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## **REPORT OF THE BOARD OF DIRECTORS OF LAR ESPAÑA REAL ESTATE SOCIMI, S.A. REGARDING PROPOSED AMENDMENT OF THE ARTICLES OF ASSOCIATION REFERRED TO IN POINT TENTH OF THE AGENDA FOR THE ORDINARY GENERAL MEETING CALLED FOR 20 AND 21 APRIL 2016, ON FIRST AND SECOND CALL, RESPECTIVELY**

### **1. INTRODUCTION**

The Board of Directors of Lar España Real Estate SOCIMI, S.A. (the "**Company**" or "**Lar España**") issues this report to explain the proposed amendment of the Articles of Association of Lar España (the "**Articles of Association**") submitted to approval of the General Meeting under point tenth of the agenda. For all appropriate purposes, this report also includes the full text of the proposed amendments.

To facilitate shareholder understanding of the changes underlying these proposals, we offer an explanation of the purpose and justification of those changes and, thereafter, set forth the proposed resolutions submitted for approval of the General Meeting of shareholders.

Finally, in order to facilitate comparison of the new and current texts of the articles proposed to be amended, attached as an **Annex** to this report is text highlighting the changes proposed to be incorporated in the current text.

### **2. GENERAL EXPLANATION OF THE PROPOSAL**

In line with the content of the report made for purposes of the amendment of the Regulations of the General Meeting of shareholders submitted to the ordinary General Meeting, the amendments proposed to the Articles of Association generally fall within the process of ongoing revision and updating undertaken by the Company related to its internal corporate governance rules. Generally, the objectives of these amendments are as follows:

- a) To adapt the Articles of Association to the most recent legislative changes regarding listed corporations and other capital companies incorporated in the Royal Legislative Decree 1/2010, of 2 July, approving the consolidated text of the Spanish Companies Act ("**LSC**"), by the Act 22/2015, of 20 July, of Accounts Auditing ("**Audit Act**"), by Act 9/2015, of 25 May 2015, of urgent insolvency measures ("**Act 9/2015**"), and by Act 15/2015, of 2 July, of Voluntary Jurisdiction ("**Voluntary Jurisdiction Act**").
- b) To adapt the Articles of Association to the recommendations in the Code of Good Governance of Listed Companies approved on 18 February 2015 by the National Securities Market Commission (the "**Good Governance Code**").
- c) To revise the Articles of Association to simplify the content thereof, correct errors and introduce improvements of a technical nature.

### **3. STRUCTURE OF THE AMENDMENT AND GENERAL EXPLANATION**

To facilitate appropriate exercise of voting rights by the shareholders, in line with the recommendation of the Good Governance Code and article 197 bis of the Spanish Companies Act, the proposed amendments have been grouped, for purposes of voting, into the following different blocks, to wit:

- a) Amendment related to name, purpose, term and registered address



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- b) Amendment related to the General Meeting of shareholders
- c) Amendments related to the management body

#### **4. SPECIFIC EXPLANATION OF THE AMENDMENT**

The explanation of the proposed amendment of the Articles of Association included in this report is made on the basis of the aforesaid grouping of amendments, following that order, in order to facilitate their explanation:

##### **4.1 Amendment related to name, purpose, term and registered address.**

The following amendments are proposed to adapt the text of the Articles of Association to the amendments incorporated by Act 9/2015:

- a) **Article 3 (Registered address and corporate website)**, for purposes of addressing the amendments included in the LSC by Act 9/2015, which grants the Board of Directors the power to move the registered address of the Company within the national territory.

##### **4.2 Amendment related to the General Meeting of shareholders.**

The following amendments are proposed to adapt the text of the Articles of Association to the amendments incorporated by the Voluntary Jurisdiction Act:

- a) **Article 22 (Call of the General Meetings of shareholders)**, expressly reflect the new regulation incorporated in the LSC by the Voluntary Jurisdiction Act, allowing the Shareholders' Meeting to be called by the judicial clerk and by the Registrar of the Commercial Registry of the Company's corporate domicile, in concordance with the applicable law from time to time.

##### **4.3 Amendments related to the management body.**

The following amendments are proposed for purposes of (i) adapting the text to the amendments incorporated by the Audit Act in the Articles of Association and (ii) incorporating technical improvements:

- a) **Article 35 (Term of office)**, for purposes of incorporating the regulations provided in article 529 decies of the LSC, regarding the appointment by co-opting of members of the board of traded companies when the vacancy takes place after the call of the Shareholders' Meeting by before the Shareholders' Meeting takes place.
- b) **Article 42 (Audit and Control Committee. Composition, authority and functioning)** for purposes of (i) adapting its authority as set forth in section 2 to the reforms incorporated in the LSC by the Audit Act, as well as (ii) including certain recommendations established in the Good Governance Code regarding the powers of the Audit and Control Committee.

#### **5. RESOLUTION PROPOSED TO THE GENERAL MEETING OF SHAREHOLDERS**

Set forth below is the literal full text of the proposed resolution submitted for approval of the ordinary General Meeting regarding point tenth of the agenda:

##### **ITEM TEN ON THE AGENDA**

##### **Amendments of the Articles of Association**

##### **RESOLUTION**



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*After the required report from the Board of Directors, to resolve amendment of the following articles of the Articles of Association: article 3 (Registered address and corporate website), article 22 (Call of General Meetings of shareholders), article 35 (Term of Office) and article 42 (Audit and Control Committee. Composition, authority and functioning) to adapt their content to latest amendments of the Royal Legislative Decree 1/2010, of 2 July, approving the consolidated text of the Spanish Companies Act (the "**Spanish Companies Act**") and to incorporate other improvements regarding corporate governance and of a technical nature.*

*In particular, the foregoing amendments are intended to adapt the content of the Articles of Association to Act 22/2015, of 20 July, of Accounts Auditing, to Act 15/2015, of 2 July, of Voluntary Jurisdiction, to Act 9/2015, of 25 May, of urgent insolvency measures, and to incorporate other improvements regarding corporate governance (set forth in the Code of Good Governance for Listed Companies of 18 February 2015) and of a technical nature, which must be reflected in the Articles of Association.*

*The aforesaid articles of the Articles of Association will be submitted to vote in the following groups of articles:*

### **10.1 Amendment related to name, purpose, term and registered address.**

#### **Article 3.- Registered address and corporate website**

- 1. The registered address is established at Calle Rosario Pino 14-16, Madrid, where the actual administration and management offices of the Company will be located.*
- 2. The Board of Directors can change the company's registered address within national territory, and it may also establish, close or move commercial or administrative offices, storehouses, agencies, representations, delegations or branches in any location in Spain or abroad.*
- 3. The Company shall have a corporate website (www.larespana.com) operating under the terms of the Spanish Companies Law, which shall be registered at the Trade Registry. This corporate website shall publish any documents that must by law be disclosed, these Articles of Association and any other internal rules, in addition to any information deemed appropriate to be made available to shareholders and investors through this medium.*
- 4. The Board of Directors shall have the power to modify, move or remove the Company's corporate website.*

### **10.2 Amendment of articles related to the General Meeting of shareholders.**

#### **Article 22.- Call of General Meetings of shareholders**

- 1. General Meetings of shareholders will be called by the Board of Directors by notice published in the manner and with the minimum content provided by law, at least one month prior to the date scheduled for the meeting to be held, without prejudice to the provisions of section 2 below in this article and the cases in which the law establishes a longer period of advance notice.*
- 2. When the Company offers its shareholders the effective possibility of voting by electronic means accessible to all of them, the extraordinary General Meetings of the Company may be called a minimum of fifteen days in advance, after a resolution adopted at an ordinary General Meeting on the terms for that purpose applicable in accordance with the applicable regulations of the Company.*



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3. *The website on which the notice of call of General Meetings of shareholders will be published is [www.larespana.com](http://www.larespana.com).*
4. *Shareholders representing at least 3% of the share capital may, within the terms and on the conditions established by law, request that a supplement to the call of an ordinary General Meeting of shareholders be published, including one or more points on the agenda, provided that the new points are accompanied by an explanation or an explained proposed resolution, and they may also present explained proposed resolutions regarding issues already on the agenda or that are to be included on the agenda of an already called General Meeting of shareholders. The Company will publish the supplement to the call and the aforesaid explained proposed resolutions on the terms contemplated by law.*
5. *If a duly called General Meeting of shareholders is not held on first call, and the date on second call is not stated in the notice, it must be notified, with the same agenda and the same publication requirements as the first, within the fifteen days following the date of the General Meeting that was not held, at least ten days in advance of the meeting date.*
6. *The management body must also call the General Meeting of shareholders whenever shareholders representing at least 3% of the share capital so request, in the request stating the matters to be discussed at the General Meeting, which must necessarily be included on the agenda by the management body. In this case, the General Meeting must be called to be held within the term contemplated in applicable regulations.*
7. *In the event of a call of a General Meeting of shareholders by the judicial clerk or by the Registrar of the Commercial Registry of the Company's corporate domicile, the corresponding applicable regulations will apply.*

### **10.3 Amendments related to the management body**

#### **Article 35.- Term of office**

1. *Board members shall hold office for a term of three years, at which time they may be re-elected one or more times for equal terms of office.*
2. *The appointment of directors shall expire when, the deadline having expired, the following General Shareholders' Meeting has been held, or the statutory term for the General Shareholders' Meeting at which the approval of the previous year's financial statements must be decided upon has elapsed.*
3. *Board members appointed by co-opting shall hold office until the next General Shareholders' Meeting. However, if the vacancy takes place after the call of the General Shareholders' Meeting and before it is held, the Board of Directors will be able to appoint a board member, which shall hold office until the next General Shareholders' Meeting.*

#### **Article 42.- Audit and Control Committee. Composition, authority and functioning**

1. *The Board of Directors will establish a permanent Audit and Control Committee which will be composed of at least three and at most five directors, appointed by the Board of Directors from among the outside directors. The members of the Audit and Control Committee, particularly its Chairman, will be appointed on the basis of their knowledge and experience in accounting, auditing or risk management matters, and the majority of those members must be independent directors. The Board of Directors also will appoint one of the members of that Committee to act as the Chairman thereof. The position of Secretary of the Audit and Control Committee will be filled by the Secretary of the Board of Directors.*

*The members of the Audit and Control Committee will hold office for a maximum term of three years, and may be re-elected one or more times for periods of the same maximum length.*

*The position of Chairman also will be exercised for a maximum 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 continuing or being elected as a member of the Committee.*

- 2. Notwithstanding any other task that may be assigned thereto from time to time by the Board of Directors, the Audit and Control Committee will exercise the following basic functions:*
  - a. Supervising the calculation of the fees received by the Management Company for performance of its duties.*
  - b. Reporting to the General Meeting of shareholders regarding questions posed by shareholders that fall within the scope of its authority and, in particular, with regards to the outcome of the auditing, explaining how it has contributed to the integrity of the financial information and the duties performed by the Committee during this process.*
  - c. Supervising the effectiveness of internal control of the Company and its Group, as well as its risk management systems.*
  - d. Together with the statutory auditors, analysing significant weaknesses of the internal control system detected during conduct of the audit, without undermining its independence.*
  - e. Supervising the process of preparation and presentation of the mandatory financial information, and present recommendations and proposals to the Board of Directors, directed at safeguarding its independence.*
  - f. Making proposals to the Board of Directors for submission to the General Meeting of shareholders concerning the appointment of statutory auditors, being responsible for the appointment process, in accordance with applicable legislation.*
  - g. Supervising the activity of the Company's internal audit function.*
  - h. Establishing appropriate relationships with the statutory auditors in order to receive information, for examination by the Audit and Control Committee, on matters that may pose a risk to their independence and any other matters relating to the audit process and, where appropriate, the authorization of any of the services different from the prohibited services, in accordance with the applicable law, as well as any other communications provided for in audit legislation and other audit regulations. In any event, on an annual basis the Committee must receive from the statutory auditors written confirmation of their independence vis-à-vis the Company or entities directly or indirectly related to it, in addition to individualized and detailed information on additional services of any kind rendered to and the fees received from these entities by the aforementioned external auditor, or persons or entities related to him, as provided in the audit legislation.*
  - i. Issuing annually, prior to the audit report, a report containing an opinion on whether or not the independence of the auditors or auditing companies is compromised. This report must, in all cases, express an opinion about the provision of the additional services referred to in the preceding paragraph.*
  - j. Appointing and supervising the services of external appraisers in relation to the appraisal of the Company's assets.*



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- k. Reporting, prior to the Board of Directors meetings, on all matters contemplated in the law, the Articles of Association and the Board of Directors Regulations, in particular regarding: (i) the financial information the Company is to publish periodically; (ii) the creation or acquisition of interests in special-purpose vehicles or entities domiciled in countries or territories that are considered to be tax havens; (iii) transactions with related parties; and (iv) the economic conditions and their impact on the accounts and, where appropriate, the exchange rate applicable in corporate restructuring transactions performed by the Company.*
  - l. Any others given to it by the Board of Directors in its corresponding Regulations.*
- 3. The Audit and Control Committee will meet, ordinarily 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 that the Board of Directors must approve and include within its annual public documentation. It also will meet at the request of any of its members and when called by its Chairman. The Chairman is to call the meeting whenever the Board of Directors or its Chairman requests the issuance of a report or adoption of proposals and, in any event, whenever it is appropriate to the proper exercise of its authority. There will be a quorum when one half plus one of the directors that are members of the Committee are present in person or by proxy, adopting its resolutions by majority vote. In the event of a tie, the Chairman will have a casting vote.*
- 4. The Board of Directors may develop the foregoing set of rules in its corresponding Regulations.*



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## **ANNEX**

### **Article 3.- Registered address and corporate website**

1. The registered address is established at Calle Rosario Pino 14-16, Madrid, where the actual administration and management offices of the Company will be located.
2. ~~Notwithstanding the powers set forth in the Articles of Association in favour of the General Shareholders' Meeting, the~~ The Board of Directors can change the company's registered address within ~~the same municipality~~ national territory, and it may also establish, close or move commercial or administrative offices, storehouses, agencies, representations, delegations or branches in any location in Spain or abroad.
3. The Company shall have a corporate website ([www.larespana.com](http://www.larespana.com)) operating under the terms of the Spanish Companies Law, which shall be registered at the Trade Registry. This corporate website shall publish any documents that must by law be disclosed, these Articles of Association and any other internal rules, in addition to any information deemed appropriate to be made available to shareholders and investors through this medium.
4. The Board of Directors shall have the power to modify, move or remove the Company's corporate website.

### **Article 22.- Call of General Meetings of shareholders**

1. General Meetings of shareholders will be called by the Board of Directors by notice published in the manner and with the minimum content provided by law, at least one month prior to the date scheduled for the meeting to be held, without prejudice to the provisions of section 2 below in this article and the cases in which the law establishes a longer period of advance notice.
2. When the Company offers its shareholders the effective possibility of voting by electronic means accessible to all of them, the extraordinary General Meetings of the Company may be called a minimum of fifteen days in advance, after a resolution adopted at an ordinary General Meeting on the terms for that purpose applicable in accordance with the applicable regulations of the Company.
3. The website on which the notice of call of General Meetings of shareholders will be published is [www.larespana.com](http://www.larespana.com).
4. Shareholders representing at least 3% of the share capital may, within the terms and on the conditions established by law, request that a supplement to the call of an ordinary General Meeting of shareholders be published, including one or more points on the agenda, provided that the new points are accompanied by an explanation or an explained proposed resolution, and they may also present explained proposed



resolutions regarding issues already on the agenda or that are to be included on the agenda of an already called General Meeting of shareholders. The Company will publish the supplement to the call and the aforesaid explained proposed resolutions on the terms contemplated by law.

5. If a duly called General Meeting of shareholders is not held on first call, and the date on second call is not stated in the notice, it must be notified, with the same agenda and the same publication requirements as the first, within the fifteen days following the date of the General Meeting that was not held, at least ten days in advance of the meeting date.
6. The management body must also call the General Meeting of shareholders whenever shareholders representing at least 3% of the share capital so request, in the request stating the matters to be discussed at the General Meeting, which must necessarily be included on the agenda by the management body. In this case, the General Meeting must be called to be held within the term contemplated in applicable regulations.
7. In the event of a ~~judicial~~ call of a General Meeting of shareholders, ~~the~~ by the judicial clerk or by the Registrar of the Commercial Registry of the Company's corporate domicile, the corresponding applicable regulations will apply.

#### **Article 35.- Term of office**

1. Board members shall hold office for a term of three years, at which time they may be re-elected one or more times for equal terms of office.
2. The appointment of directors shall expire when, the deadline having expired, the following General Shareholders' Meeting has been held, or the statutory term for the General Shareholders' Meeting at which the approval of the previous year's financial statements must be decided upon has elapsed.
3. Board members appointed by co-opting shall hold office until the next General Shareholders' Meeting ~~held after their appointment.~~ However, if the vacancy takes place after the call of the General Shareholders' Meeting and before it is held, the Board of Directors will be able to appoint a board member, which shall hold office until the next General Shareholders' Meeting.

#### **Article 42.- Audit and Control Committee. Composition, authority and functioning**

1. The Board of Directors will establish a permanent Audit and Control Committee which will be composed of at least three and at most five directors, appointed by the Board of Directors from among the outside directors. The members of the Audit and Control Committee, particularly its Chairman, will be appointed on the basis of their

knowledge and experience in accounting, auditing or risk management matters, and the majority of those members must be independent directors. The Board of Directors also will appoint one of the members of that Committee to act as the Chairman thereof. The position of Secretary of the Audit and Control Committee will be filled by the Secretary of the Board of Directors.

The members of the Audit and Control Committee will hold office for a maximum term of three years, and may be re-elected one or more times for periods of the same maximum length.

The position of Chairman also will be exercised for a maximum 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 continuing or being elected as a member of the Committee.

2. Notwithstanding any other task that may be assigned thereto from time to time by the Board of Directors, the Audit and Control Committee will exercise the following basic functions:
  - a. Supervising the calculation of the fees received by the Management Company for performance of its duties.
  - b. Reporting to the General Meeting of shareholders regarding questions posed by shareholders that fall within the scope of its authority and, in particular, with regards to the outcome of the auditing, explaining how it has contributed to the integrity of the financial information and the duties performed by the Committee during this process.
  - c. Supervising the effectiveness of internal control of the Company and its Group, as well as its risk management systems.
  - d. Together with the statutory auditors, analysing significant weaknesses of the internal control system detected during conduct of the audit, without undermining its independence.
  - e. Supervising the process of preparation and presentation of the ~~regulated~~ mandatory financial information, and present recommendations and proposals to the Board of Directors, directed at safeguarding its independence.
  - f. Making proposals to the Board of Directors for submission to the General Meeting of shareholders concerning the appointment of statutory auditors, being responsible for the appointment process, in accordance with applicable legislation.

- g. Supervising the activity of the Company's internal audit function.
  - h. Establishing appropriate relationships with the statutory auditors in order to receive information, for examination by the Audit and Control Committee, on matters that may ~~jeopardise~~ pose a risk to their independence and any other matters relating to the audit process and, where appropriate, the authorization of any of the services different from the prohibited services, in accordance with the applicable law, as well as any other communications provided for in audit legislation and other audit regulations. In any event, on an annual basis the Committee must receive from the statutory auditors written confirmation of their independence vis-à-vis the Company or entities directly or indirectly related to it, in addition to individualized and detailed information on additional services of any kind rendered to and the fees received from these entities by the aforementioned ~~statutory auditors~~ external auditor, or persons or entities related to ~~them~~ him, as provided in the audit legislation.
  - i. Issuing annually, prior to the audit report, a report containing an opinion on whether or not the independence of the ~~statutory~~ auditors or auditing companies is compromised. This report must, in all cases, express an opinion about the provision of the additional services referred to in the preceding paragraph.
  - j. Appointing and supervising the services of external appraisers in relation to the appraisal of the Company's assets.
  - k. Reporting, prior to the Board of Directors meetings, on all matters contemplated in the law, the Articles of Association and the Board of Directors Regulations, in particular regarding: (i) the financial information the Company is to publish periodically; (ii) the creation or acquisition of interests in special-purpose vehicles or entities domiciled in countries or territories that are considered to be tax havens; ~~and~~ (iii) transactions with related parties; and (iv) the economic conditions and their impact on the accounts and, where appropriate, the exchange rate applicable in corporate restructuring transactions performed by the Company.
  - l. Any others given to it by the Board of Directors in its corresponding Regulations.
3. The Audit and Control Committee will meet, ordinarily 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 that the Board of Directors must approve and include within its annual public documentation. It also will meet at the request of any of its members and when called by its Chairman. The Chairman is to call the meeting

whenever the Board of Directors or its Chairman requests the issuance of a report or adoption of proposals and, in any event, whenever it is appropriate to the proper exercise of its authority. There will be a quorum when one half plus one of the directors that are members of the Committee are present in person or by proxy, adopting its resolutions by majority vote. In the event of a tie, the Chairman will have a casting vote.

4. The Board of Directors may develop the foregoing set of rules in its corresponding Regulations.