

Colonial

REPORT BY THE BOARD OF DIRECTORS OF INMOBILIARIA COLONIAL, S.A. WITH RESPECT TO A PROPOSED CAPITAL INCREASE WITH A CHARGE TO NON-MONETARY CONTRIBUTIONS CONSISTING OF SHARES OF *SOCIÉTÉ FONCIÈRE LYONNAISE* (SFL) HELD BY REIG CAPITAL GROUP LUXEMBOURG SÀRL, WITH A FORECAST FOR INCOMPLETE SUBSCRIPTION (ITEM SEVEN ON THE AGENDA).

1. Purpose of the report

The Board of Directors of Inmobiliaria Colonial, S.A. ("**Colonial**" or the "**Company**") resolved to call an Annual General Meeting to be held on 27 June 2016 on first call and on 28 June 2016 on second call and to submit a capital increase with a charge to non-monetary contributions for approval by the shareholders, under item seven on the agenda.

In accordance with Articles 286, 296 and 300 of *Legislative Royal Decree 1/2010, of 2 July, approving the Consolidated Spanish Limited Liability Companies Law* ("**Spanish Limited Liability Companies Law**") and with *Royal Decree 1784/1996, of 19 July, approving the Regulations for the Mercantile Registry* this proposal for approval by the shareholders requires the preparation by the directors of the following supporting report.

2. Justification of the proposal

The purpose of the capital increase with a charge to non-monetary contributions proposed to the shareholders is to be able to issue the Colonial shares required to acquire, through non-monetary contributions, shares of *Société Foncière Lyonnaise* ("**SFL**") held by Reig Capital Group Luxembourg Sàrl ("**REIG**" or the "**Contributing Company**"), thereby increasing the ownership interest that Colonial currently holds in its French subsidiary SFL.

SFL is a French company registered at the *Registre du Commerce et des Sociétés* in Paris with number 552,040,982 (Code NAF 6820 B), which has its registered address in Paris (France), 42, Rue Washington (75008). Its shares are listed on the Paris Stock Exchange, "*Euronext Paris—Compartment A*". This company is regulated as a listed real estate investment trust (*Société d'Investissement Immobilier Cotée* or SIIC). At 31 December 2015, SFL owns 20 buildings in Paris with a total surface area of 465,500 m² valued at EUR 5,242 million. Colonial currently holds 24,726,400 shares of SFL representing 53.14% of its share capital.

Colonial and REIG have entered into an agreement on the terms customary to this type of transaction for the acquisition by Colonial of all the SFL shares held by REIG, whereby Colonial will deliver, in consideration for all the shares, an amount in cash and newly issued Colonial shares.

In this regard, REIG, a SFL shareholder holding 2,038,956 shares representing 4.3821% of SFL's share capital, has undertaken, subject to approval by the shareholders at the Annual General Meeting of the resolution to increase share capital with a charge to non-monetary contributions covered in this report by the directors, to (i) contribute to Colonial 1,019,478 SFL shares in consideration for the subscription of 90,805,920 Colonial shares that would be issued by Colonial through the adoption of the resolution to increase non-monetary capital covered in this report; and to (ii) sell to Colonial, on the same day as REIG subscribes the shares issued by Colonial in performance of the resolution to increase non-monetary capital covered in this report, 1,019,478 shares of SFL that it holds at a price of EUR 50.00 per share. Accordingly, following this transaction, Colonial would own 26,765,356 shares representing 57.52% of SFL's share capital.

The acquisition of these SFL shares held by REIG would enable Colonial to increase its ownership interest in SFL -an ownership interest that the Company considers strategic- and to reinforce its

presence on the French market. As part of this strategy, discussions were initiated with the *Qatar Investment Authority* for a possible contribution to Colonial of its SFL shares, as reported to the market in the related relevant event communication. At the date of this report by the directors, these discussions have stalled, and there is no expectation that they will recommence at short term.

In connection with the transaction, Morgan Stanley & Co. International plc issued a fairness opinion addressed to the Company's Board of Directors confirming that, in its opinion, the terms and conditions of the acquisition of the SFL shares held by REIG and the resulting exchange ratio are reasonable.

The purpose of this capital increase with a charge to non-monetary contributions is mainly to pay, in Colonial shares, REIG for its shares.

3. Description of the planned contribution. Identification of the Contributing Company

The planned contribution consists of 1,019,478 SFL book-entry shares, free and clear of liens and charges, representing 2.19% of SFL's share capital, of the same class and series and paid in full.

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The purpose of the capital increase covered in this resolution is to issue new shares, in consideration for the contribution, that will be delivered exclusively to Reig Capital Group Luxembourg Sàrl, a Luxembourg company with Spanish tax identification number N-0182062-J, registered address at 65 Boulevard Grande-Duchesse Charlotte, L-1331, Luxembourg and registered at the Luxembourg Mercantile Registry under number B-125.465.

4. Valuation of the planned contribution and criteria used

For the purposes of calculating the value of the SFL shares to be contributed by the Contributing Company, the following valuation methods were taken into consideration, which are all widely accepted by the international financial community:

- **Discounted free cash flow:** this method discounts to present value the expected free cash flows of the business, considering the company as an investment project.
- **Comparable multiples:** this method, which is considered critical by international (IFRSs) and US standards, consists of estimating the value on the basis of multiple factors obtained from comparable companies.
- **Share market price:** this method consists of calculating the value of a company based on the market price of its shares as quoted on a secondary market.
- **Asset-based valuation:** this method consists of valuing the assets of a company estimated at a certain date and subtracting from them all the charges thereon and other borrowings and obligations that this company may have vis-à-vis third parties, net of taxes and following the recommendations of the all the EPRA (expected EPRA NNNAV).

Given the scant liquidity of SFL shares on the secondary market, the analysis of the various aforementioned methods and taking into account the fact that a portion of the shares currently held by REIG will be acquired at a price of EUR 50 per share, the directors consider that the value of the 1,019,478 shares, representing 2.19% of SFL's share capital to be contributed, amounts to EUR 63,564,144.00, equal to EUR 62.35 per share to be contributed.

The Board of Directors, based on the aforementioned criteria, considers that the valuation given to these shares is appropriate.

5. *Number and par value of shares to be issued in consideration*

For the purposes of determining the number of Colonial shares to be delivered in consideration for the SFL shares, various methods were taken into consideration, including the following: (i) the current market price and the market price of the most recent month and most recent quarter; (ii) the current consensus on Colonial's share price based on analyst reports; and (iii) other comparison methods such as the calculation of the expected NAV based on analyst reports and the comparable multiples method. The result of the various methods considered, in which the liquidity of Colonial's share on securities markets was taken into account, gives rise to a price of EUR 0.70 per share, which was adjusted by the dividend to be proposed to the shareholders at the Annual General Meeting since the dividend will be paid prior to execution of this resolution.

Based on the valuation made of Colonial's shares and of the SFL shares using the criteria described, it is proposed that the exchange ratio be 89.071 Colonial shares of EUR 0.25 par value each for each SFL share.

Accordingly, it is proposed to issue a total of 90,805,920 new shares of EUR 0.25 par value and with a share premium of EUR 0.45 each, of the same class and series as those currently outstanding, which would be subscribed and paid in full by the Contributing Company through the contribution of the 1,019,478 SFL shares that it holds. Accordingly, the effective amount of the capital increase would be EUR 63,564,144.00.

The new shares will confer on their holders the same voting and dividend rights as the Company's currently outstanding shares from the date on which they are registered in their name in the related accounting records.

6. *Amount of the capital increase*

In consideration for the planned contribution, it is proposed to increase share capital at Colonial by a nominal amount of EUR 22,701,480 through the issue of 90,805,920 new ordinary shares of EUR 0.25 par value each, of the same class and series as those currently outstanding.

The directors, based on the foregoing criteria, consider that the issue price is appropriate based on the market conditions at the date of this report.

7. *Amendment of Article 5 of the bylaws*

It is proposed to empower the Board of Directors to redraft the article in the bylaws relating to share capital based on the capital effectively subscribed and paid in consideration for the SFL shares effectively contributed.

8. Incomplete subscription

In accordance with Article 311 of the Spanish Limited Liability Companies Law, the possibility of the incomplete subscription of the capital increase covered in this resolution is expressly provided for. Consequently, the capital increase (with the limit set forth herein) will be limited to the amount relating to the nominal amount of the new Colonial shares effectively subscribed and paid in consideration for the SFL shares effectively contributed.

9. Guarantees arranged

No special guarantees were arranged, given the nature of the assets contributed. Notwithstanding the foregoing, there is a commitment on the part of REIG to contribute the shares referenced in section 3.

10. Pre-emption rights

Under Article 304 of the Spanish Limited Liability Companies Law and since the consideration consists of non-monetary contributions, the Company's shareholders will not have pre-emption rights to subscribe the shares to be issued pursuant to the capital increase with a charge to non-monetary contributions covered in the proposed resolution.

11. Independent expert

Without prejudice to the fact that the contribution consists of marketable securities that are listed on an official secondary market, in order to offer greater security to Colonial's shareholder and in view of possible interpretations of the current legal framework, the Board of Directors opted for the most prudent alternative and requested that the Mercantile Registry appoint an independent expert to issue a report containing a description of the contribution and related valuation, expressing the criteria used and whether it corresponds to the par value and share premium of the shares issued as consideration for the purposes of Article 67 of the Spanish Limited Liability Companies Law.

In this regard, Ernst & Young was appointed as an independent expert, and the related report will be made available on an ongoing basis to shareholders through publication, at the time of the call notice of the Annual General Meeting and until such meeting is held, on the Company's corporate website (www.inmocolonial.com).

PROPOSED RESOLUTION FOR THE NON-MONETARY CAPITAL INCREASE TO BE SUBMITTED FOR THE APPROVAL OF THE SHAREHOLDERS AT THE ANNUAL GENERAL MEETING OF INMOBILIARIA COLONIAL, S.A.

Capital increase with a charge to non-monetary contributions for a nominal amount of EUR 22,701,480 through the issue of 90,805,920 new ordinary shares of EUR 0.25 par value each, with a forecast of incomplete subscription, the consideration of which consists of the shares of *Société Foncière Lyonnaise* ("SFL") held by Reig Capital Group Luxembourg Sàrl. Delegation of powers.

The shareholders at the Annual General Meeting of Inmobiliaria Colonial, S.A. ("**Colonial**" or "**the Company**") resolve to increase capital with a charge to non-monetary contributions, on the terms and conditions established below, so as to issue the Colonial shares required to acquire, in consideration for the contributions, the shares of *Société Foncière Lyonnaise* ("**SFL**") held by Reig Capital Group Luxembourg Sàrl ("**REIG**" or the "**Contributing Company**").

For the purposes of this resolution, all words beginning with a capital letter that are not expressly defined herein will have the same meaning as established for the words in the report by the directors giving rise to this resolution.

1. CAPITAL INCREASE

It is resolved to increase Colonial's share capital by a nominal amount of EUR 22,701,480 through the issue of 90,805,920 new ordinary shares of EUR 0.25 par value each, of the same class and series as those currently outstanding. The consideration for the new shares to be issued consists of non-monetary contributions, in particular, of SFL shares, free and clear of liens and charges, which are currently listed of the Paris Stock Exchange, "*Euronext Paris—Compartiment A*".

2. DESCRIPTION OF THE NON-MONETARY CONTRIBUTION AND IDENTIFICATION OF THE CONTRIBUTING COMPANY

The contribution consists of 1,019,478 SFL book-entry shares, representing 2.19% of share capital, of the same class and series and paid in full.

SFL is a French company registered at the *Registre du Commerce et des Sociétés* in Paris with number 552,040,982 (Code NAF 6820 B), which has its registered address in Paris (France), 42, Rue Washington (75008). Its shares are listed on the Paris Stock Exchange, "*Euronext Paris—Compartiment A*". This company is regulated as a listed real estate investment trust (*Société d'Investissement Immobilier Cotée* or SIIC) and is 53.14%-owned by Colonial.

The purpose of the capital increase covered in this resolution is to issue new shares, in consideration for the contribution, that will be delivered exclusively to Reig Capital Group Luxembourg Sàrl, a Luxembourg company with Spanish tax identification number N-0182062-J, registered address at 65 Boulevard Grande-Duchesse Charlotte, L-1331, Luxembourg and registered at the Luxembourg Mercantile Registry under number B-125.465.

3. NUMBER OF NEW SHARES TO BE ISSUED

In consideration for the non-monetary contribution consisting of 1,019,478 SFL shares, it is resolved to issue a total of 90,805,920 shares of EUR 0.25 par value and with a share premium of EUR 0.45 each, of the same class and series as those currently outstanding, which will be subscribed and paid in fully by the Contributing Company through the contribution of 1,019,478 SFL shares which it holds. Accordingly, the effective amount of the capital increase is EUR 63,564,144.00.

The exchange ratio is 89.071 Colonial shares of EUR 0.25 par value each for each SFL share.

4. ISSUE PRICE

The new Colonial shares will be issued at a unit par value of EUR 0.25 each, plus a share premium of EUR 0.45 per share. Accordingly, the issue price is set at EUR 0.70 per share.

5. SUBSCRIPTION AND PAYMENT

The new Colonial shares will be subscribed by the Contributing Company and the par value and share premium of the shares will be fully paid on execution of the capital increase deed.

6. INCOMPLETE SUBSCRIPTION

In accordance with Article 311 of *Legislative Royal Decree 1/2010, of 2 July, approving the Consolidated Spanish Limited Liability Companies Law* (“**Spanish Limited Liability Companies Law**”), the possibility of the incomplete subscription of the capital increase covered in this resolution is expressly provided for. Consequently, the capital increase (with the limit set forth herein) will be limited to the amount relating to the nominal amount of the new Colonial shares effectively subscribed and paid in consideration for the SFL shares effectively contributed.

7. INEXISTENCE OF PRE-EMPTION RIGHTS

Under Article 304 of the Spanish Limited Liability Companies Law and since the consideration for the capital increase consists of non-monetary contributions, the Company's shareholders will not have pre-emption rights to subscribe the shares to be issued pursuant to the capital increase with a charge to non-monetary contributions covered in this resolution.

8. RIGHTS OF THE NEW SHARES

The new shares will confer on their holders the same voting and dividend rights as the Company's currently outstanding shares from the date on which they are registered in their name in the related accounting records. In particular, as regards dividend rights, the new shares will entitle holders to receive interim or final dividends, the payment of which is agreed on as from such date.

9. REPRESENTATION OF THE NEW SHARES

The newly issued shares will be represented through book entries, of which the recording for accounting purposes will be assigned to Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A. (“**Iberclear**”) and its investees.

10. LISTING OF THE NEW SHARES

It is resolved to request the admission to trading of the new Colonial shares on the Madrid and Barcelona Stock Exchanges and on any other Spanish or international market on which the Company's shares are listed at the time of execution of this resolution, and the inclusion thereof on the Spanish Stock Market Interconnection System.

It is expressly put on record that, should a request subsequently be made to delist the Company's shares, such delisting will take place in adoption of the legal formalities and meeting the requirements provided in current legislation.

11. GUARANTEES OF THE NON-MONETARY CONTRIBUTIONS

No special guarantees were arranged, given the nature of the assets contributed. Notwithstanding the foregoing, there is a commitment on the part of the Contributing Company to contribute the shares referenced in section 2.

12. AMENDMENT OF ARTICLE 5 OF THE BYLAWS

The Board of Directors is expressly empowered to redraft Article 5 of the Company's bylaws with regard to the shares that are subscribed and paid.

13. DELEGATION OF POWERS

Notwithstanding the specific delegations of powers contained in the foregoing sections (which should be understood to have been granted with express powers to replace the persons indicated herein), it is resolved to empower the Board of Directors, as permitted by law and with the express power to replace the Chairman, CEO and Secretary and Deputy Secretary of the Board, so that any of them, indistinctly and with a single signature, may execute this resolution within one year from the date of this Annual General Meeting. Should this period elapse without the resolution being executed, it shall become null and void and, in particular, the following may be performed, for information purposes and without limitation:

- Declare the share capital relating to the capital increase to be subscribed and paid, even in the event that, in accordance with Article 311 of the Spanish Limited Liability Companies Law, all the securities issued were not subscribed and an incomplete subscription took place, in which case the capital increase may be declared to have been completed at the amount of the subscriptions made; Adopt for such purpose all the agreements legally required to formalise the agreement or agreements to perform the capital increase and the related amendments to the final article of the bylaws relating to the Company's share capital;
- Expand and develop this resolution, setting the terms and conditions of the issue in all matters that are not provided for, including, without limitation, establishing the date on which the capital increase should become effective;
- Prepare, subscribe and submit, as appropriate, before the Spanish National Securities Market Commission ("**CNMV**"), the French Financial Markets Authority ("**AMF**") and/or any other supervisory authority as may be appropriate, in respect of the issue and admission to trading of the new shares issued under this resolution, (i) such prospectuses and supplementary materials as may be required, taking responsibility therefor; and (ii) such documents and information required pursuant to *Directive 2003/71/EC of the European Parliament and of the*

Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, to Legislative Royal Decree 4/2015, of 23 October, approving the Consolidated Spanish Securities Law, to Royal Decree 1310/2005, of 4 November, concerning the admission to listing (or trading) of securities in official secondary markets, initial and secondary public offerings and the required prospectus for these purposes and any other Spanish or foreign regulations as may be applicable for execution of this resolution; and to perform on behalf of the Company any action, statement or formality as may be required before the CNMV, the AMF, IBERCLEAR, stock exchange governing companies and any other Spanish and international public or private body, entity or registry in order to achieve the authorisation, verification and subsequent performance of the capital increase under this resolution and the admission to trading of the new shares on the Madrid and Barcelona Stock Exchanges and on any other Spanish or international market on which the Company's shares are listed at the time of execution of this resolution, and the inclusion thereof in the Spanish Stock Market Interconnection System (SIBE);

- Negotiate and execute, as appropriate and in the terms it deems most appropriate, the agreements required for the proper performance of the capital increase covered in this resolution;
- Request the admission to trading on the Madrid and Barcelona Stock Exchanges and/or on any other market on which the Company's shares are listed at the time of execution of this resolution, and the inclusion thereof on the Spanish Stock Market Interconnection System;
- Execute on behalf of the Company such public or private documents as required or appropriate to issue the new shares covered in this resolution and to admit such shares to trading and, in general, perform such legal formalities as required for execution thereof and rectify, clarify, interpret, specify or supplement the resolutions adopted by the shareholders at the Annual General Meeting, in particular, such defects, omissions or errors, in substance or in form, arising from the oral or written assessment, that may prevent registration of the resolutions and related consequences at the Mercantile Registry, the official registries of the CNMV or any other registries.

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This report was prepared and approved by the Board of Directors in Madrid at its meeting on 23 May 2016.