

**REPORT BY THE BOARD OF DIRECTORS OF INMOBILIARIA COLONIAL, SOCIMI, S.A. IN CONNECTION WITH THE MOTION FOR A CAPITAL INCREASE BY MEANS OF IN-KIND CONTRIBUTIONS CONSISTING OF SHARES IN SOCIÉTÉ FONCIÈRE LYONNAISE (SFL) (ITEM TWO ON THE AGENDA).**

**1. Purpose of the report**

This report has been drawn up by the Board of Directors of Inmobiliaria Colonial, SOCIMI, S.A. (“**Colonial**” or the “**Company**”) in connection with the capital increase by means of in-kind contributions consisting of shares in *Société Foncière Lyonnaise* (“**SFL**”) submitted for the approval of the Extraordinary General Meeting of Shareholders.

In accordance with Articles 286, 296 and 300 of *Royal Legislative Decree 1/2010 of 2 July approving the Revised Spanish Limited Liability Companies Law* (the “**Spanish Limited Liability Companies Law**”) and the related provisions of *Royal Decree 1784/1996 of 19 July approving the Commercial Registry Regulations*, the aforesaid motion submitted to the General Meeting of Shareholders should be accompanied by this report prepared by the Board of Directors to justify said motion.

**2. Justification of the motion**

The purpose of the capital increase by means of in-kind contributions as proposed to the General Meeting of Shareholders is to issue the amount of Colonial shares required to acquire, through non-cash contributions, SFL shares held by Qatar Holding LLC (“**QH**”) and DIC Holding LLC (“**DIC**” and, along with QH, the “**Contributors**”), thus increasing the current stake held by Colonial in its French subsidiary SFL.

In this regard, QH and DIC have each undertaken, with respect to their shareholdings and subject to approval by the General Meeting of Shareholders of Colonial, to: (i) contribute to Colonial 7,136,507 SFL shares, representing approximately 15.34% of its share capital, as consideration for the subscription of 53,523,803 Colonial shares to be issued by Colonial upon the execution of the motion for a non-cash capital increase herein. Specifically, in connection with the 7,136,507 SFL shares that shall be furnished to Colonial, QH shall furnish 4,386,310 SFL shares and DIC shall furnish 2,750,197 SFL shares.

Such agreement is part of the broader agreement governing the Colonial’s purchase of shares in SFL owned by QH and DIC that is the subject of the motion for authorisation put forward by the Board of Directors in the same General Meeting (item one on the agenda). This determines that the motion for a capital increase by means of in-kind contributions should be justified in terms of Colonial’s corporate governance interests, under the same reasons that justify the aforementioned agreement, in other words: i) from a strategic point of view, expand its presence in the French market to help consolidate the Company as one of the main players in the European real estate market, specialising in the lease of prime offices, improving the positioning of Colonial Group for future investment opportunities that may arise in the Spanish and French prime office market; ii) increase the dividend that Colonial receives from SFL; and iii) align the interests of Colonial’s major shareholders to achieve the best corporate governance in Colonial Group.

In connection with the transaction, Morgan Stanley & Co. International plc submitted a report (fairness opinion) to the Company’s Board of Directors, confirming that, in its opinion, the agreed consideration for the acquisition of the SFL shares owned by QH and DIC, including the resulting exchange ratio, is fair from a financial point of view to Colonial.

By virtue of the above, Colonial's Board of Directors considers that the capital increase by means of in-kind contributions as proposed to the General Meeting of Shareholders is in the corporate interest.

### **3. Description of the planned contribution. Identification of the contributors**

The planned contribution consists of 7,136,507 SFL shares (of which QH shall contribute 4,386,310 shares and DIC 2,750,197 shares), free of charges and encumbrances, accounting for approximately 15.34% of the share capital of SFL, of the same class and series, fully paid up.

SFL is a French company listed in the Paris commercial registry or *Registre du Commerce et des Sociétés* as number 552 040 982 (French business nomenclature code 6820 B). It is registered in Paris (France) at 42, Rue Washington (75008) and its shares are admitted to trading on the Paris Stock Exchange on "Euronext Paris—Compartiment A". The company is defined as a listed real estate investment company (*Société d'Investissement Immobilier Cotée* or SIIC). On 30 June 2018, SFL owned 20 buildings in Paris, with a total surface area of 392,462m<sup>2</sup>, valued at 6,409 million euros.

The proposed capital increase shall be used to issue the new Colonial shares, which shall be furnished to QH and DIC as a consideration for the contributions described in sub paragraph 2 above.

QH (Qatar Holding LLC) is a limited liability company which is properly organised and operated under the laws of the State of Qatar, pursuant to the regulations of the Qatar Financial Centre, registered as number 00004, with registered office at Ooredoo Tower, Diplomatic Area Street, West Bay, P.O. Box 23224, Doha, Qatar.

DIC (DIC Holding LLC) is a limited liability company which is properly organised and operated under the laws of the State of Qatar, pursuant to the regulations of the Qatar Financial Centre, registered as number 00150, with registered office at Ooredoo Tower, Diplomatic Area Street, West Bay, P.O. Box 23224, Doha, Qatar.

### **4. Valuation of the planned contribution and criteria used**

In order to determine the value of the SFL shares to be furnished by the Contributors, a number of different valuation methods have been considered, all of which are commonly accepted by the financial community. These include the following:

- **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, for companies operating in the real estate sector, the most relevant valuation method at an international level is based on the "EPRA NAV" indicator, which is basically the sum of the company's book value (net asset value - NAV) and the latent capital gains of the investment properties, measured at fair value, with certain items adjusted in accordance with the recommendations of the EPRA (*European Public Real Estate Association*). With this method, the value obtained represents the overall underlying value of real estate investments combined with other assets, adjusted by the company's financial debt and other liabilities.
- **Comparable multiples:** this method, which is considered a priority by international accounting rules (International Financial Reporting Standards) and US accounting rules, 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.

Based on the combination the methods described above, and in due consideration of the lower liquidity of the SFL shares on the market, with respect to the liquidity of the Colonial shares to be created as a result of the capital increase, the Board of Directors estimates that the 7,136,507 SFL shares accounting for approximately 15.34% of its share capital, thus furnished, have a value of 487,601,845.33 euros, which is the equivalent of 68.325 euros for each share to be contributed.

This price entails a discount of 20.3% on the EPRA NAV of SFL calculated on 30 June 2018, i.e. 85.7 euros per share.

Thus the Board of Directors considers that the valuation of the shares described above is the proper valuation for the non-cash capital increase addressed in this report.

### **5. Number and par value of the shares to be issued as a consideration**

Moreover, in order to determine the number of Colonial shares to be delivered in consideration for the SFL shares, the various valuation methods referred to above were also taken into account, as was the liquidity of the Colonial share with respect to that of the SFL shares.

Following an analysis of the different methods described in the preceding section, it was considered that the asset valuation method is the most relevant. In this regard, consideration was given to Colonial's EPRA NAV calculated on 30 June 2018, i.e. 9.11 euros per share. 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 Colonial's property assets 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 30 June 2018, the valuation of Colonial's properties was carried out by Jones Lang LaSalle, Cushman & Wakefield and CB Richard Ellis.

In due consideration of the valuation of the Colonial shares, and the SFL shares on the criteria described, the resulting exchange ratio is 7.5 Colonial shares, with a par value of 2.50 euros each, for each SFL share.

The intention is therefore to issue a total of 53,523,803 new shares with a par value of 2.50 euros and an issue premium of 6.61 euros for each of them, of the same class and series as those currently outstanding, which shall be fully subscribed and paid up by the Contributors through the contribution of 7,136,507 SFL shares owned by them. Specifically, of the 53,523,803 new Colonial shares, QH shall subscribe and pay up 32,897,325 shares and DIC 20,626,478 shares, as shown in the table below. Consequently, the effective amount of the capital increase shall be 487,601,845.33 euros.

NON-CASH CONTRIBUTIONS	SFL SHARES TO BE FURNISHED	COLONIAL SHARES TO BE ISSUED AS A CONSIDERATION
Qatar Holding LLC.....	4,386,310	32,897,325
DIC Holding LLC.....	2,750,197	20,626,478
<b>Total .....</b>	<b>7,136,507</b>	<b>53,523,803</b>

The new shares shall entitle their holders to the same voting and dividend rights as the shares of the Company currently outstanding, as of the date on which they are registered in their name in the accounting records.

**6. Amount of the capital increase**

As a consideration for the planned contribution, it is proposed to increase Colonial's share capital in the nominal amount of 133,809,507.50 euros, through the issue and circulation of 53,523,803 new ordinary shares of 2.50 euros par value each, of the same class and series as those currently outstanding.

**7. Amendment of Article 5 of the Company Bylaws**

It is proposed to delegate authority to the Board of Directors to reword the article of the Company Bylaws concerning the share capital on the basis of the capital actually subscribed and paid up as a consideration for the SFL shares actually contributed.

**8. Incomplete subscription**

In accordance with Article 311 of the Spanish Limited Liability Companies Law, the possibility of incomplete subscription of the capital increase addressed by this report is expressly provided for. Consequently, the increase in share capital (with the limit established herein) shall be limited to the amount corresponding to the par value of the new Colonial shares actually subscribed and paid up as a consideration for the SFL shares actually furnished.

**9. Guarantees adopted**

No special guarantees have been adopted in due consideration of the nature of the items contributed. However, there is a commitment for the Contributors to furnish the SFL shares (see sections 2 and 3 of this report).

**10. Preemptive rights**

Under Article 304 of the Spanish Limited Liability Companies Law and since the consideration of the capital increase consists of non-cash contributions, the Company's shareholders shall have no preemptive rights in relation to the shares to be issued in connection with the capital increase by means of in-kind contributions addressed in the motion.

**11. Independent expert**

Notwithstanding the fact that the contribution consists of securities traded on an official secondary market, in order to offer greater security for the Colonial shareholder and in due consideration of possible interpretations of the legal system in force, the Board of Directors has opted to exercise the most prudent alternative, and has issued a request to the Commercial Registry to appoint an independent expert to draw up a report on the operation, pursuant to Article 67 of the Spanish Limited Liability Companies Law.

In this regard, Ernst & Young has been appointed as the independent expert, and its report shall be made available to shareholders by means of a continuous posting, simultaneous to the call to the Extraordinary General Meeting and until such meeting has been held, on the Company's corporate website ([www.inmocolonial.com](http://www.inmocolonial.com)).

**PROPOSED RESOLUTION FOR A NON-CASH CAPITAL INCREASE TO BE SUBMITTED TO THE GENERAL MEETING OF SHAREHOLDERS OF INMOBILIARIA COLONIAL, SOCIMI, S.A.**

**Capital increase by means of in-kind contributions in the nominal amount of 133,809,507.50 euros, through the issue and circulation of 53,523,803 new ordinary shares, with a par value of 2.50 euros each, against a consideration consisting of shares in *Société Foncière Lyonnaise* (SFL) held by Qatar Holding LLC and DIC Holding LLC. Delegation of powers.**

The Extraordinary General Meeting of Shareholders of Inmobiliaria Colonial, SOCIMI, S.A. (“**Colonial**” or the “**Company**”) resolves to carry out a capital increase by means of in-kind contributions as per the terms and conditions established below, for the purposes of issuing the Colonial shares necessary to acquire, as a consideration, the shares in *Société Foncière Lyonnaise* (“**SFL**”) owned by Qatar Holding LLC (“**QH**”) and DIC Holding LLC (“**DIC**” known, along with QH, as the “**Contributors**”).

For the purposes of this resolution, all words beginning with a capital letter that are not expressly defined herein shall have the same meaning as that assigned to them in the report by the directors giving rise to this resolution.

**1. CAPITAL INCREASE**

It is resolved to increase the share capital of Colonial in the nominal amount of 133,809,507.50 euros, through the issue and circulation of 53,523,803 new ordinary shares with a nominal value of 2.50 euros each, of the same class and series as those currently outstanding, and the consideration for the new shares to be issued shall consist of non-cash contributions, specifically SFL shares, free of charges and encumbrances, currently admitted to trading on the Paris Stock Exchange on “*Euronext Paris—Compartment A*”.

**2. DESCRIPTION OF THE NON-CASH CONTRIBUTION AND IDENTIFICATION OF THE CONTRIBUTORS**

The contribution consists of 7,136,507 SFL shares (of which QH shall contribute 4,386,310 shares and DIC 2,750,197 shares), free of charges and encumbrances.

SFL is a French company listed in the Paris commercial registry or *Registre du Commerce et des Sociétés* as number 552 040 982 (French business nomenclature code 6820 B), it is registered in Paris (France) at 42, Rue Washington (75008) and its shares are admitted to trading on the Paris Stock Exchange on “*Euronext Paris—Compartment A*”. The company is defined as a listed real estate investment company (*Société d'Investissement Immobilier Cotée* or SIIC).

The capital increase addressed in this resolution shall be used to issue new shares which shall be delivered to Qatar Holding LLC and to DIC Holding LLC as a consideration for the contributions described.

Qatar Holding LLC is a limited liability company which is properly organised and operated under the laws of the State of Qatar, pursuant to the regulations of the Qatar Financial Centre, registered as number 00004, with registered office at Ooredoo Tower, Diplomatic Area Street, West Bay, P.O. Box 23224, Doha, Qatar.

DIC Holding LLC is a limited liability company which is properly organised and operated under the laws of the State of Qatar, pursuant to the regulations of the Qatar Financial Centre, registered as number 00150, with registered office at Ooredoo Tower, Diplomatic Area Street, West Bay, P.O. Box 23224, Doha, Qatar.

### 3. NUMBER OF NEW SHARES TO BE ISSUED

As a consideration for the non-cash contribution consisting of 7,136,507 SFL shares, the issue has been agreed as a total of 53,523,803 shares with a par value of 2.50 euros and an issue premium of 6.61 euros for each of them, of the same class and series as those currently outstanding, which shall be fully subscribed and paid up by the Contributors through the contribution of 7,136,507 SFL shares owned by them. Thus the effective amount of the capital increase is 487,601,845.33 euros.

Specifically, in connection with the 7,136,507 SFL shares that would be furnished to Colonial by the Contributors, QH shall furnish 4,386,310 SFL shares, and DIC 2,750,197 SFL shares, as shown in the table below.

NON-CASH CONTRIBUTIONS	SFL SHARES TO BE FURNISHED	COLONIAL SHARES TO BE ISSUED AS A CONSIDERATION
Qatar Holding LLC.....	4,386,310	32,897,325
DIC Holding LLC.....	2,750,197	20,626,478
<b>Total .....</b>	<b>7,136,507</b>	<b>53,523,803</b>

### 4. ISSUE PRICE

The new Colonial shares shall be issued for the unitary nominal sum of 2.50 euros, plus a share premium of 6.61 euros per share. Thus the issue price of the shares is set as 9.11 euros per share.

### 5. SUBSCRIPTION AND PAYMENT

The new Colonial shares shall be subscribed by the Contributors, and the par value and the share premium shall be fully paid up when the deed establishing the capital increase addressed in this resolution is drawn up.

### 6. INCOMPLETE SUBSCRIPTION

In accordance with the provisions of Article 311 of *Royal Legislative Decree 1/2010 of 2 July approving the revised Spanish Limited Liability Companies Law* (the “**Spanish Limited Liability Companies Law**”), the possibility of incomplete subscription of the capital increase addressed by this resolution is expressly provided for. Consequently, the increase in share capital (with the limit established herein) shall be limited to the amount corresponding to the par value of the new Colonial shares actually subscribed and paid up as a consideration for the SFL shares actually contributed.

### 7. DISAPPLICATION OF PREEMPTIVE RIGHTS

Under Article 304 of the Spanish Limited Liability Companies Law and since the consideration of the capital increase consists of non-cash contributions, the Company’s shareholders shall have no preemptive rights in relation to the shares to be issued in connection with the capital increase by means of in-kind contributions addressed in this resolution.

### 8. RIGHTS OF THE NEW SHARES

The new shares shall entitle their holders to the same voting and dividend rights as the shares of the Company currently outstanding as of the date on which they are registered in their name in the related accounting records.

**9. REPRESENTATION OF THE NEW SHARES**

The newly issued shares shall be represented by book entries, the accounting records of which shall be kept by Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. (“Iberclear”) and its participating entities.

**10. ADMISSION TO TRADING OF THE NEW SHARES**

It is resolved to apply for the admission to trading of the new Colonial shares on the Madrid and Barcelona Stock Exchanges and on any other domestic or international markets in which the Company’s shares are traded at the time of execution of this resolution, and for them to be included in the Spanish Stock Market Interconnection System (SIBE).

It is expressly stated that, in the event a request is subsequently made for the Company's shares to be delisted, such delisting shall be adopted in accordance with the procedures and requirements of the current legislation.

**11. GUARANTEES OF THE NON-CASH CONTRIBUTIONS**

No special guarantees have been adopted in due consideration of the nature of the items contributed. Notwithstanding the foregoing, each of the Contributors, with respect to their stake, has a commitment to furnish the shares referred to in section 2 of this resolution.

**12. AMENDMENT OF ARTICLE 5 OF THE COMPANY BYLAWS**

The Board of Directors is expressly delegated to reword Article 5 of the Company Bylaws on the basis of shares that are effectively subscribed and paid up.

**13. DELEGATION OF POWERS**

Notwithstanding the specific delegations of powers set out in preceding sections (which should be understood to have been granted with express powers to replace the persons indicated herein), it is agreed to empower the Board of Directors, with the scope required in law and with the express power to substitute the Chairman, CEO and Secretary and Vice Secretary of the Board, so that any of them, indistinctly and with a single signature, may take any action that is necessary or advisable to execute this resolution, and specifically, including but not limited to:

- Extend and implement this resolution, establishing the terms and conditions of the issue for all items not specifically referred to herein, and specifically, including but not limited to, establish the date on which the capital increase is to be carried out;
- Prepare, subscribe and submit, as appropriate, to the Spanish Securities Market Commission (the “CNMV”) or such other supervisory authorities as may be appropriate, in relation to the issues and admission to trading of any new shares issued under this resolution, (i) any prospectuses and supplements thereto as may be necessary or appropriate, undertaking responsibility therefor; and (ii) any documents and information as may be required for the purposes of compliance with the provisions of *Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, Royal Legislative Decree 4/2015 of 23 October approving the revised Spanish Securities Market Law,*

*Royal Decree 1310/2005 of 4 November on the admission to trading of securities in official secondary markets and public offerings for selling or subscription and the required prospectus for these purposes, and any other Spanish or foreign legislation applicable to the execution of this resolution;*

- Declare the Company's share capital to have been subscribed and paid up following the capital increase, even if, pursuant to the provisions of Article 311 of the Spanish Limited Liability Companies Law, the total number of securities is not subscribed, and subscription is incomplete, with the possibility of the capital increase being concluded in the amount of the subscriptions carried out, with express authorisation to increase or reduce the number of SFL shares to be furnished by each Contributor, and therefore the number of new Colonial shares to be furnished as a consideration to each of the Contributors, within the maximum nominal amount of the capital increase agreed by the General Meeting in this resolution. To this end, to adopt all the resolutions that are legally necessary to formalise the resolution or resolutions executing the capital increase, and the related amendments to the final article of the Company Bylaws relating to the Company's share capital;
- To take any action on behalf of the Company, make any statements and any arrangements with the CNMV, IBERCLEAR, stock exchange management companies and any other Spanish or foreign public or private body, entity or registry for the purposes of authorisation, verification and subsequent performance of the capital increase under this resolution and the admission to trading of the new shares on the Madrid and Barcelona Stock Exchanges and on any other Spanish or foreign markets on which the Company's shares are listed at the time of execution of this resolution, and the inclusion thereof in the Spanish Stock Market Interconnection System (SIBE);
- To negotiate and sign, as the case may be, in the terms it deems most appropriate, any contracts that may be necessary or advisable to carry out the capital increase addressed in this resolution;
- To request the admission to trading on the Madrid and Barcelona Stock Exchanges and/or on any other Spanish or foreign markets on which the Company's shares are listed at the time of execution of this resolution, and the inclusion thereof in the Spanish Stock Market Interconnection System (SIBE);
- To adopt or reject the application, where appropriate, of the special tax systems established by the regulations for this type of operations; and
- To draw up on behalf of the Company such public or private documents as are necessary or advisable for the issue of the new shares addressed in this resolution and for their admission to trading and, in general, to carry out any legal formalities required for implementation thereof and to rectify, clarify, interpret, specify or supplement the resolutions adopted by the General Meeting of Shareholders, in particular, any defects, omissions or errors, in substance or in form, arising from oral or written instructions, that may prevent registration of the resolutions and their consequences at the Commercial Registry, the official registers of the CNMV or any other registers.

This report was prepared and approved by the Board of Directors in Madrid, at a meeting on 17 October 2018.

For the purposes of the provisions of Article 228 of the Spanish Limited Liability Companies Law, the directors of the Company appointed at the behest of Qatar Investment Authority's group abstained



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from participating in deliberations and voting on the resolutions of the Board of Directors of Colonial in relation to the motion submitted to the General Meeting of Shareholders for the capital increase by means of in-kind contributions addressed in this report.

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