

**REPORT OF THE BOARD OF DIRECTORS OF INMOBILIARIA COLONIAL, S.A. ON THE CAPITAL INCREASE WITH A CHARGE TO MONETARY CONTRIBUTIONS, WITH THE DISAPPLICATION OF PRE-EMPTION RIGHTS AND FORECAST OF INCOMPLETE SUBSCRIPTION, AS AUTHORISED BY THE SHAREHOLDERS AT THE ANNUAL GENERAL MEETING HELD ON 28 JUNE 2016.**

**1. SUBJECT MATTER OF THE REPORT**

This report is prepared by the Board of Directors of Inmobiliaria Colonial, S.A. ("**Colonial**" or the "**Company**") in relation to the capital increase with a charge to monetary contributions and disapplication of pre-emption rights that the Board of Directors has planned as authorised by the shareholders at the Company's Annual General Meeting held on 28 June 2016 on item nine of the agenda.

In this regard, the main terms of the capital increase are as follows:

- *Maximum nominal amount:* EUR 89,116,642.50.
- *Maximum number of new shares:* the maximum number of shares that may be issued under the capital increase will be 35,646,657 (representing 9.99% of the current share capital).
- *Issue price:* the new shares will be issued at a par value of EUR 2.50 plus a share premium to be determined based on an accelerated bookbuild process. Nevertheless, the Board of Directors has opted to established a minimum issue price, as detailed in paragraph b. section 5 of this report.
- *Mode of placement:* the new shares will be offered following an accelerated bookbuild process.
- *Pre-emption rights:* the disapplication of shareholders' pre-emption rights is provided, since this disapplication is necessary to be able to perform the capital increase through the accelerated bookbuild offering.
- *Incomplete subscription:* the possibility of incomplete subscription of the capital increase covered by this report is expressly provided for.

In accordance with Articles 286, 296, 297.1.b), 308, 504 and 506 of *Legislative Royal Decree 1/2010, of 2 July, approving the Consolidated Spanish Limited Liability Companies Law* (the "**Spanish Limited Liability Companies Law**") and related provisions of the Spanish Mercantile Registry Regulations, this report must be prepared by the Board of Directors for the purpose of performing the capital increase covered by this report.

This report, together with the report prepared by KPMG Auditores, S.L. ("**KPMG**"), an auditor other the Company's auditor appointed for these purposes by the Mercantile Registry, will be made available to shareholders and reported at the first General Meeting held following the capital increase resolution discussed in this report.

This report is issued on the basis of the advice and information received from JP Morgan Securities PLC and Merrill Lynch International as the entities coordinating the capital increase covered by this report (the "**Advisory Banks**").

## **2. AUTHORISATION BY THE SHAREHOLDERS AT THE ANNUAL GENERAL MEETING FOR THE BOARD OF DIRECTORS TO INCREASE SHARE CAPITAL.**

At their meeting on 28 June 2016, the Company's shareholders resolved, under item nine on the agenda, to authorise the Board of Directors, pursuant to Article 297.1 b) of the Spanish Limited Liability Companies Law, to increase share capital through monetary contributions, within a maximum period of five years, up to half the amount of share capital, in one or several times, at the time and in the amount it deems appropriate. This authorisation resolution attributed the Board of Directors with the additional power of disapplying pre-emption rights. This power was limited to a maximum nominal amount equal overall to 20% of share capital. Pursuant to such authorisation, the capital increase with the disapplication of pre-emption rights (with the aforementioned ceiling) is exceptional, should respond to matters of urgency based on the market situation and circumstances and should be based on specific reasons grounded on the best interests of the Company and its shareholders. The occurrence of such circumstances and the advancement of the interest of the Company and its shareholders must be certified by a mandatory report from the Board of Directors. This capital increase will be approved by the Board of Directors with the affirmative vote of two thirds of its members. In this regard, the purpose of this report is to comply with such requirements.

Under the authorisation by the shareholders, the Company's Board of Directors is planning to increase capital by 9.99% of the Company's current share capital with the disapplication of pre-emption rights, the main terms and conditions of which are indicated in the foregoing. For this purpose, the Company's Board of Directors places on the record that (i) it has not to date made use of the aforementioned authorisation, (ii) the maximum nominal amount of the capital increase does not exceed 20% of share capital at the time of the authorisation and (iii) the agreement has been unanimously approved by all the Company's directors.

Together with the mandatory report of the Board of Directors, the shareholders' resolution is available to Company shareholders on Colonial's corporate website ([www.inmocolonial.com](http://www.inmocolonial.com)).

## **3. REASONS FOR THE INCREASE**

In recent years, Colonial has made significant advances in the level of its financial strength. Initially, in the first half of 2014, Colonial entered into a syndicated loan lacking a credit rating and with recourse to the Company's assets. In the first half of 2015, Colonial launched a process that enabled it earn for the first time an "investment grade" credit rating by Standard & Poor's Credit Market Services Europe Limited ("Standard & Poor's"), with a "BBB-" rating at long term. Based on this rating, the Company entered the bond markets, with an issue not backed by assets for a longer period and at much lower cost compared to the earlier existing funding.

In 2016 the capital markets were greatly affected by the overall political backdrop, the effects of Brexit and the presidential elections in the United States, in particular. The consequences in the markets were (i) a further reduction of interest rates, which in the case of Colonial's bonds reached levels close to 50% in secondary markets and (ii) a widespread perception of likely interest rate hikes in the medium term, which prompted a rise in the long terms of the yield curve, all amid an uncertainty that has resulted in erratic trends on the equity markets in general.

The consequence of these developments on Colonial's financial strategy has been and is the restructuring of its debt in the bond markets through new issues and appropriate repurchases of existing outstanding issues both at Colonial itself and at its subsidiary *Société Foncière Lyonnaise*

("SFL"). The result of this policy has been (i) a very substantial reduction of the financial cost of debt (nearly 50%) and (ii) an extension of the average maturity of the debt.

As a result of this active debt action and the strength of the core business, in April 2017 Standard & Poor's gave an upward review of the Colonial's credit rating to BBB, with a stable outlook. The items of credit enhancement indicated in the report by Standard & Poor's included the quality of the Colonial Group's portfolio, its leadership in the CBD areas of the markets where it operates (with a presence of more than 75%), adequate geographical diversification, the positive performance of market conditions, the growing demand for office spaces that brings in tow an increase in rent and the commitment to maintain a financial structure at conservative levels of leverage.

In 2017 Colonial management considers it appropriate to maintain this financial strategy of resorting to the market with successive refinancing of the bonds issued, which enable a reduction of finance costs and an extension of the average life of the Company's debt.

Against this backdrop, the Company estimates that the gradual improvement in its key indicators and a moderate increase its equity would enable it to maintain a solid financial structure so as to continue taking advantage of investment opportunities, reaffirming the Company's credit rating and endowing it with a capacity for a possible improvement in this rating.

Additionally, the market price of Colonial and its comparables has been marked in recent years by the following features: in a first phase, in 2014 and 2015 shares traded at a premium to the net asset value ("**NAV**"), based on expectations of a revaluation thereof; in a second phase, in 2016 shares traded at a discount to NAV, based on macroeconomic and political uncertainties and uncertainties relating to the likely trend in interest rates. In the third phase, in which the Company is currently involved, market prices converge at a moderate or, in certain cases, nearly non-existent discount in relation to the NAV. In this regard, the nature of this situation is exceptional because it sets up a market window that allows for transactions such as the transaction covered by this report.

Also, based on the information provided by the Advisory Banks, from a market perspective and based on the performance of the main indices since the beginning of 2017, we are facing a potentially excellent window to consider a transaction of this type for multiple reasons:

- In the last few months, there has been an upward trend with a 15.1% rise in the IBEX, and the overall performance of the European market has improved in the same period (Eurostoxx 50 up 8.7% in the same period).
- Activity on the primary market also performed most positively in the first quarter of 2017, with market transactions totalling EUR 42,000 million, up 198% on the same period in 2016.
- Of particular note has been the increase in activity in the Iberian region, which has been one of the most active markets in Europe.

In addition to the positive performance of the market in general, based on the information provided by the Advisory Banks, we are in a highly positive situation for the Company, since the achievement of the strategic objectives announced and the recent enhancement of Company's credit rating by

Standard & Poor's to BBB has buttressed the share price and made it possible to execute a transaction with attractive terms for shareholders.

On the other hand, it must be kept in mind that the real estate sector is currently very competitive, highly fragmented and characterised by the existence of low barriers to entry. Recently, the recovery of the confidence of international investment funds in the real estate sector as a long-term investment, particularly by sovereign wealth funds, and the revival of the capital market has led to the creation of new listed REITs (SOCIMIs) and increased investments in property assets, which has increased the level of competition in the investment property sector. Accordingly, in today's competitive environment, the availability of funds is essential to be able to arrange investments immediately once an agreement is reached so that investment opportunities are not missed in the face of other entities that may have a greater availability of funds.

As such, the current competitive environment and the investment opportunities being analysed require the Company to maintain a strong equity position to make investments, take advantage of the current situation of the real estate market and promote opportunities for organic growth in the main markets in which it operates.

The capital increase covered by this analysis would place the Company in a favourable position to acquire the assets currently under analysis by the Company and would give it greater autonomy in selecting and taking opportunities to ensure the short- and medium-term availability of funds to seize investment opportunities.

Lastly, it should be kept in mind that in recent years (from May 2014 to present), the Colonial Group has been investing at a sustained and substantial pace a total of approximately EUR 1,467 million.

In particular, last year Colonial invested in Project Alfa-I and Project Alfa-II. By way of example, Project Alfa-I, which was performed in the first half of 2016, entailed a total committed investment of approximately EUR 579 million and, in return for this investment, the Company increased capital by approximately EUR 266 million. With such measures the Company has been preserving its fundamental aggregates as regards its borrowings.

Project Alfa-II, which was performed in early 2017, entailed a total committed investment of approximately EUR 389 million. In this regard, the performance of the capital markets makes it advisable that this project have an associated equity component in the financing thereof.

The Company considers that, based on its fundamentals, such investments make it possible to maintain its investment strategy of acquiring assets with a high potential for value creation that therefore advance the best interests of the Company.

Based on the foregoing, the Board of Directors considers that the capital increase covered by this report, which is exceptional based the real estate sector's current circumstances and markets' volatility, advances the interests of the Company since it would reaffirm the Company's credit rating and provide it with a capacity for a potential enhancement, make it possible to seize investment opportunities currently available to the Company and make investments in repositioning and improvement to maximise the quality, occupancy and value of the assets that are already part of its portfolio.

Lastly, based on the advice and information provided by the Advisory Banks, the Company considers that the conditions are currently given to secure strong support for Colonial's capital increase as proposed, both in relation to the market in general and the existence of individual investors with a strong interest in holding a stake in it.

#### **4. MODE OF THE PLACEMENT**

The Company's Board of Directors, in view of the information provided by the Advisory Banks, considers that the most effective way to achieve the desired objective and, in turn, take advantage of the current market situation and the interest of the international investment community's in the Company's shares is by issuing new shares through an accelerated bookbuild offering, which is a mode that has already been put into practice in the Spanish market for various listed companies.

For this purpose, an agreement will be entered into with the Advisory Banks, whereby, in their capacity as bookrunners, a private placement will be made of the new shares to qualified investors exclusively.

This placement will be accelerated because subscription and payment of the capital increase and the admission to trading of the shares will take place in just a few days, subject to the practices and customs standard to these procedures.

In accordance with established market practice, an accelerated capital increase requires the disapplication of pre-emption rights as they are incompatible within the deadlines and under the procedures with a quick placement targeted at a specific group of investors, as envisaged. For the purposes of the disapplication of pre-emption rights and in accordance with applicable law, section 5 of this report includes a detailed justification of the proposal and specifies the value of the shares and the consideration to be paid for the new shares (issue price), indicating the persons to whom they are to be attributed.

During this private placement period, the Advisory Banks will carry out a bookbuilding process for Company shares that will enable it to determine the price the market is willing to pay for them. The Board of Directors, in accordance with international and domestic financial practice, understands that the price resulting from this procedure (which will be conducted transparently between knowledgeable parties on an arm's length basis) will reflect the fair value of the Company share, as required under Article 506 of the Spanish Limited Liability Companies Law as a result of the disapplication of pre-emption rights. Notwithstanding the foregoing, the Board of Directors has established a minimum issue price as a price protection that may result from this process (see paragraph b. section 5 below).

Having completed this process, the Board of Directors will perform the capital increase and amend the related article of the bylaws by stating the exact figure at which capital has been increased as a result of the accelerated bookbuild offering.

For greater efficiency, the Chairman and CEO will be empowered as necessary to determine the terms and conditions of the capital increase after the bookbuilding process, including, but not limited to, the final issue price of the shares. The Chairman and CEO will also be empowered to set the terms and conditions of the share placement procedure, setting the start date thereof, term and any other circumstances necessary for full implementation.

Lastly, it should be noted that, based on the experience of this type of transaction performed by other listed companies, the involvement of the Advisory Banks in the aforementioned private placement of the shares makes it possible to reasonably trust in the success of the transaction.

## **5. DISAPPLICATION OF PRE-EMPTION RIGHTS**

The capital increase covered by this report provides for the disapplication of shareholders' pre-emption rights, since this exclusion is necessary to be able to perform the capital increase through the aforementioned procedure.

In accordance with the applicable regime, for the disapplication of pre-emption rights in the issue of new shares the directors must prepare a report specifying the value of the Company shares and justify in detail the offering and the consideration to be paid for the new shares, indicating the persons to whom they are to be attributed. For this purpose, detailed below is (a) the justification as regards the corporate interest, (b) the issue price and (c) the recipients of the issue.

### **a) Justification as regards the corporate interest**

The disapplication of the shareholders' pre-emption rights requires that it be in the interest of the Company. In this regard, the Company's Board of Directors considers that the disapplication of the shareholders' pre-emption rights is in full compliance with the substantive requirements set out in the Law and, in particular, with regard to the need for the disapplication to be in the corporate interest. In particular, this is because (i) it enables the performance of a transaction advancing the interest of the Company, (ii) the procedure is well suited to achieving the purpose sought with the capital increase and (iii) there is proportionality between the chosen medium and the objective sought.

#### *(i) Advisability of the capital increase from the perspective of interests of the Company*

The Company considers that a modest increase in the Company's equity reaffirms its commitment to maintaining a solid financial structure, confirms the current BBB rating with a stable outlook and provides a capacity for an eventual enhancement in the future.

In addition, the Company considers that we are in an environment in which new investment opportunities are presented to the Company, which, together with the stiff competition in the sector, advises that the Company maintain a strong equity position and an appropriate level of borrowings to be able to make new investments, take advantage of the current situation of the real estate market and promote opportunities for organic growth in the major markets in which it operates.

The currently positive situation of the real estate market, coupled with a capital increase as covered by this report, would allow the Company, inter alia, to continue executing its investment strategy by acquiring assets with a high potential to create value and make investments in repositioning and improvement in order to maximise the quality, occupancy and value of the assets that are already part of its portfolio in order to lend continuity to the Company's strategy of actively managing its property assets.

The Company's Board of Directors considers that it is in the interest of the Company to urgently and exceptionally increase capital on the terms described in this report. The reasons that argue for the exceptional nature and urgency of this alternative, as outlined in this report, are summarised below:

- Maintaining a solid financial structure in order to continue taking advantage of investment opportunities, reaffirming the Company's credit rating and giving it a capacity for a potential enhancement in this rating.
- The certified use of funds, Project Alfa-II, and the possibility of new additional investments.
- The market situation, with a confluence of values in relation to Colonial's market price, the NAV per share and potential issue price, which open a market window for a capital increase.
- The current political and economic framework, , on one hand, and the process of raising long-term rates, on the other.

See section 3 above for a detailed justification of the offering.

*(ii) Appropriateness of conducting a capital increase through an accelerated private placement of shares.*

The Company's Board of Directors, based on the advice and information provided by the Advisory Banks, considers that the most effective way to achieve the desired objective and, in turn, take advantage of the current market situation and the interest of the international investment community's in the Company's shares is by issuing new shares through an accelerated bookbuild offering (see section 4 above).

In this regard, this technique is most suitable in terms of the issue price of the new shares, the cost of securing funds and the execution risk for monetary capital increases of an absolute volume, such as the one now envisaged. For this purpose, it is important to note that such transactions are routinely used by major issuers in international capital markets and have been used on many occasions by various Spanish listed companies, mainly due to their flexibility, efficiency and speed.

In accordance with established market practice and standard practice at most property companies, an accelerated capital increase requires the disapplication of pre-emption rights, as they are incompatible within the deadlines and under the procedures with a quick placement targeted at a specific group of investors, as envisaged.

The Board of Directors has analysed other alternative methods of attracting new capital available to the Company such as (i) a monetary capital increase with pre-emptive subscription rights and (ii) a monetary capital increase with disapplication of pre-emption rights to launch an initial public offering of shares.

In this regard, the main advantages of the structure proposed are as follows:

- *Speed of execution:* Any strategy for attracting funds other than the strategy proposed here would significantly delay the process, which would entail a significant delay in attracting the necessary funds.

In the case of a monetary capital increase with pre-emptive subscription rights, such rights must be able to be exercised for a period that cannot legally be less than 15 days from the publication of the offering of the new issue in the Official Gazette of the Mercantile Registry.

Also, in the case of a monetary capital increase with the disapplication of pre-emption rights to launch an initial public offering of shares, a period of nearly two weeks is required as from the announcement until the setting of the issue price, following in both cases the preparation and registration of the related prospectus for the transaction.

These periods contrast with those required to complete the subscription and payment of shares in an accelerated bookbuild offering, which is limited to a period of a few days, which allows it to be quickly and flexibly launched, thus considerably expanding the Company's room for manoeuvring and responsiveness to take advantage of market timing and perform the transaction in the best conditions available to the Company.

Also, since the maximum number of shares to be issued under the capital increase covered by this report represent less than 10% of the number of Company shares admitted to trading, it would not be necessary to prepare and register a prospectus.

Therefore, none of the alternative fundraising strategies would be appropriate to carry out the capital increase in such a short period of time.

- *Less exposure to market volatility:* Any strategy for attracting funds other than the strategy proposed here would significantly delay the process, which would expose the transaction to market volatility for an extended period of time.

In the case of a monetary capital increase with pre-emptive subscription rights, the value of the shares should be set at the beginning of the process and, as such, the Company would be exposed to market performance during the period to negotiate the rights.

Also, in the case of a monetary capital increase with disapplication of pre-emption rights to launch an initial public offering of shares, the duration of the process could again entail considerable market risk which, depending on market performance, could hinder the obtainment of the necessary funds.

In this regard, in recent months equity markets have experienced some volatility, which, together with the current political and economic backdrop, has led to a scenario that advises that mechanisms be used that reduce uncertainty and exposure to market volatility. Despite recent events, a reasonable degree of stability is current in place, although prudence would advise maximising the transactions that can be executed now.

In general, as advised by the Advisory Banks, this volatility discourages fundraising that exposes the Company to a negative trend in the share's market value for an extended period of time.

Therefore, none of the alternative fundraising strategies would achieve the Company's objectives efficiently, considering the inherent volatility of financial markets and the execution time required to perform any of these alternatives.

- *Lower possible discount on the share price:* The issue price of the new shares under the accelerated bookbuild offering usually represents a lower discount to the share price at that time due to the market risk bearing on a capital increase with pre-emptive subscription rights or monetary capital increase with disapplication of pre-emption rights to launch an initial public offering of shares, which require a period of several weeks as from the related announcement to completion, whereas the accelerated capital increase is performed within a few days.

In the listed companies in the investment property sector the net asset value is used as the benchmark for the value of shares, even in an environment in which share prices can stand at a different level. In this regard, market practice generally values negatively the issues of new shares when the issue price has been set significantly below the net asset value per share of the company, which advises the use of accelerated placements that involve a lower discount on the issue.

Therefore, the alternative fundraising strategies would initially require performing the transaction at an issue price with a higher discount to the Company's share price.



- *Cost savings:* The costs of an accelerated bookbuild offering are generally lower than those of a capital increase with pre-emptive subscription rights or monetary capital increase with disapplication of pre-emption rights to launch an initial public offering of shares, since most of the advertising and marketing costs are eliminated (no roadshows required to present the transaction to investors) and, in general, the fees of the bookrunners are reduced.

Therefore, the alternative fundraising strategies would initially entail higher costs for the Company.

In addition, the proposed capital increase is an opportunity to increase the Company's shareholder base, adding prestigious new qualified investors and thereby improving share liquidity and increasing analysts' interest and monitoring of the Company, without prejudice to the fact that Company's qualified shareholders, in their capacity as such, may submit subscription proposals.

Also, through the accelerated bookbuild process, the Company may participate in the process to assign shares in order to consolidate a non-speculative shareholder base aligned with the Company's interests of society and looking to remain on board in the medium and long term.

Therefore, the Board of Directors considers that the accelerated bookbuild structure is the most suitable alternative to efficiently ensure the success of the transaction.

*(iii) Proportionality of the disapplication of pre-emption rights*

In the opinion of the Board of Directors, the disapplication meets the due proportionality that should exist between the advantages obtained for the Company and the disadvantages that could possibly occur for such shareholders whose expectations were jeopardised due to the dilution inherent to any issue of shares without pre-emptive subscription rights. This statement is based on (i) the benefits that the accelerated bookbuild offering has over alternative fundraising, as discussed in the preceding paragraph and (ii) the fact that the issue of the shares at fair value (as discussed below) does not imply, a priori, an economic dilution or financial loss for the shareholder.

In view of the foregoing, the Company's Board of Directors considers that the disapplication of pre-emption rights in the capital increase referred to in this report is justified based on the interest of the Company, since the benefits of the accelerated bookbuild offering for the Company, in terms of price, structure and results for the transaction, offset and justify, to the commercial benefit, the disapplication of pre-emption rights.

**b) Issue price**

Under the Spanish Limited Liability Companies Law, the capital increase resolution with disapplication of pre-emption rights by the Board of Directors is conditional on the par value of the shares to be issued plus, as appropriate, the amount of the share premium corresponding to the fair value resulting from the report of the auditor other than the Company's auditor appointed for these purposes by the Mercantile Registry. In this regard, the Spanish Limited Liability Companies Law stipulates that at listed companies the fair value will be understood to be the market value which, unless otherwise justified, is the value established by reference to the share price.

Given the foregoing, it is proposed that the issue price of the new shares (par value plus premium) be the result of the bookbuilding process carried out within the framework of the accelerated bookbuild offering performed by the Advisory Banks in relation to the new shares issued under the capital increase covered by this report (see section 4 "*Mode of placement*"). The Board of Directors considers

that the fair value corresponds to the fair value resulting from the described process since, through this process, the intensity of demand is measured in the most qualified segment of investors (able to very quickly assess the supply and determine the amount and price at which they are willing to acquire the shares) and, therefore, properly and faithfully expresses what is willing to be paid in the market for new Company shares (see section 4 above).

Therefore, the mode to set the issue price (par value plus share premium) proposed for the capital increase ensures that it responds to the fair value of the Company's shares, as stipulated in paragraph 4 of Article 506 of the Spanish Limited Liability Companies Law, in fine.

However, as an additional protection, the Board of Directors has opted to set a minimum issue price equal to the price arising from applying a discount of 5% to the Company's share closing price on the Spanish Stock Market Interconnection System on last trading day closed prior to start of the accelerated bookbuild process, rounded up to obtain a whole number of euro cents; in no case may such minimum issue price (par value plus premium) be less than EUR 6.80 per share (the "**Minimum Issue Price**"). Accordingly, the minimum price at which the new shares may be issued is EUR 6.80, EUR 2.50 relating to the par value and EUR 4.30 to the share premium.

This Minimum Issue Price proposed by the Board of Directors relates to the result of the negotiations conducted by the Company with the Advisory Banks, acting freely as knowledgeable parties on an arm's length basis, on the price per share at which the Advisory Banks, prior to performance of the bookbuilding process among institutional and qualified investors, considering that there may be interest among investors to cover the capital increase. This minimum price is in line with the discounts that are common in recent experience in capital increases similar to the planned increase in terms of absolute value and the historical daily share trading volume.

In this regard, based on information provided by the Advisory Banks, the discount planned for calculating the Minimum Issue Price is in line with the discount applied by other Spanish and international companies to determine the minimum issue price.

In addition, the issue of shares at a maximum discount as happens with the Minimum Issue Price is fully justifiable from the perspective of the supply and demand governing the functioning of securities markets. In this regard, the price of a share, i.e. its market value, is determined by the intersection between supply and demand and represents the value at which market participants are willing to buy and sell an insignificant number of shares of an entity. However, the placement of a significant block of shares (as is expected to be issued with the capital increase to which this report refers) means that the supply of shares on the market is much greater than the supply existing before (resulting in a shift in the supply curve), which drives a downward trend in the share price, the effect of which is even greater depending on the relative volume of new shares issued.

Notwithstanding the foregoing, pursuant to Spanish Limited Liability Companies Law, KPMG, in its capacity as auditor other than the Company's auditor appointed for these purposes by the Mercantile Registry, will issue a report on the fair value of the shares, on the theoretical value of the pre-emptive subscription rights proposed to be disapplied and on the reasonableness of the data contained in this report. As indicated, such report, together with this report, will be made available to the shareholders and communicated at the first General Meeting held after the capital increase resolution referred to in this report.

### **c) Recipients of the issue**

As detailed above, the Advisory Banks, in their capacity as bookrunners, will conduct an accelerated bookbuild process of the new shares among qualified investors exclusively, including the Company's qualified shareholders.

In this regard, the issue will be aimed exclusively at qualified investors, as defined (i) in Spain in Article 39 of *Royal Decree 1310/2005, of 4 November, partially implementing Securities Market Law 24/1988, of 28 July, concerning the admission to listing (or trading) of securities in official secondary markets of initial and secondary public offerings and the required prospectus for these purposes*, (ii) in the other Member States of the European Union in the related regulations transposing Directive 2003/71/EC of 4 November 2003 and (iii) in the other countries as investors with such status or equivalent category in accordance with the applicable law in each jurisdiction such that, in accordance therewith, the capital increase covered by this report does not require any registration or approval vis-à-vis the competent authorities.

### **6. INDEPENDENT EXPERT**

For the disapplication of pre-emption rights, the Spanish Limited Liability Companies Law requires an independent expert, other than the auditor of the Company's financial statements and appointed for such purposes by the Mercantile Registry, to prepare a report, under its responsibility, on the fair value of the Company's shares, on the theoretical value of the pre-emptive subscription rights proposed to be disapplied or limited and on the reasonableness of the data contained in the report by the directors.

In this regard, the Mercantile Registry has appointed KPMG as independent expert. Its report, together with this report, will be made available to the shareholders and communicated at the first General Meeting held after the capital increase resolution referred to in this report.

## **PROPOSED RESOLUTION TO INCREASE CAPITAL WITH THE DISAPPLICATION OF PRE-EMPTION RIGHTS.**

### ***Capital increase with the disapplication of pre-emption rights through accelerated bookbuild process.***

The Board of Directors of Inmobiliaria Colonial, S.A. ("**Colonial**" or the "**Company**") resolves, as authorised by the Company's shareholders on 28 June 2016 and in accordance therewith, to perform a capital increase with a charge to monetary contributions with the disapplication of pre-emption rights, on the terms and conditions set out below.

For the purposes of this resolution, all the words beginning with a capital letter and not specifically defined shall have the same meaning as established in this connection in the report by the directors from which this resolution derives.

#### **1. CAPITAL INCREASE**

It is resolved to increase the Company's share capital by a maximum nominal amount of EUR 89,116,642.50, through the issue of up to a maximum of 35,646,657 new ordinary shares of EUR 2.50 par value each, of the same class and series as those currently existing, the consideration for the new shares to be issued consisting of monetary contributions.

In accordance with the shareholders' power to delegate, the Chairman and CEO are expressly delegated so that either of them with a single signature may set the final amount of the capital increase within the maximum number of shares once the accelerated bookbuild process ends.

#### **2. LIMIT OF AUTHORISATION**

In line with trends and good governance recommendations, the shareholders limited to the Board of Directors the power to increase capital with the disapplication of pre-emption rights to a maximum of 20% of the share capital at the time of the authorisation and, in addition, it was required as a condition to disapply the pre-emptive subscription rights that the resolution be adopted with the affirmative vote of two thirds of the members of the Board of Directors. In this regard, the Company's Board of Directors notes that (i) it has not to date made use of the authorisation referred to, (ii) the maximum nominal amount of the capital increase is less than the EUR 159,442,832 corresponding to 20% of the Company's share capital at the date of the authorisation by the shareholders at the Annual General Meeting held on 28 June 2016 and (iii) the resolution has been unanimously approved by all the Company's directors.

#### **3. ISSUE PRICE**

The issue price of the new shares will relate to the par value of the Company's shares outstanding (EUR 2.50) plus the share premium to be determined based on an accelerated bookbuild process.

The price to be determined on the basis of the accelerated bookbuild process corresponds to the fair value of the shares, as justified in the report by the directors and as expected to be confirmed by the report issued by KPMG Auditores, S.L. in accordance with Article 308 of *Legislative Royal Decree 1/2010, of 2 July, approving the Consolidated Spanish Limited Liability Companies Law* (the "**Spanish**

**Limited Liability Companies Law**"), in its capacity as auditor other than the auditor of the Company appointed for these purposes by the Mercantile Registry.

Notwithstanding the foregoing, it is resolved to set a minimum issue price equal to the price arising from applying a discount of 5% to the Company's share closing price on the Spanish Stock Market Interconnection System on last trading day closed prior to start of the accelerated bookbuilding process, rounded up to obtain a whole number of euro cents; in no case may such minimum issue price (par value plus premium) be less than EUR 6.80 per share (the "**Minimum Issue Price**"). Accordingly, the minimum price at which the new shares may be issued is EUR 6.80, EUR 2.50 relating to the par value and EUR 4.30 to the share premium.

In this regard, the Chairman and CEO, in accordance with the delegation powers granted by the shareholders, are expressly delegated so that each of them, individually and with a single signature, in observance of the aforementioned Minimum Issue Price, may set the issue price of the new shares following the accelerated bookbuild process.

#### **4. RECIPIENT OF THE CAPITAL INCREASE**

The capital increase is aimed exclusively at qualified investors, as defined (i) in Spain in Article 39 of *Royal Decree 1310/2005, of 4 November, partially implementing Securities Market Law 24/1988, of 28 July, concerning the admission to listing (or trading) of securities in official secondary markets of initial and secondary public offerings and the required prospectus for these purposes*, (ii) in the other Member States of the European Union in the related regulations transposing Directive 2003/71/EC of 4 November 2003 and (iii) in the other countries as investors with such status or equivalent category in accordance with the applicable law in each jurisdiction such that, in accordance therewith, this capital increase does not require any registration or approval vis-à-vis the competent authorities.

#### **5. DISAPPLICATION OF PRE-EMPTION RIGHTS**

As noted above, the authorisation resolution to increase the share capital granted by the Company's shareholders on 28 June 2016 attributed to the Board of Directors the additional power to disapply pre-emption rights up to a maximum nominal amount equal overall to 20% of the share capital at the time of the authorisation.

In this regard, it was resolved to disapply pre-emption rights based on the report by the directors and report by the auditor referenced in Articles 506 and 308 of the Spanish Limited Liability Companies Law, such that all the shares issued pursuant to this resolution are subscribed by the recipients of the capital increase referred to in section 4.

#### **6. RIGHTS OF THE NEW SHARES**

The new shares will entitle their holders to the same voting and dividend rights as the shares of the Company currently outstanding as from the date on which they are registered in their name in the

related accounting records. Also, as regards dividend rights, the new shares will entitle holders to interim and final dividends, the distribution of which is agreed upon as from that date.

#### **7. REPRESENTATION OF THE NEW SHARES**

The newly issued shares will be represented by book entries registered by Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. Unipersonal (IBERCLEAR) and its participating entities.

#### **8. PLACEMENT PROCEDURE**

The placement procedure is that which is known in market practice as an accelerated bookbuild offering. For this purpose, an agreement will be entered into with the Advisory Banks, whereby a private placement will be made of the new shares to qualified investors, including, in their status as such, the Company's qualified shareholders.

In this regard, the Chairman and CEO, in accordance with the delegation powers granted by the shareholders, are expressly delegated so that each of them individually and with a single signature may set the terms and conditions of the share placement process, setting the start date, duration and any other circumstances necessary for full implementation.

#### **9. 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 nominal value of the new Company shares effectively subscribed and paid.

#### **10. AMENDMENT OF ARTICLE 5 OF THE BYLAWS**

The Chairman and CEO, in accordance with the delegation powers granted by the shareholders, are expressly delegated so that each of them individually and with a single signature may re-write Article 5 of the Company's bylaws based on the number of shares subscribed and paid.

#### **11. ADMISSION TO TRADING**

It is resolved to apply for admission to trading of the new shares on the Madrid and Barcelona stock exchanges and on any other markets in which the Company's shares are traded at the time of execution of this resolution and that they be included on the Spanish Stock Market Interconnection System (SIBE).

It is expressly stated that in the event that the Company's shares are subsequently requested to be delisted, such delisting will be adopted following the procedures and requirements of prevailing legislation.

#### **12. DELEGATION OF POWERS**

In accordance with the delegation powers granted by the shareholders and without prejudice to the specific delegations of powers contained in the foregoing sections (which should be understood to

have been granted with the express delegation powers in the persons indicated here), it is resolved to empower the Chairman and CEO, with the broadest power required by law, so that either of them individually and with a single signature may take all the actions necessary or appropriate to execute this resolution, including, in particular, but not limited to:

- i. Expanding and developing this resolution, setting the terms and conditions of the issue in all matters not provided herein. In particular, without limitation, setting the start date of the placement, setting the amount of the increase within the maximum determined, the exact issue price of the capital increase within the limit set by the Board of Directors, setting the deadline and procedure for subscription and payment, appointing the entities involved in the placement and, in general, determining any other circumstances necessary to perform the capital increase and issue of shares in consideration for monetary contributions.
- ii. Drafting, signing and submitting, where appropriate, to the Spanish National Securities Market Commission (the "CNMV") or any other supervisory authorities in relation to the issue and admission to trading of the new shares issued as result of the capital increase, the documentation necessary or appropriate, including, if necessary, a prospectus and any such supplements thereto as may be required, assuming the responsibility for them, as well as other documents and information required in compliance with *Securities Market Law 24/1988, of 28 July*, and Royal Decree 1310/2005, to the extent that they are applicable.
- iii. Taking any action, statement or procedure, drafting, signing and submitting any such additional or supplementary documentation or information as may be necessary before the CNMV, the stock exchange governing companies, the stock exchange company, Iberclear or any other competent public or private, domestic or foreign entity, authority or registry to obtain authorisation, verification and the subsequent execution of the capital increase and admission to trading of the new shares on the Spanish stock exchanges.
- iv. Drafting, signing and submitting, as necessary or appropriate, an international prospectus in order to facilitate the dissemination of information relating to the capital increase to shareholders and international investors, assuming on behalf of the Company the responsibility for the contents thereof.
- v. Negotiating and signing, as appropriate, under the terms deemed most appropriate, any such contracts as may be necessary for the proper performance of the capital increase, including the agency agreement and, as appropriate, the placement and underwriting agreements.
- vi. Declaring the capital increase executed, issuing the new shares subscribed and paid and re-writing the article in the bylaws relating to capital, voiding the part of the capital increase that was not subscribed and paid on the established terms.
- vii. For the purposes of the provisions of the Mercantile Registry Regulations, indicating the amount arranged with respect to the limit set in the authorisation by the shareholders to increase share capital, and the amount that has not yet been arranged.
- viii. Applying for admission to trading on the Spanish stock exchanges and on any other markets in which the Company's shares are traded at the time of execution of this resolution and that they be included on the Spanish Stock Market Interconnection System (SIBE).
- ix. Executing on behalf of the Company such public or private documents as may be necessary or appropriate for the issue of new shares under this resolution and the admission to trading thereof and, in general, performing such formalities as may be necessary for the execution

thereof and correcting, clarifying, interpreting, requiring or supplementing the resolutions adopted and, in particular, such oral or written defects, omissions or errors of substance or form as may prevent access of the resolution and their consequences to the Mercantile Registry, the Official Registries of the CNMV or any registries.

This report has been prepared and unanimously approved by those attending the vote, in Barcelona on 26 April 2017.

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