

REPORT BY THE BOARD OF DIRECTORS OF INMOBILIARIA COLONIAL, SOCIMI, S.A. IN CONNECTION WITH THE MOTION TO AUTHORISE THE PURCHASE OF SHARES IN SOCIÉTÉ FONCIÈRE LYONNAISE HELD BY QATAR HOLDING LLC AND DIC HOLDING LLC, PURSUANT TO THE PROVISIONS OF ARTICLES 229 AND 230 OF THE SPANISH LIMITED LIABILITY COMPANIES LAW (ITEM ONE ON THE AGENDA).

1. Purpose of the report and submission of same to the General Meeting

This report has been drawn up by the Board of Directors of Inmobiliaria Colonial, SOCIMI, S.A. (“**Colonial**” or the “**Company**”) in connection with authorisation to carry out a transaction consisting of the purchase by Inmobiliaria Colonial, SOCIMI, S.A. of shares in *Société Foncière Lyonnaise* (“**SFL**”) held by Qatar Holding LLC (“**QH**”) and DIC Holding LLC (“**DIC**”), for the purposes of the provisions of Articles 229 and 230 of the Revised Spanish Limited Liability Companies Law approved by Royal Legislative Decree 1/2010 of 2 July (the “**Spanish Limited Liability Companies Law**”), submitted for approval by the Extraordinary General Meeting of Shareholders.

In this regard, QH holds 6,345,428 shares in SFL and DIC holds 3,978,554 shares in SFL, having said companies proposed the appointment of directors at SFL. Qatar Holding Netherlands BV, wholly own subsidiary of QH, also owns 46,151,954 shares in Colonial, having proposed the appointment of two directors at Colonial. In this regard, the Board of Directors considers it is prudent and pursuant to the best practices of corporate governance to submit to the Company’s General Meeting of Shareholders any authorisation and dispensation that may be legally required in connection with the Transaction (as defined below), in view of its nature as a related transaction, for the purposes of the provisions of Articles 229, 230 and 529 ter 1h) of the Spanish Limited Liability Companies Law.

2. Description of the Transaction

Colonial, QH and DIC have reached, on 15 October 2018, an agreement for the acquisition by Colonial of 100% of the SFL shares held by QH and DIC, whereby Colonial shall furnish a cash amount and Colonial shares as a consideration for all the aforementioned shares (the “**Agreement**” or the “**Global Agreement**”).

Qatar Holding LLC is a limited liability company which is properly organised and operated under the laws of the State of Qatar, pursuant to the regulations of the Qatar Financial Centre, registered as number 00004, with registered office at Ooredoo Tower, Diplomatic Area Street, West Bay, P.O. Box 23224, Doha, Qatar.

DIC Holding LLC is a limited liability company which is properly organised and operated under the laws of the State of Qatar, pursuant to the regulations of the Qatar Financial Centre, registered as number 00150, with registered office at Ooredoo Tower, Diplomatic Area Street, West Bay, P.O. Box 23224, Doha, Qatar.

Specifically, QH and DIC, SFL shareholders that jointly hold 10,323,982 shares accounting for approximately 22.20% of the share capital of SFL, have undertaken pursuant to the Agreement, each in proportion to their stake and subject to approval by the General Meeting of Shareholders of Colonial, to:

- (i) furnish to Colonial 7,136,507 SFL shares, accounting for approximately 15.34% of its share capital, as a consideration for the subscription of 53,523,803 Colonial shares to be issued by Colonial through the execution of the non-cash share capital increase resolution proposed to the General Meeting as item second on the agenda. Specifically, in connection with the

7,136,507 SFL shares that shall be furnished to Colonial, QH shall furnish 4,386,310 SFL shares and DIC shall furnish 2,750,197 SFL shares;

- (ii) exchange 400,000 SFL shares, accounting for approximately 0.86% of its share capital, for 3,000,000 Colonial shares held by the Company as treasury shares. Specifically, in connection with the 400,000 SFL shares that shall be exchanged, QH shall exchange 245,852 SFL shares and DIC shall exchange 154,148 SFL shares; and
- (iii) sell Colonial 2,787,475 SFL shares, accounting for approximately 5.99% of its share capital, at an aggregate price of 203,485,675.00 euros, this is, at a price of 73 euros per share. Specifically, in connection with the 2,787,475 SFL shares that shall be sold to Colonial by QH and DIC, QH shall sell 1,713,266 SFL shares and DIC shall sell 1,074,209 SFL shares

(the three undertakings are jointly considered to be the “**Transaction**”).

The transfer of SFL shares by QH and DIC, and the consideration to be furnished by Colonial in new Colonial shares, in treasury shares, and in cash, form part of the aforementioned Global Agreement for purchase by Colonial of the SFL shares held by QH and DIC.

3. Justification for the Transaction from the perspective of Colonial's corporate interest

SFL is a French company listed in the Paris commercial registry or *Registre du Commerce et des Sociétés* as number 552 040 982 (French business nomenclature code 6820 B). It is registered in Paris (France) at 42, Rue Washington (75008) and its shares are admitted to trading on the Paris Stock Exchange on “*Euronext Paris—Compartiment A*”. The company is defined as a listed real estate investment company (*Société d'Investissement Immobilier Cotée* or SIIC). On 30 June 2018, SFL owned 20 buildings in Paris, with a total surface area of 392,462m², valued at 6,409 million euros.

Notwithstanding the fact that the General Meeting is being consulted in connection with authorisation for the Transaction addressed in this report (item one on the agenda), and also in connection with the contribution to Colonial of SFL shares as per the undertaking described in section (i) of section 2 of this report (item two on the agenda), it should be stipulated that the Global Agreement contemplates in a unitary and joint fashion all these undertakings, and thus it is the corporate interest which forms the basis and grounds for the two proposed resolutions submitted to the General Meeting.

In this regard, Colonial's corporate interest mainly consists of the strategic nature of its stake in SFL as a means of consolidating its position not only in the French market, but also in the European property sector, and the Transaction represents a market opportunity for Colonial which adds value and is thus in the interests of all its shareholders.

In this respect, the Transaction considered globally shall help consolidate the Colonial group as one of the main European property players specialising in the prime office market, thus giving it a better strategic position with a view to the investment opportunities that may arise in the prime office market in Spain and France. This greater investment capacity has arisen not only thanks to the added value created for Colonial by the Transaction, but also to the potential increase in the dividend it currently receives from SFL, and on Colonial's earnings per share.

The Transaction shall also help align Colonial with major shareholders holding stakes in both Colonial and SFL, and this shall in turn be instrumental in improving the corporate governance of the Colonial group in the interests of all its shareholders.

The aforementioned strategic slant of the transaction for Colonial and its relevance for the Company in terms of investment capacity and returns, in addition to this alignment of major shareholders to

bring about better corporate governance, make up the corporate interest which explains and forms the basis for the transaction.

In connection with the transaction, Morgan Stanley & Co. International plc submitted a report (fairness opinion) to the Company's Board of Directors, confirming that, in its opinion, the agreed consideration for the acquisition of the SFL shares owned by QH and DIC, including the resulting exchange ratio, is fair from a financial point of view to Colonial.

By virtue of the above, Colonial's Board of Directors considers that the transactions forming part of the Global Agreement set out in points (i), (ii) and (iii) of section 2 of this report concur with the corporate interest of the Company, and thus of all its shareholders.

4. Valuation of the SFL shares and agreed consideration

In order to determine the value of the SFL shares owned by QH and DIC, a number of different valuation methods have been considered, all of which are commonly accepted by the international financial community. These include the following:

- **Asset valuation:** this method values a company's assets and then subtracts all charges against those assets, as well as any other debts or liabilities of the company with third parties. In this regard, for companies operating in the property sector, the appraisal method considered most relevant internationally is that based on the "EPRA NAV" indicator, which is basically the sum of the company's book value (net asset value - NAV) and the latent capital gains of the investment properties, measured at fair value, with certain items adjusted in accordance with the recommendations of the EPRA (*European Public Real Estate Association*). With this method, the value obtained represents the overall underlying value of property investments combined with other assets, adjusted by the company's financial debt and other liabilities.
- **Comparable multiples:** this method, which is considered a priority by international accounting rules (International Financial Reporting Standards) and US accounting rules, consists of estimating the value on the basis of multiples obtained from comparable companies.
- **Share market price:** this method calculates a company's value based on its share price in a secondary market.

On the basis of the combination of the various methods described above, as well as in due consideration of the lower liquidity of SFL shares on the market, with respect to the liquidity of the Colonial shares (new shares and also treasury shares) furnished in the exchange; and the cash price at which a portion of the shares currently owned by QH and DIC is acquired, the Board of Directors estimates that the 7,536,507 SFL shares accounting for approximately 16.2% of its share capital, thus furnished as a consideration for Colonial's new shares and treasury shares, have a value of 514,931,845.33 euros, which is equivalent to putting the value of each share to be furnished at 68.325 euros.

This price entails a discount of 20.3% on the EPRA NAV of SFL calculated at 30 June 2018, i.e. 85.7 euros per share.

In order to determine the number of Colonial shares to be delivered as a consideration for the SFL shares, the various appraisal methods referred to above were also taken into account, as was the liquidity of the Colonial share with respect to that of the SFL shares. Following an analysis of the different methods described, it was considered that the asset valuation method is the most relevant. In this regard, consideration was given to Colonial's EPRA NAV calculated on 30 June 2018, i.e. 9.11

euros per share. For these purposes, the valuations carried out by renowned experts in the real estate sector have been taken into account. They have valued each of the property assets of Colonial individually and have issued the relevant valuation reports in accordance with the Valuation and Appraisal Standards of the *Royal Institution of Chartered Surveyors* (RICS). Specifically, on 30 June 2018, the valuation of Colonial's properties was carried out by Jones Lang LaSalle, Cushman & Wakefield and CB Richard Ellis.

Moreover, pursuant to undertaking (iii) referred to in section 2 above in this report, 2,787,475 SFL shares are acquired at a price of 73 euros per share, with payment to be made in cash. This price entails a discount of 14.8% on the EPRA NAV of SFL calculated at 30 June 2018, which is slightly less than that applied with respect to the shares to be exchanged due to the different nature of the consideration (delivery of cash against delivery of Colonial shares).

The combination of the transactions set out in points (i), (ii) and (iii) of section 2 of this report result in an acquisition price of 69.58 euros per share, which entails a discount of 18.8% on the EPRA NAV of SFL calculated at 30 June 2018.

5. Other obligations undertaken by Colonial, QH and DIC pursuant to the Global Agreement

With a view to guarantee full transparency with regard to shareholders in the aforementioned Global Agreement, Colonial's Board of Directors also considered it advisable to report on other obligations associated with the transactions making up the Global Agreement.

In this regard, QH and DIC have respectively undertaken with respect to the Colonial shares arising from the non-cash share capital increase and Colonial's treasury shares, (1) not to make use of the Colonial shares (lock-up) for a period of 6 months from the date on which the Transaction is completed; (2) to sell the aforementioned Colonial shares, as applicable, in an orderly fashion, in accordance with habitual market practice and pursuant to the regulations applicable, following the initial lock-up period and for 4 years after the date on which the Transaction is completed; and (3) not to transfer, for 4 years after the date on which the Transaction is completed, either directly or indirectly, the aforementioned Colonial shares to a competitor of Colonial, or to a party acting in conjunction with a competitor which has the purpose of acquiring a stake equal or higher to 3% in the share capital of Colonial.

In turn Colonial has undertaken vis-à-vis QH and DIC, for a period of 18 months from the date on which the Transaction is completed, not to purchase (lock-up) SFL shares at a price higher than 72.50 euros. Notwithstanding the foregoing, Colonial may, at any time and with no price restriction, acquire up to a 1% of SFL's issued share capital. In the event that Colonial fails to comply with the commitment set forth in this paragraph, QH and DIC, respectively, would only be entitled to a proportional compensation for losses and/or damages, based on the number of shares acquired, equivalent to the positive difference between the price per share to which Colonial had acquired the SFL shares and 72.50 euros, up to a maximum equal to the total SFL shares transmitted by QH and DIC, respectively, to Colonial.

On the other hand, if within 21 months from the date on which the Transaction is completed, Colonial transfers more than 1% of SFL's issued share capital at a price higher than 72.50 euros per share, it shall compensate, depending on the number of shares transferred, to QH and DIC (in proportion to the number of SFL shares transferred by each of them under the Global Agreement) for the positive difference between the price per share at which Colonial would have sold the SFL shares and 72.50

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euros, up to a maximum equal to the total SFL shares transmitted by QH and DIC, respectively, to Colonial.

PROPOSED RESOLUTION FOR THE PURCHASE OF SHARES OF *SOCIÉTÉ FONCIÈRE LYONNAISE* HELD BY QATAR HOLDING LLC AND DIC HOLDING LLC, FOR THE PURPOSES OF THE PROVISIONS OF ARTICLES 229 AND 230 OF THE SPANISH LIMITED LIABILITY COMPANIES LAW.

Authorisation for the purchase of shares in *Société Foncière Lyonnaise* held by Qatar Holding LLC and DIC Holding LLC, for the purposes of the provisions of Articles 229 and 230 of the Spanish Limited Liability Companies Law.

The General Meeting of Shareholders of Inmobiliaria Colonial, SOCIMI, S.A. (“**Colonial**” or the “**Company**”) authorises, in any terms that may be legally necessary, the transaction consisting of the purchase of 10,323,982 shares of *Société Foncière Lyonnaise* (“**SFL**”), accounting for approximately 22.20% of the share capital of SFL, of which 6,345,428 shares are held by Qatar Holding LLC and 3,978,554 are held by DIC Holding LLC, by means of (i) the contribution to Colonial of 7,136,507 SFL shares (of which QH shall furnish 4,386,310 shares and DIC 2,750,197 shares) as a consideration for the subscription of 53,523,803 Colonial shares to be issued by Colonial pursuant to the resolution for a non-cash share capital increase submitted to the General Meeting of Shareholders as item two on the agenda; (ii) the exchange of 400,000 SFL shares (of which QH shall exchange 245,852 shares and DIC 154,148 shares) for 3,000,000 Colonial shares held as treasury shares by the Company; and (iii) the sale to Colonial of 2,787,475 SFL shares (of which QH shall sell 1,713,266 shares and DIC 1,074,209 shares) at an aggregate price of 203,485,675.00 euros, pursuant to the report by the Board of Directors on this resolution and for the purposes of the provisions of Articles 229 and 230 of the Revised Spanish Limited Liability Companies Law, approved by Royal Legislative Decree 1/2010 of 2 July.

This report was prepared and approved by the Board of Directors in Madrid, at a meeting on 17 October 2018.

For the purposes of the provisions of Article 228 of the Spanish Limited Liability Companies Law, the directors of the Company appointed at the behest of Qatar Investment Authority’s group abstained from participating in deliberations and voting on the resolutions of the Board of Directors of Colonial in relation to the proposal submitted to the General Meeting of Shareholders addressed in this report.

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