



REPORT OF THE BOARD OF DIRECTORS OF INMOBILIARIA COLONIAL, S.A. ON THE PROPOSED AGREEMENT TO DELEGATE TO THE BOARD OF DIRECTORS, THE AUTHORITY TO INCREASE SHARE CAPITAL BY VIRTUE OF ARTICLE 297.1.b) OF THE CONSOLIDATED TEXT OF THE SPANISH LIMITED LIABILITY COMPANIES LAW (ITEM NINTH ON THE AGENDA).

1. Purpose of the report

The Board of Directors of Inmobiliaria Colonial, S.A. ("**Colonial**" or the "**Company**") have agreed to call an Ordinary 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 ninth of the agenda, a motion to delegate to the Board of Directors, the authority to increase share capital by virtue of article 297.1.b) of *Royal Legislative Decree 1/2010 of 2 July, approving the Consolidated Text of the Spanish Limited Liability Companies Law* ("**Ley de Sociedades de Capital**" in Spanish), including the power, under certain circumstances and conditions, to exclude the pre-emptive subscription rights, in accordance with article 506 of the Spanish Limited Liability Companies Law.

Pursuant to the provisions of articles 286, 296.1, 297.1.b) and 506 of the Spanish Limited Liability Companies Law and in accordance with *Royal Decree 1784/1996, of 19 July approving the Mercantile Registry Regulations (Reglamento del Registro Mercantil in Spanish)*, the above-mentioned motion put to the General Shareholders' Meeting requires the Board of Directors to prepare the following explanatory report.

2. Justification for the proposal

Article 297.1.b) of the Spanish Limited Liability Companies Law empowers the General Shareholders' Meeting, when the prior requisites for amendments to the Bylaws have been met, to delegate authority to the Board of Directors to agree to increase share capital on one or more occasions to a certain amount, as and to the amount it decides, with no need for prior consultation at the General Shareholders' Meeting. The amounts of such increases may under no circumstances exceed the legal limit established at the time of authorisation, and must be carried out within a maximum period of five years from their adoption at the General Shareholders' Meeting. At the same time, as established in article 286 of the Spanish Limited Liability Companies Law, in relation to articles 296.1, 297.1.b) and 506 of this same act, the directors shall prepare a written report justifying the motion.

In this sense, the Board of Directors considers that the motion submitted to the General Shareholders' Meeting has the benefit of providing it with an instrument that is authorised under existing legislation which, at any time and without calling a General Shareholders' Meeting beforehand, permits agreement of the capital increases that, within the limits and in the terms and conditions determined by the General Shareholders' Meeting, the Board considers to be **in** the Company's best interests. The nature of all commercial companies, and listed companies in particular, demands that its governing and management bodies have available, at all times, the instruments best suited to the company's particular needs according to the market circumstances in each specific case. These needs may include providing the company with additional resources, which is normally carried out through new capital contributions.

In this regard, the recourse to the delegation of powers, set out in article 297.1.b) of the Spanish Limited Liability Companies Law, provides the Board of Directors with the flexibility to respond to the Company's needs, according to the circumstances.

With such a purpose, it is proposed that the General Shareholders' Meeting delegates powers to the Board of Directors to increase the Company's share capital, on one or more occasions, up to the maximum number legally permitted. The proposed motion, from the time of its approval by the General Shareholders' Meeting, also nullifies the motion adopted under item nine of the agenda of the General Shareholders' Meeting of 30 June, 2014, relating to the authorisation given to the Board to increase capital, with regard to that part it has not already availed itself of.

In addition, and as permitted under article 506 of the Spanish Limited Liability Companies Law, in the case of listed companies, when the General Shareholders' Meeting delegates power to the directors to increase share capital, pursuant to article 297.1.b) of the Spanish Limited Liability Companies Law, it can also grant them the power to exclude pre-emptive subscription rights, when the interests of the Company require it.

In this sense, it is hereby stated that the proposed motion includes the granting of powers to exclude, totally or partially, the pre-emptive subscription rights of shareholders, when the interests of the Company require it, in accordance with the terms of article 506 of the Spanish Limited Liability Companies Law. However, in line with trends and recommendations of good corporate governance, this power granted to the Board of Directors to increase capital with the exclusion of pre-emptive subscription rights is limited to a maximum of 20% of the share capital existing at the time of authorisation. The capital increase with the exclusion of pre-emptive subscription rights, within the maximum amount permitted, will be an exceptional measure imposed for urgent reasons, based on the situation and circumstances of the market and be justified, for specific and particular reasons, as being in the best interests of the Company and its shareholders. For these reasons, the proposal of the Board of Directors regarding the capital increase with the exclusion of pre-emptive subscription rights, shall be adopted with a vote in favour of two thirds of its members and will be justified through a report proving the existence of each and every one of the necessary requirements.

The Board of Directors consider that this additional option, which greatly increases the room for manoeuvre and capacity to respond that is offered by a simple delegation of power to increase share capital under the terms of article 297.1.b) of the Spanish Limited Liability Companies Law, is mainly justified by: (i) the flexibility and agility with which, on occasions, it is necessary to act in current financial markets in order to take advantage of moments in which market conditions are more favourable; (ii) less distortion of trading in Company shares during the issue period, which is usually shorter than in an issue with pre-emptive rights; (iii) the lowering of the costs associated with the transaction (in particular, the fees charged by financial institutions participating in the issue); and (iv) the adaptation of the transaction to possible international markets or through accelerated bookbuilding.

In any case, it is expressly noted that the exclusion, total or partial, of the pre-emptive subscription right is only a power that the General Shareholders' Meeting grants to the Board of Directors and this power shall only be exercised if and when the Board decides to do so, taking into account the existing circumstances in each case and the legal requirements. If, in using the powers referred to, the Board of Directors decides to withdraw the pre-emptive subscription right in relation to any specific capital increase that it decides to carry out pursuant to the authorisation granted by the General Shareholders' Meeting, it shall, at the time of the capital increase, issue a report setting out the specific corporate interests that justify this measure, which shall be the purpose of the corresponding auditor's report outlined in article 506 of the Spanish Limited Liability Companies Law. Both reports shall be made available to shareholders and submitted at the first General

Shareholders' Meeting held after the passing of the capital increase resolution, pursuant to the provisions of the above-named article.

MOTION TO DELEGATE TO THE BOARD OF DIRECTORS THE POWER TO INCREASE SHARE CAPITAL BY VIRTUE OF ARTICLE 297.1.b) OF THE CONSOLIDATED TEXT OF THE SPANISH LIMITED LIABILITY COMPANIES LAW, TO BE SUBMITTED FOR THE APPROVAL OF THE GENERAL SHAREHOLDERS' MEETING OF INMOBILIARIA COLONIAL, S.A.

Authorisation to the Board of Directors, in accordance with article 297.1.b) of the Consolidated Text of the Spanish Limited Liability Companies Law, to increase, within a maximum period of five years, share capital, in the form of cash contributions, by up to half the existing amount of share capital, on one or more occasions, when and for the amounts deemed appropriate. Within the maximum amount permitted, the Board will be granted the power to exclude the pre-emptive subscription right under certain circumstances, limited to a maximum nominal amount, overall, equal to 20% of the share capital. Revoking the authorisation granted through resolution nine at the Company's General Shareholders' Meeting held on 30 June 2014.

It is agreed to grant the Board of Directors, in accordance with article 297.1.b) of the Spanish Limited Liability Companies Law, the broadest powers as necessary under Law, so that within the five-year period from the date of this General Shareholders' Meeting, it may increase share capital through cash contributions, on one or more occasions and at any time, without the need to call a General Shareholders' Meeting beforehand or to receive its subsequent approval.

The delegation includes the power to issue new shares and put them into circulation, whether they are ordinary shares or any other type permitted by law, with or without a share premium and with or without voting rights, and to establish the characteristics of the shares and the terms and conditions of the capital increase, with the possibility also of freely offering the unsubscribed new shares within the pre-emptive subscription period and determine, if the shares are not fully subscribed, that capital will be increased only by the amount of the subscriptions made. The power to redraft the article of the Company Bylaws relating to share capital is also delegated.

Any capital increase agreed by the Board of Directors shall not, in any case, be greater than half the existing share capital at the time of authorisation. Likewise, the Board is authorised to exclude, totally or partially, pre-emptive subscription rights under the terms of article 308 –in relation to article 506– of the Spanish Limited Liability Companies Law and other related regulations. However, in line with trends and recommendations of good corporate governance, this power granted to the Board of Directors to increase capital with the exclusion of pre-emptive subscription rights is limited to a maximum of 20% of the share capital existing at the time of authorisation. The capital increase with the exclusion of pre-emptive subscription rights, with the maximum amount permitted, will be an exceptional measure imposed for urgent reasons, based on the situation and circumstances of the market and justified for specific reasons that are in the best interests of the Company and its shareholders. The coincidence of these circumstances and the best interest of the Company and its shareholders must be evidenced through a mandatory report by the Board of Directors. A favourable vote of two thirds of the members of the Board is required in order to execute the delegation of powers in relation to this capital increase.

Authority was also delegated to allow the setting of particular aspects and conditions of each issue, according to the nature of each operation that the Board decides to carry out under the authorisation given by the present agreement. Also, once the capital increase has been agreed and

exercised it has the power to redraft the article of the Company Bylaws relating to share capital and to carry out as many procedures as necessary so that the new shares resulting from the capital increase may be admitted for trading on those stock exchanges, either Spanish or foreign, on which the Company is listed, in accordance with the procedures of each of these bourses.

Without prejudice to the specific delegations of powers established in the present resolution (which should be understood to have been granted with express powers to delegate in turn to the persons specified here), it is agreed to grant the Board of Directors the fullest powers that may be required by law, and with the express power to sub-delegate this power to the Chairman of the Board of directors, the Chief Executive Officer, the Secretary or the Deputy Secretary, so that any of them, with their signature alone, may execute the present resolution. In particular, they may, by way of indication but not limitation:

- Broaden and develop the present resolution, focusing on all aspects not foreseen in it in relation to the terms and conditions of the issues that may be carried out. In particular, but not limited thereto, establish the date the resolution became effective in relation to the various capital increases, setting, where appropriate, the start of the period of pre-emptive subscription rights, the premium for the new shares and, as a result their total issue price; establish, foreseeing the possibility of an incomplete subscription, the number of shares to be issued and the nominal value of each capital increase in function of the issue price, term, form, and subscription and payment procedure in each of the subscription periods; the exchange ratio, where appropriate, for the exercise of pre-emptive subscription rights, including the power to propose to one or more shareholders that they waive the number of pre-emptive subscription rights to which they are entitled as necessary to ensure that the number of shares to be issued maintains the exact proportion resulting from applying the exchange ratio agreed; make provision for circumstances where the new share issue may have to be suspended, where it may be necessary or appropriate to do so, and, in general, any other circumstances necessary for carrying out the increase and the issue of shares against monetary contributions;
- Agree the procedure for the placement of the shares, setting the start date and, where appropriate, modifying the duration of the pre-emptive subscription period above the legal minimum and, where relevant, set the duration of the additional and discretionary allocation periods, with the ability to declare the early closure of the placement period and of the issue. Likewise, the power to set the conditions and procedure for the subscription of shares is delegated, where appropriate, in the additional and discretionary allocation periods, with shares being able to be allocated, in this latter period, to any third party in accordance with placement procedure that is freely set;
- Prepare, subscribe and present, where appropriate, to the Spanish National Securities Markets Commission (the “CNMV”) or any other supervisory authorities related to the issue and admission to trading of the new shares issued under the present resolution, the prospectus and as much supplementary information to it as may be required, assuming the responsibility for these and the other documents and information that are required to comply with the requirements of *Royal Legislative Decree 4/2015, of 23 October, approving the Consolidated text of the Spanish Securities Markets Law*, and *Royal Legislative Decree 1310/2005, of 4 November, relating to the admission for trading of securities on official secondary markets, public offerings or subscriptions and the prospectus required for each of them*, and any other legislation, national or foreign, that is applicable for the execution of the present resolution;

- Carry out any action, statement or measure, or prepare, subscribe and present any necessary documentation or information to the CNMV, Iberclear, the governing bodies of the Stock Exchanges, or any other body, entity or register, public or private, both national or international, to obtain the authorizations, verifications and subsequent executions of the capital increases carried out under this present resolution; and in addition, the admission for trading of the new shares on the Madrid and Barcelona Stock Exchanges, and on any other market, national or international, in which the Company's shares may be listed at the time that any of the capital increases included under the present resolution is implemented, and their inclusion in the Spanish Stock Market Interconnection System (SIBE);
- Prepare, subscribe and present, where necessary or appropriate, an international prospectus with the purpose of assisting the dissemination of information relating to the capital increases among international shareholders and investors, assuming, in the name of the Company, responsibility for its content;
- Negotiate and sign, where appropriate, in the terms deemed most suitable, the agreements that are required for the successful execution of the share capital increases, including the agency agreement and, where appropriate, any placement and/or underwriting agreements that may result;
- Declare the capital increases executed, issuing and putting into circulation the new shares that have been subscribed and paid up, and redrafting the article of the Bylaws relating to share capital, in function of the capital effectively subscribed and paid up, rendering null and void that part of the capital increase not subscribed or paid up in the established terms; and
- Issue in the name of the Company as many public or private documents as are considered necessary or appropriate for the issue of the new shares carried out under this present resolution and their admission for trading, and, in general, carry out any procedures that may be required for their execution, such as rectify, clarify, interpret, specify or complement the resolutions adopted by the General Shareholders' Meeting and, in particular, any defects, omissions or errors, of content or format, resulting from the verbal or written assessment, that may impede the access of these resolutions and the consequences thereof with regard to the Mercantile Register, the CNMV Official Register, or any other registers.

From the moment this resolution is approved by the General Shareholders' Meeting, it shall imply that the unused part of the above-mentioned authorisation agreement with the Board of Directors, approved under item nine of the agenda of the Company's General Shareholders' Meeting of 30 June 2014, is completely null and void.

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

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