

# Colonial

## REPORT OF THE BOARD OF DIRECTORS OF INMOBILIARIA COLONIAL, S.A. ON THE PROPOSED GROUPING OF THE SHARES INTO WHICH THE COMPANY'S CAPITAL IS DIVIDED FOR THE PURPOSE OF EXCHANGING THE EXISTING SHARES FOR NEW SHARES (AGENDA ITEM EIGHTEENTH).

### **1. Purpose of the report**

The Board of Directors of Inmobiliaria Colonial, S.A. ("**Colonial**" or the "**Company**") has agreed to call an Ordinary General Meeting of Shareholders to be held on 27 June 2016 on first call and on 28 June 2016 on second call, and to propose to said meeting, as agenda item eighteenth, the ratification of the proposed grouping of the shares into which the company's capital is divided for the purpose of exchanging the existing shares for new shares (reverse split).

Pursuant to the provisions in articles 286 and 318 of *Royal Legislative Decree 1/2010, of 2 July, approving the Consolidated text of the Spanish Limited Liability Companies Law* and in accordance with *Royal Decree 1784/1996, of 19 July approving the Mercantile Registry Regulations* (the "**RRM**"), the aforementioned proposal before the General Shareholders' Meeting requires the preparation by the Board of Directors of the following substantiating report.

### **2. Statement supporting the proposed grouping of the shares into which the company's capital is divided for the purpose of exchanging the existing shares for new shares.**

The purpose of the proposed grouping and cancellation of shares for the exchange of existing shares for new shares in the ratio of 1 new share for 10 old shares, increasing the current face value of €0.25 to €2.50, is to (i) reduce the total number of outstanding shares of the Company; and (ii) to bring the Company's share price into line with its peers and with the larger companies in the markets (national and international).

The grouping of the shares, to be put to the General Meeting in this agenda item, would not give rise to any capital increase or reduction, as it affects only the number of shares into which it is divided.

Those shareholders whose holding with the reverse split does not number a multiple of 10 have the options of:

- i) purchasing or selling a number of shares to bring their total to a multiple of that established in the exchange ratio; or
- ii) forming groups among themselves for the exchange of existing shares for new ones.

If, at the end of the session on the day prior to that when the exchange of shares is to be effected, there remain shareholders with a number of shares which is not a multiple of 10 in accordance with the fixed exchange ratio, the Board of Directors will be empowered to designate an agent of its choice, and grant said agent a mandate to acquire the outstanding shares. The purchase price would be the closing price of the share on that day, with no sales cost being incurred by the holders of these shares, except the costs and brokerage that may be applied by the depositary banks.

The implementation of the reverse split is conditional on the company's capital being divided at that time into a number of shares such that the reverse split may be carried out, i.e. that the number of the Company's shares is a multiple of 10.

It is proposed to delegate to the Board of Directors, among other things, the power to determine the procedure for the exchange of the shares with regard to all the aspects not covered by the proposed resolution enclosed, including fixing the date when the grouping will take effect.

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**PROPOSED GROUPING OF THE SHARES INTO WHICH THE COMPANY'S CAPITAL IS DIVIDED FOR THE PURPOSE OF EXCHANGING THE EXISTING SHARES FOR NEW SHARES.**

***Grouping and cancellation of the shares into which the company's capital is divided at the time when the resolution is implemented, for the exchange of the existing shares for new shares (reverse split), in the ratio of 1 new share for 10 old shares, increasing the current face value of €0.25 to €2.50 without affecting the total amount of the company's capital. Delegation of powers.***

The General Shareholders' Meeting of Inmobiliaria Colonial, S.A. (“Colonial” or the “Company”) resolves to carry out a grouping of the shares for the exchange of the existing shares for new shares, in accordance with the terms and conditions set out below.

For the effects of the present resolution, all the words beginning with a capital letter, which are not expressly defined, will have the same meaning as in the directors' report giving rise to the present resolution.

**1. REVERSE SPLIT**

It is resolved to group and cancel all the shares into which the Company's capital is divided at the time of the implementation of the resolution, for the exchange of the existing shares for new shares, in the ratio of 1 new share for 10 old shares, increasing the current face value of €0.25 to €2.50 without affecting the total amount of the company's capital, and hence reducing the number of shares representing the Company's capital in circulation.

The new shares will be represented by book entries, corresponding to the accounting entries in Sociedad de Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U. (“IBERCLEAR”) and its members.

**2. EXCHANGE PROCEDURE**

The Company's shareholders will receive 1 new share, with a face value of €2.50, for every 10 old shares, with a face value of €0.25 each; thus the Company's capital, presently divided into shares with a face value of €0.25 each, will be grouped and cancelled for the purpose of exchanging them for new shares, with a face value of €2.50, represented by book entries.

The exchange will take place as of the date set by the Board of Directors which will be indicated in the announcements to be published in the Official Bulletin of the Mercantile Registry (BORME in Spanish), in a national newspaper, and in the bulletins of the Spanish stock exchanges.

Those shareholders who are recorded as such in the books of IBERCLEAR and its members at the market close of the trading day immediately preceding the effective date of the grouping will have the right to receive 1 new share for every 10 old shares, with the exchange being carried out automatically.

The exchange will be carried out in accordance with the procedures applicable to securities represented by book entries, through the corresponding stock exchange members.

**3. TREATMENT OF FRACTIONAL SHARES**

Those shareholders whose holding does not number a multiple of 10 will have the options of:

- i) purchasing or selling a number of shares to bring their total to a multiple of that established in the exchange ratio; or
- ii) forming groups among themselves for the exchange of existing shares for new ones.

If, at the end of the session on the day prior to that when the exchange of shares is to be effected, there remain shareholders with a number of shares which is not a multiple of 10 in accordance with the fixed exchange ratio, the Board of Directors will be empowered to designate an entity of its choice to act as agent, and grant said agent a mandate to acquire the outstanding shares. The purchase price will be the closing price of the share on that day, with no sales cost being incurred by the holders of these shares, except the costs and brokerage that may be applied by the depositary banks.

The amounts corresponding to the purchase of these fractional shares will be paid by the IBERCLEAR members for payment into the accounts of the shareholders who have deposited their shares in the Company with these institutions. This payment will be coordinated by an entity acting as agent.

**4. APPLICATION FOR LISTING**

The power to request the simultaneous de-listing of the old shares and listing of the new shares is delegated to the Board of Directors. This will take place once the public deed formalising the grouping of the shares outstanding at the time of the execution of the resolution and exchange of said shares for new ones with a different face value. The power refers to the listing of the shares on the Madrid and Barcelona stock markets and any other national or international market on which the Company's shares may be listed when the present resolution is executed, and to their inclusion in the Spanish Stock Market Interconnection System (SIBE in Spanish). The Board is expressly empowered to delegate this power to the Chairman of the Board of directors, the Chief Executive Officer, the Secretary or the Deputy Secretary.

It is expressly stated that, if the de-listing of the Company is subsequently requested, this will be adopted in compliance with the formalities and requirements of the legislation in force.

**5. AMENDMENT OF ARTICLE 5 OF THE BYLAWS.**

The power to rewrite article 5 of the Company's Bylaws in regard to the number and nominal value of the shares, once the grouping and exchange of shares referred to in the present resolution is completed, is expressly delegated to the Board of Directors.

## 6. CONDITION FOR THE EXECUTION OF THE PRESENT RESOLUTION

It is agreed that the implementation of the reverse split shall be conditional on the company's capital being divided at that time into a number of shares such that the reverse split may be carried out, i.e. that the number of the Company's shares is a multiple of 10.

## 7. DELEGATION OF POWERS.

Without prejudice to the specific delegations of powers established in the preceding sections (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 expressly empower it to 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 his/her signature alone, may execute the present resolution within the term of one year from the date of the present General Meeting, after which period, if this has not been put into effect, it will become null and void. In particular, they may, by way of indication but not limitation:

- i) Declare that the condition to which the present resolution on the reverse split is subject, detailed in section 6 above, has been fulfilled;
- ii) Carry out all the actions necessary for the purpose of complying with the requirements of *Royal Legislative Decree 1/2010, of 2 July, approving the Consolidated text of the Spanish Limited Liability Companies Law, Royal Legislative Decree 4/2015, of 23 October, approving the Consolidated text of the Spanish Securities Markets Law, Royal Decree 878/2015, of 2 October, on the clearing, settlement and recording of transferable securities represented in book-entry form, on the legal regime of the central securities depositories and central counterparties, and on the transparency requirements for issuers of securities admitted to trading in a regulated market* and other applicable legislation, including the publication of the corresponding announcements that may be mandatory;
- iii) Carry out, in the name of the Company, any action, statement or measure, draw up, subscribe and present any necessary documentation or information to the Spanish National Securities Markets Commission (the “CNMV” in Spanish), the Sociedad de Gestión de los Sistemas de Registro, Compensación y Liquidación de Valores, S.A.U., the governing bodies of the Stock Exchanges or any other body, entity or register, public or private, Spanish or foreign, with regard to the execution of the reverse split to which this resolution refers;
- iv) Appear before the Notary Public of their choice to certify the resolution modifying the face value of the shares, do whatever may be necessary, and approve and formalise whatever public and private documents are necessary or useful for the resolution to be fully effective in any of its aspects or contents and, in particular, to make good, clarify, interpret, complete or specify, if necessary, the resolution adopted and, in particular, to make good any defects, errors or omissions that may be noticed in the Company Register's verbal or written authorisation;
- v) Request the de-listing of the old shares and the simultaneous listing of the new shares on the Madrid and Barcelona Stock Exchanges and/or in any other market in which the Company's shares may be listed when the present resolution is implemented, and their inclusion in the Spanish Stock Market Interconnection System (SIBE);

- vi) Determine the procedure for the exchange of the shares with regard to all the aspects not covered by the present resolution, including fixing the date when the grouping will take effect;
- vii) Designate and grant, as appropriate, a mandate to an agent to purchase the fractional shares of those shareholders who at the effective date of the grouping are holders of a number of old shares that does not entitle them to receive a whole number of new shares in exchange;
- viii) Declare that the present reverse split resolution has been executed in full and, in consequence, modify the wording of article 5 of the Bylaws in the terms approved by the present General Meeting, and
- ix) In general, take whatever actions are necessary or useful for the correct implementation of the present resolution.

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

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