

REPORT BY THE BOARD OF DIRECTORS OF INMOBILIARIA COLONIAL, SOCIMI, S.A. IN CONNECTION WITH THE MERGER OF INMOBILIARIA COLONIAL, SOCIMI, S.A. (AS ABSORBING COMPANY) AND AXIARE PATRIMONIO SOCIMI, S.A. (AS ABSORBED COMPANY)

PURPOSE OF THE REPORT

This report has been drawn up by the Board of Directors of Inmobiliaria Colonial, SOCIMI, S.A. ('Colonial', jointly with the companies in its group, the '**Colonial Group**'), in respect of the merger by absorption between Colonial, as the absorbing company, and Axiare Patrimonio SOCIMI, S.A. ("**Axiare**") as the absorbed company (the "**Merger**"). The planned merger will involve the extinguishment of Axiare through its dissolution without liquidation and the transfer of all its equity to Colonial, which will acquire the entirety of Axiare's equity by universal succession, as well as its rights and obligations. At the date of this report, Colonial is the holder of 68,674,633 Axiare shares, accounting for 86.86% of its share capital.

This report is issued by the Board of Directors of Colonial for the purpose of complying with:

- a) Article 33 of *Law 3/2009 of 3 April on structural changes of commercial companies* (the "**Law on Structural Changes**");
- b) Article 35 of the Law on Structural Changes; and
- c) Articles 286, 296 and 300 of the consolidated text of the Spanish Limited Liability Companies Law enacted by Royal Legislative Decree 1/2010 of 2 July (the "**Spanish Limited Liability Companies Law**"), in relation to the capital increase to be carried out by Colonial as a result of the Merger.

A. LEGAL AND ECONOMIC ASPECTS OF THE COMMON DRAFT TERMS OF THE MERGER

In accordance with the provisions of article 33 of the Law on Structural Changes, the Board of Directors of each company that participate in the merger must prepare a report explaining and justifying the legal and economic aspects of the common draft terms of the merger (the "**Common Draft Terms of the Merger**"), with special reference to the share exchange ratio and to any special valuation difficulties that may exist, as well as the implications of the Merger for shareholders, creditors and employees.

In this regard, all the directors of Colonial and Axiare jointly approved the Common Draft Terms of the Merger, which is deemed reproduced herein in its entirety, on 10 April 2018. In compliance with the provisions of Article 32 of the Law on Structural Changes, the Common Draft Terms of the Merger has been posted on the corporate web pages of Colonial (www.inmocolonial.com) and Axiare (www.axiare.es) and the fact of such posting shall be published in the Official Gazette of the Commercial Registry under the terms of the law. Notwithstanding the foregoing, a copy of the Common Draft Terms of the Merger has been filed in the Commercial Registry of Madrid. The filing and the date on which it took place has been published in the Official Gazette of the Commercial Registry.

The Common Draft Terms of the Merger shall be submitted for the approval of the general meetings of shareholders of Colonial and Axiare in accordance with Article 40 of the Law on Structural Changes.

A.1. JUSTIFICATION OF THE MERGER

On 28 December 2017, the Spanish Securities Market Commission (the "CNMV") authorised Colonial's voluntary takeover bid for all of Axiare's shares (the "Offer"). After the corresponding acceptance period, which ended on 29 January 2018, the Offer obtained a positive result as it was accepted by Axiare shareholders holding 45,912,569 shares. Thus, after its liquidation, Colonial's share in Axiare reached 86.86%. As stated in the Offer prospectus, Colonial provided for the possibility of commencing, depending on the outcome of the Offer, a merger by absorption process between Colonial and Axiare, in which Colonial would be the resulting company.

The objective of the planned Merger is the internal reorganisation of the Colonial Group with the following aims: (i) to consolidate Colonial's position in the prime office sector; (ii) to streamline and optimise the organisational and functional structure of the Group and (iii) to improve its financial structure.

- (i) Consolidate Colonial's position in the prime office sector: The growing competition in the Spanish real estate market and the increase in the average size of its main agents have imposed on Spanish real estate companies the need to expand and achieve a higher level of efficiency and profitability in order to strengthen their competitive position and respond to the challenges posed by the new constraints of the sector.

In this regard, the combination of Colonial and Axiare's activities into a single platform will allow the company resulting from the merger to grow in size, consolidate its position in the Spanish and European real estate markets and strategically position itself for investment opportunities that may arise in the prime office market; all this in response to the massive consolidation and clear focus on specialisation that the European real estate sector has experienced in recent years.

As of 31 December 2017, the Colonial Group's portfolio of real estate assets, excluding Axiare, was valued at approximately 9,282 million euros⁽¹⁾. 67% of the value of these assets was located in Paris, through the subsidiary of Colonial *Société Foncière Lyonnaise* ("SFL"), and 23% and 10% in Madrid and Barcelona, respectively. The Colonial Group's portfolio of real estate assets, including Axiare, is now valued at approximately 10,730 million euros. 58% of these assets are located in Paris, through SFL, and 30% and 10% in Madrid and Barcelona, respectively.

In this regard, the Merger will allow the Colonial Group (a group to which Axiare has recently been incorporated) to unify the real estate assets located in Madrid and Barcelona under the same platform in order to combine strengths and reach a size that allows the resulting company to compete against the main market agents for the business opportunities generated in Spain. The Merger will, therefore, allow integrating Axiare's portfolio into Colonial, highly complementary to Colonial's strategy of 74% office space, as well as creating one of the main agents of the Spanish real estate sector, specialising in the leasing of prime offices.

For these purposes, the competitive position of the company resulting from the Merger will enable the Colonial Group to unify most of its assets in Spain under a single entity, consolidate a significant position in the Spanish real estate market and, in addition, constitute a solid platform from which to undertake new expansion projects.

(1) Includes share in Axiare as of 31 December 31 2017 (28.8%).

- (ii) Streamline and optimise the organisational and functional structure of the Colonial Group: The purpose of the Merger is, among other things, to seek greater operational and cost efficiency and effectiveness for the Colonial Group. The concentration of Colonial and Axiare's activities, businesses and assets in a single company will make it possible to rationalise and simplify the structure of the Colonial Group and to streamline the administrative management (accounting, internal audit, etc.) of the activities carried on by both companies.

The Merger will allow the Colonial Group to develop the activities that were being developed by Colonial and Axiare separately but under the same platform and jointly, which should also enhance efficiency and competitiveness. In this sense, the Merger is expected to generate both operational and financial synergies, thus optimising the use of capital and the generation of economies of scale.

- (iii) Improve the financial structure: The Merger will allow the Colonial Group to optimise its financial structure significantly and reduce costs. In this regard, as a result of Axiare's integration into Colonial, Axiare's debt could benefit from the fact that Colonial has a long-term BBB rating and a short-term A-2 rating from Standard & Poor's and a short-term Baa2 rating from Moody's.

In short, the objective of the planned merger for Colonial is to respond to the challenges of the current real estate sector by strengthening its competitive position, making the Spanish business side of the Colonial Group larger and more efficient and improving the profitability of its projects and investments. Both Colonial and Axiare develop highly specialised businesses in the same sector (prime offices), so their merger into a single company will generate significant synergies, in addition to a reduction of operational and functional costs. Axiare's debt will also benefit from an improvement in its credit quality by becoming part of a group with an Investment Grade rating. The Merger will, therefore, enable Colonial to consolidate its leadership in the prime office market in Spain, attain growth and liquidity in capital markets, and achieve operating and financial synergies.

Additionally, the Merger, and the delivery of newly issued shares of Colonial, means that Axiare's minority shareholders will not only benefit from the aforementioned synergies and structural improvements (corporate and financial), but also from a high liquidity and disinvestment possibilities when, as a result of the Merger, they receive shares of Colonial, which is part of the Ibex 35.

A.2. LEGAL AND ECONOMICAL ASPECTS OF THE COMMON DRAFT TERMS OF THE MERGER

A.2.1. Structure of the Merger: merger by absorption

The Merger will be carried out in accordance with the provisions of the applicable commercial legislation, in particular, the Law on Structural Changes, the Spanish Limited Liability Companies Law and the Regulations of the Commercial Registry enacted by Royal Decree 1784/1996 of 19 July (the "**Commercial Registry Regulations**"). The Merger will take place through the absorption of Axiare (the absorbed company) by Colonial (the absorbing company), with the extinguishment of the former, by dissolution without liquidation, and the en-bloc transfer of all its equity to Colonial, which will acquire, by universal succession, all of Axiare's rights and obligations. As a result of the Merger, Axiare's shareholders other than Colonial will receive, in consideration for their shares in Axiare, newly issued shares of Colonial, in accordance with the exchange ratio determined in the Common Draft Terms of the Merger. The Merger will imply that Axiare's shareholders other than Colonial will become shareholders of Colonial by allocating the shares of Colonial that correspond to them based on the expected exchange ratio, all under the terms set forth in the Common Draft Terms of the Merger.

This universal succession shall involve the acquisition by Colonial, in a single act, of all the assets and liabilities forming part of Axiare's equity. All the assets, rights, obligations and, in general, all the legal relations of Axiare will, therefore, be transferred to Colonial, and will remain in force with the consequent change of owner.

A.2.2. Identification of the companies participating in the Merger

The Common Draft Terms of the Merger identifies the companies participating in the Merger, i.e. Colonial and Axiare, indicating their name, corporate type, address and details of their entry in the Commercial Registry. The Common Draft Terms of the Merger outlines the main characteristics of the share capital of each of the companies participating in the Merger.

A.2.3. Merger exchange ratio

The Common Draft Terms of the Merger states the merger exchange ratio of Axiare shares for Colonial shares, which have been determined on the basis of the real value of the corporate assets of both entities. Under this approach, the exchange ratio is 1.8554 Colonial shares of 2.50 euro par value for each Axiare share of 10 euro par value. No additional cash compensation is foreseen. There is an economic analysis of the Merger exchange ratio in sub paragraph A.3.2 of this report.

Colonial will exchange the Axiare shares by delivering newly issued ordinary shares. In this regard, Colonial will increase its share capital by the amount necessary to service the exchange by issuing and delivering ordinary shares of Colonial. In order to service the exchange of the Merger, the Board of Directors of Colonial will propose to the General Meeting of Shareholders to increase the share capital of Colonial by a maximum nominal amount of 48,184,055.00 euros by issuing and putting into circulation up to 19,273,622 new ordinary shares of 2.50 euros par value each, of the same class and series as those currently in circulation (see sub paragraph C of this report).

The subscription of the new Colonial shares will be reserved to Axiare shareholders and, consequently, Colonial shareholders will not have any preemptive subscription rights, in accordance with Article 304.2 of the Spanish Limited Liability Companies Law.

Axiare shares will be exchanged for Colonial shares once the following events have occurred: (i) the approval of the Merger by the shareholders at the General Meetings of Colonial and Axiare; (ii) the execution of the public deed of merger and capital increase of Colonial; (iii) registration with the CNMV of the document equivalent to the prospectus in compliance with the provisions of *Royal Decree 1310/2005, of 4 November, partially implementing the Securities Market Law 24/1988, of 28 July, concerning the admission to listing (or trading) of securities in official secondary markets and public offerings and the prospectus required for such purposes ("Royal Decree 1310/2005")*; and (iv) the entry of said public deed in the Commercial Registry.

Since the shares of Colonial and Axiare are represented by registered book entries, the exchange of Axiare shares for Colonial shares will be executed through the corresponding depository entities, in accordance with *Royal Decree 878/2015, of 2 October, on registration, clearing and settlement of marketable securities represented by book entries, on the legal framework for central securities depositories and central counterparties and on transparency requirements for issuers of securities admitted to trading on an official secondary market* and in accordance with Article 117 of the Spanish Limited Liability Companies Law. All of Axiare's shares will be redeemed as a result of the Merger.

In order to facilitate the exchange of Axiare shares for Colonial shares, both companies may appoint an fractional-share broker to act as counterparty for the purchase of fractions. Accordingly, any Axiare Shareholder who, based to the exchange ratio and taking into account the number of Axiare shares held, is not entitled to receive a whole number of Colonial shares, will transfer his or her fractions of Axiare shares to the fractional-share broker, who, in turn, will pay him or her the cash value thereof.

A.2.4. Industry contributions and ancillary provisions

Given that Axiare is a public limited company, there are no industrial contributions and, therefore, no compensation will be granted for this concept.

With respect to ancillary provisions, Axiare has included Article 9 ("*Ancillary Provisions* ") and Article 52 ("*Special rules for the distribution of dividends*") in its Company Bylaws which impose a series of duties on its shareholders (communication and compensation) in order to enable Axiare to comply with the special tax regime of SOCIMI and to be compensated for the damages that may be caused by the taxation of certain shareholders.

Colonial, in its capacity as a SOCIMI, and for the same purposes of complying with the special tax regime of SOCIMI, as well as being compensated for the damages that may be caused by the taxation of certain shareholders, has included Article 8 bis. ("*Ancillary provisions*") and Article 37 bis. ("*Special rules for the distribution of dividends*"), which are similar to those included in Axiare's Company Bylaws. Therefore, no impact is foreseen and no compensation is to be granted for this concept.

Notwithstanding the foregoing, as a result of Colonial's share in SFL, and to enable Colonial to comply with the special tax regime of SOCIMIs and be compensated for any damage that might be caused by the taxation of certain shareholders, Colonial's Company Bylaws lay down obligations for shareholders that are not natural persons and owners of at least 10% of the share capital. Given that there are no shareholders in Axiare who own shares that, if the Merger is approved and according to the exchange ratio established, will own a share in Colonial larger than 10% of the company's share capital (there would be no such shareholders even in the event all Axiare shares not held by Colonial were held by a single Shareholder), the stipulations contained in Colonial's Company Bylaws as a result of its share in SFL will have no impact for the shareholders of the companies being merged, and no compensation will be granted for this concept; and all this notwithstanding the possibility that Axiare shareholders have been able to transfer their share under the framework of the public takeover bid over all Axiare's shares by Colonial.

A.2.5. Securities and special rights

As stated in the Common Draft Terms of the Merger, there are no special shares or holders of securities other than equity instruments in Axiare. Consequently, no special rights will be granted and no options will be offered.

A.2.6. Benefits attributed to independent experts and directors

No benefits will be attributed to the independent expert who issues the related report on the Common Draft Terms of the Merger or to the directors of the companies involved in the Merger.

A.2.7. Date on which the new shares delivered to service the exchange will entitle recipients to a share of company profits.

The new Colonial shares issued to service the exchange of Axiare shares will entitle the recipient to a share of company profits from the date of entry of the public merger deed in the Commercial Registry.

A.2.8. Company Bylaws of the company resulting from the Merger

These Company Bylaws would be amended solely for the purpose of reflecting the new share capital of Colonial resulting from the capital increase to be carried out to service the exchange of Axiare shares for newly issued shares of Colonial.

A.2.9. Possible consequences of the Merger for employees, and its potential impact on gender and the company's social responsibility

In accordance with Article 44 of the recast text of the Workers' Statute, enacted by Royal Legislative Decree 2/2015, of 23 October, regulating corporate succession, Colonial would be subrogated to Axiare's labour and social security rights and obligations.

Colonial and Axiare will fulfil their obligations of information and, as required, consultation with the legal representatives of the employees of each, pursuant to the provisions of labour regulations. In addition, the appropriate public bodies will be notified of the planned Merger, particularly the General Treasury of Social Security.

Following execution of the Merger, the labour rights of the employees of the participating companies shall be respected in accordance with the law. In like manner, the two entities are to undergo operational and functional integration, for which purpose Colonial is presently analysing the labour structure resulting thereof. In any case, it is possible that certain duplications and inconsistencies may arise in the jobs of both organisations. Colonial may, therefore, implement the necessary legal procedure with the aim of correcting them in the coming months. In any event, Colonial will assess and propose measures designed to retain talent in order to maximise the value of the group resulting from integration with Axiare.

Moreover, Colonial expects no gender impact as a result of the Merger.

Finally, the Merger is not expected to have an impact on Colonial's corporate social responsibility policy.

A.2.10. Other information on the Common Draft Terms of the Merger

a) Independent expert's report

In accordance with the provisions of Article 34 of the Law on Structural Changes, Colonial and Axiare requested the Madrid Commercial Registry to appoint a single independent expert to prepare a report on the Common Draft Terms of the Merger. The Madrid Commercial Registry appointed BDO Auditores,S.L.P. ("**BDO**") in this respect.

b) Resources and timeframes for Colonial's repayment of debts contracted to acquire control over or the assets of Axiare (Article 35 of the Law on Structural Changes)

The Common Draft Terms of the Merger indicates the resources and timeframes envisaged for the settlement of the debts incurred by Colonial to acquire control over Axiare. The requirements provided by Article 35.2 bis of the Law on Structural Changes are outlined in sub paragraph B.

c) Tax regime

In accordance with the Article 89 of Corporate Tax Law 27/2014, of 27 November, ("**Law 27/2014**"), the Merger is subject to the special tax regime provided in Title VII, Chapter VII and Additional Provision Two of Law 27/2014. To this end, the mandatory notification to the tax authorities will be made in accordance with Article 89 of Law 27/2014.

d) Publicity and information

The Common Draft Terms of the Merger was approved by all the directors of Colonial and Axiare on 10 April 2018 and will be published as indicated at the beginning of this sub paragraph A.

The documents mentioned in Article 39 of the Law on Structural Changes will be posted on Colonial's corporate websites, allowing for downloading and printing, prior to the publication of the notice for the General Meeting of Shareholders of Colonial to which the Merger is submitted for approval.

Lastly, the Common Draft Terms of the Merger shall be submitted for the approval of the general meetings of shareholders of Colonial and Axiare within six months following the date of the Common Draft Terms of the Merger, in accordance with Article 30.3 of the Law on Structural Changes.

A.2.11. The Merger procedure

Below is an outline of the main milestones relating to the Merger, in chronological order.

a) Approval and disclosure of the Common Draft Terms of the Merger

On 10 April 2018, all the directors of Colonial and Axiare, in compliance with Articles 30 et seq of the Law on Structural Changes, approved the Common Draft Terms of the Merger. These Common Draft Terms of the Merger will be made available to the public in connection with the calling of the General Meeting of Shareholders of Colonial at which a decision is to be made on the Merger.

b) Directors' report on the Common Draft Terms of the Merger

In accordance with the provisions of Article 33 of the Law on Structural Changes, the Board of Directors of Colonial has prepared this report explaining and justifying the legal and financial aspects of the Common Draft Terms of the Merger, with special reference to the share exchange ratio and any special valuation difficulties that may exist, as well as the implications of the Merger for shareholders, creditors and employees. In addition, for purposes of Article 35.2 of the Law on Structural Changes, this report includes a reference to the reasons justifying the takeover of Axiare, as well as those justifying the Merger, and sets out an economic and financial plan stating the resources and describing the objectives that are hoped to be achieved. This report will be made available to the public in connection with the calling of the General Meeting of Shareholders of Colonial at which a decision is to be made on the Merger.

c) Independent expert's report on the Common Draft Terms of the Merger

In accordance with article 34 of the Law on Structural Changes, Colonial applied to the Commercial Registry of Madrid for the appointment of an independent expert to prepare this report. On 7 March 2018, the Commercial Registry of Madrid designated BDO as the independent expert, who accepted the appointment on 15 March 2018. In turn, Axiare applied to the Commercial Registry of Madrid for the designation of the same independent expert for the preparation of the relevant report. On 16 April 2018, the Madrid Commercial Registry also named BDO as Axiare's independent expert, who accepted the appointment on 17 April 2018.

BDO will issue the required report on the Common Draft Terms of the Merger on the present date, immediately following the issuance of this report. This will be made available to the public in connection with the notice of the General Meeting of Shareholders of Colonial at which a decision is to be made on the Merger.

d) Notice of the General Meeting of Shareholders of Colonial

The Merger will be subject to the approval of the shareholders at the general meetings of shareholders of Colonial and Axiare. In this regard, the Board of Directors of Colonial has today agreed to call a General Meeting of Shareholders to be held on 23 May 2018 on the first call, and 24 May 2018 on the second call.

At the time of the publication of the notice of the General Meeting of Shareholders of Colonial, the documents mentioned in Article 39.1 of the Law on Structural Changes will be available on Colonial's website.

e) Merger resolutions and publication of announcements

Under Article 40 of the Law on Structural Changes, the Common Draft Terms of the Merger must be approved at the general meetings of shareholders of Colonial and Axiare, abiding strictly by the terms specified by the shareholders. The resolutions adopted at the general meetings of both companies approving the Merger will be published in the Official Gazette of the Commercial Registry and in a widely-read newspaper in the province of Madrid.

f) Execution and registration of the public deed of Merger

Once all of the acts and transactions described in the foregoing sections have been performed and the statutory term for objections by creditors has ended, the public deed of Merger and capital increase of Colonial will be executed, which will then be registered in the Commercial Registry.

In addition, Axiare's company record and its respective entries in the Commercial Registry will be cancelled by a single entry, transferring word-for-word any that might have to remain in effect to Colonial's company record, all in accordance with the provisions of the Regulations of the Commercial Registry.

g) The exchange

Once the public instrument of the Merger is registered in the Commercial Registry, the exchange of Axiare shares for Colonial shares will be carried out, under the terms of the Common Draft Terms of

the Merger. In this regard, Colonial will increase its share capital by the amount required to carry out the exchange by issuing and handing over ordinary shares in Colonial.

h) Document equivalent to the prospectus

Under the provisions of Royal Decree 1310/2005, Colonial will prepare and register with the official registries of the Spanish Securities Market Commission (“CNMV”) a document containing the information that this body deems equivalent to that of the prospectus, to the extent that this would be mandatory under the applicable legislation.

Colonial will apply for the new shares issued in implementation of the exchange to be admitted for trading on the Madrid and Barcelona stock exchanges and on any other markets in which Colonial’s shares are traded at the time the relevant resolution is carried out, and will apply for them to be included in the Spanish Stock Market Interconnection System (Continuous Market).

A.3. ECONOMIC ASPECTS OF THE COMMON DRAFT TERMS OF THE MERGER

A.3.1. Date of the accounts used

To establish the conditions in which the Merger is being carried out, Colonial and Axiare’s annual financial statements as of 31 December 2017 have been used. PricewaterhouseCoopers Auditores, S.L, audited the individual and consolidated financial statements of Colonial and Axiare for that fiscal year.

The 2017 individual and consolidated annual financial statements of Colonial were authorised for issue by the Board of Directors of Colonial on 22 February 2018, and the corresponding audit reports were issued on 23 February 2018. The 2017 individual and consolidated annual financial statements of Axiare, on the other hand, were authorised for issue by the Board of Directors of Axiare on 14 February 2018, and the corresponding audit reports were issued on 16 February 2018.

In accordance with Article 36 of the Law on Structural Changes, the merger balance sheet of Colonial will be the individual balance sheet as of 31 December 2017 that forms part of its duly audited 2017 financial statements, which will be submitted to the shareholders at the General Meeting of Shareholders Colonial where the merger is to be decided, to seek their approval.

The merger balance sheet of Axiare shall be the individual balance sheet as of 31 December 2017 that forms part of its duly audited 2017 financial statements, which will be submitted to the shareholders at the General Meeting of Shareholders of Axiare where the merger is to be decided, to seek their approval.

A.3.2. Reference to the exchange ratio

The exchange ratio in a merger is the result of an agreement between the merging companies at the time of signing the common draft terms of the merger, based on the real value of each company, pursuant to Article 25 of the Law on Structural Changes.

Once the exchange ratio is agreed, the Board of Directors of each company participating in the merger must separately evaluate the reasonableness of the agreed exchange ratio for each of them and their shareholders. It is up to the independent expert appointed by the Commercial Registry to issue a report on aspects such as the adjustment of the exchange ratio and giving an opinion as to whether it is justified.

As mentioned in the Common Draft Terms of the Merger, the exchange ratio of Axiare shares to Colonial shares has been determined on the basis of the real value of both companies' corporate assets. Under this approach, the resulting exchange ratio is 1.8554 Colonial shares of 2.50 euro par value for each Axiare share of 10 euro par value. No additional cash compensation is provided.

The following valuation methods have been used to determine the exchange ratio, all of which are commonly accepted in the international financial community:

- **Asset valuation:** this method values a company's assets and then subtracts all charges against those assets, as well as any other debts or liabilities of the company with third parties. In this regard, NAV is considered as the most relevant indicator for companies in the real estate sector. NAV is an indicator of a company's value that is basically the sum of the company's book value (net asset value) and the latent capital gains of the investment properties, measured at fair value. With this method, the value obtained represents the overall underlying value of property investments combined with other assets, adjusted by the company's financial debt and other liabilities.
- **Discounted free cash flow:** this method discounts to present value the expected free cash flows of the business, considering the company as an investment project.
- **Comparable multiples:** this method, which is considered critical by international (IFRSs) and US accounting standards, consists of estimating the value on the basis of multiples obtained from comparable companies.
- **Share market price:** this method calculates a company's value based on its share price in a secondary market.

Of the methods described above, the exchange ratio calculated on the basis of the asset valuation was considered to be the most relevant for the purposes of determining the real value of the assets of Colonial and Axiare, as required under Article 25 of the Law on Structural Changes. In particular, **the so-called "EPRA NAV" of Colonial and Axiare has been used to determine the Merger's exchange ratio. EPRA NAV is a method commonly accepted by the international financial community for valuations of real estate companies.** It consists of calculating the net asset value on the basis of the company's own funds and adjusting certain items in accordance with the recommendations of EPRA (*European Public Real Estate Association*).

In this regard, the EPRA NAV calculated as of 31 December 2017, adjusted for the relevant events occurring after that date, has been taken into account. Specifically, in relation to Colonial's EPRA NAV, the valuation has taken into account (i) the impact of the outcome of the takeover bid on all of Axiare's shares, settled on 7 February 2018; (ii) the reversal of provisions relating to the settlement of the incentive and indemnity plan for the Axiare workforce that Colonial adjusted in its NAV published in December 2017; and (iii) the supplementary dividend included in the proposed distribution of 2017 income in the annual financial statements prepared by the former Board of Directors of Axiare, attributable to Colonial's stake in Axiare, which will be paid prior to the registration date of the Merger, as well as the dividend proposed when preparing Colonial's accounts, which is expected to be paid prior to registration of the Merger. In relation to Axiare's EPRA NAV, the valuation has taken into account (i) the settlement of the long-term incentive plan, according to the regulatory announcement published by the Spanish Securities Market Commission (CNMV) on 24 January 2018 (registration number 260962); (ii) the indemnities accruing to the management team that were agreed by Axiare's previous Board of Directors; (iii) the supplementary dividend included in the proposed distribution of 2017 profit mentioned in the annual financial statements prepared by the former Board of Directors

of Axiare, which will be paid prior to the registration date of the Merger; and (iv) revenue from the sale of the Axiare treasury shares within the framework of the Bid.

For these purposes, the valuations carried out by renowned experts in the real estate sector have been taken into account. They have valued each of the property assets of Colonial and Axiare individually and have issued the relevant valuation reports in accordance with the Valuation and Appraisal Standards of the Royal Institution of Chartered Surveyors (RICS). Specifically, on 31 December 2017, the valuation of Colonial Group's properties in Spain was conducted by Jones Lang LaSalle and CB Richard Ellis, while the valuation of its properties in France was conducted by Jones Lang LaSalle and Cushman & Wakefield, assigning certain assets for each of them to value. The valuation of Axiare's properties on 31 December 2017 was performed by CBRE Valuation Advisory, S.A.

For the purposes of gauging the reasonableness of the exchange ratio, Colonial has asked for the opinion of J.P. Morgan Securities plc, which issued an opinion addressed to Colonial's Board of Directors, on 10 April 2018, based on and subject to the elements, limitations and assumptions specified in it, which considered the proposed exchange ratio for the Merger, as of the date of that opinion, financially reasonable (fair) for Colonial.

Simultaneously, Credit Suisse International issued an opinion on 10 April 2018 addressed to the Board of Directors of Axiare in which it considered that, as of that date, and based on the elements, limitations and assumptions contained in that opinion, the proposed exchange ratio is financially reasonable (fair) for Axiare's shareholders.

For purposes of Article 39.3 of the Law on Structural Changes, we are communicating the fact that, after the drafting date of the Common Draft Terms of the Merger, Colonial has carried out, under its programme entitled "Euro Medium Term Note", an issue of simple non-convertible bonds for a total par value of 650,000,000 euros, maturing in April 2026, with an annual coupon of 2% and an issue price of 99.481% of their par value. The Company plans to use the net amount of the issue to meet Colonial's general corporate needs including, where appropriate, refinancing and/or prepayment of any financial liabilities of the Colonial Group. Notwithstanding, the Board of Directors of Colonial considers that this issuance of bonds has no effect on the exchange ratio given that it neither affects the valuation of Colonial's assets nor requires any adjustment to be made because of it.

Accordingly, the Board of Directors of Colonial considers that the Merger's exchange ratio proposed in the Common Draft Terms of the Merger is sufficiently justified and is fair to Colonial's current shareholders given market conditions on the date of this report.

A.3.3. Effective accounting date of the Merger

In accordance with the General Chart of Accounts approved by Royal Decree 1514/2007, of 16 November (the "General Chart of Accounts"), the effective accounting date of the Merger will be 2 February 2018.

A.3.4. Valuation of assets and liabilities of the absorbed company

The assets and liabilities comprising the equity of Axiare that will be transferred en-bloc and by universal succession to Colonial will be valued in books pursuant to the General Chart of Accounts, specifically rules 19 and 21 thereof.

A.3.5. Special valuation difficulties

There were no special valuation difficulties in either of the companies involved in the Merger.

A.4. IMPLICATIONS OF THE MERGER FOR SHAREHOLDERS, CREDITORS AND EMPLOYEES

A.4.1. Implications for shareholders

As a consequence of the Merger, Axiare's shareholders will instead become shareholders of Colonial. In this regard, shares in Colonial will be handed over to them in accordance with the exchange ratio provided in the Common Draft Terms of the Merger. The shares will be exchanged according to the Common Draft Terms of the Merger and this will require no special action on the part of Axiare's shareholders.

When the Merger takes effect, Axiare will cease to exist and become part of Colonial. The Company Bylaws governing the surviving company will be Colonial's Company Bylaws which will, however, be amended to reflect the new capital of Colonial after the capital increase that takes place within the framework of the Merger.

For Axiare's shareholders, the Merger will mean the allocation of the rights and duties they are due, legally and under its bylaws, as shareholders of Colonial in the same conditions as its current shareholders. Specifically, Axiare's shareholders who, as a result of the Merger, become shareholders of Colonial shall have the right to a share in Colonial's profits from the registration date of the public instrument of the merger in the Commercial Registry.

A.4.2. Implications for creditors

The Merger will mean transferring to Colonial, universally and in a single act, all the assets, rights and duties that make up Axiare's equity. All legal relations of Axiare, including those it may have assumed with creditors, shall remain in effect, although responsibility for these will be transferred to Colonial, except for those in which the change of responsibility entails their cancellation, which will then become void. As a consequence, Colonial will become the debtor in regard to the liabilities Axiare may have assumed with its creditors.

With the publication of the announcements of the Merger agreement, creditors of Colonial and Axiare whose creditor interests meet the requirements laid down in Article 44 of the Law on Structural Changes may exercise their statutory right to objection.

A.4.3. Implications for employees

Under the provisions of Article 44 of the recast text of the Law on the Workers' Statute, approved under Legislative Royal Decree 2/2015, of 23 October, governing the scenario of company succession, as applicable to the case at hand, Axiare's rights and duties relating to employment and Social Security will be subrogated to Colonial.

Colonial will comply with its duties to report and, if applicable, consult with legal representatives of the employees, pursuant to the labour laws. In addition, the appropriate public bodies will be notified of the planned Merger, particularly the General Treasury of Social Security.

Additionally, sub paragraph A.2.9 of this report includes a reference to the consequences of the Merger on employment.

B. INFORMATION REQUIRED FOR PURPOSES OF ARTICLE 35 OF THE LAW ON STRUCTURAL CHANGES

Under Article 35 of the Law on Structural Changes, in those cases where one of the merging companies has taken on debt in the three years leading up to the merger to acquire control of another of the merging companies, the Board of Directors' report must state the reasons justifying the acquisition of control and, if applicable, the merger transaction. It must also contain an economic and financial plan showing the resources and describing the goals hoped to be achieved.

B.1. REASONS JUSTIFYING THE AXIARE BUYOUT

On 12 November 2017, Colonial's Board of Directors agreed to prepare the Bid for the total shares of Axiare, which was authorised by CNMV on 28 December 2017. As a consequence of this, Colonial became the owner of 86.86% of Axiare's share capital. The prospectus of the Bid recorded in CNMV's official records justified it as follows:

"The acquisition of Axiare would consolidate the Colonial Group's position as a European platform in the prime office market in Paris, Madrid and Barcelona. The Axiare portfolio, featuring 74% of office assets, of which 93% were located in Madrid at 30 September 2017, is clearly compatible with the Colonial Group's strategy with the Colonial Group strategy of investing in the office market in Madrid, Barcelona and Paris with a focus on top-quality property. Consequently, the Colonial Group's exposure in Spain which, on 30 September 2017, accounted for 31% of the value of the Colonial Group's assets, would account for approximately 42% of the total Colonial Group portfolio. The acquisition of Axiare would enable Colonial to increase the value of its current portfolio by approximately 1.71 billion euros, resulting in a property asset portfolio with an estimated value of 10 billion euros. Approximately 58% of the value of the Colonial Group's aggregate portfolio would be in Paris, whereas the portfolio of the Madrid offices and the Barcelona assets portfolio would account for about 27% and 10% of the value, respectively. Similarly, synergies resulting from the acquisition of Axiare, according to Colonial's estimates based on the public information available, would represent savings in operating expenses of about 3 million euros which, added to the synergies in revenue, would have an actual impact of 3 to 5 million euros per year from the second year. It would also be possible to optimise Axiare's financing structure as a result of its integration into the Colonial Group with a BBB credit rating from Standard & Poor's and a Baa2 rating from Moody's."

B.2. JUSTIFICATION OF THE MERGER

The objective of the planned Merger is an internal reorganisation of the Colonial Group with the following aims: (i) to consolidate Colonial's position in the prime office sector; (ii) to streamline and optimise the Group's organisational and functional structure and (iii) to improve its financial structure. In short, the objective of the planned merger for Colonial is to respond to the challenges of the current real estate sector by strengthening its competitive position, making the Spanish business side of the Colonial Group larger and more efficient and improving the profitability of its projects and investments. Both Colonial and Axiare do highly specialised business in the same sector (prime offices), so their merger into a single company is expected to generate significant synergies, in addition to reduced

operating and functional costs. Axiare's debt may also benefit from an improved credit rating by becoming part of a group with an "Investment Grade" rating. The Merger will, therefore, enable Colonial to consolidate its leadership in the prime office market in Spain, attain growth and liquidity in capital markets, and achieve operating and financial synergies.

Sub paragraph A.1 of this report also includes more detail on the main reasons behind the Merger.

B.3. ECONOMIC AND FINANCIAL PLAN

a) Description of funding for takeover of Axiare

Colonial took on debt for the Axiare buyout prior to drawing up the Common Draft Terms of the Merger. Colonial prepared the Bid for all the shares of Axiare, the consideration for which was met with funds from (i) the capital increase in the actual amount of 338,065,197 euros; (ii) the sale of 9,907,257 treasury shares in the actual amount of 78,168,257.73 euros within the context of the aforesaid share capital increase and (iii) the issue of simple bonds in the total nominal amount of 800 million euros. From this simple bond issue, 620 million euros were used to acquire Axiare shares within the framework of the Bid.

In relation to the debt it took on for the Axiare buyout (simple bond issue), in November 2017, Colonial issued simple bonds in the total nominal amount of 800 million euros, admitted for trading on the Irish Stock Exchange under the "Euro Medium Term Note Programme" approved by the Central Bank of Ireland. The purpose of the issue was to meet the general corporate needs of Colonial, including financing for new investments, such as the acquisition of shares in Axiare and, if applicable, repayment of Colonial's existing debt.

The issue in question is divided into two series: (i) a series of simple bonds in the total nominal amount of 500 million euros maturing in November 2025, with an annual 1.625% coupon and an issue price of 99.577% of the nominal value and (ii) a series of simple bonds in the total nominal amount of 300 million euros maturing in November 2029, with an annual 2.5% coupon and an issue price of 99.969% of the nominal value.

b) Resources and terms anticipated to settle the debt

Colonial believes it has sufficient resources to meet its liabilities in relation to the debt described in the section above. These liabilities can be summarised as (i) interest payments during the effective period of the bonds, amounting to roughly 100 million euros, and (ii) payment of the principal on the bonds, i.e., 500 million euros in November 2025 and 120 million euros in November 2029. In this respect, in the fiscal year ended 31 December 2017, the Colonial Group obtained 283 million euros (343 million euros in the pro forma information consolidated with Axiare) in rent income, generating 217 million euros (241 million euros in the pro forma information consolidated with Axiare) in EBITDA.

At each step, Colonial will determine which combination of its own and third-party resources would be most convenient to maintain the "Investment Grade" credit rating, as well as the necessary liquidity levels to service its debt and its financial needs. In this respect, depending on market conditions, with the objective of maintaining and enhancing Colonial's credit rating at all times, the resources Colonial might use to meet these obligations could include (i) obtaining new bank financing; (ii) drawing down on lines of credit; (iii) raising its share capital; (iv) issuing bonds of any kind, or (i) the flow from its ordinary business, including the possibility of divesting any of its assets.

On 13 November 2017, after the announcement of Colonial's Bid for the total shares of Axiare, Standard & Poor's confirmed its BBB rating with the "stable" outlook assigned to Colonial, mentioning that the announcement of the Bid for Axiare did not change its overall opinion of Colonial's credit rating. For their part, on 14 November 2017, Moody's confirmed Colonial's crediting rating, although it did change its outlook for Colonial from "stable" to "negative". In Moody's credit rating report, it mentioned that Colonial's Baa2 rating is primarily a reflection of (i) the high quality of its office portfolio and a diversified base of tenants; (ii) moderate leveraging in terms of gross debt and total assets and (iii) good liquidity and a high level of lien-free assets.

Colonial's economic and financial plan to meet these liabilities is predictable in relation to both Colonial's revenues and its expenses. The Colonial Group's net debt level is roughly 25% of the value of its assets. Accordingly, the coverage ratio to service Colonial's debt (interest and principal) is more than 2.7:1, the fixed or hedged rate debt percentage is 90% and the debt half-life is 5.5 years. All of this comes from financial information as of 31 December 2017.

C. INFORMATION REQUIRED FOR PURPOSES OF ARTICLES 286, 296 AND 300 OF THE SPANISH LIMITED LIABILITY COMPANIES LAW.

As explained in sub paragraph 4.2 of the Common Draft Terms of the Merger, Colonial will effect the exchange with newly issued shares. It will, therefore, increase the capital by the amount necessary to do so by issuing and handing over ordinary shares of Colonial.

In accordance with Articles 286, 296 and 300 of the Spanish Limited Liability Companies Law and the related provisions of the Commercial Registry Regulation, the aforesaid capital increase requires the Board of Directors to prepare a supporting report.

C.1. JUSTIFICATION OF THE PROPOSAL

The purpose of the capital increase that will be put to the General Meeting of Shareholders is to issue sufficient Colonial shares to carry out the exchange under the Merger (see sub paragraph A.2.3 of this report). Colonial will increase its capital by the amount necessary to make the exchange by issuing and handing over ordinary shares of Colonial.

This capital increase, which will be put to the General Meeting of Shareholders by Colonial's Board of Directors, is fundamental to the Merger, being an indissoluble and indispensable part of it.

C.2. DESCRIPTION OF THE PLANNED CONTRIBUTION. IDENTIFICATION OF THE CONTRIBUTING COMPANY

In accordance with article 23 of the Law on Structural Changes, the planned merger involves acquisition by Colonial, on the basis of universal succession, of the equity of Axiare, which will be extinguished, and for which purpose Colonial will increase its share capital by the appropriate amount. Accordingly, and pursuant to article 24 of the Law on Structural Changes, Axiare's shareholders will be integrated into Colonial, and receive the number of Colonial shares due under the exchange ratio specified in sub paragraph A.3.2 of this report that determines a value given to the equity to be received from Axiare of 157.9 million euros.

C.3. VALUATION OF THE PLANNED CONTRIBUTION AND CRITERIA USED

The exchange ratio of Axiare shares to Colonial shares, determined using the real value of both companies' assets, is 1.8554 Colonial shares with a par value of 2.50 euros for every Axiare share with a par value of 10 euros, with no additional monetary compensation. The reasoning behind the Merger exchange ratio is explained in sub paragraph A.3.2 of this report.

C.4. AMOUNT OF THE CAPITAL INCREASE

Considering the total number of Axiare's outstanding shares on the date of this report that would be up for exchange here (i.e., 10,387,853 shares), the maximum number of Colonial shares to be issued in order to make the exchange of Axiare shares, according to the terms of the Merger, is 19,273,622 ordinary shares of Colonial each with a par value of 2.50 euros, which represents a capital increase in the total nominal amount of 48,184,055.00 euros.

To carry out the exchange of the Merger giving rise to the capital increase, Colonial's Board of Directors will put a motion before the General Meeting of Shareholders to increase the share capital of Colonial by a maximum nominal amount of 48,184,055.00 euros by issuing and putting into circulation up to 19,273,622 new ordinary shares each with a par value of 2.50 euros, of the same class and series as those currently in circulation.

Nevertheless, the final total amount of the capital increase will depend on the number of Axiare shares owned by Colonial and any treasury shares held by Axiare, which will be redeemed.

To this end, a motion will be put before the General Meeting of Shareholders of Colonial at which a decision on the Merger is to be made to delegate to Colonial's Board of Directors, with express powers of substitution, the power to set any terms of the capital increase that are not mentioned in the resolution of the General Meeting of Shareholders, including specifically the authority to determine the final amount of the capital increase, up to the proposed maximum nominal amount of 48,184,055.00.

C.5. NOMINAL VALUE AND PREMIUM OF SHARES TO BE ISSUED AS CONSIDERATION.

The new shares of Colonial will be issued at a par value of 2.50 euros and with a share or merger premium equal to the difference between (i) the real value of the Axiare equity received by Colonial (see sub paragraph A.2.3.) and (ii) the par value of the new shares issued by Colonial in the increase.

As explained in sub paragraph 4.2 of the Common Draft Terms of the Merger, both the nominal value of the new shares and the share premium will be fully paid out as a result of the Merger through the en-bloc transfer of the equity of Axiare to Colonial, which will acquire the rights and duties of the absorbed company on the basis of universal succession.

C.6. AMENDMENT OF ARTICLE 5 OF THE COMPANY BYLAWS

There is a proposal to delegate to the Board of Directors the power to redraft the article of the Company Bylaws related to share capital on the basis of the capital actually subscribed and paid in.

C.7. INCOMPLETE SUBSCRIPTION

In accordance with Article 311 of the Spanish Limited Liability Companies Law, the possibility of incomplete subscription of the capital increase covered by this resolution is expressly provided for. Consequently, the increase in share capital (with the limit established herein) will be limited to the amount corresponding to the par value of the new Colonial shares effectively subscribed and paid in the framework of the Merger.

C.8. ADOPTED GUARANTEES

Given the nature of the capital increase, no special guarantees are required or have been adopted.

C.9. PREEMPTIVE RIGHTS

Under Article 304.2 of the Spanish Limited Liability Companies Law and since the capital increase is a consequence of the absorption of another company, Colonial's shareholders will have no preemptive rights to subscribe the shares to be issued in connection with the capital increase carried out as part of the Merger.

D. CONCLUSION

Based on all of the above, the members of Colonial's Board of Directors believe that:

- (i) The Merger and its terms as set forth in the Common Draft Terms of the Merger, as well as the resolutions that will be put before the General Meeting of Shareholders at which the Merger is to be decided, are in the best interest of Colonial and all its shareholders; and that
- (ii) The exchange ratio being proposed is justified, is supported by appropriate valuation methods and is financially reasonable (fair) for Colonial's shareholders.

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This report was prepared and approved by the Board of Directors at a meeting held on 19 April 2018.