

Colonial

REPORT OF THE BOARD OF DIRECTORS OF INMOBILIARIA COLONIAL, S.A. IN RELATION TO THE PROPOSED AMENDMENTS TO THE COMPANY BYLAWS FOR THE ADAPTATION THEREOF TO THE LATEST LEGISLATIVE DEVELOPMENTS OF 2015 (ITEM SIXTEENTH OF THE AGENDA).

1. Purpose of the report

The Board of Directors of Inmobiliaria Colonial, S.A. ("**Colonial**" or the "**Company**") have agreed to call a General Shareholders' Meeting to be held on 27 June , 2016 at first call and on 28 June, 2016 at second call, and to submit to said Shareholders' Meeting, under Item sixteenth of the agenda, the approval of the amendment to the Company Bylaws to adapt them to *Royal Legislative Decree 1/2010 of 2 July, approving the Consolidated Text of the Spanish Limited Liability Companies Law* (the "**Spanish Limited Liability Companies Law**"), as worded after the amendments introduced by:

- (i) *Law 5/2015, of 27 of April on the development of business financing ("Law 5/2015");*
- (ii) *Law 9/2015, of 25 May on urgent bankruptcy measures ("Law 9/2015");* and
- (iii) *Law 22/2015, of 20 of July on accounts auditing ("Law 22/2015").*

Pursuant to the provisions in article 286 of the Spanish Limited Liability Companies Law and in accordance with *Royal Decree 1784/1996, of 19 July approving the Mercantile Registry Regulations* (the "**RRM**"), the referred to proposals placed before the General Shareholders' Meeting require the preparation by the Board of Directors of the following substantiating report.

2. Justification of the proposals

The amendments to be submitted for approval before the General Shareholders' Meeting have the purpose of updating the regulatory bylaws to the Spanish Limited Liability Companies Law, as worded after the amendments introduced by (i) Law 5/2015, (ii) Law 9/2015, and (iii) Law 22/2015.

To this end, the following are proposed:

- 1) The modification of article 2 of the Company Bylaws referring to the registered office, branches and corporate website, the principal objective being to adapt the content of the second paragraph of said article to the new literal meaning of provision 285 of the Spanish Limited Liability Companies Law as a result of final disposition 1.1 of Law 9/2015. In particular, in relation to the transfer of the registered office within national territory.
- 2) The modification of article 22 of the Company Bylaws referring to the special constitution of the General Shareholders' Meeting for the approval of certain agreements as a consequence of the amendment to article 406 of the Spanish Limited Liability Companies Law introduced by article 45 of Law 5/2015. In particular, to define the powers of the General Shareholders' Meeting in relation to the issue of bonds and attribute to the Board of Directors, as provided for in the Spanish Limited Liability Companies Law in its present wording, the power to agree to the issue and admission to negotiate bonds as well as agree the granting of guarantees for the issue of bonds, provided that these are not bonds convertible into shares or bonds that attribute to the bondholders a share of the company's earnings.

Therefore, future issues of bonds, provided that these are not bonds convertible into shares or bonds that attribute to the bondholders a share of the company's earnings, shall be performed with the agreement of the governing body, thus remaining without effect or value the

agreement adopted by the General Meeting of 24 April 2015, under Item eleven of the agenda.

- 3) The modification to article 32 of the Company Bylaws referring to the Audit and Control Committee for its adaptation to the complete content of article 529 quaterdecies of the Spanish Limited Liability Companies Law as a result of the amendments introduced by final provision 4.20 of Law 22/2015. In particular, it proposes to develop the functions of the Audit and Control Committee and to make it mandatory for all members of the Audit and Control Committee to possess the technical knowledge necessary to carry out their functions.

In keeping with the proposed amendments to the Company Bylaws, the amendments to articles 5, 16 and 22 of the Regulations of the General Shareholders' Meeting are submitted to the General Meeting under Item seventeenth of the agenda.

3. Proposed amendments

The proposed amendments to adapt the Company Bylaws to the new wording of the Spanish Limited Liability Companies Law are as follows:

CURRENT WORDING	PROPOSED WORDING
<p>Article 2. Registered office, branches and corporate website</p> <p>The Company is of Spanish nationality and its registered office is in Barcelona, Avenida Diagonal, n°532.</p> <p>By decision of the Governing Body, it may change its registered office within the municipality in which the previous was located and establish, close or transfer any delegations, branches, offices and representations as deemed convenient or necessary to improve the development of the corporate purpose, both in Spain or overseas.</p> <p>The Company shall have a corporate website which will be entered in the Mercantile Registry. The Board of Directors can agree to the amendment, suppression and transfer of the corporate website.</p>	<p>Article 2. Registered office, branches and corporate website</p> <p>The Company is of Spanish nationality and its registered office is in Barcelona, Avenida Diagonal, n°532.</p> <p>By decision of the Governing Body, it may change its registered office within the municipality in which the previous was located national territory and establish, close or transfer any delegations, branches, offices and representations as deemed convenient or necessary to improve the development of the corporate purpose, both in Spain or overseas.</p> <p>The Company shall have a corporate website approved by the General Meeting which will be entered in the Mercantile Registry. The Board of Directors can agree to the amendment, suppression and transfer of the corporate website.</p>
<p>Article 22. Special constitution</p> <p>Notwithstanding the provisions of the previous article, which stipulates that for a General Meeting held at first call to pass valid resolutions on capital increases and decreases, amendments to the Bylaws, the issue of bonds, the removal of or limits to the pre-emptive rights to acquire new shares, as well as the conversion, merger, spin-off or division of the Company and the transfer of the registered office to outside Spain, or any other matter determined by Law, shareholders present or represented must hold at least fifty per cent of the subscribed share capital with voting rights. If held at second call, the attendance of shareholders holding twenty-five per cent of the capital shall be sufficient.</p>	<p>Article 22. Special constitution</p> <p>Notwithstanding the provisions of the previous article, which stipulates that for a General Meeting held at first call to pass valid resolutions on capital increases and decreases, amendments to the Bylaws, the issue of bonds, convertible into shares or which attribute to the bondholder a share of the company's earnings, the removal of or limits to the pre-emptive rights to acquire new shares, as well as the conversion, merger, spin-off or division of the Company and the transfer of the registered office to outside Spain, or any other matter determined by Law, shareholders present or represented must hold at least fifty per cent of the subscribed share capital with voting rights. If held at second call, the attendance of shareholders holding twenty-five per cent of the capital shall be sufficient.</p>

CURRENT WORDING	PROPOSED WORDING
<p>Article 32. Audit and Control Committee</p> <p>The Audit and Control Committee shall be formed by a minimum of three and a maximum of eight directors, all of which must be non-executive directors, appointed by the Board of Directors. The Audit and Control Committee will also include the number of independent directors stipulated by law at any given time and at least one of them will be appointed taking into account the director's knowledge and experience regarding accounting and/or auditing.</p> <p>The Audit and Control Committee will appoint a Chairman from among its members, who in any case must be an independent director. The Chairman of the Audit and Control Committee shall be replaced every four years, and may be re-elected after one year has elapsed from the date on which his/he term of office expired.</p> <p>The Committee will also appoint a Secretary from among its members, or may designate the Secretary of the Board to fill this position. If the Secretary of the Committee is absent, the Secretary of the Board or, where applicable, the Deputy Secretary thereof will carry out these duties. The Committee may appoint, where applicable, a Deputy Chairman who must also be an independent director.</p> <p>In any case, the Committee may avail itself of the technical assistance of the Secretary or the Deputy Secretary of the Board at its meetings, at the request of the Chairman of the Committee.</p> <p>The members of the Committee shall be relieved of their duties once their tenure as a director ceases, or when agreed by the Board of Directors.</p> <p>Without prejudice to any other functions attributed thereto by law, the Bylaws or the Regulations of the Board of Directors, the Audit and Control Committee must at least carry out the following:</p> <ol style="list-style-type: none"> 1. Report to the General Shareholders' Meeting on any questions posed in relation to those matters for which the Committee is responsible. 2. Monitor the effectiveness of the Company's internal control, internal audit and risk management systems, including tax risks, and discuss with the external auditors any significant weaknesses detected in the internal control system during the course of the audit. 3. Supervise the process of drawing up and presenting the required financial information. 4. Propose to the Board of Directors the selection, appointment, re-election and replacement of the external auditor, as well as the terms of its engagement, and regularly gather information therefrom regarding the audit plan and the implementation thereof, in addition to preserving its independence in the performance of its duties. 5. Establish the appropriate relationships with the 	<p>Article 32. Audit and Control Committee</p> <p>The Audit and Control Committee shall be formed by a minimum of three and a maximum of eight directors, all of which must be non-executive directors, appointed by the Board of Directors. The Audit and Control Committee will also include the number of independent directors stipulated by law at any given time and at least one of them will be appointed taking into account the director's knowledge and experience regarding accounting and/or auditing.</p> <p><u>All the members of the Audit and Control Committee shall have the pertinent technical knowledge relating to the sector to which the Company belongs.</u></p> <p>The Audit and Control Committee will appoint a Chairman from among its members, who in any case must be an independent director. The Chairman of the Audit and Control Committee shall be replaced every four years, and may be re-elected after one year has elapsed from the date on which his/he term of office expired.</p> <p>The Committee will also appoint a Secretary from among its members², or may designate the Secretary of the Board to fill this position. If the Secretary of the Committee is absent, the Secretary of the Board or, where applicable, the Deputy Secretary thereof will carry out these duties. The Committee may appoint, where applicable, a Deputy Chairman who must also be an independent director.</p> <p>In any case, the Committee may avail itself of the technical assistance of the Secretary or the Deputy Secretary of the Board at its meetings, at the request of the Chairman of the Committee.</p> <p>The members of the Committee shall be relieved of their duties once their tenure as a director ceases, or when agreed by the Board of Directors.</p> <p>Without prejudice to any other functions attributed thereto by Law, the Bylaws or the Regulations of the Board of Directors, the Audit and Control Committee must at least carry out the following:</p> <ol style="list-style-type: none"> 1. Report to the General Shareholders' Meeting on any questions posed in relation to those matters for which the Committee is responsible <u>and, in particular, on the results of the audit explaining how this has contributed to the integrity of the financial information and the role the committee has played in this process.</u> 2. Monitor the effectiveness of the Company's internal control, internal audit and risk management systems, including tax risks, and discuss with the external auditors any significant weaknesses detected in the internal control system during the course of the audit <u>audit, without infringing their independence. To this end, and where applicable, they may present recommendations or proposals to the Board of Directors and the corresponding period for their</u>

CURRENT WORDING	PROPOSED WORDING
<p>external auditor to receive information on any issues which may jeopardise its independence and which will be studied by the Committee, and any other information relating to the auditing procedure, as well as any other communications provided for in the legislation relating to auditing and the technical rules thereof. In any case, written confirmation must be received, on an annual basis, from the external auditor of its independence with respect to the Company or entities directly or indirectly connected thereto, as well as information on any type of additional services provided and the related fees received from these entities by the external auditor or by persons or entities related to the auditor pursuant to that provided in accounting legislation.</p> <p>6. Issue, on an annual basis and prior to the issuance of the auditor’s report, a report expressing an opinion on the independence of the external auditor. Such report shall, in all cases, contain the evaluation of the provision of the additional services mentioned in the section above, considered individually and as a whole, other than legal audit services in relation to the rules on independence or in accordance with the regulatory standards of accounts audits.</p> <p>7. Inform the Board of Directors of all matters established by Law, the Bylaws and the Regulations of the Board of Directors.</p> <p>8. Prepare an annual report on the activities of the Audit and Control Committee, which must be included in the management report.</p> <p>9. Propose to the Board of Directors any other matters that it deems relevant for which it is responsible.</p> <p>10. Any other functions that may be attributed thereto by the Bylaws or the Regulations of the Board of Directors.</p> <p>The Audit and Control Committee shall meet whenever requested to do so by at least two of its members, or at the behest of the Chairman, who is responsible for convening it. The call notice shall be valid provided it is sent by any means that allow acknowledgement of its receipt.</p> <p>The Audit and Control Committee shall be validly convened when the majority of its members are present or represented, adopting resolutions by majority of those present or represented. The Committee member affected must abstain from participating in the deliberation and voting on resolutions or decisions in which such member or a person related thereto has a direct or indirect conflict of interest. Votes from directors affected by a conflict of interest and required to absent themselves from the meeting shall be deducted from the calculation of the majority of votes necessary. Proxies are granted in writing and specifically for each meeting and solely to other Committee members. The Chairman shall have a casting vote in the event of a tie.</p>	<p><u>monitoring.</u></p> <p>3. Supervise the process of drawing up and presenting the required financial information <u>and present recommendations or proposals to the Board of Directors, aimed at safeguarding their integrity.</u></p> <p>4. Propose to the Board of Directors the selection, appointment, re-election and replacement of the external auditor, taking responsibility for the process pursuant to the provisions of the legislation in force as well as the terms of its engagement, and regularly gather information therefrom regarding the audit plan and the implementation thereof, in addition to preserving its independence in the performance of its duties.</p> <p>5. Establish the appropriate relationships with the external auditor to receive information on any issues which may jeopardise <u>be considered a threat to</u> its independence and which will be studied by the Committee, and any other information relating to the audit <u>audit, and where applicable, the authorisation of the services other than those prohibited, within the terms contemplated in the legislation in force, relating to rules on independence,</u> as well as any other communications provided for in the legislation relating to auditing and the technical rules thereof. In any case, written confirmation must be received, on an annual basis, from the external auditor of its independence with respect to the Company or entities directly or indirectly connected thereto, as well as <u>detailed and individual</u> information on any type of additional services provided and the related fees received from these entities by the external auditor or by persons or entities related to the auditor pursuant to that provided in accounting legislation <u>the regulatory standards of the activity of</u> accounts audits.</p> <p>6. Issue, on an annual basis and prior to the issuance of the auditor’s report, a report expressing an opinion on whether the independence of the auditor of the auditor or auditing companies has been compromised. Such report shall, in all cases, contain the <u>reasoned</u> evaluation of the provision of <u>each and every one</u> the additional services mentioned in the section above, considered individually and as a whole, other than legal audit services in relation to the rules on independence or in accordance with regulatory standards of <u>the activity of</u> accounts audits.</p> <p>7. Inform the Board of Directors of all matters established by Law, the Bylaws and the Regulations of the Board of Directors.</p> <p>8. Prepare an annual report on the activities of the Audit and Control Committee, which must be included in the management report.</p> <p>9. Propose to the Board of Directors any other matters</p>

CURRENT WORDING	PROPOSED WORDING
<p>Minutes will be taken of all Committee meetings and will be made available to all members of the Board of Directors.</p> <p>The Regulations of the Board of Directors set forth these rules regarding the Audit and Control Committee, always favouring the independence of its functioning.</p>	<p>that it deems relevant for which it is responsible.</p> <p>10. Any other functions that may be attributed thereto by the Bylaws or the Regulations of the Board of Directors.</p> <p>The Audit and Control Committee shall meet whenever requested to do so by at least two of its members, or at the behest of the Chairman, who is responsible for convening it. The call notice shall be valid provided it is sent by any means that allow acknowledgement of its receipt.</p> <p>The Audit and Control Committee shall be validly convened when the majority of its members are present or represented, adopting resolutions by majority of those present or represented. The Committee member affected must abstain from participating in the deliberation and voting on resolutions or decisions in which such member or a person related thereto has a direct or indirect conflict of interest. Votes from directors affected by a conflict of interest and required to absent themselves from the meeting shall be deducted from the calculation of the majority of votes necessary. Proxies are granted in writing and specifically for each meeting and solely to other Committee members. The Chairman shall have a casting vote in the event of a tie.</p> <p>Minutes will be taken of all Committee meetings and will be made available to all members of the Board of Directors.</p> <p>The Regulations of the Board of Directors set forth these rules regarding the Audit and Control Committee, always favouring the independence of its functioning.</p>

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PROPOSALS FOR THE AMENDMENT OF THE COMPANY BYLAWS

Sixteenth Amendments to the Company Bylaws for the adaptation thereof to the latest legislative developments during 2015.

16.1 Amendment to article 2 of the Company Bylaws to adapt them to *Royal Legislative Decree 1/2010 of 2 July, approving the Consolidated Text of the Spanish Limited Liability Companies Law* after the amendments introduced by *Law 9/2015, of 25 May on urgent bankruptcy measures*.

With the purpose of adapting the content of the Company Bylaws to the latest reforms of *Royal Legislative Decree 1/2010 of 2 July, approving the Consolidated Text of the Spanish Limited Liability Companies Law*, and in particular, incorporate into the Company Bylaws the latest measures introduced through *Law 9/2015, of 25 May on urgent bankruptcy measures*, it is agreed to approve the modification of the text of article 2 of the Company Bylaws, which will literally read as follows:

“Article 2 - Registered office, branches and corporate website

The Company is of Spanish nationality and its registered office is in Barcelona, Avenida Diagonal, n°532.

By decision of the Governing Body, it may change its registered office within the national territory and establish, close or transfer any delegations, branches, offices and representations as deemed convenient or necessary to improve the development of the corporate purpose, both in Spain or overseas.

The Company shall have a corporate website approved by the General Meeting which will be entered in the Mercantile Registry. The Board of Directors can agree to the amendment, suppression and transfer of the corporate website.”

16.2 Amendment to article 22 of the Company Bylaws to adapt them to *Royal Legislative Decree 1/2010 of 2 July, approving the Consolidated Text of the Spanish Limited Liability Companies Law* after the amendments introduced by *Law 5/2015, of 27 April on the development of business financing*.

With the purpose of adapting the content of the Company Bylaws to the latest reforms of *Royal Legislative Decree 1/2010 of 2 July, approving the Consolidated Text of the Spanish Limited Liability Companies Law*, and in particular, incorporate into the Company Bylaws the latest measures introduced through *Law 5/2015, of 27 April on the development of business financing*, it is agreed to approve the modification of the text of article 22 of the Company Bylaws, which will literally read as follows:

“Article 22.- Special constitution

Notwithstanding the provisions of the previous article, which stipulates that for a General Meeting held at first call to pass valid resolutions on capital increases and decreases, amendments to the Bylaws, the issue of bonds, convertible into shares or which attribute to the bondholder a share of the company’s earnings, the removal of or limits to the pre-emptive rights to acquire new shares, as well as the conversion, merger, spin-off or division of the Company and the transfer of the registered office to outside Spain, or any other matter determined by Law, shareholders present or represented must

hold at least fifty per cent of the subscribed share capital with voting rights. If held at second call, the attendance of shareholders holding twenty-five per cent of the capital shall be sufficient.”

16.3 Amendment to article 32 of the Company Bylaws to adapt them to Royal Legislative Decree 1/2010 of 2 July, approving the Consolidated Text of the Spanish Limited Liability Companies Law after the amendments introduced by Law 22/2015, of 20 July on Accounts Audits.

With the purpose of adapting the content of the Company Bylaws to the latest reforms of Royal Legislative Decree 1/2010 of 2 July, approving the Consolidated Text of the Spanish Limited Liability Companies Law, and in particular, incorporate into the Company Bylaws the latest measures introduced through Law 22/2015, of 20 July on Accounts Audits, it is agreed to approve the modification of the text of article 32 of the Company Bylaws, which will literally read as follows:

“Article 32: Audit and Control Committee

The Audit and Control Committee shall be formed by a minimum of three and a maximum of eight directors, all of which must be non-executive directors, appointed by the Board of Directors. The Audit and Control Committee will also include the number of independent directors stipulated by law at any given time and at least one of them will be appointed taking into account the director's knowledge and experience regarding accounting and/or auditing.

All the members of the Audit and Control Committee shall have the pertinent technical knowledge relating to the sector to which the Company belongs.

The Audit and Control Committee will appoint a Chairman from among its members, who in any case must be an independent director. The Chairman of the Audit and Control Committee shall be replaced every four years, and may be re-elected after one year has elapsed from the date on which his/he term of office expired.

The Committee will also appoint a Secretary from among its members, or may designate the Secretary of the Board to fill this position. If the Secretary of the Committee is absent, the Secretary of the Board or, where applicable, the Deputy Secretary thereof will carry out these duties. The Committee may appoint, where applicable, a Deputy Chairman who must also be an independent director.

In any case, the Committee may avail itself of the technical assistance of the Secretary or the Deputy Secretary of the Board at its meetings, at the request of the Chairman of the Committee.

The members of the Committee shall be relieved of their duties once their tenure as a director ceases, or when agreed by the Board of Directors.

Without prejudice to any other functions attributed thereto by law, the Bylaws or the Regulations of the Board of Directors, the Audit and Control Committee must at least carry out the following:

- 1. Report to the General Shareholders' Meeting on any questions posed in relation to those matters for which the Committee is responsible and, in particular, on the results of the audit explaining how this has contributed to the integrity of the financial information and the role the committee has played in this process.*

2. *Monitor the effectiveness of the Company's internal control, internal audit and risk management systems, and discuss with the external auditors any significant weaknesses detected in the internal control system during the course of the audit, without infringing their independence. To this end, and where applicable, they may present recommendations or proposals to the Board of Directors and the corresponding period for their monitoring.*
3. *Supervise the process of drawing up and presenting the required financial information and present recommendations or proposals to the Board of Directors, aimed at safeguarding their integrity.*
4. *Propose to the Board of Directors the selection, appointment, re-election and replacement of the auditor, taking responsibility for the process pursuant to the provisions of the legislation in force as well as the terms of its engagement, and regularly gather information therefrom regarding the audit plan and the implementation thereof, in addition to preserving its independence in the performance of its duties.*
5. *Establish the appropriate relationships with the external auditor to receive information on any issues which may be considered a threat to its independence and which will be studied by the Committee, and any other information relating to the audit, and where applicable, the authorisation of the services other than those prohibited, within the terms contemplated in the legislation in force, relating to rules on independence, as well as any other communications provided for in the legislation relating to auditing and the technical rules thereof. In any case, written confirmation must be received, on an annual basis, from the external auditor of its independence with respect to the Company or entities directly or indirectly connected thereto, as well as detailed and individual information on any type of additional services provided and the related fees received from these entities by the external auditor or by persons or entities related to the auditor pursuant to that provided in the regulatory standards of the activity of accounts audits.*
6. *Issue, on an annual basis and prior to the issuance of the auditor's report, a report expressing an opinion on whether the independence of the auditors or auditing companies has been compromised. Such report shall, in all cases, contain the reasoned evaluation of the provision of each and every one the additional services mentioned in the section above, considered individually and as a whole, other than legal audit services in relation to the rules on independence or in accordance with regulatory standards of the activity of accounts audits.*
7. *Inform the Board of Directors of all matters established by Law, the Bylaws and the Regulations of the Board of Directors.*
8. *Prepare an annual report on the activities of the Audit and Control Committee, which must be included in the management report.*
9. *Propose to the Board of Directors any other matters that it deems relevant for which it is responsible.*
10. *Any other functions that may be attributed thereto by the Bylaws or the Regulations of the Board of Directors.*

The Audit and Control Committee shall meet whenever requested to do so by at least two of its members, or at the behest of the Chairman, who is responsible for convening it. The call notice shall be valid provided it is sent by any means that allow acknowledgement of its receipt.

The Audit and Control Committee shall be validly convened when the majority of its members are present or represented, adopting resolutions by majority of those present or represented. The Committee member affected must abstain from participating in the deliberation and voting on resolutions or decisions in which such member or a person related thereto has a direct or indirect conflict of interest. Votes from directors affected by a conflict of interest and required to absent themselves from the meeting shall be deducted from the calculation of the majority of votes necessary. Proxies are granted in writing and specifically for each meeting and solely to other Committee members. The Chairman shall have a casting vote in the event of a tie.

Minutes will be taken of all Committee meetings and will be made available to all members of the Board of Directors.

The Regulations of the Board of Directors set forth these rules regarding the Audit and Control Committee, always favouring the independence of its functioning.”

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This report was prepared and approved by the Board of Directors in Madrid, during its session on 23 May 2016.