

a) In highly capitalized companies where the shareholdings legally considered significant are low.

b) In companies where there is a diversity of shareholders represented on the Board of Directors and there are no links between them.

Compliant X **Explain □**

17. The number of independent directors represents at least half of all directors.

However, where the Company is not highly capitalized or where, still being so, it has a shareholder or several acting together, who control more than 30% of the share capital, the number of independent directors should represent at least one-third of all directors.

Compliant □ **Explain X**

During the first half of 2017, the Company complied with the recommendation insofar as it was not considered a highly capitalised company. At 31 December 2017, the Company, considered a highly capitalised company, did not comply with the recommendation, although the percentage of independent directors is almost half of the total number of directors, as there are 4 independent directors over a total of 10 directors. In this regard, the number of independent directors of Colonial is equal to the number of proprietary directors and, in any case, greater than the number of executive directors.

Thus, although the percentage of independent directors does not reach the 50% required by the recommendation, the Company estimates that the representation of this type of Directors is high, so all interests are duly represented in the board of directors.

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

a) Professional and biographical profile.

b) Other boards of directors on which they sit, whether or not these belong to listed companies, as well as other remunerated activities in which they may be involved.

c) The category to which he belongs, where applicable, stating, in the case of proprietary Directors, the shareholder to whom he owes his/her office and with whom he is associated.

d) Date when they were first appointed as a director of the Company, as well as the dates of any subsequent reappointments.

e) Their holdings of Company shares and their stock options.

Compliant X **Partially compliant □** **Explain □**

19. The Annual Corporate Governance Report, with prior verification by the Appointments Committee, explains the reasons for the appointment of proprietary directors at the request of shareholders whose shareholding is less than 3% of the share capital; and reasons are given why formal requests for a seat on the board from shareholders with a stake equal to or greater than that of others, at whose request proprietary directors were appointed, have not been respected.

Compliant □ **Partially compliant □** **Explain □** **Not applicable X**

20. Proprietary directors tender their resignation when the shareholders they represent sell their entire shareholding. If such shareholders reduce their stakes, thereby losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

Compliant X **Partially compliant □** **Explain □** **Not applicable □**

21. The Board of Directors shall not propose the removal of any independent Director before the statutory period for which they were appointed, except where just cause is found by the Board of Directors following a report from the Appointments Committee. It shall be understood that there is just cause when the Director occupies a new position or takes on new duties that prevent him/her from devoting the necessary time to the performance of the duties associated with the office of Director, when the director fails to fulfil the duties inherent to his/her office or when the director is involved in circumstances which cause him/her to lose his/her independent status in accordance with the provisions of the applicable legislation.

The removal of independent directors from office may also be proposed as a result of public buy-outs, mergers or other similar enterprise-level transactions implying a change in the structure of the Company's capital, where such changes in the Board are due to the proportionality criterion in Recommendation 16.

Compliant X Explain □

22. Companies establish rules obliging directors to provide information and, where appropriate, tender their resignation in cases where it is alleged they could prejudice the good name and reputation of the Company and, in particular, oblige them to inform the Board of Directors of any criminal lawsuits they may be involved in, as well as any subsequent legal 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 corporate law, the Board of Directors shall examine the case as soon as practicable and, in view of the particular circumstances, decide whether or not he/she should remain in office And the Board of Directors gives a reasoned account of such circumstances in the Annual Corporate Governance Report.

Compliant X Partially compliant □ Explain □

23. All directors clearly express their opposition when they consider that a proposal submitted to the Board for Directors for decision could be contrary to the Company's interests. Moreover, independent and other directors in particular, who are not affected by potential conflict of interest, do the same in the case of decisions that could be detrimental to shareholders not directly represented on the Board of Directors.

And when the Board of Directors adopts significant or repeated decisions on matters with regard to which the director has expressed serious reservations and subsequently opts to resign, the ensuing conclusions drawn and reasons for the resignation are explained in the letter referred to in the following recommendation. This recommendation also affects the Secretary to the Board of Directors, even where he/she does not have the status of director.

Compliant X Partially compliant □ Explain □ Not applicable □

24. When, whether due to resignation or any other reason, a director leaves his or her position before the end of the term, the reasons are explained in a letter sent to all the members of the Board of Directors. Irrespective of whether such resignation is filed as a

regulatory announcement, the motive for the same must be explained in the Annual Corporate Governance Report.

Compliant X Partially compliant □ Explain □ Not applicable □

25. In addition, the Appointments and Remuneration Committee shall ensure that non-executive directors have sufficient time to properly perform their duties;

and that the Board regulations sets the maximum number of boards of which the directors may form part.

Compliant X Partially compliant □ Explain □

26. The Board of Directors holds meetings as frequently as required in order to carry out its role effectively, at least eight times a year, following the programme and agenda established at the start of the financial year, with each director able to propose for inclusion alternative items not originally on the agenda.

Compliant X Partially compliant □ Explain □

27. A Director's absence should be limited to the bare minimum and quantified in the Annual Corporate Governance Report. And, when they must occur, instructions are given to proxies.

Compliant X Partially compliant □ Explain □

28. When the directors or the Company secretary express concerns about a particular proposal or, in the case of the directors, about the Company's progress and such concerns are not resolved within the Board of Directors, this is recorded in the minutes at the request of whoever expressed such concerns.

Compliant X Partially compliant □ Explain □ Not applicable □

29. The Company shall establish 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.

Compliant X Partially compliant □ Explain □

30. In addition, regardless of the knowledge required of the Directors to perform their duties, the Company will also offer Directors refresher programs when circumstances so warrant.

Compliant X Explain □ Not applicable □

31. The agenda of the sessions clearly indicates those points on which the Board of Directors shall adopt a decision or agreement so that directors can study or seek, in advance, the information required for its adoption.

When exceptionally, for reasons of urgency, the Chairman wants to submit to the approval of the Board of Directors any decisions or agreements not included in the agenda, this will require the express prior consent of the majority of the directors present, which will be duly recorded in the minutes.

Compliant X   Partially compliant □   Explain □

32. Directors should be regularly informed of the movements in shareholders and of the opinion that significant shareholders, investors and rating agencies have on the Company and its group.

Compliant X   Partially compliant □   Explain □

33. The Chairman, as responsible for the effective proceedings of the Board of Directors, in addition to exercising the functions legally and statutorily assigned to him/her, prepares and submits to the Board of Directors a program of dates and issues to be addressed; organizes and coordinates the periodic evaluation of the board and, where appropriate, the chief executive officer of the Company; is responsible for the management of the board and the effectiveness of its operation; ensures that sufficient time is devoted to discussion on strategic issues, and arranges and reviews refresher programs for each director, when circumstances so require.

Compliant X   Partially compliant □   Explain □

34. When there is a coordinating director, the Bylaws or regulations of the Board of Directors, in addition to the powers legally entitled, attribute him/her the following: chairing the Board of Directors in the absence of the Chairman and Vice-Chairmen, if any; echoing the concerns of non-executive directors; maintaining contacts with investors and shareholders to ascertain their views in order to form an opinion about their concerns, particularly in relation to the corporate governance of the Company; and coordinate the Chair´s plan of succession.

Compliant X   Partially compliant □   Explain □   Not applicable □

35. The Secretary to the Board of Directors shall also ensure that the Board of Directors is aware of recommendations on good governance that apply to the Company and that are part of the Code of Good Governance for listed companies.

Compliant X   Explain □

36. The complete Board of Directors will evaluate, once a year, and adopt, where applicable, an action plan to correct the deficiencies identified with respect to:

a) the quality and efficiency of the Board of Director's operation;

b) the operations and the composition of its committees;

c) the diversity of Board membership and competences;

d) the performance of the Chairman of the Board of Directors and the Chief Executive Officer of the Company;

e) the performance and contribution of each Director, paying particular attention to those who are in charge of the various board committees.

The evaluation of the various committees will be based on the reports they submit to the Board of Directors, and for the latter, evaluation will be based on the one submitted by the Appointments Committee.

Every three years, the Board of Directors will be assisted to carry out the evaluation by an external consultant, whose independence will be verified by the Appointments Committee.

Business relationships that the consultant or any Company in its group have with the Company or any Company of its group should be detailed in the annual corporate governance report.

The process and the evaluated areas will be further described in the annual corporate governance report.

Compliant X Partially compliant □ Explain □

37. When an Executive Committee exists, the framework for the participation of the different categories of directors will be similar to that of the Board of Directors itself, and its Secretary will be the secretary to the board.

Compliant X Partially compliant □ Explain □ Not applicable □

38. The Board of Directors is always aware of matters dealt with and decisions adopted by the Executive Committee and all the members of the board receive a copy of the minutes of the meetings of the Executive Committee.

Compliant X Partially compliant □ Explain □ Not applicable □

39. The members of the Audit Committee, and especially its chairman, are appointed taking into account their knowledge and expertise in the field of accounting, audit or risk management, and the majority of such members are independent directors.

Compliant X Partially compliant □ Explain □

40. To supervise the division that fulfils the internal audit duties to ensure the proper functioning of the information and internal control systems, which are functionally dependent on the non-executive Chairman of the Board or the Audit Committee.

Compliant X Partially compliant □ Explain □

41. The head of the division that fulfils the internal audit duties shall present its annual work plan to the Audit Committee in which it directly reports any incidents that may have arisen during its implementation, submitting this information at the end of each year in an activity report.

Compliant X Partially compliant □ Explain □ Not applicable □

42. In addition to those as legally established, the Audit Committee is responsible for the following:

1. With regard to information systems and internal control:

a) Supervise the process of preparing and the integrity of the financial information on the Company and, where applicable, to the Group, reviewing compliance with the regulatory requirements, the proper delimitation of its scope of consolidation and the correct application of accounting principles;

b) Ensure the independence and effectiveness of the internal audit processes, proposing the election, appointment, re-election and removal of the head of the internal audit division in addition to proposing the budget for this service, approving both orientation and its operating plans, ensuring that their activity is focused mainly on the risks that are relevant to the Company, receiving regular information on their activities and verifying that senior management is taking into account the conclusions and recommendations of the Committee's reports;

c) Establish and supervise a method that allows employees to make confidential and, if possible and appropriate, anonymous statements on any irregularities, especially financial and accounting irregularities, that may potentially be important to the Company.

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) ensuring that the compensation for the external auditor for their work does not compromise their integrity or independence;

c) overseeing that the Company notifies the change of auditor as a regulatory announcement to Spain's National Securities Market Commission (CNMV) and that this notification is accompanied by a statement citing any disagreements the Company may have had with the outgoing auditor and, if there were such disagreements, to discuss them;

d) Ensure that the external auditor annually holds a meeting with the full Board of Directors to report on the work done and the evolution of the Company´s accounting and risk situation.

e) Ensure that the Company and the external auditor adhere to current regulations regarding the provision of non-audit services as well as the limits on the auditor's business concentration and, in general, the other rules on auditor independence.

Compliant X Partially compliant □ Explain □

43. The Audit Committee may summon any employee or executive of the Company; this includes appearances without the presence of any other executive.

Compliant X Partially compliant □ Explain □

44. The Audit Committee is informed about the operations of structural and corporate changes that the Company plans to carry out, for analysis and preliminary report to the Board of Directors on their economic conditions and their accounting impact, and especially, if any, on the proposed swap equation.

Compliant X Partially compliant □ Explain □ Not applicable □

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

a) The different types of financial and non-financial risks (including operational, technological, legal, business, environmental, political and reputational) that the Company faces, including financial and economic risks, contingent liabilities and other risks not found on balance sheets;

b) Setting the level of risk that the Company considers acceptable;

c) The measures planned to mitigate the impact of identified risks, should they materialize;

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

Compliant X Partially compliant □ Explain □

46. Under the direct supervision of the Audit Committee or, if any, of a specialized committee of the Board of Directors, there is an internal function of risk control and management exercised by a unit or internal department of the Company that has expressly attributed the following functions:

a) to ensure the proper functioning of the control and risk management systems and, in particular, that all the important risks that affect the Company are adequately identified, managed and quantified;

b) to actively participate in the development of a risk strategy and to take part in the important decisions concerning risk management;

c) to ensure that the control and risk management systems in place adequately mitigate the risks within the framework of the policy defined by the Board of Directors.

Compliant X Partially compliant □ Explain □

47. Members of the Appointments and Remuneration Committee – or both Committees if they were separate – are designated by ensuring that they have the knowledge, skills and experience appropriate to the duties that they are to perform and that most of these members are independent directors.

Compliant X Partially compliant □ Explain □

48. Highly-capitalized companies have an Appointments Committee and a separate Remuneration Committee.

Compliant □ Explain X Not applicable □

During the first half of 2017, the recommendation was not applicable to the Company insofar as it was not considered a highly capitalised company. At 31 December 2017, having acquired the status of a highly-capitalised entity, the Company did not comply with this recommendation, although, given the current structure of the Company, it is considered appropriate for it to maintain one single appointments and remuneration committee.

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

Any Director may request that the Appointments Committee take into consideration potential candidates to fill director vacancies if he/she feels that they are suitable.

Compliant X Partially compliant □ Explain □

50. The duties of the remuneration committee must be exercised with independence and include, in addition to those indicated by law, the following:

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) To periodically review the remuneration policy applied to Directors and senior officers, as well as the compensation systems which include shares and how they are implemented, in addition to guaranteeing that their individual compensation is proportional to that which is paid to other Directors and senior officers of the Company.

d) To ensure that any conflicts of interest does not interfere with the independence of the external advice given to the Appointments and Remuneration Committee.

e) To verify the information on Directors and senior officers' remuneration found in various corporate documents, including the annual report on Director compensation.

Compliant X Partially compliant □ Explain □

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

Compliant X Partially compliant □ Explain □

52. The rules regarding the composition and proceedings of the supervising and control committees are listed in the Board Regulations, are consistent with those applicable to the legally mandatory committees under the foregoing recommendations, and include the following:

a) These committees are composed exclusively of nonexecutive directors, with a majority of independent directors.

b) The chairmen of these committees are independent directors.

c) The Board of Directors appoints the members of these committees, taking into account the knowledge, skills and experience of the directors and the responsibilities of each committee; deliberates on its proposals and reports; and, at the first plenary session of the board after their meetings, receives an account of their activity and a report on the work carried out.

d) The Committees may seek outside advice when they deem it necessary to perform their duties.

e) Minutes are taken for all their meetings and copies are sent to all directors.

Compliant □ Partially compliant □ Explain □ Not applicable X

53. The supervision of compliance with the rules of corporate social responsibility policy, the internal codes of conduct and the corporate governance policy is attributed to one or more committees within the Board of Directors; these committees may be the Audit Committee, the Appointments Committee, or the corporate social responsibility committee, if any, or a specialised committee created specifically for such duties by the Board of Directors; and these committees will have the following minimum duties:

a) Overseeing compliance with the Company's internal codes of conduct and its rules of corporate governance;

b) Supervising the Company's communication strategy and its relations with shareholders and investors, including small and medium shareholders;

c) Regular assessment of the adequacy of the Company's corporate governance system so that it may fulfil its mission of promoting its business activity and keep the legitimate interests of other stakeholders in mind;

d) Reviewing the Company's corporate responsibility policy, ensuring that it is aimed at creating value;

e) monitoring the Company's social responsibility strategy and practices and assessing its degree of compliance;

f) supervising and evaluating relations with different stakeholders;

g) Evaluating all matters that relate to the Company's non-financial risks, including operational, technological, legal, social, environmental, political and reputational risks;

h) Coordinating the process of reporting non-financial information and information on diversity, in accordance with applicable regulations and international reference standards.

Compliant X Partially compliant □ Explain □

54. The corporate social responsibility policy includes the principles or commitments, which the Company voluntarily assumes in its relationship with the different stakeholders and identify at least:

a) The objectives of the corporate social responsibility policy and the development of support tools.

b) The corporate strategy related 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) Methods or systems monitoring the results of the implementation of the specific practices identified in the previous point, the associated risks and their management.

e) The mechanisms for monitoring non-financial risk, ethics and business conduct.

f) The channels of communication, participation and dialogue with stakeholders.

g) Responsible communication practices that prevent manipulation of information and protect the integrity and honour.

Compliant X   Partially compliant □   Explain □

55. The company should report in a separate document or in the management report on matters related to corporate social responsibility, using any of the internationally accepted methodologies.

Compliant X   Partially compliant □   Explain □

56. The compensation of the Directors is what is necessary to attract and retain Directors with a desirable profile, to compensate them for the dedication, qualifications and responsibility that the position entails, and to ensure that to the amount does not interfere with the independence of Non-Executive Directors' decisions;

Compliant X   Explain □

57. Executive Directors are restricted to variable remuneration linked to the performance of the Company and to their personal performance, as is the compensation in the form of shares, stock options or rights to shares or instruments that are referenced to the value of the stock and long-term savings systems such as pension plans, retirement schemes or other social security systems.

Delivery of shares as remuneration can be contemplated for non-executive directors on condition that they hold them until they cease to be directors. The foregoing shall not apply to shares that the director needs to dispose of, if appropriate, to meet the costs related to acquisition.

Compliant X   Partially compliant □   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 activity sector or circumstances of this kind.

And in particular, the variable components of remunerations:

a) Are linked to performance criteria that are predetermined and measurable and that these criteria consider the risk taken to obtain a result.

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

c) Are set on the basis of a balance between fulfilling short-, medium- and long-term goals, to remunerate the results from continued performance over a sufficient period of time to appreciate their contribution to sustainable value creation, so that the elements that measure the results do not revolve solely around specific, occasional or extraordinary events.

Compliant X Partially compliant □ Explain □ Not applicable □

59. The payment of a significant part of the variable components of remuneration is deferred for a period sufficient to ensure that the previously established minimum performance conditions have been met.

Compliant X Partially compliant □ 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.

Compliant X Partially compliant □ Explain □ Not applicable □

61. A significant percentage of the variable remuneration of executive directors is linked to the delivery of shares or financial instruments referenced to its value.

Compliant X Partially compliant □ Explain □ Not applicable □

62. Once the shares or options or rights over shares corresponding to the remuneration systems are allocated, directors will not be able to transfer ownership of a number of shares equivalent to twice their fixed annual remuneration, or to exercise the options or rights until at least three years the allocation thereof have elapsed.

The above shall not apply to shares that the director needs to dispose of, if appropriate, to meet the costs related to acquisition.

Compliant X Partially compliant □ Explain □ Not applicable □

63. Contractual agreements include a clause that allows the Company to claim reimbursement of variable components of remuneration when payment has not been adjusted to the return conditions or when they have been paid based on data that are subsequently credited with inaccuracy.

Compliant X Partially compliant □ Explain □ Not applicable □

64. Payments for contract termination do not exceed the established amount equivalent to two years of total annual remuneration and they are not paid until the Company has been able to verify that the director has met the performance criteria previously established.

Compliant X Partially compliant □ Explain □ Not applicable □

H OTHER INFORMATION OF INTEREST

1. If there are any relevant points regarding the corporate governance of the Company or entities of the group that are not contained in the rest of the sections of this report, but which should be included in order to present a more

complete and reasoned view of the governance structure and practices of the Company or its group, describe them briefly

On Colonial joined the Ibex 35 on 19 June 2017, which meant that in the middle of the year it was considered a highly capitalised company in accordance with the recommendations of the *Code of Good Governance for Listed Companies*, approved by the CNMV in February 2015.

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.

A.2. As regards Mr Carlos Fernández González, additionally, and as "other close connections" of directors is the following information:

Name or company name of the director	**Indirect rights**		**Number of equivalent shares**	**% of total voting rights**
	Close connection*	**Number of voting rights**		
Mr Carlos Fernández González	Finaccess México, S.A. de C.V., Sociedad Operadora de Fondos de Inversión **	4,239,062	4,239,062	0.974

*Legal entity or fiduciary legal business whose economic interests are largely equivalent to those of the officer or director.

. The holder of the share is Latin 10, SA de CV, a fund independently managed by Finaccess Mexico, SA de CV (a subsidiary of Grupo Finaccess, which has availed itself of article 26 of Royal Decree 1362/2007).

A.9. bis. The calculation was based on the instructions contained in *Circular 5/2013, dated 12 June, issued by the Spanish Securities Market Commission (CNMV), which establishes the annual corporate governance report models for listed companies, savings banks and other entities that issue securities admitted to trading on official stock markets,* reflecting the share capital that is not held by significant shareholders, the members of the Board of Directors and the members of the Board of Directors, as well as treasury shares.

C.1.11. The Company is the sole director of Colonial Tramit, S.L., Colonial Invest, S.L., Morage Inversiones 2014, S.L. and Danieltown Spain, S.L., and Mr Pedro VIñolas Serra, in his capacity as CEO of Colonial, is the physical representative of the Company, in his capacity as sole director of these entities.

C.1.15. In relation to the amount of the total remuneration of the Board of Directors indicated in the aforementioned section, it is reported that the Directors, in their capacity as such, receive up to a maximum remuneration of €1,900,000, in accordance with the remuneration policy approved by the General Meeting of Shareholders of 29

June 2016. This remuneration dos not apply to directors holding executive positions or functions (Chairman and CEO) do not participate, in accordance with the aforementioned policy.

Consequently, the information contained in the aforementioned section of the Annual Corporate Governance Report includes the total remuneration of directors, both executive and directors who hold only the status of directors.

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

In relation to the functions of the Company's Coordinating Director, during 2017, said director has held three preparatory meetings with the independent directors, attending both to the functions that the Coordinating Director is legally entrusted with (article 529 septies of the Spanish Limited Liability Companies Law), as well as the recommendations on good governance established for this purpose in the Code of Good Governance of Listed Companies, approved in February 2015 by the CNMV (recommendation 34).

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, it will mention whether the Company has adhered to the Code of Good Tax Practice of 20 June 2010.

   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.

This annual corporate governance report was approved by the Company's Board of Directors at its meeting held on 22 February 2018.

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

DECLARACIÓN DE RESPONSABILIDAD DEL INFORME FINANCIERO ANUAL

Los miembros del Consejo de Administración de INMOBILIARIA COLONIAL, SOCIMI, S.A. que se relacionan a continuación, declaran, hasta donde alcanza su conocimiento, que la información financiera anual de INMOBILIARIA COLONIAL, SOCIMI, S.A., que incluye las cuentas anuales individuales y consolidadas de INMOBILIARIA COLONIAL, SOCIMI, S.A. y sus sociedades dependientes, correspondientes al ejercicio 2017, formuladas por el Consejo de Administración en su reunión de 22 de febrero de 2018 y elaboradas conforme a los principios de contabilidad que resultan de aplicación, ofrecen la imagen fiel del patrimonio, de la situación financiera y de los resultados de INMOBILIARIA COLONIAL, SOCIMI, S.A., así como de las sociedades dependientes comprendidas en la consolidación, tomadas en su conjunto, y que los respectivos informes de gestión incluyen un análisis fiel de la evolución y los resultados empresariales y de la posición de la Sociedad y sus sociedades dependientes, junto con la descripción de los principales riesgos e incertidumbres a que se enfrentan.

En Madrid, a 22 de febrero de 2018.

D. Juan José Brugera Clavero
Presidente

D. Carlos Fernández-Lerga Garralda
Consejero

D.Pedro Viñolas Serra
Consejero Delegado

D. Javier Iglesias de Ussel Ordís
Consejero

D. Luis Maluquer Trepat
Consejero

D. Carlos Fernández González
Consejero

Dª. Ana Sainz de Vicuña Bemberg
Consejera

DECLARATION OF RESPONSIBILITY FOR THE ANNUAL FINANCIAL REPORT

Adnane Mousannif, Director of the Board of Directors of INMOBILIARIA COLONIAL, SOCIMI, S.A., declares that, to the best of his knowledge, the annual financial information of INMOBILIARIA COLONIAL, SOCIMI, S.A., that includes the individual and consolidated accounts of INMOBILIARIA COLONIAL, SOCIMI, S.A. and its subsidiaries, corresponding to the year 2017, formulated by the Board of Directors on February 22, 2018 and prepared in accordance with the applicable accounting principles, offer a true and fair view of the assets, the financial situation and the results of INMOBILIARIA COLONIAL, SOCIMI, S.A., and its subsidiaries included in the consolidation, taken as a whole, and that the corresponding management reports include a fair analysis of the evolution and the financial results of the company and the position of it and its subsidiaries along with the description of the main risks and uncertainties they face.

Doha (Qatar), on February 22, 2018

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Adnane Mousannif
Director of Inmobiliaria Colonial, SOCIMI, S.A.

DECLARACIÓN DE RESPONSABILIDAD DEL INFORME FINANCIERO ANUAL

D. Juan Carlos García Cañizares, miembro del Consejo de Administración de INMOBILIARIA COLONIAL, SOCIMI, S.A., declara, hasta donde alcanza su conocimiento, que la información financiera anual de INMOBILIARIA COLONIAL, SOCIMI, S.A., que incluye las cuentas anuales individuales y consolidadas de INMOBILIARIA COLONIAL, SOCIMI, S.A. y sus sociedades dependientes, correspondientes al ejercicio 2017, formuladas por el Consejo de Administración en su reunión de 22 de febrero de 2018 y elaboradas conforme a los principios de contabilidad que resultan de aplicación, ofrecen la imagen fiel del patrimonio, de la situación financiera y de los resultados de INMOBILIARIA COLONIAL, SOCIMI, S.A., así como de las sociedades dependientes comprendidas en la consolidación, tomadas en su conjunto, y que los respectivos informes de gestión incluyen un análisis fiel de la evolución y los resultados empresariales y de la posición de la sociedad y sus sociedades dependientes, junto con la descripción de los principales riesgos e incertidumbres a que se enfrentan.

En Nueva York, 22 de febrero de 2018

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D. Juan Carlos García Cañizares
Consejero de Inmobiliaria Colonial, SOCIMI, S.A.

DECLARATION OF RESPONSIBILITY FOR THE ANNUAL FINANCIAL REPORT

Sheikh Ali Jassim M. J. Al-Thani, Director of the Board of Directors of INMOBILIARIA COLONIAL, SOCIMI, S.A., declares that, to the best of his knowledge, the annual financial information of INMOBILIARIA COLONIAL, SOCIMI, S.A., that includes the individual and consolidated accounts of INMOBILIARIA COLONIAL, SOCIMI, S.A. and its subsidiaries, corresponding to the year 2017, formulated by the Board of Directors on February 22, 2018 and prepared in accordance with the applicable accounting principles, offer a true and fair view of the assets, the financial situation and the results of INMOBILIARIA COLONIAL, SOCIMI, S.A., and its subsidiaries included in the consolidation, taken as a whole, and that the corresponding management reports include a fair analysis of the evolution and the financial results of the company and the position of it and its subsidiaries along with the description of the main risks and uncertainties they face.

Doha (Qatar), on February 22, 2018

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Sheikh Ali Jassim M. J. Al-Thani
Director of Inmobiliaria Colonial, SOCIMI, S.A.