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## **REPORT PREPARED BY THE AUDIT AND CONTROL COMMITTEE OF LAR ESPAÑA REAL ESTATE SOCIMI, S.A. ON ITS FUNCTIONING IN 2014**

### **I. INTRODUCTION**

In accordance with the provisions of article 14.9 of the Board of Directors Regulations of Lar España Real Estate SOCIMI, S.A. ("**Lar España**" or the "**Company**") regarding regulation of the Audit and Control Committee, and in order for the Board of Directors to undertake the annual evaluation of this Committee as provided in article 529 nonies of the Recast Text of the Spanish Companies Act approved by Royal Legislative Decree 1/2010 of 2 July 2010 (the "**Spanish Companies Act**"), the aforesaid Committee will prepare an annual report on its functioning, highlighting the principal issues arising, if any, in respect of its inherent functions. In compliance with the aforesaid rules, the Audit and Control Committee prepares this report that, when deemed to be appropriate, may also include proposals to improve the Company's governance rules.

This report will be attached to the Company's annual corporate governance report and will be available to shareholders and investors by way of the Company's website ([www.larespana.com](http://www.larespana.com)) from the call of the ordinary General Meeting of shareholders.

### **II. COMPOSITION**

Articles 42 of the Articles of Association and 14 of the Board of Directors Regulations, at the date of this report, provide that the Audit and Control Committee will be comprised of a minimum of three and a maximum of five directors, appointed by the Board of Directors from among the non-executive directors. At least one member of the Audit and Control Committee will be an independent director, and will be appointed on the basis of knowledge and experience in accounting or auditing, or both. The Board of Directors also will appoint one of the members of that Committee to act as the Chairman thereof. In accordance with article 14.3 of the Board of Directors Regulations, the Chairman of the Audit and Control Committee will remain in office for a maximum term of three years, at the end of which the Chairman may not be re-elected as such until one year has passed after leaving office, without prejudice to the Chairman's continuing or being re-elected as a member of the Committee.

During 2014 there was no change in the composition of the Audit and Control Committee. It was as follows:

- (i) **Mr. José Luis del Valle Doblado** (Chairman) is an independent non-executive director of Lar España. He was appointed as a director of Lar España by the then sole shareholder of the Company on 5 February 2014. The Board of Directors of the Company appointed him as a member of the Audit and Control Committee on 6 February 2014. Mr. del Valle in turn is chairman of the board of directors of GES-Global Energy Services. Previously, from 1988 to 2002 he held various positions with Banco Santander. In 1999 he was appointed General Manager and Financial Manager of the bank (1999-2002). Subsequently he was Development and Strategy Manager of Iberdrola (2002-2008), Managing Director of Scottish Power (2007-2008), Strategy and Research Manager of



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Iberdrola (2008-2010) and Advisor to the Chairman of the aerogenerator manufacturer Gamesa (2011-2012). He also is Chairman of the MIT Club of Spain.

- (ii) **Mr. Pedro Luis Uriarte Santamarina** (Member) is an independent non-executive director of Lar España. He was appointed as a director of Lar España by the then sole shareholder of the Company on 5 February 2014. The Board of Directors of the Company appointed him as a member of the Audit and Control Committee on 6 February 2014. Mr. Uriarte is also executive chairman of "Economía, Empresa, Estrategia", a strategic consulting firm he founded in 2002. He also is a member of the board of directors or advisory board of a series of companies. He also is Vice Chairman of the civil council of Bilbao and was a member of the board of UNICEF España. Previously, from 1975 to 2001 he held various positions with BBVA, as Vice Chairman of BBV and BBVA. He was appointed Managing Director of BBV in 1994. He held the position as Vice Chairman of the Board of Telefónica. He was appointed Minister of Economy and Finance of the Basque Government in 1980, and in 2007 founded and headed Innobasque, the Basque Innovation Agency.
- (iii) **Mr. Miguel Pereda Espeso** (Member) is a proprietary non-executive director of Lar España. He was appointed as a director of Lar España by the then sole shareholder of the Company on 5 February 2014. The Board of Directors of the Company appointed him as a member of the Audit and Control Committee on 6 February 2014. Mr. Pereda has more than 25 years of experience in the real estate sector, and is a director and shareholder of Grupo Lar. He has a degree in business administration with a specialty in business management, an MBA from the Instituto de Empresa (IE), participated in the Breakthrough program for Senior Executives of the IMD, has a Masters in tax from ICADE and participated in the Real Estate Management Program of Harvard University.

In accordance with the provisions of article 14.1 of the Board of Directors Regulations, the secretary of the Audit and Control Committee is Mr. Juan Gómez-Acebo Sáenz de Heredia, as he is also the secretary of the Board of Directors.

As a result, the composition of the Committee during 2014 was consistent with the provisions of the Board of Directors Regulations, in the draft then in effect, and with currently repealed Additional Provision Eighteenth of Securities Market Act 24/1988 of 28 July 1988 (in effect until 3 December 2014), and had sufficient independent directors to guarantee the impartiality and objectivity of the Audit and Control Committee. Its Chairman also is an independent director.

Furthermore, the composition of the Audit and Control Committee complies with the provisions of the current version of the Spanish Companies Act, after the reform implemented by Act 31/2014 of 3 December 2014, amending the Spanish Companies Act to improve corporate governance and, specifically, the provisions of new article 529 quaterdecies.1, whereby this Committee must be comprised exclusively of non-executive directors appointed by the Board of Directors, at least two of whom must be independent directors, with the chairman being appointed from among the independent directors that are members of the Committee.

### **III. MEETINGS**

The Audit and Control Committee ordinarily meets on a quarterly basis, in order to review the periodic financial information to be submitted to the stock market authorities as well as the information the Board of Directors must approve and include within its annual public



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documentation. It also may meet at the request of any of its members and when called by its Chairman. The Chairman must call the meeting whenever the Board or its Chairman requests the issuance of a report or preparation and adoption of proposals and, in any event, whenever it is appropriate to the proper exercise of its authority.

The Audit and Control Committee met five times during 2014.

As a result, the Audit and Control Committee met with the frequency required for proper performance of its duties. All of its members attended the meetings that were held.

#### **IV. ACTIVITIES DURING 2014**

This Committee, in fulfilment of the duties it assumes under article 14 of the Board Regulations, focused its meetings during 2014 on the following principal activities:

- **Review of periodic financial reporting**

The Committee supervised the process of preparation and the integrity of the quarterly and semi-annual financial information that the Board of Directors must provide to the market and send to the National Securities Market Commission by virtue of its periodic reporting obligations as a listed company.

In this regard, the Committee, prior to its submission, revised compliance with the regulatory requirements, appropriate definition of the scope of consolidation and proper application of principles of accounting in the periodic financial reporting, all within the terms legally established for that purpose.

- **Review of annual accounts**

In view of the fact that the Company was formed during 2014, the year to which this report refers, the Audit and Control Committee during the year has not reviewed annual accounts for the prior year.

- **External audit**

The Audit and Control Committee supervised relationships with the external auditors. In this regard, at its first meeting the Committee took note of the appointment of Deloitte, S.L. as the statutory auditor of the Company. Also, the Committee met with the aforesaid auditor to agree the proposed services and ensure that the opinion on the annual accounts and principal content of the audit report were drafted clearly and precisely and, when there are no clear rules applicable to the audit of the Company under Spanish law, best international practices are always applied.

Also, the Audit and Control Committee verified that, already in 2015, the work engaged from the statutory auditor is in compliance with the independence requirements established in Royal Legislative Decree 1/2011 of 1 July 2011 approving the recast text of the Audit Act.

The Audit Act and section 4, function f), of new article 529 quaterdecies of the Spanish Companies Act require that the Audit and Control Committee annually, prior to the audit report, issue a report stating an opinion regarding the independence of the auditors. Based on this requirement and the confirmation of independence received from the auditors, the Audit and Control Committee concluded that there are no objective reasons for questioning the independence of the statutory auditor for 2014.



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- **Functions of an internal nature**

The Audit and Control Committee has efficiently performed the functions related to internal affairs that have been attributed to it in the Board Regulations, basically the following: (i) seeing to the independence and effectiveness of the internal audit function; (ii) advancing the Company's corporate governance strategy; (iii) engaging and supervising the services of outside valuers regarding valuation of the Company's assets; (iv) reviewing compliance with regulatory requirements, proper definition of the scope of consolidation and proper application of principles of accounting; and (v) supervising the calculation of the fees received by Grupo Lar Inversiones Inmobiliarias, S.A., in its capacity as the management company for Lar España, in the performance of its functions.

Also, in accordance with the provisions of the Company's Internal Code of Conduct in the Securities Markets, the Audit and Control Committee at its first meeting appointed the head of the Compliance function, Mr. Sergio Criado Cirujeda, so he was fully authorised to perform the functions attributed thereto by virtue of the provisions of the aforesaid Code.

Finally, the Committee reviewed and approved the forms for reporting monthly and quarterly financial information to the Board of Directors.

- **Valuation of the Company**

In accordance with the provisions of the Articles of Association and the Board of Directors Regulations, the Committee resolved the appointment and supervised the services of the valuers engaged to value the assets of the Company.

- **Compliance with corporate governance rules**

The Audit and Control Committee furthermore saw to compliance with the Internal Code of Conduct, the Board of Directors Regulations and, in general, the Company's corporate governance rules during 2014, with no relevant noncompliance having been detected.

The services of an international consulting firm of high standing (EY) were engaged for preparation of an action plan regarding corporate governance, emphasising that the aforesaid plan must take account of and incorporate international corporate governance standards.

- **Control of trading in treasury shares**

In accordance with the recommendations included in the document called "Criteria that the National Securities Market Commission recommends be observed by issuers of securities and financial intermediaries acting on behalf of issuers of securities in their discretionary treasury share operations" that was published on 18 July 2013, the Audit and Control Committee has analysed and taken note of the treasury share balance of the Company and the trading in treasury shares.

## **V. PROPOSALS RELATED TO THE COMPANY'S GOVERNANCE RULES**

Among the functions that the Articles of Association, the Board of Directors Regulations and the Internal Code of Conduct in the Securities Markets attribute to the Audit and Control Committee is that of making the necessary proposals for improvement related to the Company's governance rules, when the Committee considers that to be appropriate.



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During 2014 no proposals were made related to amendment of the Company's governance rules, but the regulatory changes incorporated during 2014 that affected the Company were analysed.

The Committee in 2015 proposes to review application of these rules and analyse the new laws and regulations that have been published, if applicable introducing such reforms as may be necessary or appropriate. In particular, the Committee has noted the need for the Company to revise its internal rules in light of the amendments introduced in the Spanish Companies Act by way of approval of Act 31/2014 of 3 December 2014.

This report, corresponding to the activities of the Audit and Control Committee during the period from 1 January to 31 December 2014, as provided in article 14.9 of the Board of Directors Regulations, will be available to shareholders and investors by way of the Company's website ([www.larespana.com](http://www.larespana.com)) from the call of the General Meeting of Shareholders.

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Madrid, 25 March 2015