



FOR INFORMATION PURPOSES ONLY. SPANISH VERSION PREVAILS.

**INMOBILIARIA COLONIAL, S.A.**

**ORDINARY GENERAL MEETING OF SHAREHOLDERS (JUNE 2017)**

**REPORT OF THE BOARD OF DIRECTORS OF INMOBILIARIA COLONIAL, S.A. IN CONNECTION WITH THE PROPOSED RESOLUTION TO DELEGATE TO THE BOARD OF DIRECTORS THE AUTHORITY TO INCREASE THE SHARE CAPITAL PURSUANT TO ARTICLE 297.1.b) OF THE CONSOLIDATED SPANISH LIMITED LIABILITY COMPANIES LAW (ITEM 6 OF THE AGENDA).**

**1. Purpose of the report**

This report was prepared by the Board of Directors of Inmobiliaria Colonial, S.A. ("**Colonial**" or the "**Company**") in connection with the delegation to the Board of Directors of the Company of the authority to increase the capital of Colonial under the provisions of Article 297.1.b) of the consolidated Spanish Limited Liability Companies Law as approved by Legislative Royal Decree 1/2010 of July 2 (the "**Spanish Limited Liability Companies Law**"), including the power to disapply pre-emption rights pursuant to Article 506 of the Spanish Limited Liability Companies Law, and is hereby submitted to approval of the Ordinary General Meeting of Shareholders.

In accordance with Articles 286, 296.1, 297.1.b) and 506 of the Spanish Limited Liability Companies Law and the related provisions of the Mercantile Registry Regulations as approved by Royal Decree 1784/1996 of 19 July, the aforesaid proposed resolution of the General Meeting requires the preparation by the Board of Directors of the following supporting report.

**2. Justification of the proposal**

Pursuant to the provisions of Article 297.1.b) of the Spanish Limited Liability Companies Law, the shareholders at the General Meeting, in accordance with the requirements established for the amendment of the bylaws, may delegate to the Board of Directors the authority to carry out one or several capital increases up to a certain amount, at the time and for the amount it may decide, without prior consultation of the shareholders. Such increases may not exceed in any case half of the Company's share capital at the time of authorisation (i.e. on the date of this report EUR 490,587,570), and must be made no later than five years as from the resolution of the General Meeting. In turn, in accordance with Article 286 of the Spanish Limited Liability Companies Law in connection with Articles 296.1 and 297.1.b) of the Spanish Limited Liability Companies Law, the directors must prepare a written report that provides justification for the proposal.

In this regard, the Board of Directors understands that the proposed resolution submitted to the General Meeting of Shareholders is based on the advisability of providing the Board with an instrument authorised by current corporate legislation so that, at all times and without having to previously convene and hold any General Meeting of Shareholders, the Board is able to carry out any capital increases within the limits and under the terms, timelines and conditions decided by the General Meeting, which may be deemed to be in the interest of the Company. The dynamics of any corporation and, in particular, of listed companies, require that their governing and administration bodies are provided at all times with the most suitable instruments to adequately cover the needs of the company with regard to market circumstances. Such needs may include providing the company with new funds, usually by carrying out new capital contributions.

FOR INFORMATION PURPOSES ONLY. SPANISH VERSION PREVAILS.

Accordingly, the delegation provided for in Article 297.1.b) of the Spanish Limited Liability Companies Law provides the Board of Directors with the flexibility to cover, depending on the circumstances, the needs of the Company.

For such purposes, it is proposed that the General Meeting of Shareholders delegates to the Board of Directors the authority to increase the Company's capital one or several times, up to the maximum amount authorised by law. Approval of this resolution shall entail the nullity, as from approval of the proposed resolution by the shareholders at the General Meeting, of the unused portion of the resolution approved under item 9 of the Agenda of the Ordinary General Meeting held on 28 June 2016, whereby the Board was authorised to increase capital.

In addition, and as permitted by Article 506 of the Spanish Limited Liability Companies Law for listed companies, in the event that the shareholders at the General Meeting delegate to the directors the authority to increase share capital pursuant to Article 297.1.b) of the Spanish Limited Liability Companies Law, it may also delegate the authority to disapply pre-emption rights when the interests of the Company so require.

Therefore, it is hereby notified that the proposed resolution includes, as permitted by Article 506 of the Spanish Limited Liability Companies Law, a delegation to the directors of the authority to disapply, in whole or in part, the shareholders' pre-emption rights when the interests of the Company so require, pursuant to the provisions of Article 506 of the Spanish Limited Liability Companies Law. However, in line with good governance trends and recommendations, the authority of the Board of Directors to increase share capital and disapply any pre-emption rights is limited to a maximum of 20% of the share capital on the date of delegation (i.e. on the date of his report, EUR 196,235,028). Also, such capital increase with the disapplication of pre-emption rights, with the aforementioned limit, may be decided in furtherance of this delegation by the Board of Directors with the affirmative vote of two thirds of the members thereof.

The Board of Directors understands that this additional possibility, which extends the margin of discretion and responsiveness provided by the simple delegation of authority to increase share capital under the terms of Article 297.1.b) of the Spanish Limited Liability Companies Law is mainly justified by (i) the flexibility and agility which are sometimes necessary to operate in today's financial markets in order to take advantage of market conditions when favourable; (ii) a lower distorting effect on the trading of Company shares during the issue period, which is usually shorter than for an issuance with rights; (iii) the reduction of costs associated with the transaction (including, in particular, the fees charged by the financial institutions involved in the issuance); and (iv) the adequacy of the transaction to potential international markets or bookbuilding techniques.

In all cases, it is hereby stated that the power to disapply pre-emption rights, in whole or in part, is only an authority that the General Meeting delegates to the Board of Directors and will only be exercised by the Board of Directors if it decides so, based on the circumstances prevailing in each case and in accordance with any legal requirements. If, by exercising such powers, the Board of Directors were to decide to disapply pre-emption rights in connection with an specific capital increase that the Board of Directors possibly decides to carry out under the authorisation granted at the General Meeting of Shareholders, the Board of Directors shall prepare, when resolving such increase, a report detailing the specific reasons of the interest to the Company that justify such measure, and such report shall be accompanied by the auditor's report referred to in Article 506 of the Spanish Limited Liability Companies Law. Both reports shall be made available to the shareholders and submitted to the first

FOR INFORMATION PURPOSES ONLY. SPANISH VERSION PREVAILS.

General Meeting held after such capital increase resolution, in accordance with the provisions of the aforementioned provision.

**PROPOSED RESOLUTION TO DELEGATE TO THE BOARD OF DIRECTORS THE AUTHORITY TO INCREASE CAPITAL PURSUANT TO ARTICLE 297.1.b) OF THE CONSOLIDATED SPANISH LIMITED LIABILITY COMPANIES LAW, TO BE SUBMITTED TO THE GENERAL MEETING OF SHAREHOLDERS OF INMOBILIARIA COLONIAL, S.A.**

*Six.- Authorisation for the Board of Directors, in accordance with Article 297.1 b) of the Spanish Limited Liability Companies Law, to increase the share capital, within a maximum period of five years, through monetary contributions, up to half of the amount of the share capital, on one or more occasions, at the time and for the amount it deems appropriate. Within this maximum amount, the Board of Directors is empowered to disapply pre-emptive rights, limited to a maximum overall nominal amount equal to 20% of the share capital. Revocation of the authorisation granted through resolution nine of the Ordinary General Meeting of Shareholders on 28 June 2016.*

It is agreed to grant the Board of Directors of Inmobiliaria Colonial, S.A. (“Colonial” or the “Company”), in accordance with the provisions of Article 297.1 b) of the consolidated Spanish Limited Liability Companies Law approved by Legislative Royal Decree 1/2010 of 2 July (the “Spanish Limited Liability Companies Law”), with all the legal scope necessary to enable it, within five years of the date of this General Meeting, to increase share capital through monetary contributions, on one or more occasions and at any time, with no need to call a General Meeting or for a subsequent resolution of the shareholders.

The delegation of powers includes the power to issue new Colonial shares, either ordinary shares or shares of any other type permitted in law, with or without a share premium and with or without voting rights, with the power to stipulate the characteristics of the shares and the terms and conditions of the capital increase, and to freely offer any new shares not subscribed during the pre-emptive period and establish that, in the event of an incomplete subscription, share capital shall be increased only by the amount of the subscriptions made. Powers are also delegated to reword the article in the bylaws concerning Colonial’s share capital.

Any share capital increase agreed by the Board of Directors may not in any case exceed half of the Company’s share capital at the time of authorisation. The Board is also empowered to totally or partially disapply pre-emptive rights in the terms of Article 308 - in relation to Article 506 - of the Spanish Limited Liability Companies Law and related provisions. However, in keeping with good governance trends and recommendations, the powers of the Board of Directors to increase share capital with the disapplication of pre-emptive rights are limited to a maximum of 20% of the share capital at the time of authorisation. An increase in share capital with the disapplication of pre-emptive rights with the maximum stipulated must be agreed pursuant to this delegation of powers by the Board of Directors, with an affirmative vote by two thirds of the directors.

The powers thus delegated extend to the establishment of the aspects and conditions of each issue, according to the characteristics and conditions of each operation decided by virtue of the authorisation referred to in this resolution, including the power to reword the article of the bylaws addressing share capital, once the capital increase has been agreed and carried out, and also extend to making all the arrangements necessary to enable the new shares emerging from the capital increase to be admitted for trading on Spanish stock exchanges and, where applicable, foreign exchanges on which the Company shares are listed, in accordance with the procedures stipulated at each stock exchange.

Notwithstanding the specific delegations of powers in this resolution (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 replace the Chairman, Chief Executive Officer and Secretary and Deputy 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, although the following list is not exhaustive, to:

- Extend and develop this resolution, establishing, where no provision is made herein, the terms and conditions of any issues carried out, including in all cases the power to disapply pre-emptive rights. In particular, without limitation, establish the date on which the capital increases are to be carried out, establishing where applicable the commencement of the pre-emptive period, the share premium of the new shares and, therefore, the type of issue of the new shares; establish, in the event of an incomplete subscription, the number of shares to be issued and the nominal amount of each capital increase depending on the issue price, timeframe, format and procedure for subscription and payment in each of the periods, where applicable, the exchange ratio for exercise of pre-emptive rights, including the right to propose to one or more shareholders a waiver of the number of pre-emptive rights held by them that may be necessary to ensure that the number of shares to be issued maintains exactly the same proportion as that arising from application of the agreed-on exchange ratio, establish scenarios to suspend the offer of the new shares if this proves necessary or advisable and, in general, any other circumstances that are necessary or advisable to carry out the increase and issue shares in exchange for monetary contributions.
- Agree the method used to place the shares, establishing the start date and, if necessary, modifying the term of the pre-emptive period and, where appropriate, establishing the length of any additional and discretionary allocation periods, with the power to declare early closure of the placement and issue period. Powers are also delegated to establish the conditions and procedure for subscription of shares, where applicable, during additional allocation periods and discretionary allocation periods, and in the case of the latter, assigning the shares to any third party in accordance with the placement method freely established;
- Prepare, subscribe and submit, as appropriate, to the Spanish National Securities Market Commission (the “CNMV”) or any other supervisory authority concerned, in respect of the issue and admission for trading of the new shares issued under this resolution, the prospectus and any supplementary materials that are necessary or advisable, taking responsibility therefor, and any documents and information required for the purposes of compliance with the provisions of the consolidated Spanish Securities Market Law approved by Legislative Royal Decree 4/2015 of 23 October, in *Royal Decree 1310/2005, of 4 November, on the admission o trading on official secondary markets of initial and secondary public offerings and the mandatory prospectus* and any other Spanish or foreign regulations that are applicable to execution of this resolution;
- Take any action, make any statements and any arrangements, draw up, sign and submit any additional or complementary documentation necessary to 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);
- Prepare, subscribe and submit, if necessary or advisable, an international prospectus in order to facilitate the dissemination of information on share capital increases to international

FOR INFORMATION PURPOSES ONLY. SPANISH VERSION PREVAILS.

shareholders and investors, undertaking responsibility for its contents on behalf of the Company;

- Negotiate and sign, as the case may be, in the terms deemed most appropriate, any agreements that are necessary or advisable for the successful outcome of the capital increase, including the agency contract and, if applicable, any placement and/or underwriting contracts as may be necessary or advisable;
- Declare the capital increase to have been performed, issuing any new shares that may have been subscribed and paid up, and rewriting the article of the bylaws addressing share capital in accordance with capital effectively subscribed and paid up, cancelling, where applicable, the portion of the capital increase that has not been subscribed and paid up in the terms established;
- Grant on behalf of the Company such public or private documents as are necessary or advisable to issue the new shares covered in this resolution and to admit such shares to trading and, in general, perform such legal formalities as required for execution thereof and rectify, clarify, interpret, specify or supplement the resolutions adopted by the shareholders at the General Meeting of Shareholders and, in particular, such defects, omissions or errors, in substance or in form, arising from oral or written assessment which may prevent registration of the resolutions and related consequences at the Mercantile Registry, official CNMV registries or any others.

Approval of this resolution shall entail the nullity, from the time of approval of the resolution proposed by the General Meeting of Shareholders, of the unused portion of the preceding resolution for authorisation to the Board of Directors approved as item nine on the agenda of the Company's Ordinary General Meeting of Shareholders on 28 June 2016.

\* \* \* \*

This report was prepared and approved by the Board of Directors at the registered office, at a meeting held on 22 May 2017.