

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 ALL THE SHARES OF HOFINAC REAL ESTATE, S.L. THAT ARE HELD BY HOFINAC B.V., WITH A FORECAST FOR INCOMPLETE SUBSCRIPTION (ITEM EIGHT 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 eight 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, all the shares of Hofinac Real Estate, S.L. ("**Hofinac**") held by Hofinac B.V. (the "**Contributing Company**"), which engages solely in the ownership and operation of the following properties, which are free and clear of any liens or charges (the "**Properties**"):

- a) 37 registered properties, which comprise (i) a building used for offices and parking located in Madrid, at calle Serrano 73, and (ii) 32 parking spaces and four communication spaces located in Madrid at the property on Paseo de la Castellana 44, all of which are registered at Madrid Land Registry Number 1.

This property is located in one of Madrid's best prime areas and has a lettable area of 4,242 m², of which 784 m² are commercial premises.

- b) One registered property on which a building is located in Madrid, at the intersection of calle Corazón de María and calle Santa Hortensia, registered at Madrid Land Registry Number 21.

This property is one of the largest office buildings in Madrid's city centre, with a lettable area of 46,928 m² and 946 parking spaces.

For this purpose, Hofinac will be free of any liabilities and will have the Properties as sole assets.

The acquisition of the Properties through the shares of Hofinac will enable the group that is headed by Colonial ("**the Group**") to increase by 21% its portfolio of property assets located in Madrid.

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 shares of Hofinac held by Hofinac B.V. and the resulting exchange ratio are reasonable.

The Company and the Contributing Company entered into a share contribution agreement on the terms and conditions customary in transactions of this nature. This agreement includes termination

clauses for either of the parties in the event of a change of control or force majeure event, including, inter alia, the event that over the period from 20 to 27 June 2016, inclusive, the IBEX 35 index closes, on any of the trading sessions in this period, at 7,500 points or lower. Also, it is provided that the Contributing Company may terminate the agreement, subject to certain conditions, should sales be made by Colonial's significant shareholders represented on Colonial's Board of Directors in the seven days prior to the date on which the Annual General Meeting is held.

The purpose of this capital increase with a charge to non-monetary contributions is mainly to pay, in Colonial shares, Hofinac B.V. for its shares in Hofinac, which has expressed its desire to become a stable shareholder of the Company. In this regard, the Contributing Company undertakes not to dispose of the shares received for a period of 90 calendar days.

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

The planned contribution consists of 24,943,470 shares of Hofinac, numbered sequentially from 1 to 24,943,470, inclusive, and free and clear of any liens and charges, representing all the share capital.

Hofinac is a Spanish company belonging to the group headed by Finaccess Capital, S.A. de C.V., incorporated on 15 September 2000 under the name of Gic Real Estate España, S.L. before the Notary of Madrid Mr José Aristónico García Sánchez, under number 2703 of his protocol, with registered address at Torre Picasso, Plaza de Pablo Ruiz Picasso 1, registered at the Madrid Mercantile Registry in volume 15,813, folio 101, sheet number M-266.935 and bearing employer identification number B-82759242, which engages in the purchase and sale, ownership, lease and administration of all manner of properties.

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 Hofinac B.V., a Dutch company with tax identification number N0038152E, registered address in Amsterdam (the Netherlands) at Herengracht 466 (1017 CA) and registered at the Amsterdam Mercantile Registry with number 60439157.

4. Valuation of the planned contribution and criteria used

For the purposes of calculating the value of the shares of Hofinac to be contributed, since its only assets are the Properties, which are described in section 2, an asset-based approach was used to value the assets, consisting 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, following the recommendations of the EPRA (expected EPRA NAV).

In particular, the EPRA NAV, which is a method widely accepted by the international financial community, was taken into consideration in valuing Hofinac's assets.

In this regard, the property consultant Savills Consultores Inmobiliarios, S.A. issued in May 2016 an appraisal report on the Properties, which discloses a valuation for the property located at calle Serrano 73 of EUR 48,693,000 and EUR 155,633,000 for the property located at calle Santa Hortensia 26-28. Also, as noted above, 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 shares of Hofinac held by Hofinac B.V. and the resulting exchange ratio are reasonable.

In view of this methodology and the reports received, and considering that Hofinac's sole assets are the aforementioned properties, the Board of Directors estimates that the value of the 24,943,470 shares of Hofinac representing all the share capital and which are subject to contribution amounts to EUR 202,000,001.00, equal to EUR 8.10 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 shares of Hofinac, 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. For these purposes, in the aforementioned contribution agreement entered into between the Company and the Contributing Company the parties agreed that, irrespective of the date of execution of this resolution, the Contributing Company will not be entitled to receive dividends out of 2015 profit for the Colonial shares that it receives under this resolution.

Based on the valuation made of Colonial's shares and of the shares of Hofinac using the criteria described, it is proposed that the exchange ratio be 11.569 Colonial shares of EUR 0.25 par value each for each share of Hofinac.

Accordingly, it is proposed to issue a total of 288,571,430 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 24,943,470 shares Hofinac, representing all the share capital, which it holds. Accordingly, the effective amount of the capital increase would be EUR 202,000,001.00.

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 72,142,857.50 through the issue of 288,571,430 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 shares of Hofinac 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 shares of Hofinac effectively contributed.

9. *Guarantees arranged*

No special guarantees have been arranged given the nature of the assets to be contributed. Notwithstanding the foregoing, there is a commitment on the part of Hofinac B.V. 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*

The Board of Directors 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 72,142,857.50 through the issue of 288,571,430 new ordinary shares of EUR 0.25 par value each, with a forecast of incomplete subscription, the consideration of which consists of all the shares of Hofinac Real Estate, S.L. held by Hofinac B.V. 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, all the shares of Hofinac Real Estate, S.L. ("**Hofinac**") held by Hofinac B.V.

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 72,142,857.50 through the issue of 288,571,430 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 24,943,470 shares of Hofinac, numbered sequentially from 1 to 24,943,470, inclusive, and free and clear of any liens and charges, representing all the share capital.

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

The contribution consists of 24,943,470 shares of Hofinac, numbered sequentially from 1 to 24,943,470, inclusive, and free and clear of any liens and charges, representing all the share capital.

Hofinac is a Spanish company incorporated on 15 September 2000 under the name of Gic Real Estate España, S.L. before the Notary of Madrid Mr José Aristónico García Sánchez, under number 2703 of his protocol, with registered address at Torre Picasso, Plaza de Pablo Ruiz Picasso 1, registered at the Madrid Mercantile Registry in volume 15,813, folio 101, sheet number M-266.935 and bearing employer identification number B-82759242, which engages in the purchase and sale, ownership, lease and administration of all manner of properties and which owns the Properties referenced in the report by the directors giving rise to this resolution.

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 Hofinac B.V., a Dutch company with tax identification number N0038152E, registered address in Amsterdam (the Netherlands) at Herengracht 466 (1017 CA) and registered at the Amsterdam Mercantile Registry with number 60439157 (the "**Contributing Company**").

3. NUMBER OF NEW SHARES TO BE ISSUED

In consideration for the non-monetary contribution consisting of 24,943,470 shares of Hofinac, it is resolved to issue a total of 288,571,430 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 will be subscribed and paid in full by the Contributing Company through the contribution of 24,943,470 shares of Hofinac, representing all the share capital, which it holds. Accordingly, the effective amount of the capital increase is EUR 202,000,001.00.

The exchange ratio is 11.569 Colonial shares of EUR 0.25 par value each for each share of Hofinac.

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 shares of Hofinac 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**") 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, 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.