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**Independent expert's report on
the common draft terms of the
merger by absorption of Axiare
Patrimonio SOCIMI, S.A. by
Inmobiliaria Colonial SOCIMI, S.A.**

19 April 2018

**INDEPENDENT EXPERT'S REPORT ON THE COMMON DRAFT TERMS OF THE MERGER BY
ABSORPTION OF AXIARE PATRIMONIO SOCIMI, S.A. BY INMOBILIARIA COLONIAL SOCIMI, S.A.**

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To the Boards of Directors of Inmobiliaria Colonial SOCIMI, S.A. and Axiare Patrimonio SOCIMI, S.A.

Dear Sirs,

1. INTRODUCTION

For the purposes of Articles 34 and 35 of Spanish Law 3/2009 of 3 April on Structural Modifications of Commercial Companies (hereinafter “LME”), and Articles 340 and 349 of the Commercial Registry Regulations, and pursuant to our appointment as independent expert by Mr. Miguel Seoane de la Parra, Commercial Registrar N° XIV of the city and province of Madrid, file number 180/18, to issue a single independent expert’s report with respect to the Common Draft Terms of the Merger (hereinafter “Common Draft Terms of the Merger”) of Inmobiliaria Colonial SOCIMI, S.A. (hereinafter “Colonial” or “Absorbing Company” and, together with its subsidiaries, the “Colonial Group”) and Axiare Patrimonio SOCIMI, S.A. (hereinafter “Axiare” or “Absorbed Company”) (hereinafter, together with the former, “the Companies”), approved by the Boards of Directors of both Companies, on 10 April 2018.

Pursuant to Article 34.1 paragraph two of the Law on Structural Modifications, this report is the single independent expert’s report on the Common Draft Terms of the Merger.

2. OBJECTIVES AND SCOPE OF OUR WORK

In accordance with the request from the Commercial Registry of the city and province of Madrid and the applicable legislation, the scope of our work has consisted in a review of the Common Draft Terms of the Merger, attached as an Appendix to this report, and of all the documentation provided to us in relation thereto, in order to conclude with regard to the following aspects:

- Whether or not it is justified the exchange ratio of shares held by shareholders in Axiare, other than those held by Colonial, for shares of the Absorbing Company; which methods were used to establish the exchange ratio; whether these methods are appropriate, with an indication of the values obtained and any special valuation difficulties, if exist; and
- Whether the equity contributed by the Absorbed Company is at least equal to the amount of the Absorbing Company’s share capital increase.
- Moreover, since Colonial undertook debt in the immediately preceding three years in order to acquire control of Axiare, we have to conclude on the provisions of section 3 of Article 35 of LME, in relation to the reasonableness of certain information set out in the Common Draft Terms of the Merger and in the Colonial’s Directors Report, and also conclude on the existence or non-existence of financial assistance.

We have to mention that our work is independent in nature and, therefore, does not suppose any recommendation to the Companies’ Boards of Directors, to the Shareholders’ General Meeting or to third parties on the position they should take with regard to the planned merger or any other transactions of the Companies, or on the effects these might have for them. Our work does not have as its objective the analysis of the suitability of the Companies’ business strategies or the reasons for these.

3. DESCRIPTION OF THE DRAFT TERMS OF THE MERGER

3.1. Identification of the companies involved

The Companies' identificatory data are as follows:

- Absorbing Company:
 - Name: Inmobiliaria Colonial SOCIMI, S.A.
 - Registered address: Paseo de la Castellana 52, 28046, Madrid
 - Registry information: Listed in the Madrid Commercial Registry in Volume 36660, Sheet 87, Page M-30822.
 - Tax number: A-28027399
- Absorbed Company:
 - Name: Axiare Patrimonio SOCIMI, S.A.
 - Registered address: Calle José Ortega y Gasset 29, 28006, Madrid
 - Registry information: Listed in the Madrid Commercial Registry in Volume 32158, Sheet 171, Page M-578698.
 - Tax number: A-86971249

3.2. Context and justification for the merger

Colonial is a Spanish "sociedad anónima" which main business is the lease and sale of real estate in Spain (mainly Barcelona and Madrid) and in France (Paris), through the group of which the parent company is Société Foncière Lyonnaise, S.A. All Colonial's shares are admitted for trading on the Madrid and Barcelona Stock Exchanges and included in the Spanish Stock Exchanges Interconnection System (Continuous Market).

Axiare is a Spanish "sociedad anónima" the main corporate purpose of which is the acquisition and development of real estate property for lease, and also the holding of equity interests in other listed real estate companies. Axiare's shares are admitted for trading on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges and included in the Spanish Stock Exchanges Interconnection System (Continuous Market).

On 28 December 2017, the Spanish Securities Market Commission ("CNMV") authorised Colonial's voluntary takeover bid for 100% of Axiare's shares (hereinafter the "Bid"). After the corresponding acceptance period, which ended on 29 January 2018, the Bid obtained a positive result as it was accepted by Axiare shareholders holding 45,912,569 shares, and thus, following settlement, Colonial's shareholding in Axiare reached 86.86%. As stated in the Bid's prospectus, Colonial contemplated the possibility, depending on the outcome of the Bid, of initiating an absorption merger process between Colonial and Axiare, whereby Colonial would be the absorbing company (hereinafter the "Merger").

On 10 April 2018, the Boards of Directors of Colonial and Axiare approved the Common Draft Terms of the Merger for the absorption of Axiare by Colonial, which will be submitted for approval to the General Meetings of Shareholders of both companies.

The planned merger will be carried out through the absorption of Axiare by Colonial, thereby extinguishing the former, by means of dissolution without liquidation, and the transfer en bloc of all the assets and liabilities to Colonial, which will acquire all Axiare's rights and obligations by universal succession, pursuant to the provisions of Articles 22 and 23 of LME.

As a result of the Merger, shareholders in Axiare, other than Colonial, will receive Colonial shares in return for their shares in Axiare, according to the exchange ratio determined in the Common Draft Terms of the Merger.

According to the Common Draft Terms of the Merger, from Colonial's point of view, the purpose of the merger is to carry out an internal reorganisation of Colonial Group in order to, among other aspects, (i) consolidate Colonial's position in the prime office sector; (ii) optimise the Colonial Group's organisational and functional structure; and (iii) improve its financial structure and, in short, to respond to the challenges of the current real estate sector by strengthening the competitive position, as well as to achieve a greater dimension and efficiency of the Spanish business of Colonial Group and an improvement in the profitability of its investments.

From Axiare's point of view, the merger with Colonial will generate significant integration synergies, reduce operational and functional costs, and develop a common management and strategy for the different assets of both companies. Moreover, the planned Merger will also make it part of Colonial, a leading real estate company in the European prime office market, whose shares are more liquid than Axiare's, and it also forms part of the Ibex-35 index.

3.3. Merger Balance Sheets

In accordance with the Common Draft Terms of the Merger, the merger balance sheets for the purposes stipulated in Article 36 of LME are considered to be the individual audited balance sheets of both Companies at 31 December 2017 (hereinafter "Merger Balance Sheets").

3.4. Date for accounting purposes

The date as of which operations by the Absorbed Company will be considered to have been carried out by the Absorbing Company has been established 2 February 2018.

3.5. Valuation method and exchange ratio

The merger exchange ratio of Axiare shares for Colonial shares has been determined on the basis of the real value of the equity of both companies. In accordance with this criterion, the exchange ratio is 1.8554 Colonial shares of 2.50 euros par value for each Axiare share of 10 euros par value, with no provision for any additional cash compensation.

For the purpose of determining the real value of the equity of Colonial and Axiare and setting the exchange ratio, the valuation method used by the Boards of Directors has been the “EPRA NAV” method. EPRA NAV is a method commonly accepted by the international financial community to value real estate companies, which consists of calculating the net asset value on the basis of the company’s equity and adjusting certain items in accordance with the recommendations of the EPRA (“European Public Real Estate Association”).

On the basis of the foregoing, has been taken into consideration the EPRA NAV published and calculated at 31 December 2017, adjusted for the relevant events occurring after that date. In particular, in relation to Colonial’s EPRA NAV, consideration has been taken of: (i) the impact of the outcome of the takeover bid on all Axiare’s shares; (ii) reversal of provisions relating to the settlement of the incentive and indemnity plan for Axiare workforce adjusted by Colonial in its NAV published at 31 December 2017; and (iii) the final dividend included in the proposed distribution of 2017 profits included in the financial statements drawn up by the former Board of Directors of Axiare, attributable to Colonial’s stake in Axiare, and to be paid prior to the date of registration of the Merger; and v) the dividend proposed in the annual financial statements of Colonial, which is expected to be paid prior to registration of the Merger.

In relation to Axiare’s EPRA NAV, account has been taken of: (i) settlement of the long-term incentive plan, according to the relevant fact published by the Spanish Securities Market Commission (CNMV) on 24 January 2018 (registration number 260962); (ii) the indemnities accrued in favour of the management team that were agreed by the previous Board of Directors of Axiare; and (iii) the final dividend included in the proposed distribution of 2017 profits included in the financial statements prepared by the former Board of Directors, and to be paid prior to the date of registration of the Merger; and iv) income from the sale of Axiare’s treasury shares in the context of the Bid.

3.6. Share capital increase

Colonial will exchange the Axiare shares in accordance with the exchange ratio set forth in the preceding paragraph, by delivering newly issued ordinary shares. In this regard, Colonial will increase its share capital by the amount necessary to service the exchange. The subscription of the new Colonial shares will be reserved for Axiare shareholders, and, consequently, there will be no pre-emptive subscription rights for Colonial’s shareholders, in accordance with the provisions of Article 304.2 of the revised text of the Spanish Limited Liability Companies Law approved by Royal Legislative Decree 1/2010 of 2 July.

It is noted that, at the date of the Common Draft Terms of the Merger, Colonial holds 68,674,633 Axiare’s shares, representing 86.86% of its share capital. It is also noted that at the date of the Common Draft Terms of the Merger, Axiare does not have any treasury shares. In this regard, pursuant to the provisions of Article 26 of LME, any Axiare shares held by Colonial would not be exchanged.

The newly issued shares shall be represented by book entries in the accounting records kept by Iberclear and its participating entities. Colonial will apply for admission of the new shares for trading on the Madrid and Barcelona Stock Exchanges and on any other markets in which

Colonial's shares are traded at the time of implementing the corresponding resolution, and for them to be included in the Spanish Stock Market Interconnection System (Continuous Market).

According to the Directors' Report, in due consideration of the exchange ratio established and as a result of absorption of the portion of Axiare's equity that is not owned by Colonial, Colonial will increase its share capital in the amount of 48,184,055 euros by issuing 19,273,622 shares with a par value of 2.5 euros each, all of the same class as the existing shares. The new Colonial shares will be issued with an issue premium or merger premium equal to the difference between (i) the real value of the equity of Axiare received by Colonial and (ii) the par value of the new shares issued by Colonial in the capital increase. It also determines that the value of the equity to be received from Axiare is 157.9 million euros.

3.7. Resources and deadlines for repayment of debts undertaken for the acquisition of the Company Absorbed

Prior to this Common Draft Terms of the Merger, Colonial undertook debt to acquire control over Axiare. The consideration of the takeover bid was met with funds from (i) the capital increase for an amount of 338 million euros; (ii) the sale of treasury shares for an amount of 78 million euros; and (iii) the issue of ordinary bonds in the total nominal amount of 800 million euros, of which 620 million euros were used for the Bid consideration.

In relation to the issue of bonds, listed for trading on the Irish Stock Exchange under the Euro Medium Term Note Programme that was approved by the Central Bank of Ireland, it is divided into 2 series: (i) a series of ordinary bonds for a 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 ordinary bonds for a 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.

In accordance with the provisions of Article 35.1 of the Law on Structural Modifications (the "LME"), the Common Draft Terms of the Merger states that Colonial will pay the debt described above, as well as the interest accrued thereon with the cash flows it generates in the ordinary course of its business. The terms for the repayment of the debt and the interest accrued thereon shall be those stated in the preceding paragraph.

3.8 Subsequent events to the signature of the Common Draft Terms of the Merger

For the purposes of Article 39.3 of the LME, the Directors mention 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 nominal amount of 650 million euros, maturing in April 2026, with an annual 2% coupon and an issue price of 99.481% of the nominal value. The Company plans to use the net amount of the issue to meet Colonial's general corporate needs, including, where applicable, the refinancing and/or prepayment of any of the Colonial Group's financial liabilities.

Notwithstanding the foregoing, Colonial's Board of Directors considers that this bonds issue has no effect on the exchange ratio given that it neither affects the valuation of Colonial's assets nor requires any adjustments to be made because of it.

4. DIRECTORS' REPORT (Art. 35 OF LME)

According to Article 35 of LME, the Directors' Report on the Common Draft Terms of the Merger must state the reasons to justify the acquisition of control and the merger, and also contain an economic and financial plan setting out the resources and a description of the objectives that are to be met.

In this regard, the Directors' Report contains the above mentioned. A summary of it is as follows:

4.1. Reasons justifying the acquisition of control of Axiare

On 12 November 2017, Colonial's Board of Directors agreed to issue the Bid for the 100% of Axiare shares, and this was authorised by the CNMV on 28 December 2017. It is explained that the prospectus for the Bid justified it because Colonial would consolidate its position as a European platform for the prime office market in Paris, Madrid and Barcelona, the Axiare portfolio was clearly compatible with the Colonial strategy, synergies would be generated in savings of operating costs and revenues, and it would also be possible to optimise Axiare's financial structure as a result of its integration into Colonial.

4.2. Justification for the merger

The objective of the intended Merger is to carry out an internal reorganisation of the Colonial Group in order to, among other aspects, (i) to consolidate Colonial's position in the prime office sector; (ii) to streamline and optimise the Colonial Group's organisational and functional structure; and (iii) improve its financial structure. In short, the objective of the intended Merger for Colonial is to respond to the challenges of the current real estate sector by strengthening its competitive position, making Spanish business of the Colonial Group larger and more efficient, and improving the profitability of its projects and investments. In this regard, both Colonial and Axiare operate 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 reduce operating and functional costs. Likewise, Axiare's debt may also benefit from an improved credit rating by becoming part of a group with an "Investment Grade" rating. Consequently, the Merger will enable Colonial to consolidate its leadership in the prime office market in Spain, increase its size and its liquidity in capital markets, and achieve operating and financial synergies.

4.3. Economic and financial plan

The Directors' Report contains a section with a description of the funding for takeover of Axiare, and a section with the resources and terms to settle the debt.

In relation to the description of the funding to take control of Axiare, it is explained that, in November 2017, Colonial issued ordinary bonds in the total nominal amount of 800 million euros, admitted for trading on the Irish Stock Exchange and approved by the Central Bank of Ireland. The purpose of the issue was to meet the general corporate needs of Colonial, including the financing for new investments, such as the acquisition of Axiare shares and also, where applicable, repayment of Colonial's existing debt. According to the Common Draft Terms of the Merger, 620 million euros from this bond issue were used for the Bid consideration. It also includes the terms described in section 3.7 above.

With regard to the resources and terms to settle the debt, the Directors consider that Colonial has sufficient resources to meet its liabilities in connection with the debt described in the preceding section. These liabilities can be summarised as (i) payment of interest during the effective term of the bonds, amounting to approximately 100 million euros; and (ii) payment of the principal of the bonds, i.e. 500 million euros in November 2025 and 120 million euros in November 2029.

In this regard, they highlight that, in the year ended 31 December 2017, the Colonial Group obtained rental income of 283 million euros (343 million euros in the pro-forma consolidated figures with Axiare), generating EBITDA of 217 million euros (241 million euros in the pro-forma consolidated figures with Axiare).

They also explain that Colonial will at all times determine the most appropriate combination of own and third-party resources to maintain the "Investment Grade" credit rating, as well as the level of liquidity necessary to service its debt and its financial needs. In this regard, depending on market conditions, and with the aim at all times of maintaining and enhancing Colonial's credit rating, the resources that could be used by Colonial to meet these obligations may be, inter alia, (i) obtaining new bank financing; (ii) drawing down on credit lines; (iii) a share capital increase; (iv) issuance of any class of bonds; or (v) the cash flows from its ordinary course of business, including the possibility of divesting any of its assets.

It is also stated that, according to the financial information at 31 December 2017, Colonial Group's net debt stands at approximately 25% of the value of its assets, the debt service coverage ratio (interest and principal) is above 2.7, the percentage of fixed-rate or hedged debt is 90%, and the average maturity of debt is 5.5 years. They further declare that on 14 November 2017, following the announcement of the Colonial Bid for 100% of Axiare's shares, one of the main international rating agencies stated that Colonial had (i) a high-quality office portfolio and a diversified tenant base; (ii) moderate leverage in terms of gross debt and total assets; and (iii) good liquidity and a high level of lien-free assets.

5. PROCEDURES CARRIED OUT

Our work was carried out using the procedures described below:

- Obtaining the following information:
 - Documents concerning the appointment of an independent expert by the Commercial Registry of the city and province of Madrid.
 - Common Draft Terms of the Merger drawn up and approved by the Boards of Directors of the Companies, dated 10 April 2018.
 - Certificates of the resolutions by the Boards of Directors of the Companies in relation to the approval of the Common Draft Terms of the Merger.
 - Boards of Directors' Reports of Axiare and Colonial in relation to the Common Draft Terms of the Merge, dated 16 and 19 April 2018, respectively.
 - Audited individual and consolidated financial statements of the Companies for the last two years.
 - Appraisals of the Colonial Group's properties drawn up by Jones Lang LaSalle and CBRE for the assets in Spain, and by Jones Lang LaSalle and Cushman & Wakefield for the assets in France.
 - Appraisals of Axiare's properties drawn up by CBRE Valuation Advisory.
 - Calculation of Colonial's EPRA NAV at 31 December 2017 carried out by its Directors, and the adjusted calculation for the purposes of the Merger.
 - Calculation of Axiare's EPRA NAV at 31 December 2017 carried out by its Directors, and the adjusted calculation for the purposes of the Merger.
 - Minutes of the meetings of the Boards of Directors and the General Meetings of Shareholders of Colonial and Axiare.
 - Term sheet and public deed for bond issues for a total amount of 800 million euros.
 - Term sheet for the ordinary bond issue for an amount of 650 million euros, dated 13 April 2018.
 - Colonial's economic and financial plan prepared by Management, without including the results and cash flows to be contributed by Axiare as a result of the Takeover Bid. This economic and financial plan has been used to validate the non-existence of financial assistance.
 - Other internal and external economic, financial and valuation information prepared or considered to be of interest in connection with this Merger process.

- Analysis and review of the information referred to in the preceding section, taking into account the purpose and context of our work.
- Meetings with Management of the Companies for the purpose of gathering additional information considered to be of use in carrying out our work.
- Analysis of the appropriateness of the method and review of the merger exchange ratio and the value of the equity contributed by Axiare in connection with the Absorbing Company's share capital increase.
- Analysis of the reasonableness of the information set out in the Common Draft Terms of the Merger and in the Colonial Directors' Report in connection with the acquisition debt, and conclusion as to the existence or non-existence of financial assistance.
- Obtaining a letter signed by the Directors of the Companies confirming that, to the best of their knowledge, we were provided with all of the information deemed relevant for the preparation of our independent expert's report, and that no subsequent events took place between the date of the Companies' Merger Balance Sheets and the date of our report that were not made known to us and that could substantially alter the true and fair view of the equity and/or the financial position of the Companies shown at that date, and that could therefore affect our conclusions.

6. RELEVANT ASPECTS OF OUR WORK

We have to point out that any valuation work involves subjective interpretations and for estimates to be made for future events which are uncertain at the valuation date, and it is generally accepted that no valuation method offers results that are totally exact and indisputable, but rather ranges within which the analysed value can be reasonably placed.

A substantial part of our work and the conclusions thereof has been based on the equity of the Companies stated in the consolidated financial statements of Axiare and Colonial at 31 December 2017. These annual financial statements were audited by PricewaterhouseCoopers Auditores, S.L., which issued the audit reports on Axiare and Colonial on 14 February 2018 and 23 February 2018, respectively, with an unqualified opinion. In this regard, we must point out that relevant changes to these financial statements between these dates and the date of this report could affect the conclusions of our work.

The scope of our work has not included an audit or due diligence of the accounting, tax, legal, labor, environmental, operational situation of the Companies or any other type of situation. Therefore, any risks that might arise from these situations were not taken into account in our work and in our conclusions.

In determining the exchange ratio, the Directors based their calculation of the Net Asset Value method, applying the recommendations of the European Public Real Estate Association (EPRA). By applying this method, the Directors have based on market value estimates of the assets (appraisals) drawn up by independent experts.

Our work has been based on audited and unaudited information provided by the Management of the Companies, and on other information publicly available, not having carried out any audit procedures in relation to this information. In this regard, BDO does not assume or guarantee the veracity, accuracy and integrity of the information used in the course of our work.

With regard to the economic and financial plan that must be set out in the Directors' Report pursuant to Article 35 of LME, it should be pointed out that since this is confidential information of a listed company, Colonial's Directors restricted it to a paragraph summarising the main figures and justifications.

Part of our work, and therefore our conclusions, has been based on information and other data concerning Colonial provided by its Management which, as we were informed, reflects the Management's best opinion of its current and future financial position. Given the uncertainties inherent in any estimate of future events, some of the hypotheses and assumptions considered by Colonial Management may not materialise as defined, and consequently, this could affect the conclusions of our work.

With regard to the concept of financial assistance, we have to point out that it has different legal interpretations. In relation to the acquisition and merger object of this report, we understand that, and we state it in our conclusions in section 7 below, there are no indications to assume that financial assistance existed as forbidden by Article 150 of the Spanish Limited Liability Companies Law. This conclusion, however, is expressed with the logical cautiousness that it has been drawn up by an economic and financial expert and not by a legal expert, and also in consideration of the wide variety of legal interpretations of this concept.

7. CONCLUSIONS

In accordance with the bases of information used and the procedures applied in the course of our work, and considering what it is described in section 6 above, we consider that:

- The exchange ratio proposed by the Boards of Directors of the Companies is justified, and the valuation method used by the Boards is appropriate in due consideration of the circumstances and context of the planned merger.
- The real value of the equity contributed by the Absorbed Company and to be extinguished corresponds, at least, to the nominal value and the issue premium of the new shares to be issued by the Absorbing Company.
- With regard to the provisions of section 3 of Article 35 of LME, the information corresponding to said Article 35 set out in the Common Draft Terms of the Merger and the Colonial Directors' Report is reasonably justified in the context of the transaction. In addition, we have not identified any aspects in the transaction that lead us to consider that financial assistance existed, as forbidden by Article 150 of the Spanish Limited Liability Companies Law.

Our conclusion should be interpreted within the context of the scope and procedures carried out in our work.

This report has been prepared exclusively for compliance with the provisions of Articles 34 and 35 of LME, and other legislation applicable, and so it may not be used for any other purpose.

BDO Auditores, S.L.P.

Oriol Tapias
Partner

19 April 2018



Independent expert's report on the Common Draft Terms of the Merger for the absorption of Axiare Patrimonio SOCIMI, S.A. by Inmobiliaria Colonial SOCIMI, S.A.

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