



This document is a translation of an original text in Spanish. In case of any discrepancy between both texts, the Spanish version will prevail.

REPORT PREPARED BY THE AUDIT AND CONTROL COMMITTEE OF LAR ESPAÑA REAL ESTATE SOCIMI, S.A. ON ITS FUNCTIONING IN 2015

I. INTRODUCTION

In accordance with the provisions of article 14.7 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 consolidated 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) from the call of the ordinary General Meeting of shareholders.

For the purpose of complying with recommendation 6 of the Code of Good Governance for Listed Companies, the information regarding auditor's independence, functioning of the Audit and Control Committee and related transactions is included in the present report.

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. The majority of the Audit and Control Committee will be independent and will be appointed —specially the Chairman— 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 14.1 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 2015 there was no change in the composition of the Audit and Control Committee. It was as follows:

- **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 Grupo Lar Inversiones Inmobiliarias, S.A., 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 has extensive experience in the banking and energy sector. From 1988 to 2002 he

held various positions with Banco Santander, one of the most relevant financial entities in Spain. In 1999 he was appointed General Manager and Financial Manager of the bank (1999-2002). Subsequently he was Development and Strategy Manager of Iberdrola, one of the main Spanish energy companies (2002-2008), Managing Director of Scottish Power (2007-2008), Strategy and Research Manager of Iberdrola (2008-2010) and Advisor to the Chairman of the aerogenerator manufacturer Gamesa (2011-2012). Currently, Mr. del Valle is Chairman of the Board of GES - Global Energy Services, leader independent provider of construction services, operation and management for the renewable energy global industry, a Director of the insurance group Ocaso and member of the Accenture Global Energy Board.

Mr. José Luis is a Mining Engineer from Universidad Politécnica (Madrid, Spain), number one of his class, Master of Science and Nuclear Engineer from the Massachusetts Institute of Technology (Boston, USA). Furthermore, Mr. del Valle holds an MBA with high honours from Harvard Business School (Boston, USA).

- **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 Grupo Lar Inversiones Inmobiliarias, S.A., 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. From 1975 to 2001 he held various positions with BBVA, one of the main Spanish Banks, 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, leader in the Spanish telecommunications market. He was appointed Minister of Economy and Finance of the Basque Government in 1980. In 2007, Mr. Uriarte founded and headed Innobasque, the Basque Innovation Agency. Currently, he is Chief Executive Officer of the strategy consulting firm Economía, Empresa y Estrategia, and is member of several boards and consulting bodies of other boards of directors. Moreover, Mr. Uriarte is Vicepresidente of the Civil Council of Bilbao and has been a member of the board of UNICEF Spain.

Mr. Pedro Luis graduated from Universidad de Deusto (Bilbao, Spain) with a degree in business and administration, and is a member of the board and executive committee of Deusto Business School, and has been honoured with numerous awards such as the "*Gran Cruz al Mérito Civil*" (Spanish government) in 2002 and "*Directivo del año*" (Spanish Confederation of Managers & Executives - CEDE) in 2011.

- **Mr. Miguel Pereda Espeso** (Member) is a proprietary non-executive director of Lar España. He was appointed as a director of Lar España by Grupo Lar Inversiones Inmobiliarias, S.A., 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 Inversiones Inmobiliarias, S.A., since 2007, and previously, for a period of 6 years, was Chief Executive Officer of Lar Grosvenor. In 2015, Mr. Pereda was appointed Eminent Member (Fellow) of the Royal Institution of Chartered Surveyors in London (RICS).



This document is a translation of an original text in Spanish. In case of any discrepancy between both texts, the Spanish version will prevail.

Mr. Miguel has a degree in business administration from Universidad Complutense (Madrid, Spain), 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 2015 has been consistent with the provisions of the Board of Directors Regulations and article 529 quaterdecies.1 of the Spanish Companies Act, in accordance with its current version, whereby this Committee is comprised exclusively of non-executive directors appointed by the Board of Directors and with a majority of independent directors.

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 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 eight times during 2015.

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.

The Audit and Control Committee adopted its resolutions through written vote and without meeting whenever a live meeting with the entire Committee was not possible due to the urgency of the proposed resolutions. In those cases, the Company received in a timely and appropriate manner the votes of each of the members of the Committee.

IV. ACTIVITIES DURING 2015

This Committee, in fulfilment of the duties it assumes under article 14 of the Board Regulations, focused its meetings during 2015 on the following principal activities:

- **Review of periodic financial reporting**

As in the last financial period, the Committee supervised the process of preparation and the integrity of the quarterly and semi-annual financial information, both individual and consolidated, that the Board of Directors must provide to the market and send to the National Securities Market Commission ("CNMV") by virtue of its periodic reporting obligations as a listed company.

Accordingly, 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**

The Audit and Control Committee, with the purpose of preventing the individual and consolidated annual accounts prepared by the Board of Directors from being presented with reservations and qualifications in the audit report, performed the following activities prior to the preparation of the accounts:

- Review the accounts of the Company.
- Monitor and verify the compliance with the legal requirements and the proper application of the generally accepted accounting principles.
- Review the periodic financial information that the Board of Directors must provide the markets and its supervising bodies.

The Audit and Control Committee reported favourably to the Board of Directors prior to the preparation of the annual accounts.

Accordingly, it is noted that the audit reports of the individual and consolidated annual accounts of Lar España corresponding to the financial year ended 31 December 2014 had no reservations or qualifications. Likewise, no reservations or qualifications are expected regarding the audit reports regarding the individual and consolidated accounts of Lar España corresponding to the financial year ended 31 December 2015.

- **External audit**

The Audit and Control Committee supervised the relationships with the external auditors and its fees for the financial year 2015, as well as the compliance with the current auditing services contract, ensuring that the opinion on the annual accounts and principal content of the audit report were drafted clearly and precisely.

Also, the Audit Committee verified that, already in 2016, 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 article 529 quaterdecies of the Spanish Companies Act require that the Audit 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 through the letter date 18 February 2016 attached to this report as **Annex I**, the Audit and Control Committee concluded that there are no objective reasons for questioning the independence of the statutory auditor for 2015.

In particular, this Committee reasonably concludes that:

- (i) While performing its duties during the fiscal year 2015, the auditor has complied with the applicable rules regarding independence established in the auditing regulations.
- (ii) No circumstances have been identified in order to question the compliance with the rules governing the auditing activities performed by the external auditor with regards to its independence and the Company.
- (iii) The fees paid by the Company to the auditor do not represent a significant percentage of the revenue of the auditor for the purposes of complying with the rules established in the Audit Act.

- (iv) The fees paid to the auditor have been reasonably justified, estimating that they will not exceed reasonable market prices applicable to these types of services.
- (v) Currently, the obligation regarding the rotation of the signing auditor partner is not applicable.
- (vi) There are no circumstances or aspects that could reasonably be considered as a breach of the auditing rules regarding independence of the auditor or with the delivery of additional services different from the audit services.

- **Internal Audit**

The Audit and Control Committee has performed during 2015 the functions related to internal auditing of the Company 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) propose the selection, appointment, re-election and termination of the person responsible for the internal auditing services; (iii) propose the budget of the department; (iv) approve the orientation and the working plans, ensuring that its activity is mainly focused on the relevant risks of the Company; (v) receive periodical information regarding its activities; and (vi) verify that senior management takes into consideration the conclusions and recommendations of its reports.

In this regard, the Committee will appoint the person responsible for the internal auditing of the Company and will approve or forward for the approval of the Board of Directors, where appropriate, the Statute of the Auditing Function, the Internal Auditing Functioning Regulation and the Internal Auditing Strategic Plan.

Likewise, the internal audit of the Company has periodically informed the Audit and Control Committee about its activities. In this regard, the Committee approved the Strategic Plan for internal auditing for the financial years 2015-2017. During the financial year covered by this report, the activities scheduled for 2015 took place under the supervision of the Committee.

- **Compliance with corporate governance regulations**

The Audit and Control Committee has sought to ensure the compliance with the Internal Code of Conduct in the Securities Markets, the Board of Directors' Regulation and, in general, all the corporate governance rules of the Company during the financial year 2015, without noticing any relevant breach.

This Committee reviewed and accepted the Annual Corporate Governance Report for the financial year 2014 that, in accordance with article 538 of the Spanish Companies Act, must be included in a separate section of the Management Report that goes together with the Annual Accounts. Regarding the Corporate Governance report for the financial year 2015, the Committee has sought to ensure the compliance with the rules established in (i) Order ECC/461/2013, of 20 March, regulating the content and structure of the annual corporate governance report, the annual report on remunerations and other information instruments used by listed companies, savings banks and other entities that issue securities admitted on a regulated stock exchange; and (ii) Circular 5/2013, of 12 June, through which the CNMV established the corporate governance report models for listed companies, savings banks and other entities that issue securities admitted on a regulated stock exchange—in concordance with the amendments incorporated by Circular 7/2015, 22 December, of the CNMV—.

Additionally, 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. Specifically, a Code of Conduct and a Complaints Channel have been approved during this financial year.

- **Risk control and management policy and Internal Control Systems over Financial Information ("ICSFI")**

In order to comply with article 5.5 of the Board of Directors Regulations, the Board of Directors approved a risk control and management policy and a manual for the internal control systems over financial information (ICSFI).

In accordance with article 14.3 of the Board of Directors Regulations, the Committee has supervised the implementation and compliance of the risk control and management policy, which has an impact on the achievement of the corporate objectives for the financial year 2015. Accordingly, the Committee has reviewed, periodically, the internal risk control and management systems, including fiscal risks, with the objective of identifying and managing the main risk of the Company, as well as raising awareness about them.

In this regard, the Audit and Control Committee has analysed and informed the Board of Directors about the follow-up, analysis and compliance of the control and management policy regarding risks which have an impact on the corporate objectives.

Regarding the ICSFI, the Audit and Control Committee has supervised the functioning of the internal control systems regarding the elaboration and presentation of regulated financial information of the Company and its Group, in order to guarantee their integrity, monitor the compliance with the legal requirements and the correct application of the generally accepted accounting principles, with the direct support and collaboration of the internal and external auditors.

- **Review of plans, policies and strategies**

The Audit and Control Committee has reviewed the business plan, as well as the management objectives and the annual budget of the Company.

- **Control of trading in treasury shares**

The Audit and Control Committee has supervised and approved 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 during the current financial year.

- **Valuation of the Company's assets**

In accordance with the provisions of the Company's Articles of Association and the Board of Directors' Regulations, the Committee has agreed to renew the appointment of the Company's valuers for the previous financial year, as well as supervise the services provided by the valuers in charge of valuating the Company's assets and approve the valuation provided by the valuers.

- **Analysis and report regarding a related transaction**

The Company has submitted for the approval of the extraordinary Shareholders' Meeting on 18 December 2015 the acquisition by the Company of 41.22% of the share capital of Puerta Marítima Ondara, S.L., owned by Grupo Lar Inversiones Inmobiliarias, S.A., through one of its subsidiaries. In accordance with the powers attributed by the law and by the Articles of Association to the Committee, and once analysed the terms of the transaction and the valuation reports prepared by recognized experts, the Committee agreed to favourably inform the Board of Directors regarding the aforementioned transaction.

The deliberation and voting in the Audit and Control Committee were carried out with the abstention of the Director D. Miguel Pereda Espeso, because of his conflict of interest arising from his condition of Board member of the selling party in the aforementioned transaction.

- **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, as well as other aspects related to the discretionary management of the treasury shares.

- **Control of trading in treasury shares**

Finally, the Audit and Control Committee reviewed and unanimously approved the accounting services and treasury proposals, employing the services of KPMG, as well as its fees. Likewise, the Committee approved the interim dividend payment of the Company's subsidiaries during the year 2015.

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.

Accordingly, during 2015 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.

In this regard, during the year 2015, proposals regarding the modification of the internal rules of the Company have been made. Specifically, the amendment of the Company's Articles of Association, the General Meeting Regulations and the Board of Directors Regulations have been proposed with the objective of incorporating the latest regulatory changes introduced by the entry into force of Act 31/2014, of 3 December, approving the amendment of the Spanish Companies Act for the improvement of corporate governance, as well as to review and reinforce the corporate governance system of the Company, taking into consideration the recommendations of the Code of Good Governance for Listed Companies, approved by the CNMV on 18 February 2015.



This document is a translation of an original text in Spanish. In case of any discrepancy between both texts, the Spanish version will prevail.

Likewise, with the objective of complying with the requirements established in Act 1/2015, of 20 March, modifying the Spanish Criminal Code, and with the objective of designing and implementing a crime prevention model in concordance with the provisions of article 31 bis of the Spanish Criminal Code, the Committee has been involved in the formulation and revision of the basic guidelines informing the organization, management, surveillance measures and control for crime prevention and detection of Lar España and other companies of the Group. Accordingly, the Board of Directors approved in December the "Crime prevention policy of Lar España Real Estate SOCIMI, S.A.".

The Committee in 2016 proposes to review 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 22/2015, of 20 July, of Accounts Audit.

This report, corresponding to the activities of the Audit and Control Committee during the period from 1 January to 31 December 2015, as provided in article 14.7 of the Board of Directors Regulations, will be available to shareholders and investors by way of the Company's website (www.larespana.com) from the call of the General Meeting of Shareholders.

* * *

18 de febrero de 2016

Lar España Real Estate SOCIMI, S.A.
Rosario Pino, 14 / 16 – 8ª planta
28020 Madrid

Al Comité de Auditoría de Lar España Real Estate SOCIMI, S.A.

Muy señores nuestros:

En relación con la auditoría de las cuentas anuales de Lar España Real Estate SOCIMI, S.A., así como de cuentas anuales consolidadas del Grupo del cual es Sociedad Dominante, para el ejercicio finalizado el 31 de diciembre de 2015, les confirmamos que, según nuestro mejor leal saber y entender:

- El equipo a cargo del encargo de auditoría y Deloitte, S.L., con las extensiones que les son aplicables, han cumplido con los requerimientos de independencia aplicables de acuerdo con lo establecido en el Texto Refundido de la Ley de Auditoría de Cuentas, emitido por Real Decreto Legislativo 1/2011, de 1 de julio, y su normativa de desarrollo.
- Los honorarios cargados a Lar España Real Estate SOCIMI, S.A. y otras sociedades dependientes, desglosados por concepto, tanto por servicios de auditoría como por servicios distintos de la auditoría, durante el ejercicio finalizado el 31 de diciembre de 2015 por Deloitte y su red, para facilitarles la evaluación de los mismos en el marco de nuestra independencia son los siguientes (en miles de euros):

Conceptos	Lar España Real Estate SOCIMI, S.A.	Lar España Real Estate SOCIMI, S.A. y Sociedades Dependientes
Servicios de Auditoría	136	165
Otros servicios de Verificación:		
• <i>Emisión de Bonos:</i>		
○ <i>Revisión limitada al 30 de septiembre del 2014</i>	5	5
○ <i>Emisión de comfort letter</i>	65	65
• <i>Ampliación de Capital:</i>		
○ <i>Revisión limitada al 30 de marzo del 2015</i>	25	25
○ <i>Emisión de comfort letter</i>	140	140
Total servicios de Auditoría y Relacionados	371	400
Servicios de Asesoramiento Fiscal	-	-
Otros Servicios	28	28
Total Servicios Profesionales	399	428

En la rúbrica “Otros servicios de verificación” se incluyen los servicios relacionados con nuestros servicios de revisión de los folletos de emisión en el contexto de las operaciones de colocación de bonos y de ampliación de capital realizadas por Lar España Real Estate SOCIMI, S.A. durante el ejercicio 2015, en nuestra calidad de auditores de la Sociedad Dominante. Así como, los servicios relacionados con las revisiones limitadas de septiembre de 2014 y marzo de 2015 que hemos realizado sobre los estados financieros consolidados de Lar España Real Estate SOCIMI, S.A., y Sociedades Dependientes a dichas fechas, en el contexto de sendas operaciones.

Por su parte, en la rúbrica "Otros Servicios" se incluyen: (i) servicios de mantenimiento y soporte de las aplicaciones informáticas; (ii) Informe de auditor referido a la información relativa al Sistema de Control Interno sobre la Información Financiera (SCIIF) y; (iii) Revisión de una Due Diligence Técnica realizada por un tercero con objeto de emitir un análisis crítico independiente que sirva como una segunda opinión sobre la viabilidad de una operación de adquisición perfeccionada durante el ejercicio 2015 por parte de Lar España Real Estate SOCIMI, S.A.

- En este sentido, les informamos de que tenemos diseñados e implantados procedimientos internos dirigidos a identificar y evaluar amenazas que puedan surgir de circunstancias relacionadas con entidades auditadas, incluidas las que puedan suponer causas de incompatibilidad y, en su caso, a la aplicación de las medidas de salvaguarda necesarias, que se pueden consultar en el Informe de Transparencia de Deloitte disponible en www.deloitte.es, y en relación con la auditoría indicada, y para el periodo cubierto por los estados financieros y hasta la emisión de esta carta no se han identificado circunstancias que pudieran suponer causa de incompatibilidad. Aquellas que conllevaban amenazas significativas fueron eliminadas o reducidas hasta un grado aceptablemente bajo mediante la aplicación de las necesarias medidas de salvaguarda.

Esta carta es para información y uso exclusivo del Lar España Real Estate SOCIMI, S.A. para el fin mencionado anteriormente y, por tanto, no puede ser usada por otras personas o para otros fines distintos del mencionado.

Atentamente,
DELOITTE, S.L.



Antonio Sánchez-Covisa Martín-González
Socio