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## **REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF LAR ESPAÑA REAL ESTATE SOCIMI, S.A. IN CONNECTION WITH THE PROPOSED DELEGATION TO THE BOARD OF DIRECTORS OF THE POWER TO ISSUE CONVERTIBLE OR EXCHANGEABLE DEBENTURES OR BONDS, AS WELL AS WARRANTS INCLUDED IN ITEM EIGHT ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON APRIL 20 AND 21, 2016 UPON FIRST CALL AND SECOND CALL, RESPECTIVELY**

### **1. INTRODUCTION**

This report has been drawn up by the Board of Directors of Lar España Real Estate SOCIMI, S.A. (hereinafter, the "**Company**") pursuant to the provisions of Section 511 of the consolidated text of the Companies Law (*Ley de Sociedades de Capital*), approved by Royal Legislative Decree 1/2010 of 2 July (the "**Companies Law**") and Section 319 of the Regulations of the Commercial Registry, applying the provisions of Section 297.1.(b) of the Companies Law by analogy to support the proposal -which is submitted for approval of the shareholders at the General Shareholders' Meeting of the Company called to be held on April 20 and 21, 2016, upon first and second call, respectively, under item eight on the Agenda, relating to the delegation to the Board of Directors, with the express power to delegate in others, to issue debentures or bonds that are convertible into and/or exchangeable for shares of the Company or of other companies within or outside of its group, and warrants on newly-issued shares or outstanding shares of the Company or of other companies within or outside of its group.

### **2. GENERAL REASONS FOR THE PROPOSAL**

The Board of Directors regards it as highly desirable to hold the delegated powers allowed by current legislation in order to be at all times in a position to raise, on the primary securities markets, the funds that are necessary for the appropriate management of the corporate interests.

The purpose of the delegation is to provide the Company's decision-making body the maneuverability and responsiveness required by the competitive environment in which the Company operates, and in which the success of a strategic initiative or a financial transaction often depends on the possibility of responding quickly, without incurring the delays and costs that inevitably ensue from the call to, and holding of, a general shareholders' meeting. The Company's Board of Directors will thus be empowered, if necessary, to raise a significant volume of funds within a short period of time. This flexibility and agility is especially desirable in the current context, where changing market circumstances make it advisable for the Company's Board of Directors to have the necessary means to have recourse, at any time, to the different sources of financing available in order to obtain the most advantageous financial terms.

The issuance of debentures that are convertible into and/or exchangeable for shares is one of the instruments for the financing of companies by raising third-party funds. These securities have, on the one hand, the advantage of offering investors the possibility of converting their receivables from the Company into shares of the Company, receiving a potential return in excess of that offered by other debt instruments and, on the other hand, they allow the Company to increase equity. As a result, the coupon of convertible and/or exchangeable debentures is generally lower than the cost of simple fixed-income securities and bank debt given that the interest rate of the debentures reflects the underlying value of the option investors hold to convert them into shares of the Company.



For such purpose, pursuant to the provisions of Section 319 of the Regulations of the Commercial Registry and the general rules regarding issuance of debentures, and in accordance with Articles 12, 16, 17 and 18 of the Company's By-Laws, the resolution proposed under item eight of the agenda is submitted to the shareholders at the General Shareholders' Meeting for consideration. As far as warrants are concerned, it is specifically provided that the legal and contractual provisions applicable to convertible and/or exchangeable debentures will apply to warrants to the extent that they are compatible with the specific nature thereof.

The proposal specifically grants the Board of Directors the power to issue, on one or more occasions, convertible and/or exchangeable bonds and warrants entitling the holders thereof to subscribe newly-issued shares of the Company or to acquire shares of the Company that may then be outstanding and to resolve, when appropriate, to carry out the capital increase required to accommodate the conversion or the exercise of the option to subscribe for the shares, provided such increase, individually or cumulatively with any increases agreed to be made pursuant to other authorisations proposed by the Board of Directors to the shareholders at a General Shareholders' Meeting pursuant to the provisions of Section 297.1.b) of the Companies Law, does not exceed 50% of the share capital on the date of the resolution. The amount of the capital increases made to accommodate the conversion or exchange of debentures, warrants or other securities pursuant to this delegation, if any, will be deemed to be included within the limit available at any time to increase the share capital.

The proposed resolution submitted to the shareholders for approval at the General Shareholders' Meeting also establishes the standards to determine the terms and conditions for the conversion and/or exchange, although it entrusts to the Board of Directors, in the event that it resolves to use this authorisation granted by the shareholders at the General Shareholders' Meeting, the specific determination of some of the terms and conditions in respect of each specific issuance within the limits and in accordance with the standards established by the shareholders at the General Shareholders' Meeting. The Board of Directors will therefore be responsible for determining the specific ratio for conversion and, for such purpose, upon approving an issuance of convertible and/or exchangeable securities delegated in reliance on the authorisation granted by the shareholders at the General Shareholders' Meeting, it shall prepare a directors' report describing the specific terms and conditions for conversion applicable to the issuance, on which the auditor's report mentioned in articles 414 and 511 of the Companies Law will be prepared.

Specifically, the proposed resolution submitted by the Board of Directors for approval of the shareholders at the General Shareholders' Meeting establishes that the securities issued thereunder will be valued at their nominal amount and the shares at the fixed (determined or to be determined) or variable ratio determined in the corresponding resolution of the Board of Directors.

Thus, for purposes of the conversion and/or exchange, fixed-income securities will be valued at the nominal amount thereof and the shares at the fixed exchange ratio established by the Board of Directors in the resolution whereby the delegated powers are exercised, whether fixed or to be determined on the date or dates specified in the resolution of the Board of Directors, based on the listing price of the Company's shares on the date/s or during the period/s used as a reference in such resolution, which may not, in any event, be lower than the average exchange ratio for the shares on the Continuous Market (*Mercado Continuo*) of the Spanish Stock Exchanges, in accordance with closing listing prices during a period to be determined by the Board of Directors and which may not be greater than three months or less than five calendar days, prior to the date of approval by the Board of Directors of the resolution providing for the issuance of the fixed income securities, or prior to the date of payment of the securities by subscribers. A premium or discount, as appropriate, may also be set on the price per share.



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It may also be resolved that the convertible and/or exchangeable fixed-income securities be issued at a variable conversion and/or exchange ratio. In such case, the price of the shares for purposes of the conversion and/or exchange will be the arithmetic mean of the closing prices of the shares of the Company on the Continuous Market (*Mercado Continuo*) during a period to be determined by the Board of Directors, which may not be greater than three months or less than five calendar days prior to the date of conversion or exchange. A premium or discount, as appropriate, may also be set on the price per share in this case.

In any of the cases described in the two preceding paragraphs, it is provided that, if a discount on the price per share is established, the discount may not exceed twenty-five percent.

The Board of Directors thus considers it is given an adequate degree of flexibility to set the value of the shares for purposes of the conversion on the basis of market conditions and other applicable considerations.

Similar standards will be applied, with any changes that may be required and to the extent applicable, for the issuance of debentures (or warrants) exchangeable for shares of other companies (in this case, any references to the Spanish stock exchanges will be deemed to be references to the markets on which the shares are listed).

In the case of warrants on newly-issued shares, the rules on convertible debentures set forth in the proposed resolution will apply to the extent that they are consistent with the nature thereof.

Furthermore, as established in article 415.2 of the Companies Law, the resolution delegating the power to issue convertible securities to the Board of Directors establishes, for the purposes of the conversion thereof, that the nominal value of the debentures may not be less than the par value of the shares. Convertible debentures may likewise not be issued for an amount lower than the nominal value thereof.

In addition, it is stated for the record that the authorisation to issue the convertible and/or exchangeable securities, as well as the warrants or similar securities that may carry the right, directly or indirectly, to subscribe for or acquire shares of the Company includes, pursuant to the provisions of article 511 of the Companies Law, granting the Board of Directors the power to exclude the pre-emptive rights of the shareholders, in whole or in part, when so required to raise funds on the markets or otherwise justified by the corporate interest.

The Board of Directors believes that the exclusion of pre-emptive rights allows for a relative reduction in the financial cost and the costs associated with the transaction (including, in particular, the fees of the financial institutions participating in the issuance), as compared to an issuance with pre-emptive rights, while causing less distortion in the trading of the shares of the Company during the issuance period. In any event, pursuant to the provisions of article 511 of the Companies Law, in the event that the Board of Directors decides to exclude the pre-emptive rights of the shareholders in connection with one or all of the issuances it may decide to carry out pursuant to the delegated powers, it shall, when adopting the respective resolution to carry out the issuance, issue a report specifying the reasons of corporate interest justifying the measure, on which there must also be prepared the respective report of an auditor other than the Company's auditor appointed by the Commercial Registry, as stated in article 414 of the Companies Law. Both reports will be made available to the shareholders and disclosed at the first General Shareholders' Meeting held following approval of the resolution establishing the issuance.

While neither the Companies Law nor the By-Laws limit in any way the ability of the shareholders at the General Shareholders' Meeting to delegate to the Board of Directors the power to exclude pre-emptive rights, within a maximum amount of 50% of the share capital of the Company at the time of the authorisation, the Board of Directors has deemed it more appropriate, in keeping with national and

international trends and recommendations on corporate governance, to limit such power, to a maximum aggregate amount of 20% of the share capital at the time of the authorisation.

In addition, it is established that the securities issued pursuant to the powers delegated hereby may be admitted to trading on the appropriate Spanish or foreign, official or unofficial, organized or other secondary market.

Furthermore, it may sometimes be desirable to issue the securities under this proposed resolution through a subsidiary and guaranteed by the Company, which is also contemplated in the By-Laws. Accordingly, it is deemed to be of interest for the shareholders at the General Shareholders' Meeting to authorise the Board of Directors to guarantee, in the name of the Company, and within the limits described above, such new issuances of convertible and/or exchangeable fixed-income securities or warrants as may be made by subsidiaries during the effective period of this resolution, in order that the Board of Directors may be granted the utmost flexibility in structuring the issuances of securities in the manner that may be most appropriate in the circumstances.

All the powers to be granted to the Board of Directors if the resolution proposed herein is adopted will be granted with the express power of delegation, so as to further contribute to achieving the purpose of expediting the proposed transactions.

Finally, it is proposed to deprive of effect the authorisation for the issuance of debentures or bonds exchangeable for and/or convertible into shares of the Company and warrants on newly-issued shares or shares of the Company that may then be outstanding granted by the Shareholders' Meeting on 28 April 2015.

The full text of the proposed resolution regarding delegation of the power to issue debentures or bonds that may be exchanged for and/or converted into shares of the Company and warrants on newly-issued shares or shares of the Company that may then be outstanding reads as follows.

### **ITEM EIGHT ON THE AGENDA**

**Delegation in the Board of Directors, with the express power of substitution, for a term of five years, the power to issue debentures or bonds that are exchangeable for and/or convertible into shares of the Company or of other companies within or outside of its group, and warrants on newly-issued or outstanding shares of the Company or of other companies within or outside of its group, up to a maximum limit of 400 million euros. Establishment of the standards for determining the basis for and terms and conditions applicable to the conversion, exchange or exercise. Delegation to the Board of Directors, with the express power of substitution, of the powers required to establish the basis for and terms and conditions applicable to the conversion, exchange or exercise, as well as, in the case of convertible debentures and bonds and warrants on newly-issued shares, of the power to increase share capital to the extent required to accommodate requests for the conversion of debentures or for the exercise of warrants, with the power in the case of issues of convertible and/or exchangeable securities to exclude the pre-emptive rights of the Company's shareholders, although this power shall be limited to an aggregate maximum nominal amount equal to 20% of the share capital of the Company as of the date of this authorisation.**



## **RESOLUTION**

To authorise the Board of Directors, pursuant to the general provisions governing the issuance of debentures and the provisions of Articles 286, 297 and 511 of the Spanish Companies Act (*Ley de Sociedades de Capital*), Article 319 of the Regulations of the Commercial Registry, and Articles 12, 16, 17 Y 18 of the By-Laws, to issue negotiable securities under the following terms:

1. Securities to be issued.- The negotiable securities contemplated in this delegation may be debentures and bonds that are exchangeable for shares of the Company or of any other company within or outside of its group and/or convertible into shares of the Company, as well as warrants (options to subscribe for new shares of the Company or to acquire existing shares of the Company or of any other company within or outside of its group).

2. Period of the delegation.- The issuance of the securities covered by this delegation may be effected on one or more occasions within a maximum period of five years following the date of adoption of this resolution.

3. Maximum amount under this delegation.- The aggregate maximum amount of the issuance or issuances of securities approved under this delegation shall be five 400 million euros or the equivalent thereof in another currency. For purposes of calculation of the aforementioned limit, in the case of warrants, the sum of the premiums and exercise prices of the warrants under the issuances resolved to be made in exercise of the powers delegated hereby shall be taken into account.

4. Scope of the delegation.- In exercise of the delegation of powers approved hereby, the Board of Directors shall be authorised to do the following, by way of example and not of limitation, with respect to each issuance: determine the amount thereof, always within the aforementioned overall quantitative limit, the place of issuance (in Spain or abroad), and the domestic or foreign currency, and in the case of a foreign currency, its equivalence in euros; the name or form of the securities, whether they be bonds or debentures, including subordinated debentures, warrants (which may in turn be paid by means of the physical delivery of the shares or, if applicable, through the payment of differences in price), or any other name or form permitted by Law; the date or dates of issuance; the number of securities and the par value thereof, which, in the case of convertible and/or exchangeable bonds or debentures, shall not be less than the par value of the shares; in the case of warrants and similar securities, the issue price and/or premium, the exercise price (which may be fixed or variable) and the procedure, period and other terms and conditions applicable to the exercise of the right to subscribe for the underlying shares or, if applicable, the exclusion of such right; the interest rate (whether fixed or variable), and the dates and procedures for payment of the coupon; whether the issuance is perpetual or subject to repayment and, in the latter case, the repayment period and the maturity date or dates; guarantees, reimbursement rate, premiums and lots; the form of representation, as securities or book entries; antidilution provisions; the rules applicable to subscription; the rank of the securities and the subordination clauses, if any; the law applicable to the issuance; the power to make application, where appropriate, for the listing of the securities to be issued on Spanish or foreign, official or unofficial, organized or other secondary markets, subject to the requirements established by applicable regulations in each case; and, in general, any other terms of the issuance as well as, if applicable, the appointment of the security-holders' syndicate representative (*comisario*) and the approval of the basic rules that are to govern the legal relationships between the Company and the syndicate of holders of the securities to be issued, in the event that such syndicate must or is decided to be created.

In addition, the Board of Directors is authorised such that, when it deems it appropriate and subject, if applicable, to any appropriate authorisations being secured and to the consent of the security-holders coming together at a meeting of the corresponding syndicates of security-holders, it may modify the terms and conditions applicable to the repayment of the fixed-income securities issued, as well as the respective



*period thereof and the rate of interest, if any, accrued by the securities included in each of the issuances effected under this authorisation.*

*5. Basis for and terms and conditions applicable to the conversion and/or exchange.- In the case of issuance of convertible and/or exchangeable debentures or bonds, and for purposes of determining the basis for and terms and conditions applicable to the conversion and/or exchange, it is resolved to establish the following standards:*

- a) The securities issued pursuant to this resolution shall be convertible into shares of the Company or of any other company, within or outside of its group and/or exchangeable into shares of the Company, in accordance with a fixed or variable conversion and/or exchange ratio determined or to be determined, with the Board of Directors being authorised to decide whether they are convertible and/or exchangeable, as well as to determine whether they are mandatorily or voluntarily convertible and/or exchangeable, and if voluntarily, at the option of the holder thereof or of the Company, at the intervals and during the period established in the resolution providing for the issuance, which may not exceed thirty years from the date of issuance.*
- b) In the event that the issuance is convertible and exchangeable, the Board may also provide that the issuer reserves the right at any time to elect between conversion into new shares or the exchange thereof for outstanding shares of the Company, with the nature of the shares to be delivered being determined at the time of conversion or exchange, and may also elect to deliver a combination of newly-issued shares and existing shares of the Company and even to pay the difference in cash. In any event, the issuer shall afford equal treatment to all holders of fixed-income securities converting and/or exchanging their securities on the same date.*
- c) For purposes of the conversion and/or exchange, the securities shall be valued at the nominal amount thereof, and the shares at the fixed exchange ratio (determined or able to be determined) established in the resolution of the Board of Directors whereby this delegation of powers is exercised, or at a variable ratio to be determined on the date or dates specified in such resolution of the Board, based on the listing price of the Company's shares on the date(s) or during the period(s) used as a reference in such resolution. In any event, the fixed exchange ratio so determined may not be less than the average exchange ratio for the shares on the Continuous Market of the Spanish Stock Exchanges on which the Company's shares are admitted to listing, in accordance with closing listing prices during a period to be set by the Board of Directors and which shall not be greater than three months or less than five calendar days prior to the date of approval by the Board of Directors of the resolution providing for the issuance of the fixed-income securities or prior to the date of payment of the securities by the subscribers, at a premium or at a discount, as the case may be, on such price per share, provided, however, that if a discount on the price per share is established, it shall not be greater than 25% of the value of the shares used as a reference value as set forth above.*
- d) It may also be resolved that the convertible and/or exchangeable fixed-income securities be issued at a variable conversion and/or exchange ratio. In such case, the price of the shares for purposes of the conversion and/or exchange shall be the arithmetic mean of the closing prices of the Company's shares on the Continuous Market during a period to be set by the Board of Directors, which shall not be greater than three months nor less than five calendar days prior to the date of conversion and/or exchange, at a premium or at a discount, as the case may be, on such price per share. The premium or discount may be different for each date of conversion and/or exchange of each issuance (or for each tranche of an issuance, if any), provided,*

*however, that if a discount is established on the price per share, it shall not be greater than 25% of the value of the shares used as a reference value as set forth above.*

- e) Whenever a conversion and/or exchange is admissible, any fractional shares to be delivered to the holder of the debentures shall be rounded downwards by default to the immediately lower integer, and each holder shall receive in cash, if so provided in the terms of the issuance, any difference that may arise in such case.*
- f) In no event may the value of the share for purposes of the ratio for conversion of debentures into shares be less than the par value thereof. In addition, pursuant to the provisions of Article 415 of the Spanish Companies Act, debentures may not be converted into shares when the nominal value of the former is less than the par value of the latter.*

*When approving an issuance of convertible and/or exchangeable debentures or bonds under the authorisation granted in this resolution, the Board of Directors shall issue a directors' report, elaborating on and specifying, on the basis of the standards described above, the basis and terms and conditions for conversion that are specifically applicable to the respective issuance. Such report shall be accompanied by the corresponding report, prepared by the auditor appointed by the Commercial Registry and different from the auditor of the Company, mentioned in Article 414 of the Spanish Companies Act.*

*6. Basis for and terms and conditions for the exercise of warrants and other similar securities.-*

*In the event of issuances of warrants, it is resolved to establish the following standards:*

- a) In the case of issuances of warrants, to which the provisions of the Spanish Companies Act on convertible debentures shall apply by analogy, the Board of Directors is authorised to determine, in the broadest terms, in connection with the basis for and terms and conditions applicable to the exercise of such warrants, the standards applicable to the exercise of rights to subscribe for or of rights to acquire shares of the Company or of another company within or outside of the Group, or to a combination thereof, arising from the securities of this kind issued under the delegation granted hereby. The standards set forth in section 5 above shall apply to such issuances, with such adjustments as may be necessary in order to bring them into compliance with the legal and financial rules governing these kinds of securities.*
- b) The preceding standards shall apply, with any changes that may be required and to the extent applicable, to the issuance of fixed-income securities (or warrants) that are exchangeable for shares of other companies. Where appropriate, all references to the Spanish Stock Exchanges shall be deemed made to the markets, if any, on which the respective shares are listed.*

*7. This authorisation to the Board of Directors also includes, without limitation, the delegation thereto of the following powers:*

- a) The power of the Board of Directors, as permitted by Article 511 of the Spanish Companies Act, in connection with Article 417 of said Law, to totally or partially exclude the pre-emptive rights of the shareholders. In any event, if the Board of Directors decides to exclude the pre-emptive rights of the shareholders in connection with any specific issuance of convertible bonds or debentures, warrants and other securities similar thereto that it ultimately decides to effect under this authorisation, the Board shall issue, at the time of approval of the issuance and pursuant to applicable laws and regulations, a report setting forth the specific reasons based on the corporate interest that justify such measure, on which there shall be prepared the corresponding report of an auditor, other than the Company's auditor and appointed by the Commercial Registry, mentioned in Articles 414 and 511 of the Spanish Companies Act. Both such reports shall be published in the corporate website of the Company*

*and made available to the shareholders and disclosed at the first General Shareholders' Meeting that is held following approval of the resolution providing for the issuance.*

*This power shall in any event be limited to capital increases carried out pursuant to this authorisation up to a maximum amount equal, in the aggregate, to 20% of the share capital as of the date of adoption of this resolution.*

- b) The power to increase share capital to the extent required to accommodate requests for conversion and/or for exercise of the right to subscribe for shares. Such power may only be exercised to the extent that the Board of Directors, adding the capital increase effected to accommodate the issuance of convertible debentures, warrants and other similar securities and the other capital increases approved under authorisations granted by the shareholders at this General Shareholders' Meeting, does not exceed the limit of one-half of the amount of the share capital provided by Article 297.1(b) of the Spanish Companies Act. This authorisation to increase capital includes the authorisation to issue and float, on one or more occasions, the shares representing such capital that are necessary to carry out the conversion and/or to exercise the right to subscribe for shares, as well as the power to amend the article of the By-Laws relating to the amount of the share capital and, if appropriate, to cancel the portion of such capital increase that was not required for the conversion of shares and/or the exercise of the right to subscribe for shares.*
- c) The power to elaborate on and specify the basis for and terms and conditions applicable to the conversion, exchange and/or exercise of the rights to subscribe for and/or acquire shares arising from the securities to be issued, taking into account the standards set out in articles 5 and 6 above.*
- d) The delegation to the Board of Directors includes the broadest powers that may be required by Law in order to interpret, apply, implement and develop the resolutions providing for the issuance of securities that are convertible into or exchangeable for shares of the Company, on one or more occasions, and to carry out the corresponding capital increase, as well as the power to correct and supplement such resolutions as to all matters that may be necessary and to comply with all legal requirements for the successful implementation thereof. To such end, the Board of Directors may correct any omissions or defects in the aforementioned resolutions that may be identified by any Spanish or foreign authorities, officers or bodies, and may also adopt all such resolutions and execute all such public or private documents as it may deem necessary or appropriate in order to adjust the preceding resolutions for the issuance of convertible or exchangeable securities and the corresponding capital increase to the oral or written assessment of the Commercial Registrar or, in general, of any other Spanish or foreign competent authorities, officers or entities.*

*8. Listing of securities.- Whenever appropriate, the Company shall make application for listing on Spanish or foreign, official or unofficial, organized or other secondary markets of the convertible and/or exchangeable debentures and/or bonds or of the warrants issued by the Company exercising the powers delegated hereby, and the Board of Directors is authorised, as fully as is required by Law, to conduct all acts and formalities that may be necessary for admission to listing before the appropriate authorities of the various Spanish or foreign securities markets.*

*It is expressly stated for the record that if application is subsequently made for delisting, it shall be made in compliance with the same formalities as the application for listing, and, in such case, the interests of the shareholders or debentureholders opposing or not voting on the resolution shall be safeguarded as provided by applicable law. In addition, it is expressly stated that the Company undertakes to abide by Stock*





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*Market regulations, whether now existing or as may hereafter be issued, particularly as regards trading, continued listing and delisting.*

9. *Guarantee in support of issuances of convertible and/or exchangeable fixed-income securities or warrants by subsidiaries.*- As permitted in the By-Laws, the Board of Directors is also authorised to guarantee, on behalf of the Company and within the limits set forth above, new issuances of convertible and/or exchangeable fixed-income securities or warrants by subsidiaries during the effective period of this resolution.

10. *Power of substitution.*- The Board of Directors is hereby expressly authorised to delegate the powers contemplated in this resolution.

11. *The present delegation of powers to the Board of Directors replaces the one granted by the General Shareholders' Meeting of the Company on 28 April 2015, which will therefore be rendered void.*