

## **Inmobiliaria Colonial, S.A.**

**Special report on the exclusion of pre-emptive rights as  
established in articles 308, 504 and 506 of the Revised  
Spanish Companies Act**

KPMG Auditores, S.L.

*This report contains 6 pages*



## Private and Confidential

To the shareholders of Inmobiliaria Colonial, S.A.

28 April 2017

Pursuant to articles 308, 504 and 506 of the Revised Spanish Companies Act, which was approved by Royal Legislative Decree 1/2010 of 2 July 2010 (the "Spanish Companies Act" or "SCA"), in accordance with the engagement commissioned by Inmobiliaria Colonial, S.A. (hereinafter "Colonial" or the "Company") and by designation of Mr. Ignacio Garmendia Rodríguez, Barcelona Mercantile Registrar, on 29 March 2017, we hereby issue this special report on the increase in the Company's share capital by a maximum amount of Euros 89,116,642.50 through the issue of up to 35,646,657 ordinary shares with exclusion of pre-emptive rights. The Colonial directors' report is attached hereto and will be submitted together with our report to the shareholders who will be notified at their first general meeting held after the capital increase agreement is reached (hereinafter the "Increase").

At their ordinary general meeting on 28 June 2016, as point nine on the agenda, the Company's shareholders agreed to empower the board of directors to carry out the share capital increase in accordance with section 1.b) of article 297 of the SCA, so that within a maximum of five years they may increase share capital, through monetary contributions, by a maximum amount equal to half of share capital, through one or more increases, at the time and in the amount they see fit. Within the limits of the maximum amount indicated, the board of directors will be empowered to exclude pre-emptive rights under certain conditions, up to a total maximum par value equal to 20% of share capital. In accordance with this authorisation, the capital increase with exclusion of pre-emptive rights, up to the maximum indicated, will be exceptional in nature and must fulfil an urgent requirement based on market circumstances and must be justified by specific reasons that are in the best interest of the Company and its shareholders. A report must be prepared by the board of directors to document the existence of these circumstances and the advantages for the Company and its shareholders.

Following its delegation, the Company's board of directors drew up the corresponding report on 26 April 2017 (hereinafter the "Directors' Report"), which is attached as Appendix 1 to this special report, justifying in detail the proposal and the share issue price, indicating the participants in the share increase and the nature of the contributions. Legislation requires these shares to be issued at their fair value. A share valuation is an approximation or estimate of fair value, which may be largely based upon subjective assessments of highly varied aspects of the business. For listed companies, in accordance with article 504.2 of the SCA, fair value is understood to be the market value, which, in the absence of evidence to the contrary, is presumed to be the listed share price.

Based on the information included in the Directors' Report, the proposed capital increase is exceptional in nature and is considered necessary in view of the current position of the real estate sector and the volatility of the capital markets and is in the Company's best interests insofar as it will reaffirm its credit rating and facilitate its potential future improvement, allow it to take advantage of investment opportunities currently available to it, as well as repositioning and improving its investments in order to maximise the quality, volume and value of the existing assets in the portfolio.

The Directors' Report proposes that the aforementioned capital increase be carried out through an accelerated private placement with qualified investors, commonly referred to as an Accelerated Bookbuild Offer, which has already been undertaken in the Spanish market by various listed companies through similar transactions. According to the Directors' Report, this procedure is considered to be the most efficient for achieving the objective being sought while simultaneously taking advantage of the current position of the market and the interest of the international investment community in the shares of the Company, in order to raise capital in a short period of time, thereby substantially reducing the exposure time to risks associated with general market volatility and, in particular, the price of the Company's shares, as well as the performance of the sector to which it belongs.

In their report, the directors therefore consider that these advantages can be summarised in the following groups: (a) rapid execution; (b) lower exposure to market volatility; (c) potential lower discount on listing price and (d) cost savings.

To this end, the Company will enter into an agreement with various placement agents of renowned international prestige (hereinafter the "Advisor Banks") for the Advisor Banks to carry out a private placement of the new shares of Colonial with qualified investors (i) in Spain, as established in article 39 of Royal Decree 1310/2005 of 4 November 2005, which partially develops Securities Market Law 24/1998 of 28 July 1998 on the admission to trading of securities on secondary markets, public offer of sale and subscription and the mandatory related prospectus; (ii) in other EU member states, in accordance with the amendments and transposition to the respective domestic legislation of Directive 2003/71/EC of 4 November 2003, and (iii) in the remaining jurisdictions, to qualified investors in accordance with the legislation applicable in each jurisdiction, so that the capital increase does not require registration or approval by the competent authorities. This placement will be an accelerated placement. In keeping with usual market practice, the placement will exclude pre-emptive rights, which would be incompatible in time and form with a rapid placement such as the one at hand.

Before the end of the private placement period the Advisor Banks will assess market demand for the new shares of Colonial, which will be used as a basis for establishing the price that the market is willing to pay.

In accordance with international and domestic financial practice, the board of directors of Colonial considers that the price resulting from this procedure (which should be transparent and carried out between well-informed parties) will reflect the fair value of the Company's shares, as required under article 506 of the Spanish Companies Act when excluding pre-emptive rights. As a result, the board of directors of Colonial proposes that this price be used as a point of reference for establishing the issue price in the capital increase referred to in the Directors' Report.

Without prejudice to the foregoing, the minimum issue price will be calculated by applying a discount of 5% to the closing price of the Company's shares on the Spanish Stock Market Interconnection System (Continuous Market) at the end of the last trading day prior to commencement of the prospecting process carried out in the framework of the *Accelerated Bookbuild Offer*, rounded up to the nearest Euro cent. The minimum issue price (par value plus premium) may not be less than Euros 6.8 per share (the "Minimum Issue Price"). The minimum price at which these new shares may be issued is therefore Euros 6.80; a par value of Euros 2.50 and a share premium of Euros 4.30.

Our responsibility is to issue a professional opinion as independent experts on the fair value of the Company's shares, on the theoretical value of the pre-emptive rights which the board of directors proposes to exclude and on the reasonableness of the information in the Directors' Report. Our work has been carried out in accordance with the technical standard for the preparation of the special report on exclusion of pre-emptive rights as established in article 308 of the SCA.

The accounting information used in this report has been taken from the Company's consolidated annual accounts at 31 December 2016, which were audited by Deloitte, S.L., who issued an unqualified auditor's report thereon dated 24 February 2017.

In accordance with the technical standard governing the preparation of this special report, our engagement comprised the application of the following procedures:

- Procurement of the aforementioned auditor's report on the consolidated annual accounts of Colonial at 31 December 2016.
- Request and procurement of information from the auditor of the Company's annual accounts on possible significant events or factors with respect to the financial situation of the Company and its group that may have become known to the auditors subsequent to the issue of the most recent auditor's report provided to us.
- Procurement of any other information considered necessary for or of interest to our work.
- Enquiries of Company management concerning salient issues that could significantly affect the value of Colonial and, if applicable, verification of these issues.
- Study of changes in the listing price of Company shares and determination of the weighted average listing price of the shares during the last representative listing period prior to issue of this special report (the last quarter, unless stipulated otherwise), from 28 January to 27 April, inclusive, as well as determination of the listing price at 27 April, as the last listing price available prior to the date of issue of the special report.
- The listing price has been determined based on a certificate issued by Sociedad Rectora de la Bolsa de Valores de Madrid Sociedad Anónima, a copy of which is attached hereto as Appendix 2, and includes the listing prices and frequency and volume of trading in the periods analysed.
- Confirmation that the issue price proposed by the board of directors (par value plus share premium) exceeds the net equity value in the latest audited consolidated annual accounts of Colonial for the year ended 31 December 2016.
- Estimate of the fair value of the Company's shares and verification of the issue price.
- Assessment of the reasonableness of the data contained in the Directors' Report supporting the proposal and the new share issue price, including a review of the documentation supporting the valuation methodology and calculation basis used by the board of directors of Colonial to determine the issue price.
- Calculation of the theoretical value of the pre-emptive rights that the board proposes to exclude, calculated based on both the closing price of Colonial's shares on 27 April and on the arithmetic mean of the weighted average price of the Company's shares in the period from 28 January to 27 April, inclusive, and the underlying net book value of the Company.
- Procurement of a representation letter signed by the Company's CEO, who is empowered by the board to represent the Company, stating that they have provided us with all the relevant assumptions, data and information for the performance of our work, and informing us of any significant events that have occurred between the date of the latest auditor's report on the consolidated annual accounts of Colonial at 31 December 2016 and the date our report is issued.

In view of the decision of the shareholders at their ordinary general meeting on 28 June 2016 to delegate the board of directors to perform the capital increase, the Directors' Report proposes a minimum issue price calculated by applying a discount of 5% to the closing price of the Company's shares on the Spanish Stock Market Interconnection System (Continuous Market) at the end of the last trading day prior to commencement of the prospecting process carried out in the framework of the Accelerated Bookbuild Offer, rounded up to the nearest Euro cent. The minimum issue price (par value plus premium) may not be less than Euros 6.8 per share (the "Minimum Issue Price").

In light of the above, in our professional opinion as independent experts, we conclude that:

- The information contained in the Directors' Report to support the proposed exclusion of pre-emptive rights of the shareholders, pursuant to article 308 of the SCA, is reasonable as it is adequately documented and expressed.

- The Minimum Issue Price agreed by the board of directors of Colonial following their delegation by the shareholders at their ordinary general meeting on 28 June 2016 is within the range of prices that could be considered indicative of the fair value of the Company's shares in the context of this transaction.
- This Minimum Issue Price is higher than the consolidated net equity value of the Company's shares at 31 December 2016, which amounts to Euros 6.56 per share.

The closing price of the Company's shares on 27 April (date on which the certificate was issued by Sociedad Rectora de la Bolsa de Valores de Madrid, S.A.), as well as the arithmetic mean of the weighted average price of these shares during the last quarter, from 28 January to 27 April, inclusive, according to the aforementioned certificate issued by the stock exchange governing body, is as follows:

<b>Listing period</b>	<b>Listing price (€/share)</b>
27 April	Euros 7.127
Average for the period from 28 January to 27 April, inclusive	Euros 6.9352

Following is the theoretical value of the pre-emptive rights that the board proposes to exclude, expressed in Euros per share, with respect to the Minimum Issue Price based on the closing price of Colonial's shares on 27 April and with respect to the arithmetic mean of the weighted average price of these shares in the period from 28 January to 27 April, inclusive, as well as with respect to the underlying net book value of the Company's shares in the audited consolidated annual accounts at 31 December 2016.

<b>Listing period</b>	<b>Listing price (€/share)</b>	<b>Minimum Issue Price</b>	<b>Dilution effect (€/share)</b>
27 April close	7.127	6.8	0.02969
Arithmetic mean of the weighted average price for the period from 28 January to 27 April, inclusive.	6.9352	6.8	0.01227
Audited net equity value at 31 December 2016	6.56	6.8	<i>No dilution</i>

With respect to the theoretical value of the pre-emptive rights that the board proposes to exclude from the issue price that will be determined upon completion of the so called accelerated prospecting procedure, we cannot issue an opinion or quantify its effect as it is unknown at the date of issue of this special report.

In accordance with the procedure proposed by the board of directors to determine the issue price, the dilution per share outstanding with respect to the listing price is calculated as follows:

$$D = \frac{P_o - P_e}{\left(\frac{N_o}{N_e}\right) + 1}$$

where D represents the theoretical value of the pre-emptive right, P<sub>o</sub> is the closing price of the Company's shares on the last trading day prior to commencement of the prospecting performed within the framework of the Accelerated Bookbuild Offer, P<sub>e</sub> is the issue price, N<sub>o</sub> is the number of old Company shares outstanding at the date of approval of the share capital increase by the board of directors of Colonial and N<sub>e</sub> is the number of new shares to be issued.

The dilution per share outstanding with respect to the arithmetic mean of the weighted average price of the shares of Colonial in the last quarter, in Euros per share, is calculated as follows:

$$D = \frac{P_{mo} - P_e}{\left(\frac{N_o}{N_e}\right) + 1}$$

where D represents the theoretical value of the pre-emptive right, P<sub>mo</sub> is the mean of the weighted average listing prices of the Company's shares in the quarter prior to the last trading session before commencement of the prospecting performed within the framework of the Accelerated Bookbuild Offer, P<sub>e</sub> is the issue price, N<sub>o</sub> is the number of old Company shares outstanding at the date of approval of the share capital increase by the board of directors and N<sub>e</sub> is the number of new shares to be issued.

The procedure proposed by the Company's board of directors for determining the issue price does not lead to a theoretical dilution of the underlying net book value of the Company's shares presented in the consolidated annual accounts at 31 December 2016 audited by Deloitte, S.L.

This special report complies with the terms of articles 308 and 506 of the SCA with respect to independent expert reports. This report should not be used for any other purpose.

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Fernando Maldonado  
KPMG Auditores, S.L.

28 April 2017

(\*) Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.