

Colonial



Colonial – Investor Day  
CORPORATE STRATEGY

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*Chief Executive Officer*

Paris 17/10/16



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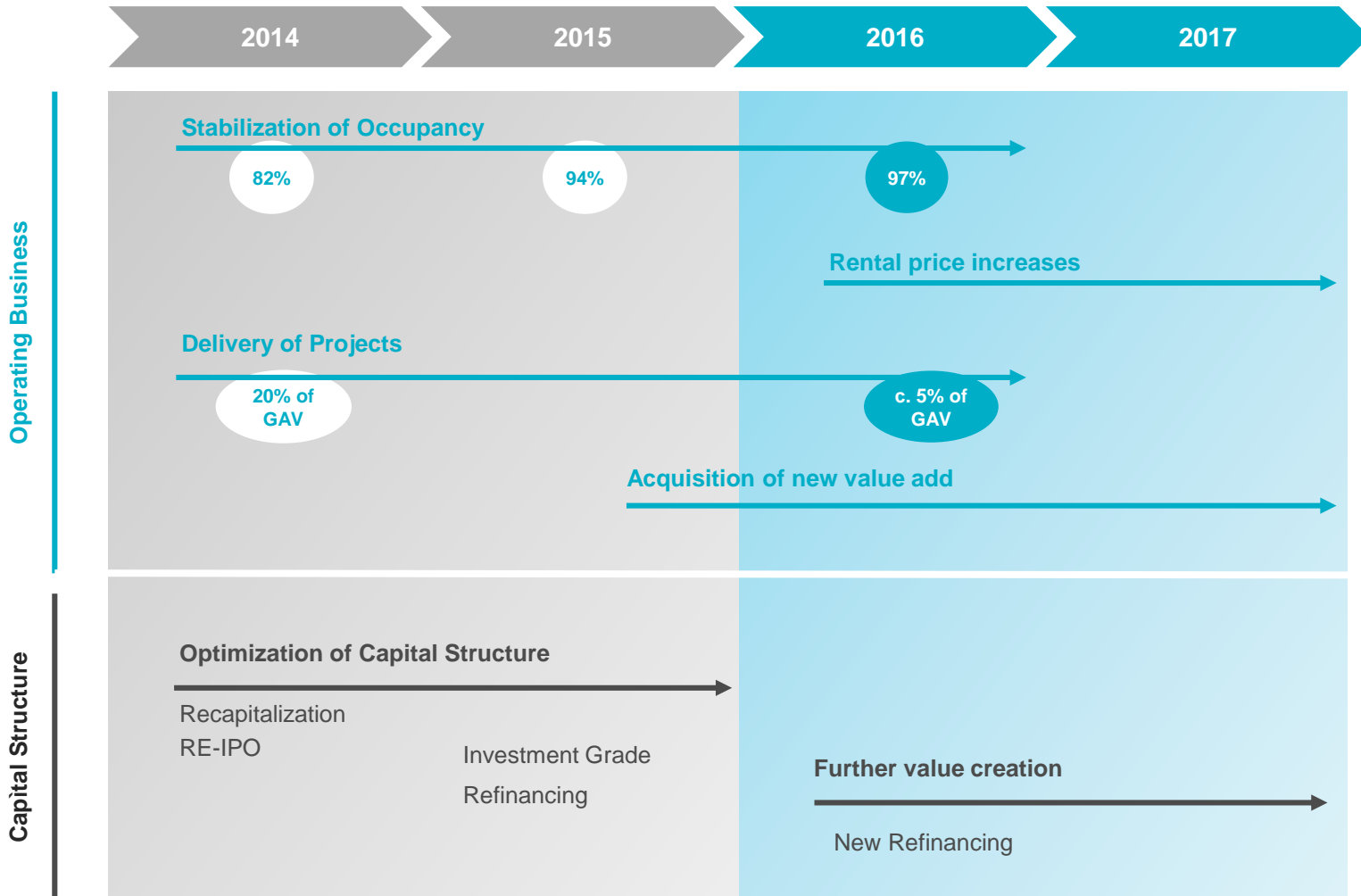


- 01 Introduction
- 02 Setting the benchmark in offices
- 03 Superior returns through value add
- 04 Future value creation
- 05 Conclusion



**Firm delivery and execution of growth plan**

- > From occupancy improvement to rental increases
- > Delivery of projects and sourcing of new value add
- > Continuous optimization of capital structure





## GUIDANCE

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- 1 Profit & Loss Top Line: 2016E GRI > €270m**
- 2 Ongoing organic growth focused on high quality offices**
  - > Acquisitions of €300m per annum
  - > Prioritize value add opportunities
  - > Disposals of mature assets
- 3 Growth strategy with moderate dividend yield**
  - > 2-2.5 % Dividend Yield
  - > Redeploy capital on growth opportunities
- 4 Strong commitment to solid capital structure**

## 02 Setting the benchmark in offices



### A unique business model

- > Operating for 70 years in offices
- > First mover in operational & strategic trends

#### LONG TERM TRACK RECORD

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- ✓ Colonial operates since 1946 in the market



- ✓ French subsidiary SFL operates since 1879 in the market



#### OUTSTANDING CORPORATE PERFORMANCE IN LISTED REAL ESTATE

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- ✓ First Spanish company that **successfully recapitalized**

- ✓ Only Spanish company with a **successful internationalization strategy**



- ✓ First Spanish company with **investment grade rating**



- ✓ **Superior Total Shareholder Return** + 25% in 2015

- ✓ **Listed company of the year 2016** – Property Investor Europe Award

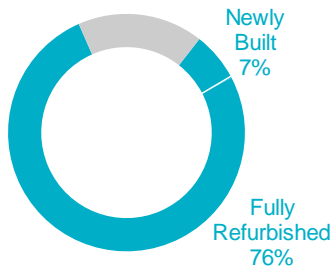




**A unique business model**

- > Manufacturing prime offices as the DNA of the group
- > Active asset allocation as a principle

**MANUFACTURING PRIME OFFICES**

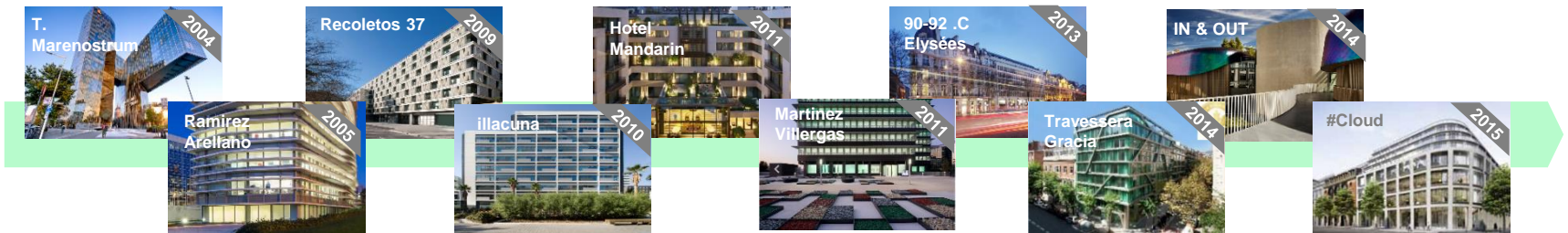


**ACTIVE ASSET ALLOCATION**

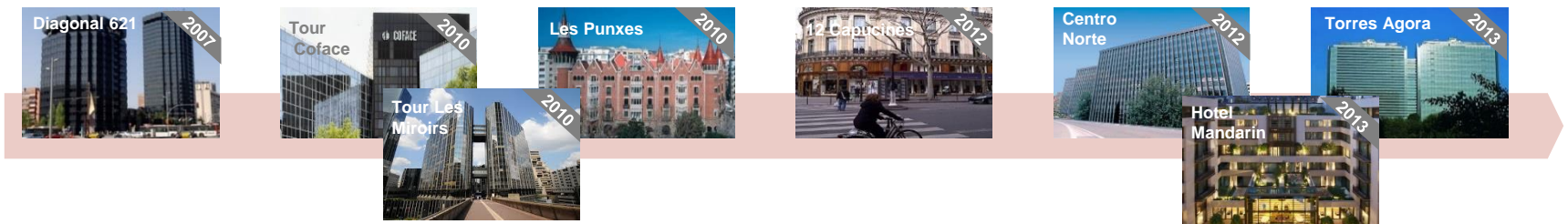
# Developments & refurbishments	33
# Acquisitions	24
# Disposals	37

Since 2004

*Colonial's Main Developments*



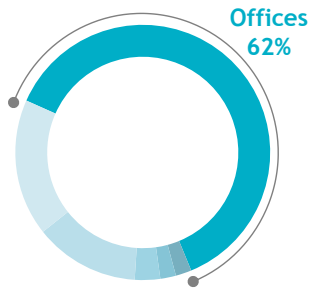
*Colonial's Main Disposals*



**A unique business model**

- > Clear commitment to strategic focus
- > Successful internationalization strategy

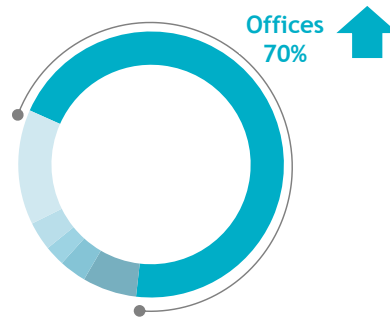
COLONIAL 1999



	<u># of assets</u>	<u>GLA (sqm)</u>
Barcelona	25	346,000
Madrid	11	82,000



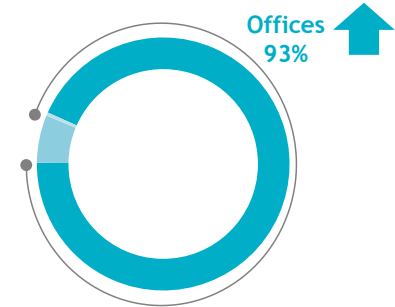
COLONIAL 2004



	<u># of assets</u>	<u>GLA (sqm)</u>
Barcelona	24	492,792
Madrid	14	300,844
Paris	39	450,826



COLONIAL 2016



	<u># of assets</u>	<u>GLA (sqm)</u>
Barcelona	18	282,725
Madrid	22	354,994
Paris	20	415,643



### A unique business model

- > Highest standards in capital markets reporting
- > Transparency & sustainability at the core of strategy

#### FINANCIAL REPORTING

	2015	2016
Colonial		
Peer 1		
Peer 2		
Peer 3		
Peer 4 <sup>(1)</sup>		

#### SUSTAINABILITY REPORTING

	2015	2016
Colonial		
Peer 1		
Peer 2		
Peer 3		
Peer 4 <sup>(1)</sup>		

#### HIGHEST STANDARDS IN TRANSPARENCY & SUSTAINABILITY

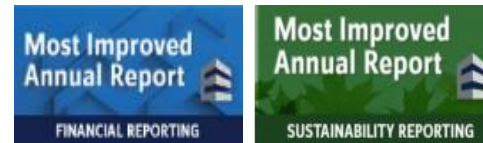
- ✓ First Spanish company to obtain **EPRA Gold award in Financial reporting**



- ✓ First and only Spanish company with **EPRA Gold award in sustainability reporting**



- ✓ **Most improved achievements in every category**



<sup>(1)</sup> Peer 4 is not included in EPRA Index

03 Superior return through value add

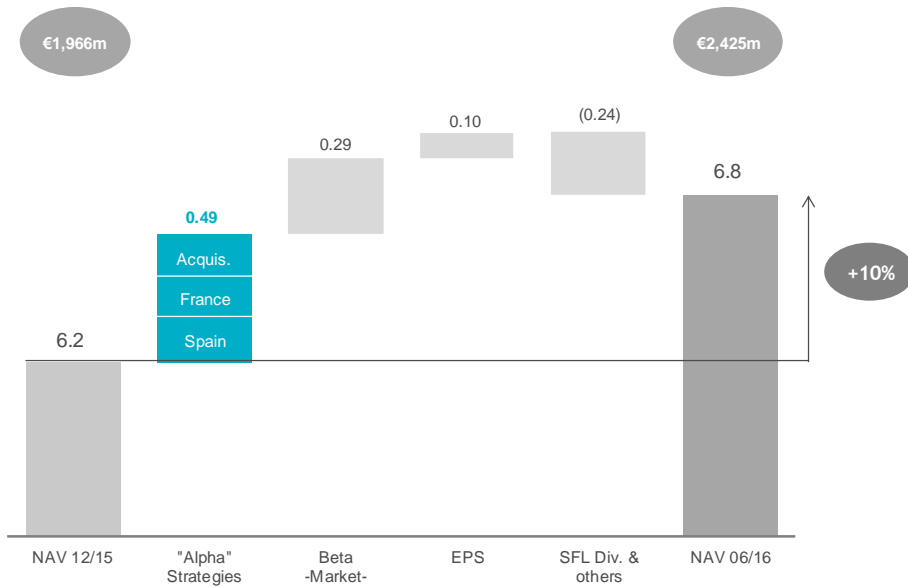


### Superior value creation based on “Alpha” strategies - 80% of total return

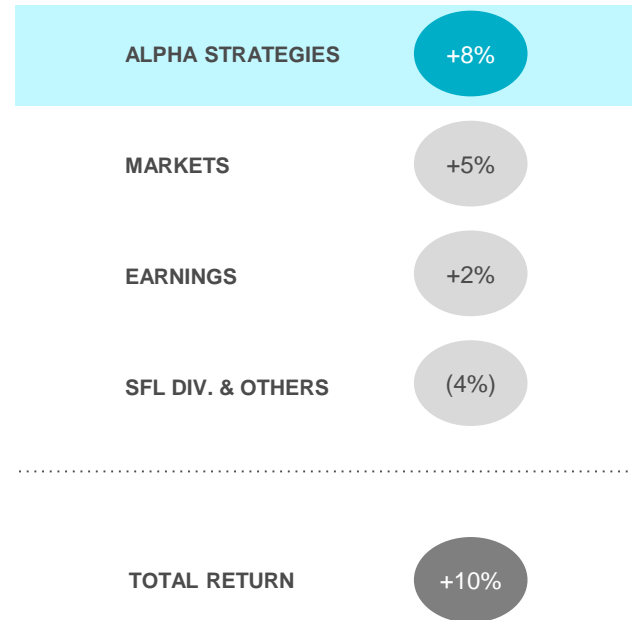
- > Value added strategies
- > Value accretive acquisitions

#### STRONG MOMENTUM IN NAV GROWTH\*

€/share



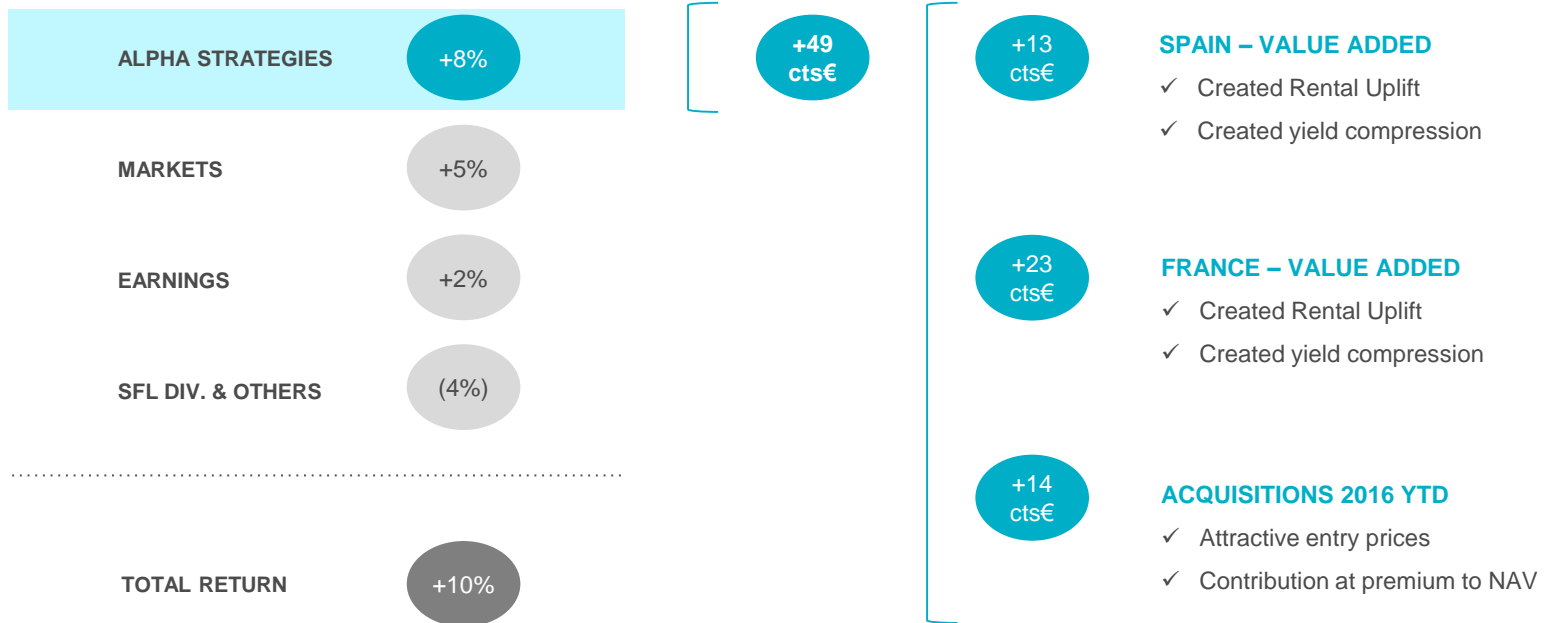
#### TOTAL SHAREHOLDER RETURN



**Superior value creation based on “Alpha” strategies - 80% of total return**

- > Value added strategies
- > Value accretive acquisitions

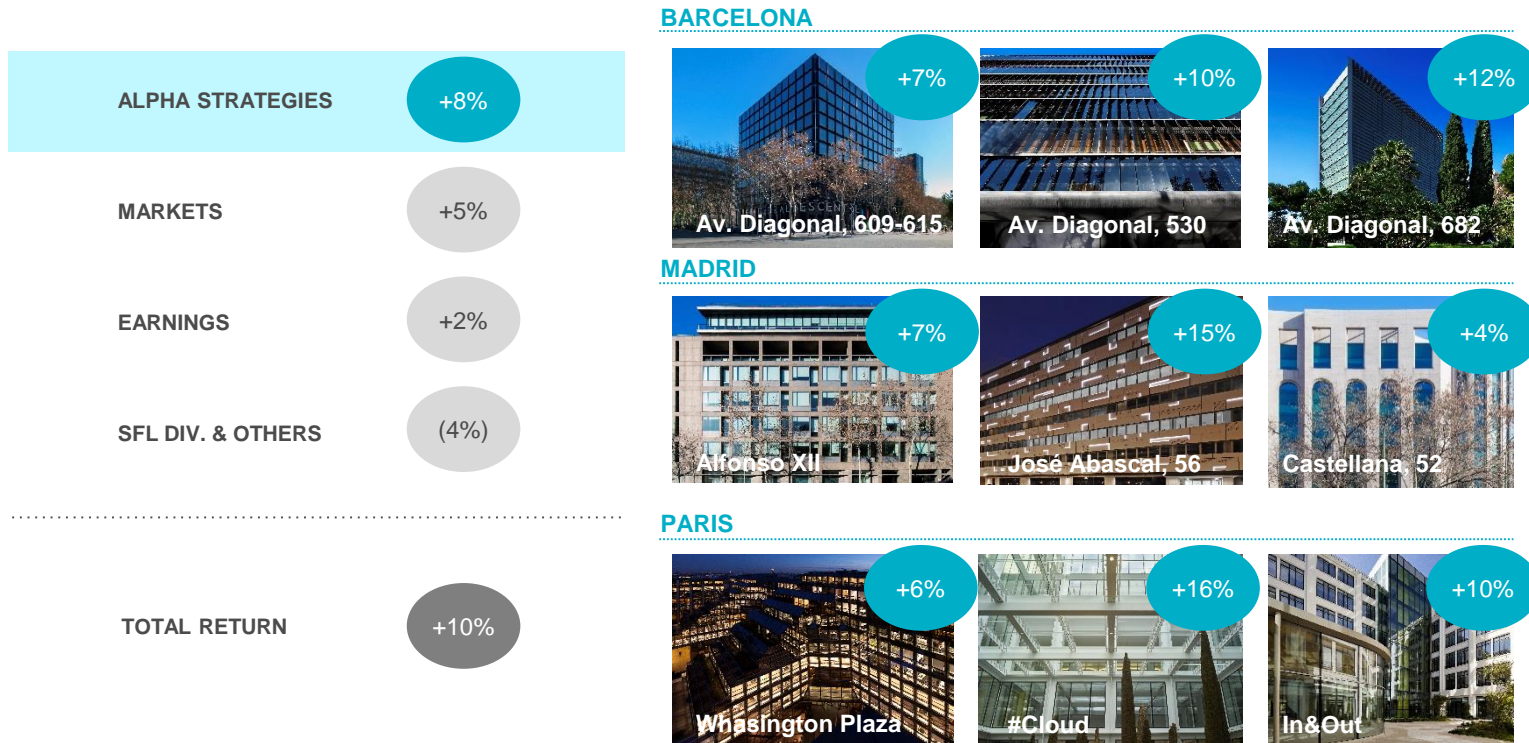
**TOTAL SHAREHOLDER RETURN**



**Superior value creation based on “Alpha” strategies - 80% of total return**

- > Value added strategies
- > Value accretive acquisitions

**TOTAL SHAREHOLDER RETURN**



Note: 6 month GAV growth





## Future value creation based on 5 pillars for growth

### PILARS OF FUTURE GROWTH

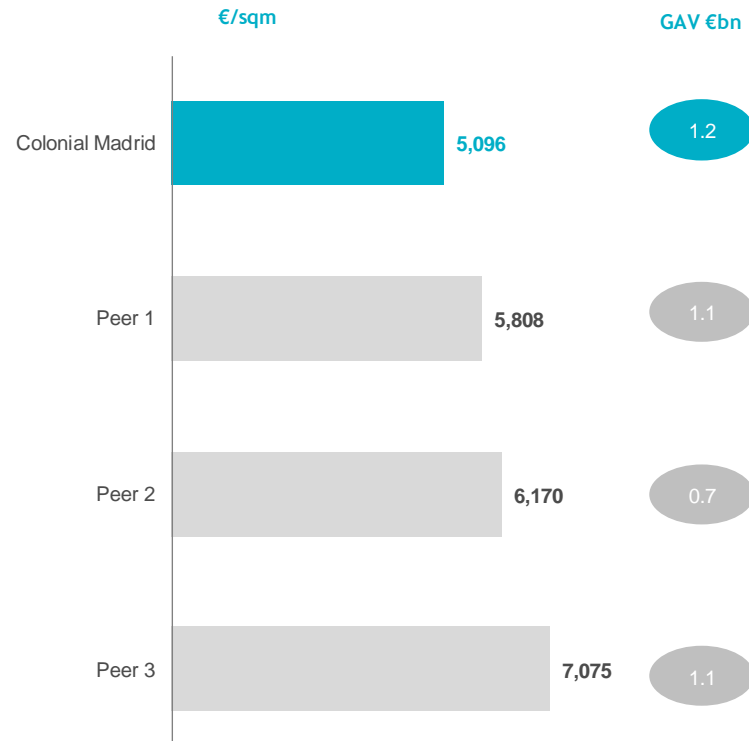
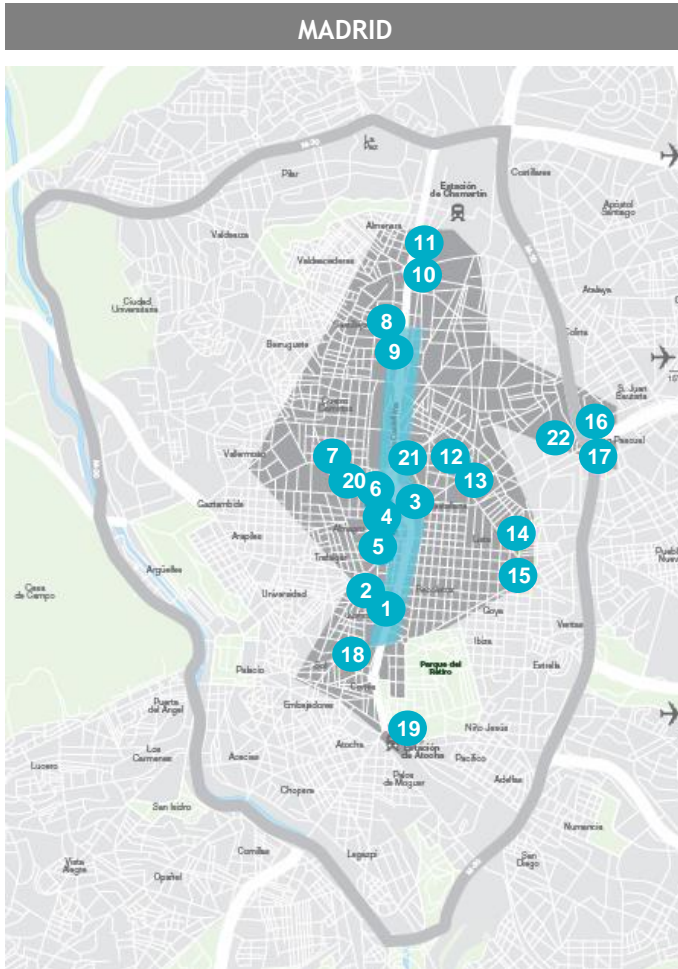
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- 1 Attractive valuation levels of current portfolio
- 2 Execution of value added strategies
- 3 Capturing market growth
- 4 Acquisitions & Disposals
- 5 Capture full potential of strong credit profile

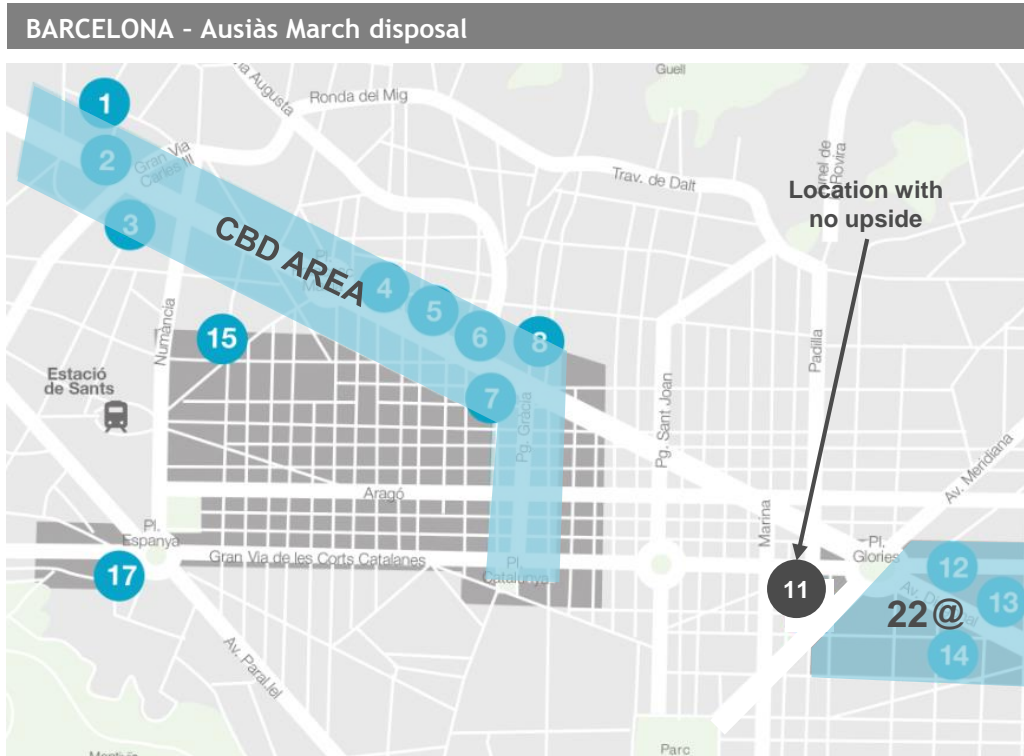
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**Attractive valuation levels of current portfolio**

- > Portfolio valuation 20% below CBD peers
- > Maximum prime transactions at €9,000 - €10,000 / sq m



**1 Attractive valuation levels of current portfolio**  
 > Market recognizes premiums on current appraisal



**Market recognizes significant premium to 6/2016 appraisal**

**Value creation through Ausias March disposal**

- > Location with no upside
- > 40% vacancy
- > 48 months with occupancy under 80%

**Local family office has paid €15m**

**A premium of 11% to 6/2016 GAV**



**1 Attractive valuation levels of current portfolio**

- > Market evidence significantly above current appraisal values
- > High quality product facing scarcity in supply



**PARIS INVESTMENT TRANSACTIONS – SINCE JANUARY 2016**

	<u>Surface</u>	<u>Yield</u>	<u>Cap. Value</u>
A L'Astorg	10,000	3.25%	25,000
B 17 Matignon	7,260	3.47%	24,931
C 87 rue François 1 <sup>er</sup>	7,400	2.95%	24,054
D 8-10 Lamennais	3,925	3.40%	17,580
E 2-8 Ancelle	17,670	3.65%	15,846
F Bd des Malesherbes	3,525	4.00%	13,333
G Horizons 17	5,875	4.00%	12,238
H Vaugirard	4,000	3.45%	11,000
I SO Ouest	33,000	4.35%	10,606
J Tour First	80,000	5.00%	10,000
Average	17,266	3.75%	16,459
Median	7,330	3.56%	14,590
<b>SFL</b>		<b>3.84%<sup>1</sup></b>	<b>13,678</b>

**20% GAP**

(1) Valuation yield as of June 2016

**2 Execution of value added strategies**

- > Substantial additional GRI from current pipeline
- > Important value creation to be captured

**PROJECTS & MAIN ONGOING REFURBISHMENTS**

2H16/2017		2018/2019		2020/2021	
<b>Cezanne St. Honore</b>	<b>Washington Plaza</b>	<b>Principe de Vergara</b>		<b>Louvre des Antiquaires</b>	
<b>Galeriées d. Champs</b>	<b>Percier</b>	<b>Parc Glories</b>			
<b>103 Grenelle</b>	<b>112 Wagram</b>	<b>Estebanez Calderon</b>			
<b>Surface</b>	11,844 sqm	<b>Surface</b>	46,071 sqm	<b>Surface</b>	15,000 sqm <sup>1</sup> / 9,839 sqm <sup>2</sup>
<b>Capex</b>	€15m	<b>Capex</b>	€60m	<b>Capex</b>	€90m
<b>Additional annual GRI</b>		<b>Additional annual GRI</b>		<b>Additional annual GRI</b>	
€11m-€15m		€11m-€12m		€14m	

(1) Surface final project  
 (2) Surface as of June 2016

2 Execution of value added strategies

- > Progress on all recent acquisitions
- > Enhancement of return through active asset management

JOSE ABASCAL 45 - Madrid



ESTEBANEZ CALDERON - Madrid



CONDORCET - Paris



SERRANO 73 - Madrid



PRINCIPE DE VERGARA - Madrid



9 PERCIER - Paris



SANTA ENGRACIA - Madrid



PARC GLORIES - Barcelona

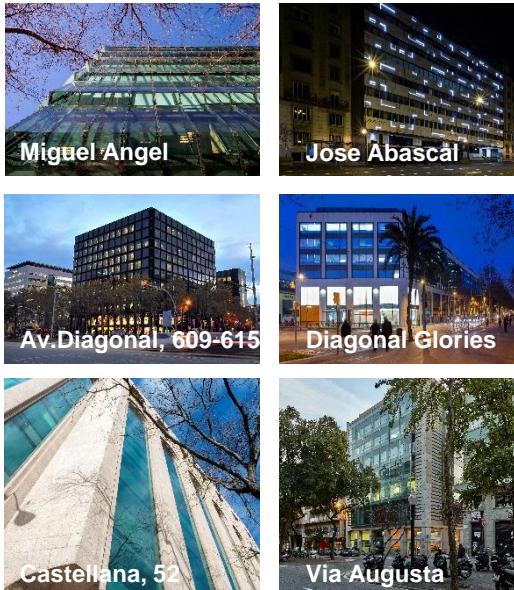


Ungeared IRR = 10 year ungeared IRR

**2 Execution of value added strategies**

- > Repositioning programs of current portfolio to unlock additional value
  - + Created ERV uplifts
  - + Created yield compression

**CURRENT PROGRAMS 2016-17**

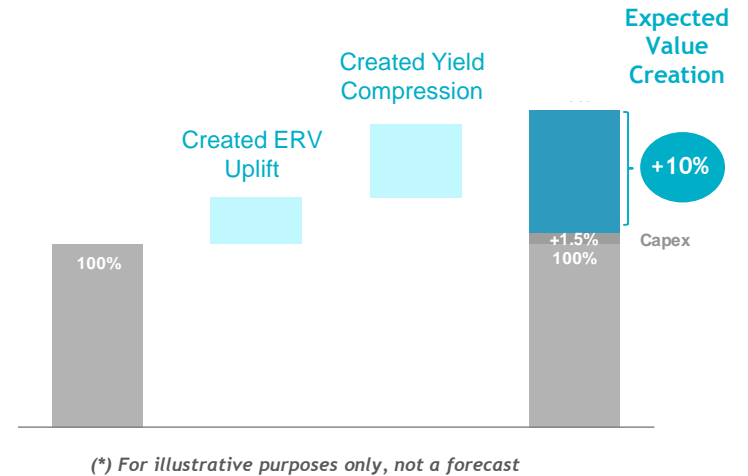


**ACTIONS**

- ✓ **11** Assets
- ✓ **125,993** sq m to be worked out
- ✓ **€9m** Capex deployed

GAV 6/2016 of current program: €531m

**VALUE CREATION - WITHOUT RENTAL RECOVERY-**



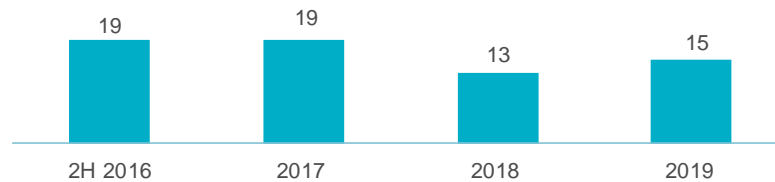
**Value Creation Multiplier**

ERV Uplift	Yield Compres.	<b>Total 6.1x</b>
2.4x	3.7x	

### 3 Capturing market growth

- > Attractive lease profile in both markets
- > Best positioned to capture rental growth

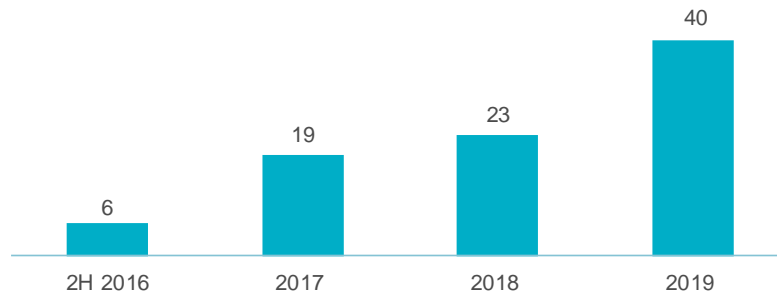
#### SPAIN – CURRENT RENT ROLL €m<sup>1</sup>



#### Current Portfolio under-rented: +8% upside

- ✓ Positive reversion YTD : 27,000 s qm as of June
  - > +3.6% vs. 12/15 ERV<sup>2</sup>
  - > +0.7% vs. previous rents<sup>2</sup>
- ✓ Additional upside from acceleration of rental prices

#### FRANCE - CURRENT RENT ROLL €m<sup>1</sup>



#### Current Portfolio under-rented: +2.4% upside

- ✓ Positive momentum YTD : 6,000 s qm as of June
  - > +9.6% vs. 12/15 ERV
  - > (2.4%) vs. previous rents
- ✓ Additional upside from acceleration of rental prices

(1) Annualised contract volume due based on first potential exit date

(2) Excluding Torre Marenostrum



## 4 Acquisitions & Disposals

- > Delivery YTD beating expectations
- > Attractive returns maintaining investment discipline

### INVESTMENTS SINCE 2015

		Price - €m	IRR <sup>2</sup>
Condorcet <sup>1</sup>	Paris	230	6%
Plaza Europa <sup>1</sup>	Barcelona	10	>7%
Estébanez Calderón	Madrid	43	>10%
Príncipe Vergara 112	Madrid	45	>10%
Génova 17	Madrid	36	7%
Percier	Paris	68	6%
Santa Engracia	Madrid	67	7%
<b>Total 2015</b>		<b>499</b>	

		Price - €m	IRR <sup>2</sup>
José Abascal 45	Madrid	35	>6%
Parc Glories	Barcelona	77	>9%
Serrano 73	Madrid	48	6%
Santa Hortensia	Madrid	154	>7%
4.4% Stake SFL	Paris	106	6.5%
1.0% Stake SFL	Paris	24	6.5%
<b>Total 2016</b>		<b>446</b>	

### STRONG DELIVERY YTD

1. Target volume



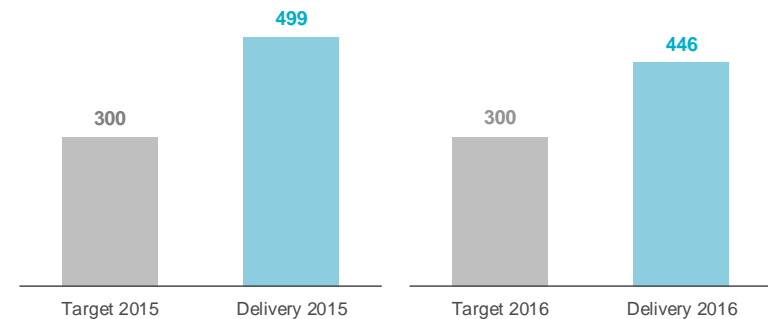
2. Asset quality



3. Required Return



### INVESTMENT VOLUMES €m



(1) Investments materialized in November and December 2014 respectively

(2) 10 year ungeared asset IRR

## 4 Acquisitions & Disposals

- > Organic growth targets focusing on value add
- > Disposals to capture market premiums

### ACQUISITION TARGETS

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1. Prioritize value add Opportunities
2. Create high quality offices
3. Maintain investment discipline

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### Investment parameters: Organic growth

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- ✓ €300m per annum
- ✓ Ungearred 10 year IRR target

Value Add Spain 8 - 9%

Value Add France 7 - 8%

Core Investments 5 - 6%

### DISPOSALS CREATE VALUE

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- ✓ Realize premiums on mature assets
  
- ✓ Active asset allocation across markets
  - > Arbitrage returns
  
  - > Redeploy capital in an efficient way

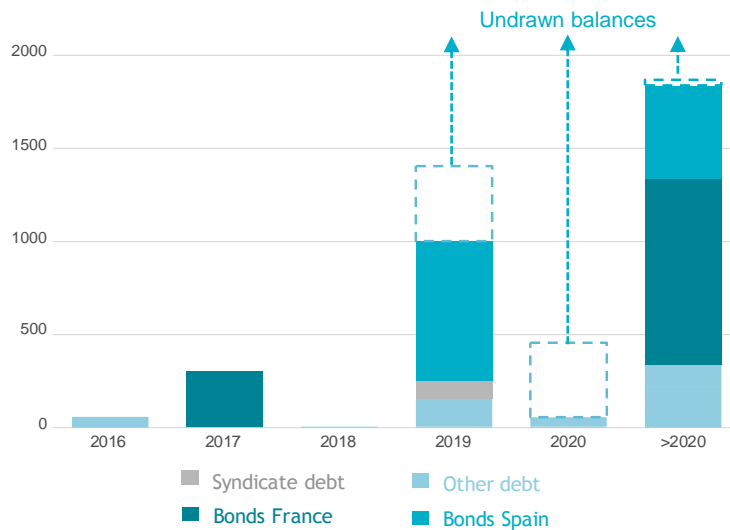
**5 Capture full potential of strong credit profile**

- > Active balance sheet management
- > Strong commitment to enhance credit profile

**INVESTMENT GRADE RATING & HUGE FIREPOWER CAPACITY**

<b>COLONIAL</b>	BBB- with stable outlook (by S&P)	Available cash & undrawn balances Spain €362m France €594m Total €956m
<b>SFL</b>	BBB with stable outlook (by S&P)	

**A SOLID DEBT MATURITY PROFILE**



**VALUE CREATION THROUGH CAPITAL STRUCTURE**

- ✓ **Competitive financing costs in Spain & France**
  - Group 2.06%
  - Spain 2.13%
  - France 2.01%
- ✓ **Active liability management**
- ✓ **Capture attractive windows in the market**

**GROWTH STRATEGY WITH MODERATE DIVIDEND**

- ✓ **2-2.5% Dividend Yield going forward**
- ✓ **Redeploy capital to growth opportunities**





## FIVE PILARS OF VALUE CREATION

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- 1 Attractive valuation levels of current portfolio
- 2 Execution of value added strategies
- 3 Capacity to capture market growth
- 4 Value Add acquisitions & disposals of mature assets
- 5 Crystalize full potential of strong credit profile



## OUTLOOK - COLONIAL'S PORTFOLIO WELL POSITIONED

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- A** **Strong rental growth** in high quality products
  - > Barcelona & Madrid with solid evidence of rental increases
  - > Paris CBD with acceleration of rental growth
  
- B** **Increasing demand** for high quality product **pushing yields down**
  
- C** **Strong investor interest in debt markets** for high quality collaterals



## GUIDANCE

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Colonial



# MINORITY STAKE ACQUISITION IN AXIARE

17/10/16





- > Acquisition of a 15.1% stake in Axiare
- > Total investment of €135.6m financed with debt

### THE TRANSACTION

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- ✓ Acquisition of a 15.1% stake in Axiare
- ✓ Price of 12.5 €/share paid in cash
- ✓ Investment volume of €135.6m funded by Colonial's debt capacity

### THE OPPORTUNITY

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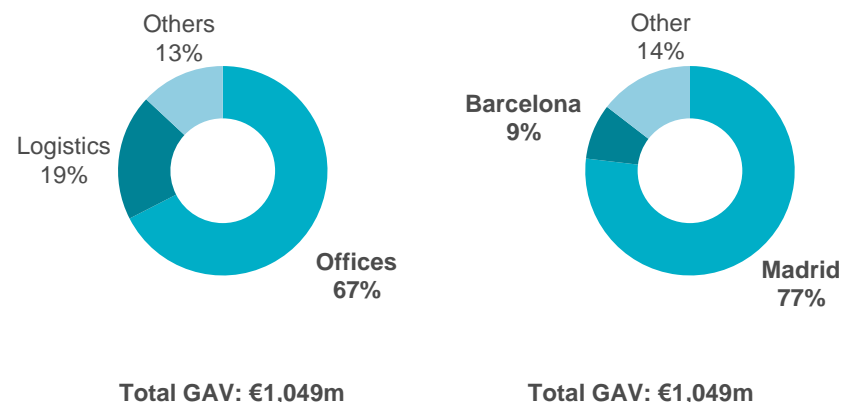
1. Attractive acquisition price: 4% discount on last reported EPRA NAV (June 2016)
2. Increased exposure to the Spanish market cycle through an office specialist
3. Opportunistic deal at optimal timing
4. Positioning as shareholder in Axiare with a 15.1% stake

> Axiare – an office specialist in Madrid & Barcelona

## THE COMPANY - AXIARE

- ✓ Spanish real estate investment company (SOCIMI) internally managed by an experienced team with exclusive dedication
- ✓ Listed on the Madrid Stock Exchange (since July 9, 2014) with a market cap of circa €800m<sup>1</sup>
- ✓ An attractive portfolio with a GAV of €1.049m<sup>2</sup>
  - > 32 assets with focused exposure to quality offices
  - > More than 85% of total GAV in Madrid & Barcelona
  - > Good balance of operating assets and projects underway
  - > Interesting reversionary yield
- ✓ Company with low leverage: net LTV around 11%<sup>2</sup> with more than €200m<sup>2</sup> of cash and cash equivalents

PORTFOLIO BREAKDOWN - 1H 2016<sup>2</sup>



KEY METRICS - 1H 2016<sup>2</sup>

GAV (€m)	1,049
EPRA Vacancy Rate	18.8%
EPRA "Topped-up" Net Initial Yield	4.5%
EPRA NAV (€m)	928
EPRA NAV / share (€)	13.01

(1) Estimated market capitalization at last week's market close

(2) Based on public information released by the company (first half figures 2016)

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