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# Creating the leading Spanish property company: acquisition of Testa

June 2015

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**MERLIN**

PROPERTIES

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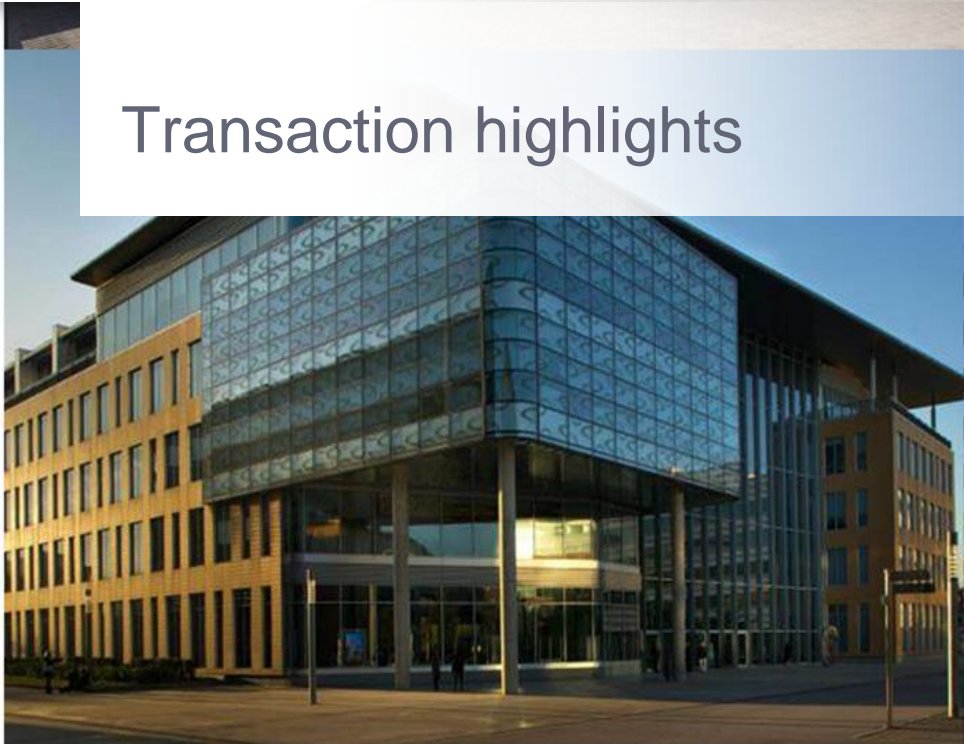


## Section 1

## Transaction highlights



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# Key terms of the contemplated transaction

## Transaction description

- **Investment agreement with SACYR to acquire up to 99.6% (post money) including (i) a €431m capital increase at Testa fully subscribed by Merlin in exchange of a 25% stake (post money); and (ii) acquisition of Sacyr's remaining stake in Testa in two steps for €1,555m**
- Weighted average price agreed with Sacyr is €13.54 per share of Testa of €0.20 par value (ie. post capital reduction of €5.80 per share and extraordinary dividend of €4.57 per share)
- **Acquisition of Sacyr's stake in Testa subject to** (i) approval of MERLIN EGM and (ii) release of pledge on Testa shares

## A transformational deal for MERLIN

- **Creation of the largest property company in Spain** with a total GAV of over €5.5bn
- Acquisition of a **sizeable, best-in-class real estate platform**, allowing to expand **footprint**, build **critical mass** in office, logistics and retail and **become the reference player in Spain**
- Opportunity to **further capture growth prospects** of the Spanish property sector
- **Long term strategic approach** based on two complementary portfolios and management teams
- **Enhanced corporate and capital markets profile post integration**

## Attractive financial terms

- **All cash consideration to Sacyr of €1,794m<sup>1</sup>** representing a **blended 15.7% premium to NAV<sup>2</sup>**
- Transaction expected to **deliver returns in excess of MERLIN's cost of capital**

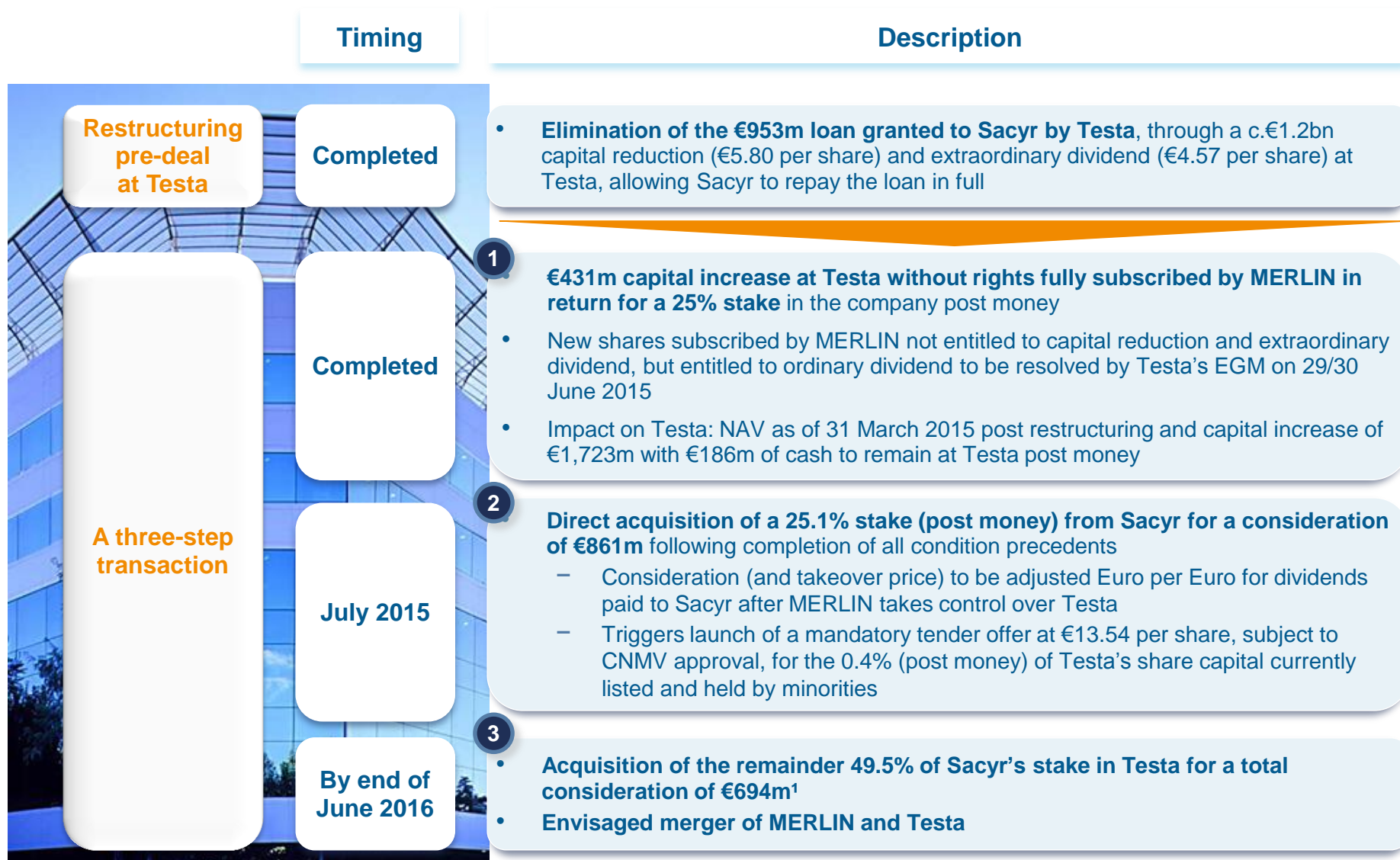
## Financing

- **Financing required** to undertake the entire transaction **already secured**
- Target LTV of approximately **50% by 2015 year-end**

<sup>1</sup> Pre capital increase

<sup>2</sup> Post capital increase

# Overview of transaction structure



<sup>1</sup> Longstop date is 30 June 2016



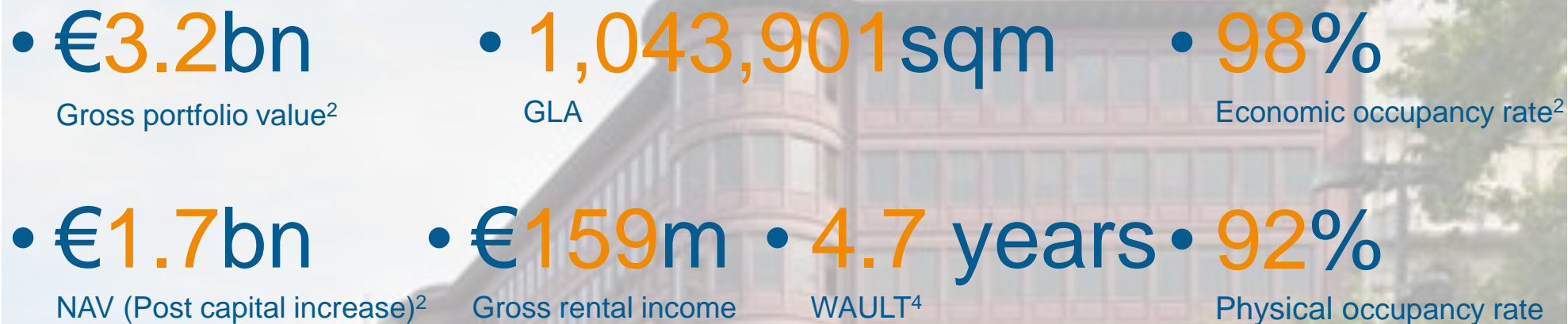
## Section 2

Testa: a unique, best-in-class real estate platform



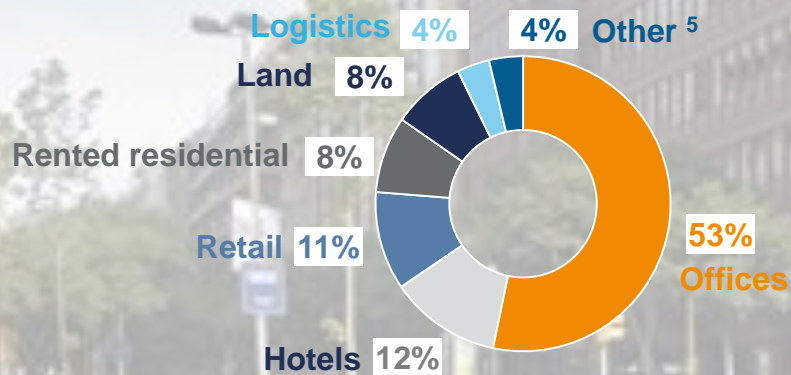
# Testa at a glance

## Key Figures<sup>1</sup>

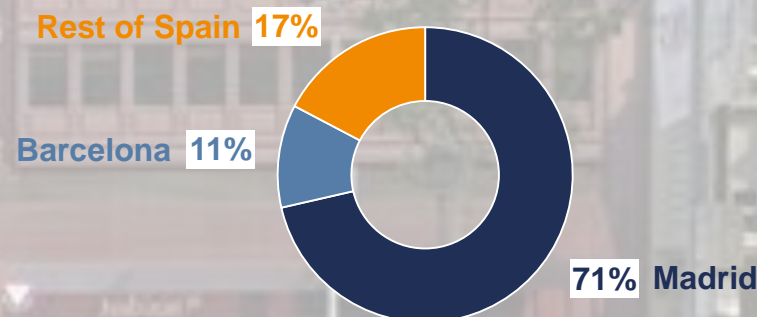


## Portfolio Breakdown by GAV

### By Asset Class <sup>1</sup>



### By Market <sup>1</sup>



<sup>1</sup> As of 31 December 2014, unless otherwise stated

<sup>2</sup> As of 31 March 2015

<sup>3</sup> The 2014 rate does not include Partenón 12, which is currently vacant and under refurbishment following the exit of a long-term tenant in September 2014

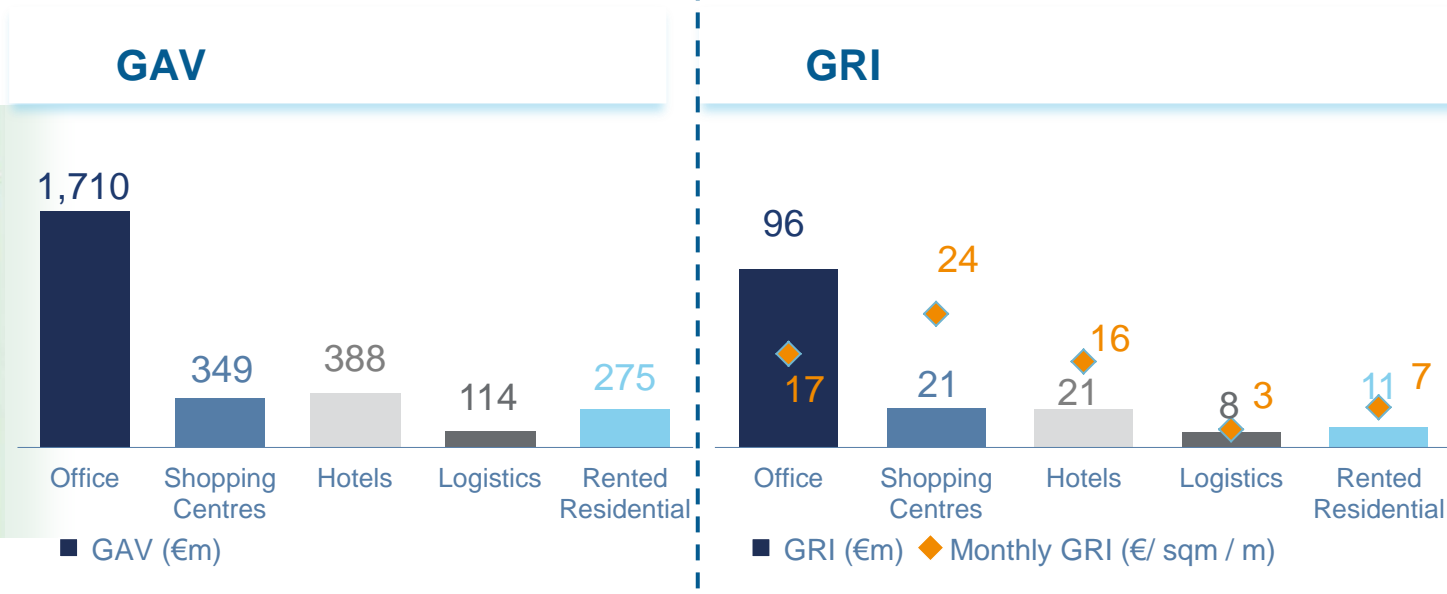
<sup>4</sup> Weighted by GRI of offices, retail, hotels and logistics

<sup>5</sup> Includes financial assets, elderly homes and other

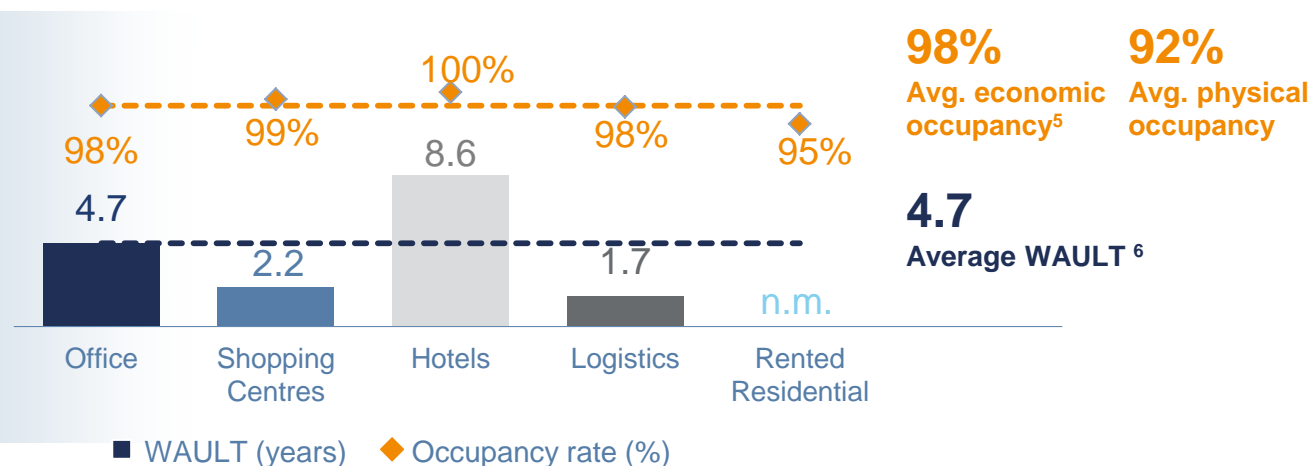


# Testa at a glance (cont'd)

## GAV<sup>1</sup> and GRI<sup>2,3</sup> by asset type



## Occupancy<sup>4</sup> and WAULT by asset type



<sup>1</sup> As of 31 March 2015

<sup>2</sup> As of 31 December 2014

<sup>3</sup> Total GRI calculated as GRI / sqm / month multiplied by rental surface times 12

<sup>4</sup> Economic occupancy rate except for rented residential, which is physical occupancy

<sup>5</sup> The 2014 rate does not include Partenón 12, which is currently vacant and under refurbishment following the exit of a long-term tenant in September 2014

<sup>6</sup> Weighted by GRI of offices, retail, hotels and logistics

# Truly unique prime office portfolio in Madrid and Barcelona

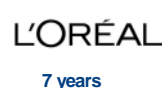
## Key metrics<sup>1</sup>

# assets	36
GLA <sup>2</sup>	475,131 sqm
GAV (Mar-15)	€1,710m
GRI	€96.4m
Economic occupancy	97.7%
WAULT	4.7 years

## Key highlights

- ✓ **Irreplacable** prime office portfolio
- ✓ Direct exposure to **Madrid's prime office** market recovery
- ✓ Significant presence of HQ quality **single tenant** buildings
- ✓ Top quality, international tenants
- ✓ **Recurrent high occupancy rates** throughout the cycle

## Key tenants<sup>3</sup>



## Madrid office (top 12 assets by size)



Torre PwC – PwC HQ  
21,390 sqm



Castellana 83 – Sacyr HQ  
15,254 sqm



Alcala, 45 – Madrid City Hall  
18,655 sqm



C. de las Naciones – Endesa HQ  
54,960 sqm



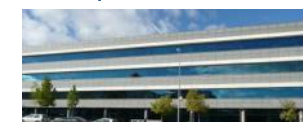
Josefa Valcarcel – L'Oreal HQ  
19,893 sqm



C. de las Naciones – Multitenant  
37,632 sqm



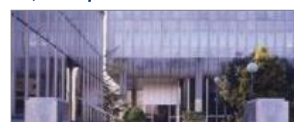
Avenida de Bruselas – Indra HQ  
33,718 sqm



Avenida de Bruselas – P&G HQ  
18,058 sqm



Princesa, 3 – Madrid Courts  
33,668sqm



P. De Vergara – Uria HQ  
10,732 sqm



Juan Esplandiú – Multitenant  
28,008 sqm



Atica – Multitenant  
23,406 sqm

## Barcelona office (top 6 assets by size)



Diagonal 514 – Uria HQ  
9,664 sqm



Diagonal 605 – Everis HQ  
14,795 sqm



San Cugat II – Ricoh HQ  
10,102 sqm



San Cugat I – Multitenant  
15,379 sqm



Vilanova – Endesa Regional HQ  
16,494 sqm



Muntadas I – Multitenant  
24,380 sqm

# High quality, strategically located retail and logistic assets

## Shopping Centres

### Key metrics<sup>1</sup>

# assets	5
GLA	72,104 sqm
# units	310
GAV (Mar-15)	€349m
GRI	€20.9m
Economic occupancy	98.8%
WAULT	2.2 years
Annual footfall	24m

### Key highlights

- ✓ **Urban shopping centres** at the best commercial locations with **established, affluent catchment areas**
- ✓ Wide range of **first-rate retail offering**, with reputable and financially-strong international and local tenants

### Key tenants<sup>2</sup>



SC Porto Pi (Mallorca)  
26,559sqm



SC Larios (Málaga)  
21,504 sqm



Plaza de los Cubos (Madrid)  
13,202 sqm



SC Oeste (Madrid)  
10,839 sqm

## Logistics

### Key metrics<sup>1</sup>

# assets	6
GLA	209,616 sqm
GAV (Mar-15)	€114m
GRI	€8.0m
Economic occupancy	97.5%
WAULT	1.7 years

### Key highlights

- ✓ Well-located in modern logistics parks, with easy access to major highways
- ✓ **Very sizeable assets** providing a strong competitive advantage
- ✓ **Focused on a key logistic corridor, the A2 motorway** connecting Madrid with Barcelona

### Key tenants<sup>2</sup>



Coslada I – III – Multitenant  
28,506 sqm



Azuqueca – Azkar  
27,995 sqm



Cabanillas – Logista  
70,134 sqm



Alovera – FCC Logística  
38,763 sqm

# Exposure to other asset classes

## Hotels

### Key metrics<sup>1</sup>

# assets	11
# rooms	2,155
GLA <sup>2</sup>	110,843 sqm
GAV (Mar-15)	€388m
GRI <sup>2</sup>	€20.6m
Economic occupancy	100%
WAULT	8.6 years

### Key highlights

- ✓ Stable and resilient during downturn
- ✓ **Urban hotels** in Madrid and Barcelona, leased to **leading hotel operators**
- ✓ Variable rent component expected to capture market recovery

### Key tenants<sup>4</sup>



Eurostars Madrid Tower – 5 stars  
Madrid, since 2009  
474 Rooms



Eurostars Grand Marina – 5 stars  
Barcelona, since 2002  
274 Rooms



Puerta de Castilla – 4 stars  
Madrid, since 2000  
262 Rooms



NH Sanvy – 4 stars  
Madrid, since 1997  
146 Rooms



Tryp Aeropuerto – 4 stars  
Barcelona, since 2002  
205 Rooms



Tryp Oceanic – 4 stars  
Valencia, since 2003  
197 Rooms

## Rented residential

### Key metrics<sup>1</sup>

# assets	11
# units	1,519
GLA	124,330 sqm
GAV (Mar-15) <sup>3</sup>	€275m
GRI <sup>3</sup>	€10.7m
Physical occupancy	94.6%

### Key highlights

- ✓ Residential complexes located in Madrid (78%), San Sebastian (14%) and Toledo (8%)
- ✓ Focus on areas with **high population density**
- ✓ Built with **high quality standards**, facilitating maintenance and increasing the life of the assets



Pza Castilla – 302 units



Bentaberri – 255 units



Alorcón – 159 units



Pavones – 104 units



Benquerencia – 103 units



Alameda Osuna – 95 units

# Testa brings a complementary team with strong in-house capabilities focused in asset management and refurbishment /development

## Highly experienced management team

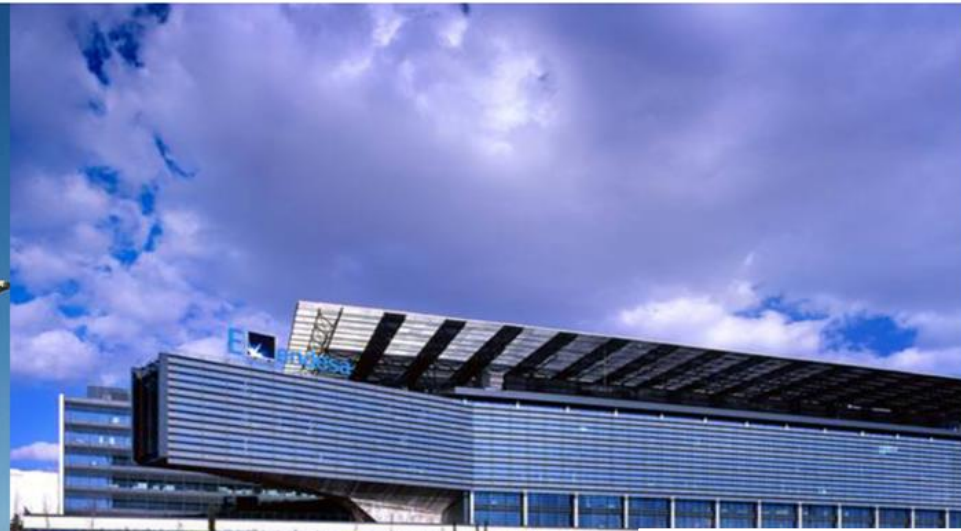
- More than 150 years of combined real estate experience
- More than 240 **leases signed** since 2009<sup>1</sup>
- More than 200k sqm **developed** in the last decade
- c.1,000,000 sqm **refurbished** in the last decade
- Total of 94<sup>2</sup> highly qualified professionals

## Vertically integrated platform



<sup>1</sup> Excludes leasing agreements from residential portfolio

<sup>2</sup> Composed of 6 managers, 50 technicians and 38 administrative staff



## Section 3

Combined strengths:  
creating the largest Spanish real estate player

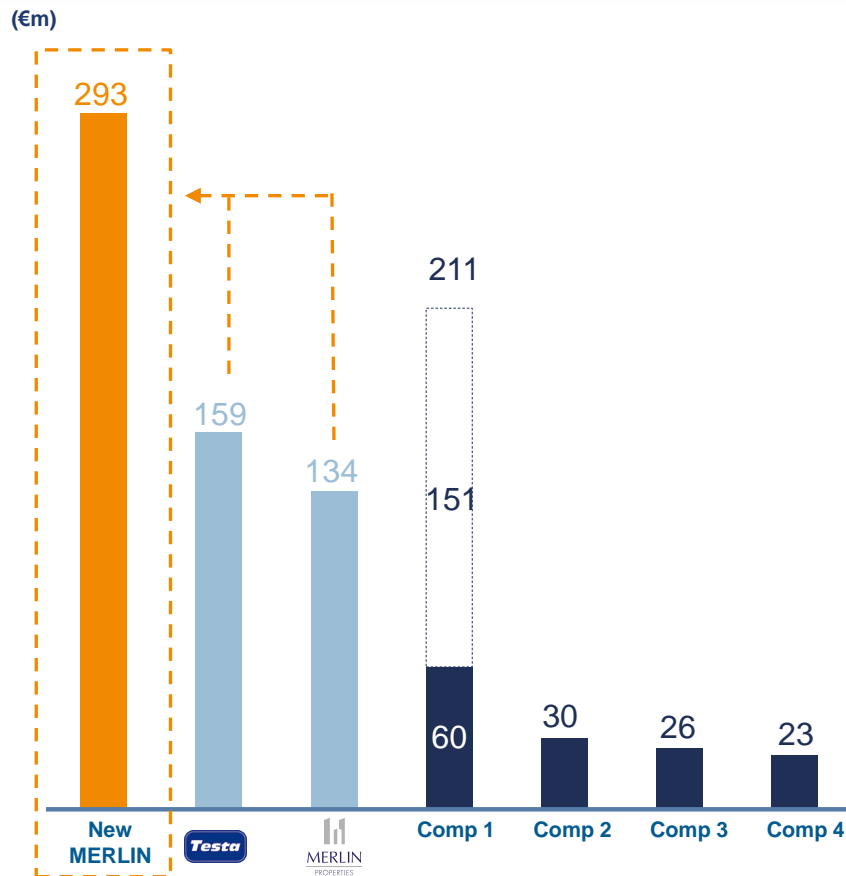


# Creation of the leading Spanish property company

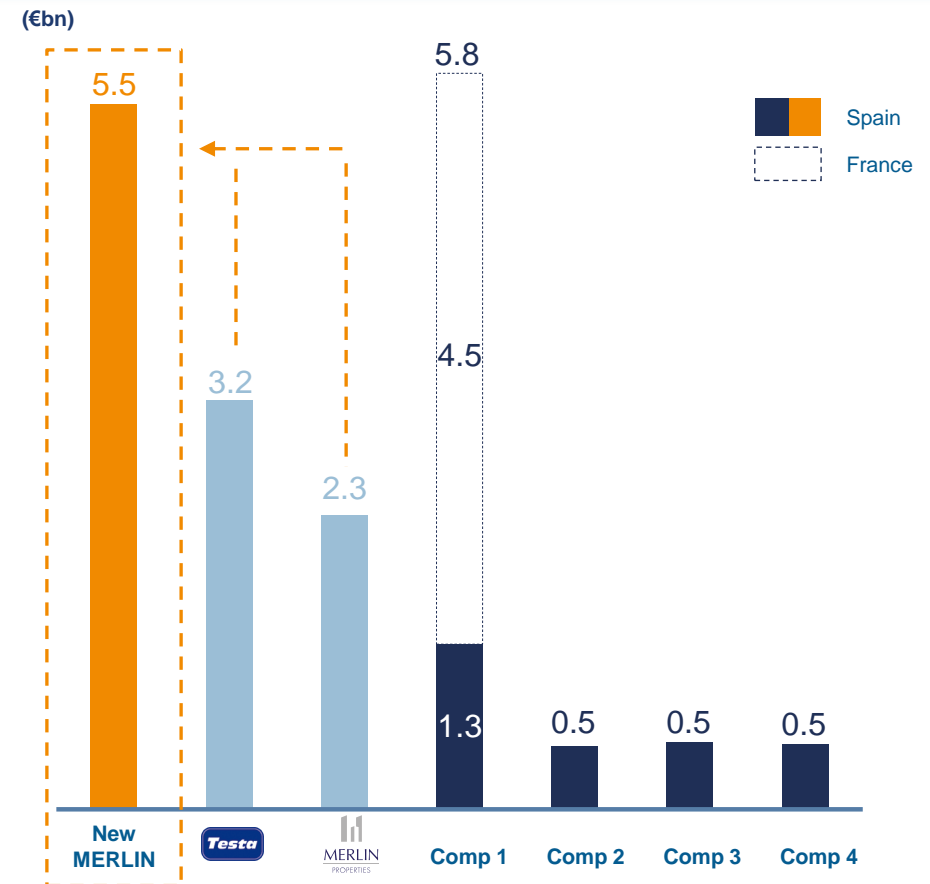
- 1 **A transformational acquisition in terms of scale, footprint and portfolio diversification**
- 2 **A unique opportunity to capture growth in the Spanish real estate market**
- 3 **A transaction fully in line with MERLIN's strategic and financial objectives**
- 4 **Creating a leader in office and logistics and a reference player in retail**
- 5 **Strategic plan for Testa based on long term approach and complementarity**
- 6 **Attractive deal economics relative to the market**
- 7 **Enhanced corporate and capital markets profile post integration**

# 1 Transaction creates the leading Spanish real estate player by far...

## GRI<sup>1</sup>: Spanish players benchmarking



## GAV<sup>2</sup>: Spanish players benchmarking



Post transaction, MERLIN becomes the undisputed largest player in terms of Spanish GRI and GAV

<sup>1</sup> Latest reported GRI (31 December 2014 for Testa and Comp 1, 31 March 2015 annualized for MERLIN and Comp 2, Comp 3 and Comp 4)

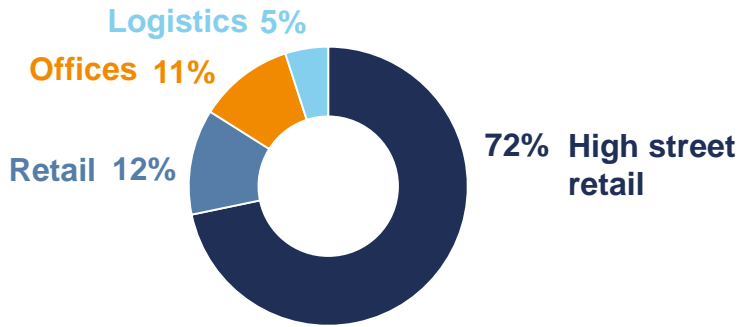
<sup>2</sup> Latest reported GAV (31 December 2014 GAV plus 2015 acquisitions at cost), except for Testa (as of 31 March 2015). MERLIN excludes Lisbon- Expo acquisition



1 ...providing diversification and significantly increasing exposure to the recovery of the Spanish real estate market

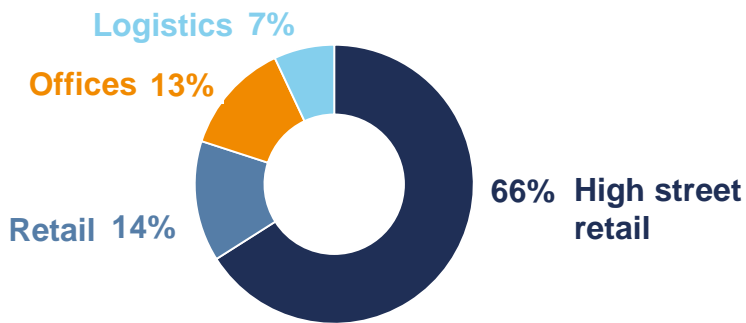
### Pre-Transaction

By GAV<sup>1</sup>



Total GAV = €2,313m

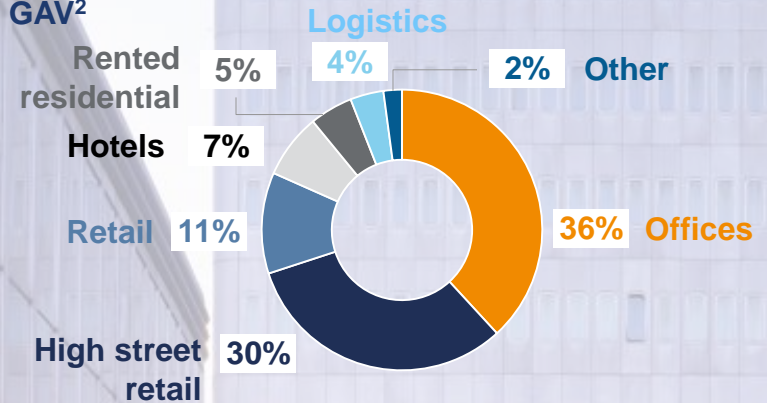
By GRI<sup>3</sup>



Total GRI = €134m

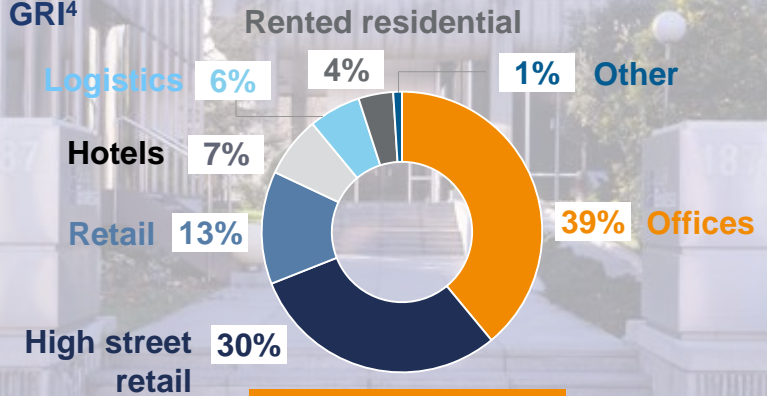
### Post-Transaction

By GAV<sup>2</sup>



Total GAV = €5,515m

By GRI<sup>4</sup>



Total GRI = €293m

**Increased exposure to the Spanish real estate cycle**

<sup>1</sup> Latest reported GAV (31 December 2014 GAV plus 2015 acquisitions at cost, excluding Lisbon – Expo)

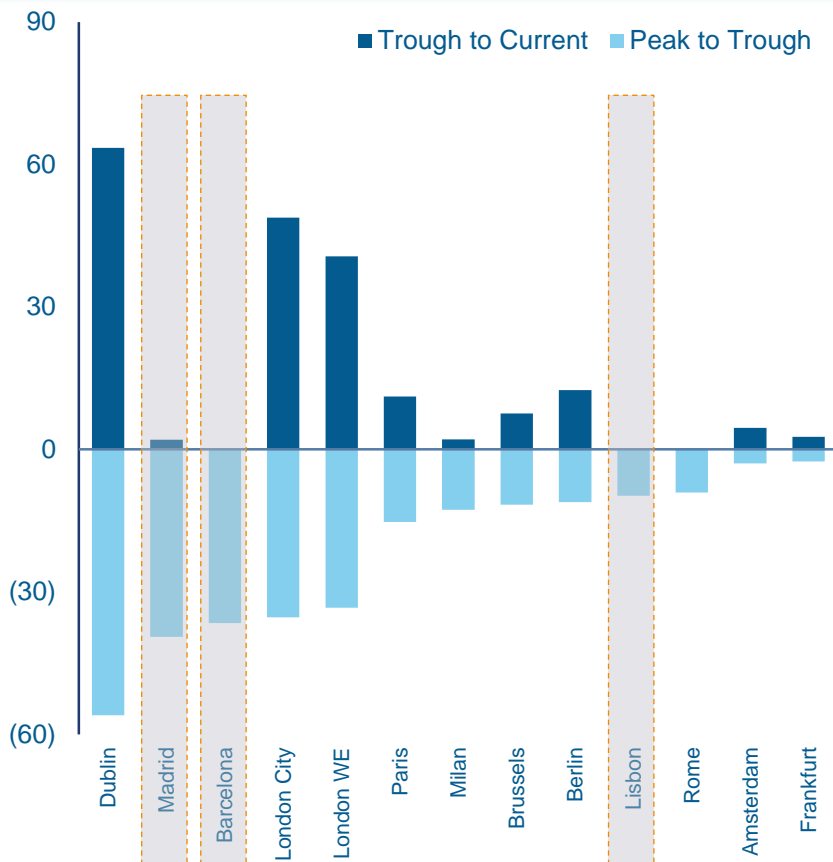
<sup>2</sup> Latest reported GAV: For MERLIN, 31 December 2014 GAV plus 2015 acquisitions at cost excluding Lisbon – Expo and for Testa, 31 March 2015 GAV

<sup>3</sup> Latest reported GRI (calculated as passing monthly gross rent at 31 March 2015 multiplied by 12)

<sup>4</sup> Latest reported GRI: For MERLIN, 31 March 2015 annualized GRI and for Testa, 31 December 2014 GRI

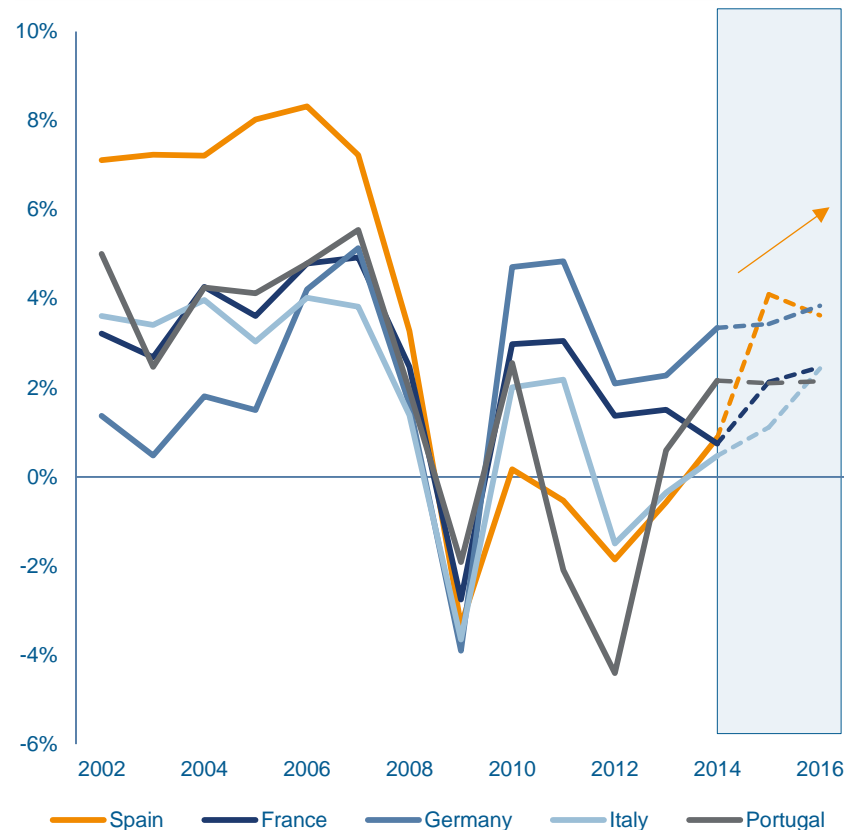
# ② Unique opportunity to capture growth in the Spanish real estate market...

### Change in prime office rents (%)



Source: CBRE

### Nominal GDP growth (%)



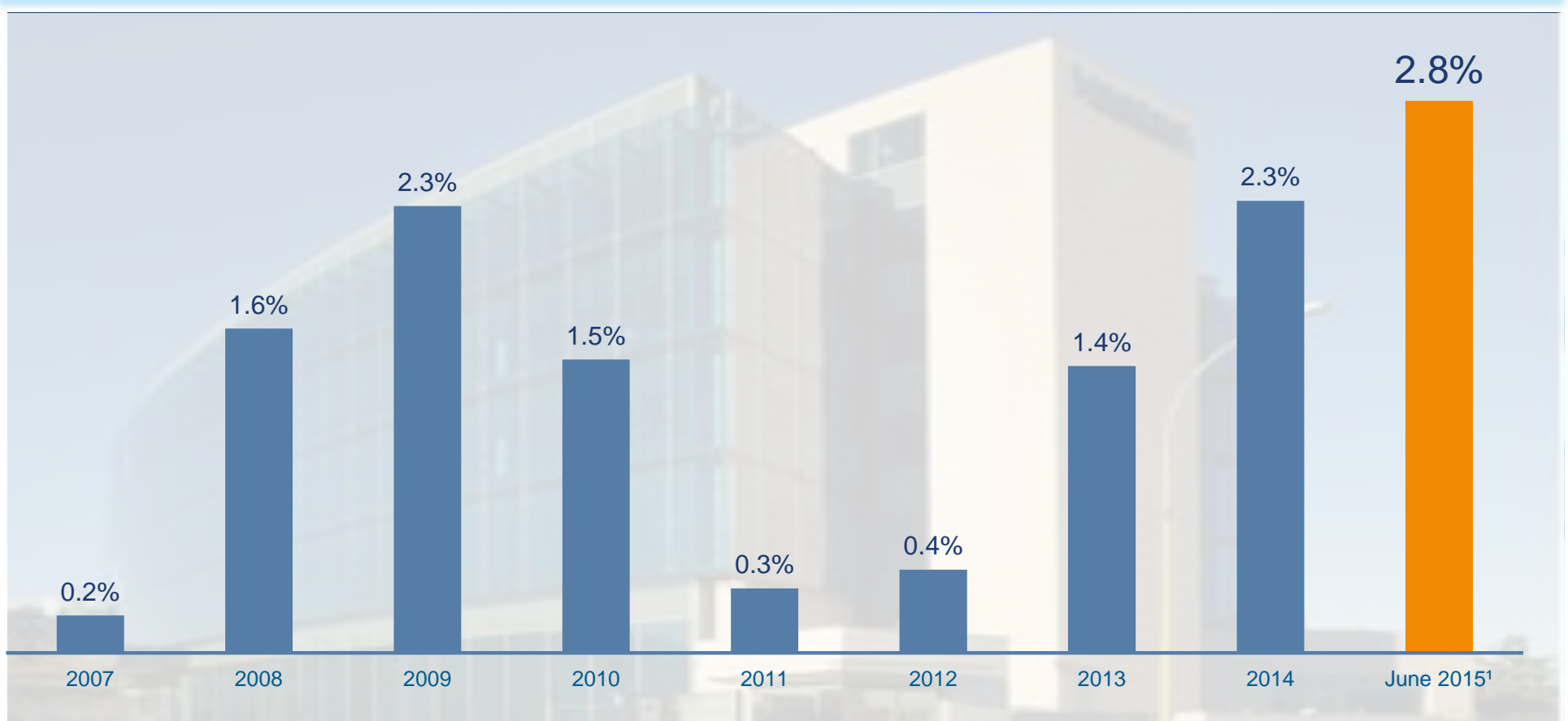
Source: OECD

**Rental levels are significantly below peak**

**Ample room for rental uplift driven by strong recovery in GDP growth**

## ② ...And benefit from historically high difference between yields and cost of funding

The spread between the Madrid prime office yield and the Spanish Government 10 year bond reaching **historically high levels**



Source: CBRE and Factset as of June 2015

<sup>1</sup> Calculated based on the difference between the December 2014 prime office yield in Madrid of 5.0% and the yield of the Spanish Government 10 year bond as of 05 June 2015 of 2.2%

# 3 An ideal fit with MERLIN's investment mandate

## MERLIN's strategic pillars

Commercial assets in the Core / Core+ segments

Prime office properties located in Madrid and Barcelona

Dominant and urban shopping centres with good catchment area

Logistic properties located in close proximity to the key transport hubs

Urban hospitality assets located in prime areas in key Spanish cities

High quality assets in good secondary locations with strong leases

Robust cash flows and conservative financial structure

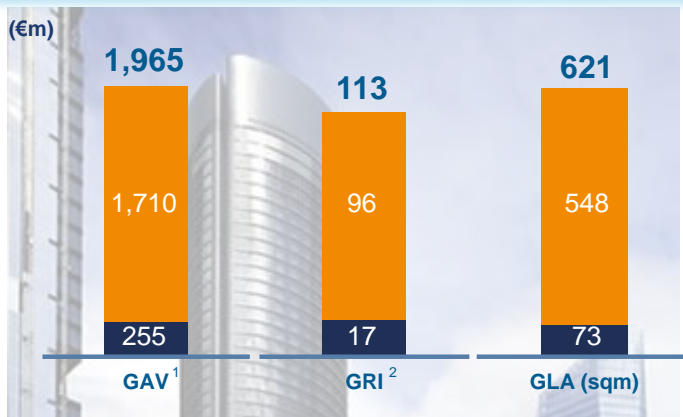
## Testa's fit with MERLIN



**The acquisition of Testa ticks all the boxes of MERLIN's strategic and financial objectives**

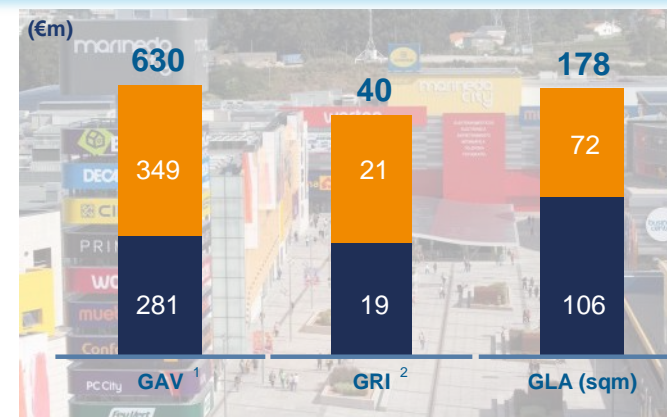
# 4 The transaction creates a market referent in Spain with critical mass across the most attractive asset classes

## Offices



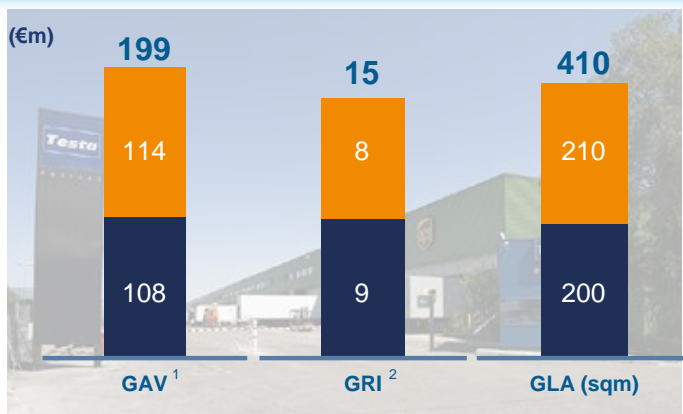
- Largest prime office player in Spain<sup>3</sup>
- Stronger presence in those areas that will experience first the rental growth recovery

## Shopping Centres



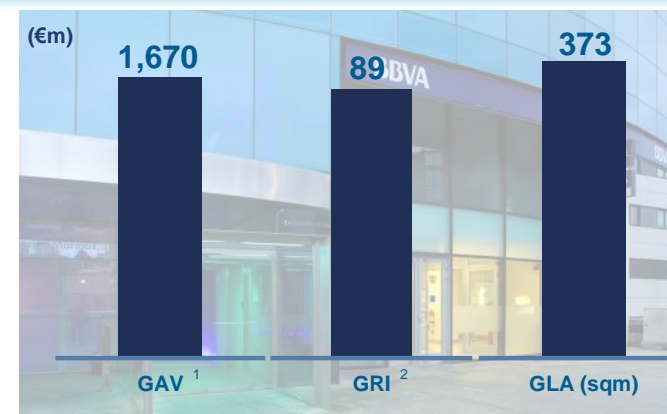
- Becomes a reference for key tenants with six strategically located, dominant and urban retail assets

## Logistics



- MERLIN becomes the third largest Spanish platform by GLA<sup>3</sup>
- Largest player in the A-2 corridor
- Expanded footprint over main Madrid corridors

## High Street Retail - Tree



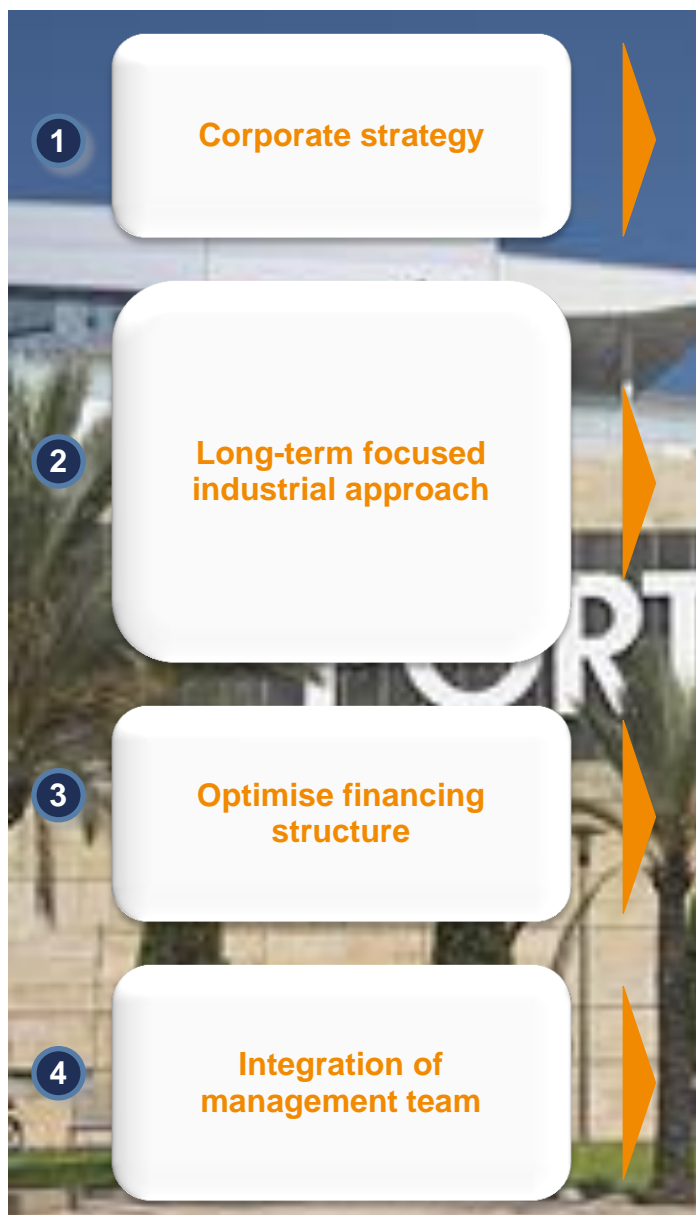
■ MERLIN ■ Testa

<sup>1</sup> Latest reported GAV: For MERLIN, 31 December 2014 GAV plus 2015 acquisitions at cost except Lisbon – Expo and for Testa, 31 March 2015 GAV

<sup>2</sup> GRI as of 31 December 2014 for Testa and 31 March 2015 for MERLIN (calculated as passing monthly rent as of 31 March 2015 multiplied by 12)

<sup>3</sup> Source: CBRE Spain

# 5 Strategic long term plan for Testa based on complementarity



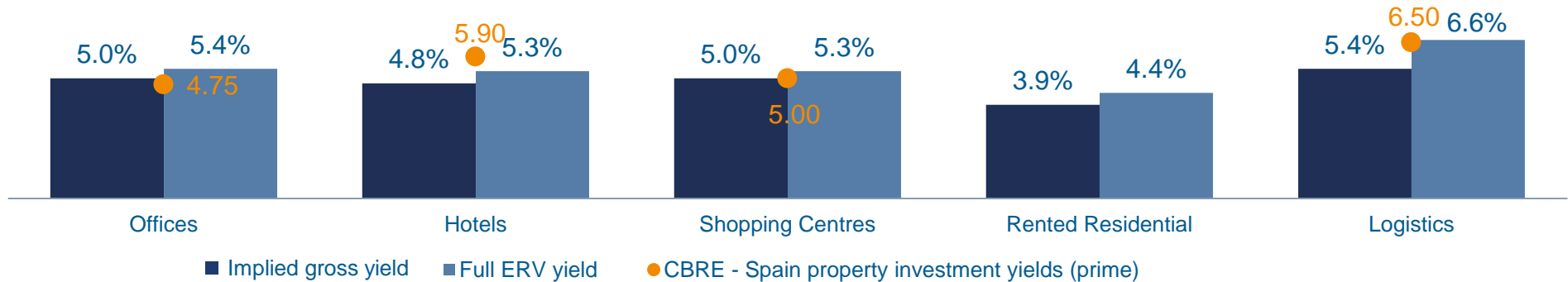
- **Initially integrated as a subsidiary of MERLIN Group**
  - **Conversion of Testa into SOCIMI**
  - **Envisaged merger of MERLIN and Testa**
- 
- **No anticipated core asset disposals in the short to medium term given high quality of the portfolio, absence of overlap and point in cycle**
    - Opportunistic approach in relation to recycling capital from non-core assets (land, rented residential)
  - **Capitalise on strong portfolio complementarities and gradually capture growth in rental levels**
  - **Maximise profitability through active management and strategic capex**
- 
- **Full refinancing of Testa’s debt in the medium term**
  - **Objective to achieve investment grade rating in the short-medium term**
- 
- **Two complementary and highly experienced teams facilitating integration and know-how exchange**
  - **Leverage upon Testa’s strong in-house capabilities and track record in asset management and refurbishment / development**

# 6 Acquisition done at an attractive entry valuation

## Acquisition implied capital values by asset class<sup>1</sup> vs. recent market transactions



## Acquisition implied gross yield<sup>3</sup> per asset class<sup>1</sup> vs. Q1 2015 market yield

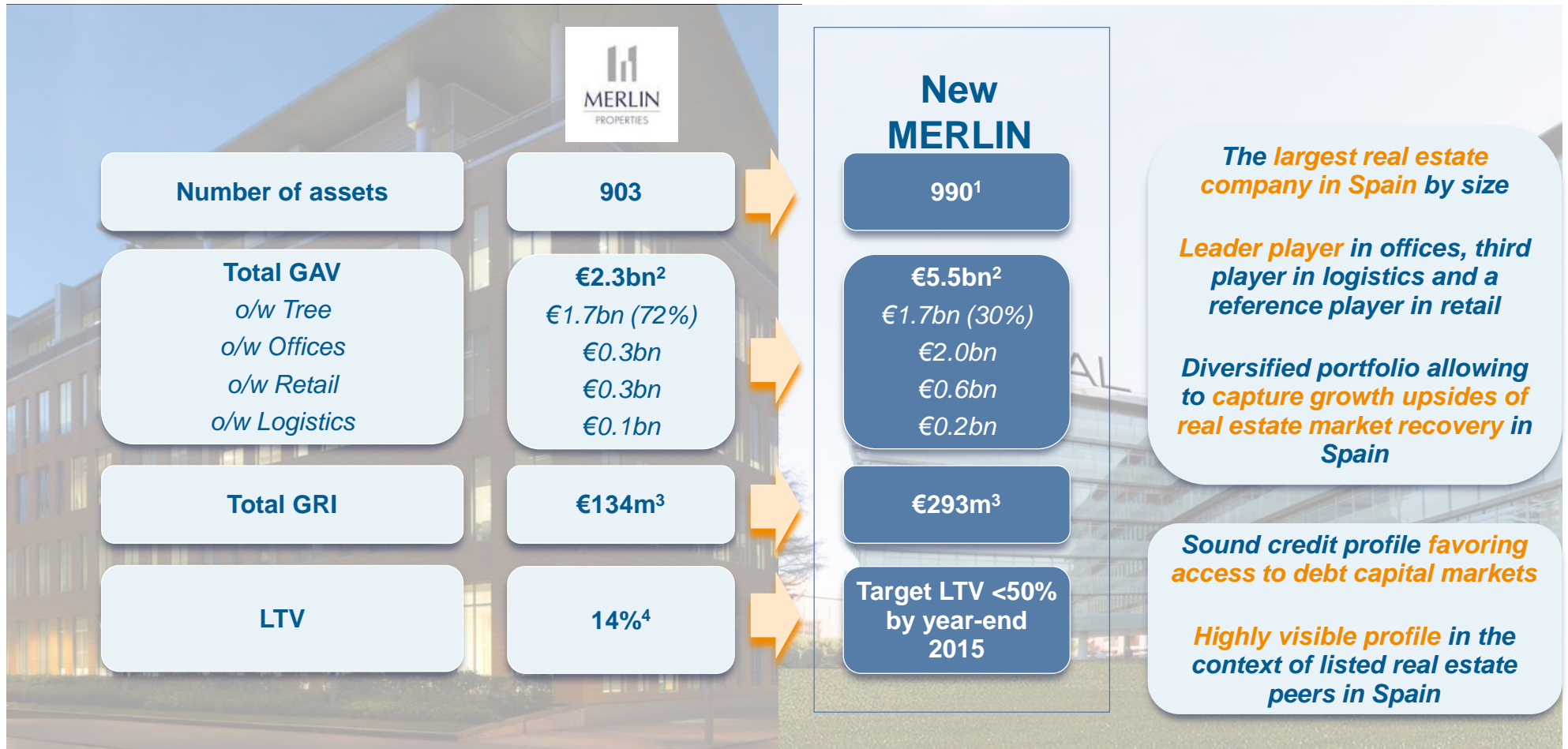


<sup>1</sup> Premium paid allocated by MERLIN

<sup>2</sup> Source CBRE (selected market transactions comparable to Testa's assets in each asset class, mostly completed within the last twelve months)

<sup>3</sup> Calculated as 2014 FY Gross Rental Income / Implied Transaction GAV

# 7 Enhanced corporate and capital market profile



Source: MERLIN Properties, Testa company information, Capital IQ as of 4 June 2015

<sup>1</sup> For Testa, considering 82 commercial assets + 5 land plots and assets under development

<sup>2</sup> For MERLIN, based on Savills appraisal as of 31 December 2014 for the 2014 acquisitions and on the acquisition price for the 2015 acquisitions (excludes Lisbon-Expo acquisition). For Testa, based on 31-Mar-2015 valuations

<sup>3</sup> For MERLIN, annualized gross rents have been calculated as passing monthly gross rent at March 31, 2015. For Testa, 2014A gross rents

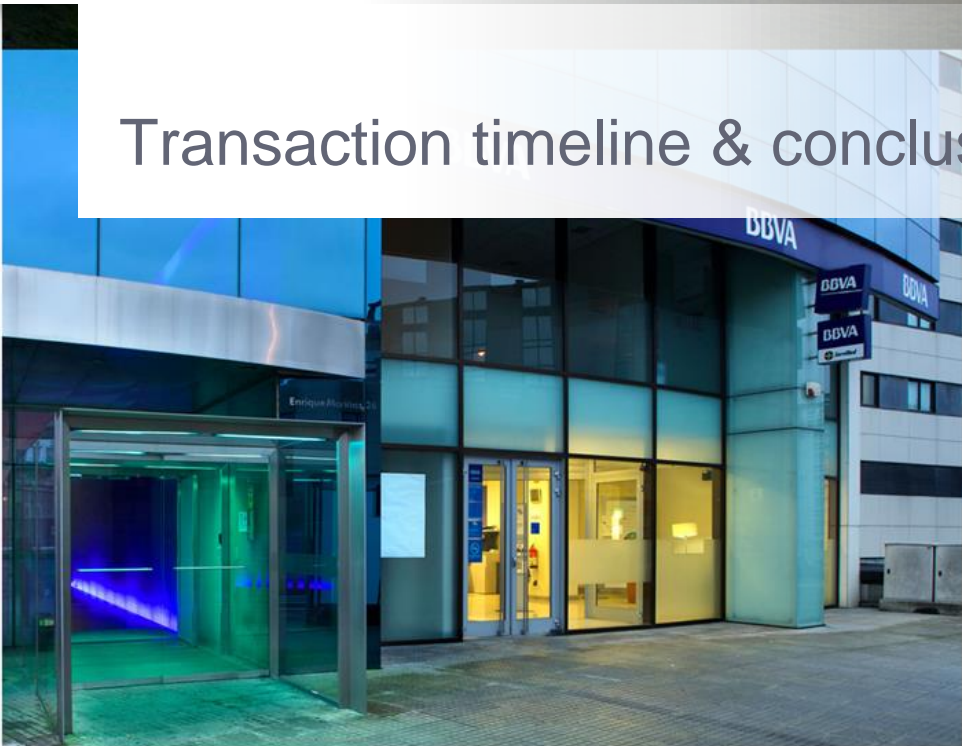
<sup>4</sup> Q1 2015 net debt figure adjusted for the rights issue completed in May 2015 net of fees and divided by total GAV





## Section 4

### Transaction timeline & conclusions





## Key milestones

**8 June 2015**

- Signature of the Investment Agreement with Sacyr
- Completion of pre-deal restructuring at Testa and subscription of a capital increase in Testa for a 25.0% stake

**By 11 June 2015**

- Merlin to call for Shareholders' Meeting to approve the acquisition of Sacyr's stake in Testa

**By 20 July 2015**

- Merlin Shareholders' Meeting

**By 29 July 2015**

- Acquisition of a 25.1% stake from Sacyr

**No later than  
29 August 2015**

- Filing of mandatory tender offer

**30 September 2015  
to 30 June 2016**

- Acquisition of the remainder of Sacyr's stake in Testa

# Conclusion: creation of the leading real estate company in Spain

- 1 **MERLIN becomes the undisputable leading real estate company in Spain**
- 2 **Best-in-class player across our three core segments (Office, Retail and Logistics) with critical mass and high quality, strategically located assets**
- 3 **Well-diversified portfolio exposure allowing to capture full upside from the cycle**
- 4 **Proven ability to deploy proceeds from capital raisings in attractive and large deals creating value for shareholders**
- 5 **Highly visible corporate profile facilitating access to capital markets**



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