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## **REPORT SUBMITTED BY THE BOARD OF DIRECTORS OF LAR ESPAÑA REAL ESTATE SOCIMI, S.A. IN CONNECTION WITH THE PROPOSED SHARE CAPITAL INCREASE EXCLUDING PRE-EMPTION RIGHTS SET OUT IN ITEM TWELVE ON THE AGENDA FOR THE GENERAL SHAREHOLDERS' MEETING CALLED TO BE HELD ON MAY 26 AND 29, 2017, ON FIRST AND SECOND CALL, RESPECTIVELY**

### **1. INTRODUCTION**

This report has been prepared by the Board of Directors of Lar España Real Estate SOCIMI, S.A. (the "**Company**") pursuant to articles 286, 296, 308 and 504 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**"), to explain the proposal submitted for approval by the General Shareholders' Meeting of the Company called for May 26 and 29, 2017, on first and second call, respectively, under item twelve of the agenda, relating to the share capital increase in the amount of €4,167,070, excluding pre-emption rights and authorising the Board of Directors to implement the resolution (el "**Capital Increase**").

Article 286 of the Companies Law requires, for a public company (*sociedad anónima*) to increase its share capital, that its directors issue a written report to support the bylaws' amendment that may arise from the referred share capital increase.

As for articles 308 and 504 of the Companies Law, these require, for the purposes of excluding pre-emption rights in the context of a share capital increase, that the company directors issue a report to explain the proposal in detail, specifying the companies' shares value and the consideration for the new shares, and indicating the persons to whom allocate the new shares.

In light of the foregoing, this report is divided in two sections:

- (i) first section refers to the share capital increase and the resulting bylaws' amendment (pursuant to articles 286 and 296 of the Companies Law), and
- (ii) second section refers to the exclusion of pre-emption rights (pursuant to articles 308 and 504 of the Companies Law).

### **2. REPORT SUBMITTED BY THE BOARD OF DIRECTORS PURSUANT TO ARTICLES 286 AND 296 OF THE COMPANIES LAW**

The purpose of the Capital Increase is to satisfy the performance fee (the "**Performance Fee**") to Grupo Lar Inversiones Inmobiliarias, S.A. ("**Grupo Lar**" or the "**Management Company**") in consideration for the services rendered as manager of the Company, pursuant to clause 7.2 of the investment manager agreement executed between Lar España and Grupo Lar on 12 February 2014 (the "**IMA**").

The Board of Directors understands that the Capital Increase is particularly appropriate from a corporate interest standpoint as it will allow the Company to remunerate services rendered to Lar España by the Management Company during 2016 in the terms set out in the IMA. As a result, it will enable the Company to comply with its contractual obligations.

The terms and conditions of the Capital Increase proposed to the General Meeting are described below.



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1. Capital Increase amount. The Capital Increase will be approved in the amount of €4,167,070, through the issuance of 2,083,535 ordinary shares of the Company, with a face value of €2 per share, represented in book-entry form, and with an aggregate share premium of €15,001,452..
2. Shares' issue price. The issue price (nominal and premium) of each new share will be €9.20.
3. Capital increase subscriber. The share capital increase will be addressed to Grupo Lar Inversiones Inmobiliarias, S.A. ("**Grupo Lar**"), a Spanish existing company with its registered office in Madrid, calle Rosario Pino 14-16, 28020, with Spanish tax identification number A-78107125, registered with the Commercial Registry of Madrid at volume 797 (general), 772 of section 3 of the Companies Record, sheet 13, page 68,078, record 1, which has previously shown and confirmed its commitment to fully subscribe this share capital increase.
4. Rights attached to the new shares. The new shares, represented In book-entry form, will grant to their holders the same voting and economic rights as the Company's ordinary shares currently outstanding, from the date on which they are registered at their name in the relevant registries. the admission to trading of the new shares will not require any approval or registry of an informative prospectus by the CNMV.
5. Date and conditions. The Board of Directors is authorized to determine the date on which this agreement will be carried out, within a maximum term of one year since the approval of this resolution by the General Meeting, and to set out all terms and conditions of the share capital increase that are not resolved by the General Meeting, in accordance with article 297.1.a) of the Companies Law.
6. Pre-emptive rights' exclusion. To exclude in full the Company's shareholders pre-emptive rights in relation to this share capital increase, pursuant to the reasons described in section 3 of this report.
7. Admission to trading. To apply for the admission to trading of the Company's ordinary shares to be issued pursuant to this resolution on the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia, as well as any other national or foreign markets in which the Company's shares are admitted to trading. For such purposes, the Company may make use of the exemption of publishing an informative prospectus in accordance with article 26.1.a) of Royal Decree 1310/2005 of 4 November.
8. Subscription and disbursement. The share capital increase shall be fully subscribed and paid up in cash in the time and manner determined by the persons so empowered pursuant to this resolution.
9. Incomplete subscription. The Board of Directors may resolve an incomplete subscription of the share capital increase and declare the share capital increased in the amount effectively subscribed in accordance with article 311 of the Spanish Companies Act.
10. Bylaws' amendment. The Capital Increase will involve the amendment of article 5 of Lar España's bylaws, which following completion of the Capital Increase, will be as follows:

**"Article 5.-**

*The share capital amounts to ONE HUNDRED AND EIGHTY-FIVE MILLION TWO HUNDRED AND FORTY-EIGHT THOUSANDS ONE HUNDRED AND NINETY-FOUR EUROS (€185,248,194). It is divided into NINETY-TWO MILLION SIX HUNDRED AND TWENTY-FOUR THOUSAND AND NINETY-SEVEN (92,624,097) NOMINATIVE SHARES with a face value of TWO EUROS (2 €) each, of the same class and series. All the shares are fully subscribed and paid up and grant their holders the same rights."*



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Notwithstanding the above, if the Company's share capital varies from the date of issuance of such report and the date on which the relevant capital increase is implemented, due to any capital increase or increase of the number of Company shares approved by the General Shareholders' Meeting, the relevant article will be drafted accordingly.

11. Delegation of powers. It is proposed to authorise the Board of Directors, pursuant to the provisions of article 297.1.a) of the Companies Law, de la Ley de Sociedades de Capital, with express substitution faculties in all of its members, so that any of them, individually, may implement this resolution and set out all the conditions not resolved by this General Meeting of the Company.

### **3. REPORT SUBMITTED BY THE BOARD OF DIRECTORS PURSUANT TO ARTICLES 308 AND 504 OF THE COMPANIES LAW**

The proposed share capital increase includes the proposal to exclude the Company's shareholders' pre-emption rights, pursuant to articles 308 and 504 of the Companies Law. Such exclusion is necessary to address the share Capital Increase to Grupo Lar in the terms set out herein.

In accordance with applicable law for the exclusion of pre-emption rights in the context of an issue of new shares, the company's directors shall submit a report explaining the proposal in detail, specifying the companies' shares value and the consideration for the new shares, and indicating the persons to whom allocate the new shares.

Compliance with legal requirements to implement a share capital increase as proposed herein is analyzed in two sections below: section one describes the rationale from a corporate interest standpoint of the Capital Increase and exclusion of pre-emption rights is explained, and section two justifies compliance with the legal requirement that the shares' issue price is equivalent to the shares' reasonable value.

#### **1. Rationale from a corporate interest standpoint**

The Board of Directors understands that the Capital Increase and the exclusion of pre-emption rights are fully in accordance with substantial requirements set out in the Companies Law and, especially, in relation to the requirement that the exclusion is demanded by the Company's corporate interest. The reasons for the above are that (a) it enables to implement a transaction that is appropriate from a corporate interest standpoint; (b) the procedure selected is suitable to that end; and (c) the objective and the means are proportional, as detailed below.

As stated above, the Capital Increase will allow the Company to remunerate services rendered to Lar España by the Management Company during 2016 in the terms set out in the IMA. As a result, it will enable the Company to comply with its contractual obligations.

The Board of Directors considers that the Capital Increase, with the necessary exclusion of pre-emption rights, constitutes the suitable procedure to satisfy such contractual obligation, as it the sole legal structure that allows to directly allocate the new shares to Grupo Lar in consideration for the services rendered pursuant to the IMA.

Finally, the Board of Directors considers that the exclusion observes the due proportion between the advantages for the Company and the potential disadvantages that the exclusion may cause to shareholders that would be affected by the dilution arising from any capital increase excluding pre-emption rights. Moreover, economic dilution is excluded given the new shares will be issued at their fair value.



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In light of the above, the Board of Directors of Lar España understands that the Capital Increase is in the Company's best interest. Consequently and given that the structure and features of the proposed transaction make it impossible to grant shareholders pre-emption rights, the proposal of Capital Increase includes the proposal to exclude pre-emption rights, as it is understood that it is so required in the Company's best interest.

## 2. Issuance at fair value

Article 308.2.c) of the Companies Law requires that the new shares' face value together with, if applicable, the share premium be equivalent to the shares' value resulting from the report issued by an independent expert appointed by the Commercial Registry for these purposes.

In addition, article 504 of the Companies Law sets out that, for listed companies, fair value shall be deemed to be market value, which, unless otherwise evidenced, shall be deemed to be the securities exchange listing.

Furthermore, the Company and Grupo Lar have agreed that, in connection with this capital increase, the shares to be issued in consideration for the Performance Fee for services rendered in 2016 will be subscribed, exceptionally for this year, at the unitary price resulting from the last Company's net asset value or EPRA NAV published (€9.20 per share), instead of using the price resulting from the process to calculate the number of shares to be issued set out in clause 7.2 of the IMA, which is related with the market price of the shares (currently below EPRA NAV).

Accordingly, the number of shares to be issued by the Company for their subscription by Grupo Lar as its Performance Fee will be reduced by approximately 24%. Through this resolution, Grupo Lar intends to (i) reaffirm its long-term commitment and alignment with the Company and its shareholders, and (ii) inform the market of its conviction regarding the reliability of the Company's EPRA NAV as the most adequate measure to reflect the Company's value.

In any event, as mentioned at the beginning of this section, pursuant to the provisions of article 308.2.a) of the Companies Law, the shares' issue price must correspond to the "fair value contained in the independent expert's report". Therefore, an auditor other than the Company's auditor appointed by the Commercial Registry of Madrid for that purposes, in this case, PricewaterhouseCoopers Auditores, S.L., has issued the relevant report on the fair value of the Company's shares, on the theoretical value of the pre-emptive rights being excluded and on the reasonableness of data contained in this report, which is available for all the shareholders.

## **4. RESOLUTION PROPOSAL**

### **ITEM TWELVE ON THE AGENDA**

**Share capital increase in the nominal amount of €4,167,070 for the issuance of shares to be subscribed by the Investment Manager as performance fee pursuant to the provisions of the Investment Manager Agreement, excluding pre-emption rights and authorising the Board of Directors to carry out the resolution.**

### **RESOLUTION**

*To increase Lar España's share capital in the nominal amount of €4,167,070, through the issuance of 2,083,535 ordinary shares of the Company, with a face value of €2 per share, represented in book-entry form, and with an aggregate share premium of €15,001,452.*



1. Shares' issue price. The issue price (nominal and premium) of each new share will be €9.20.
2. Capital increase subscriber. The share capital increase will be addressed to Grupo Lar Inversiones Inmobiliarias, S.A. ("**Grupo Lar**"), a Spanish existing company with its registered office in Madrid, calle Rosario Pino 14-16, 28020, with Spanish tax identification number A-78107125, registered with the Commercial Registry of Madrid at volume 797 (general), 772 of section 3 of the Companies Record, sheet 13, page 68,078, record 1, which has previously shown and confirmed its commitment to fully subscribe this share capital increase.
3. Rights attached to the new shares. The new shares, represented in book-entry form, will grant to their holders the same voting and economic rights as the Company's ordinary shares currently outstanding, from the date on which they are registered at their name in the relevant registries. The admission to trading of the new shares will not require any approval or registry of an informative prospectus by the CNMV.
4. Date and conditions. The Board of Directors is authorized to determine the date on which this agreement will be carried out, within a maximum term of one year since the approval of this resolution by the General Meeting, and to set out all terms and conditions of the share capital increase that are not resolved by the General Meeting, in accordance with article 297.1.a) of the Spanish Companies Act.
5. Pre-emptive rights exclusion. To exclude in full the Company's shareholders pre-emptive rights in relation to this share capital increase, pursuant to the reasons described in the Board report issued on 24 April 2017 with the aim to preserve the Company's best interest.
6. Admission to trading. To apply for the admission to trading of the Company's ordinary shares to be issued pursuant to this resolution on the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia, as well as any other national or foreign markets in which the Company's shares are admitted to trading. For such purposes, the Company may make use of the exemption of publishing an informative prospectus in accordance with article 26.1.a) of Royal Decree 1310/2005 of 4 November.
7. Subscription and disbursement. The share capital increase shall be fully subscribed and paid up in cash in the time and manner determined by the persons so empowered pursuant to this resolution.
8. Incomplete subscription. The Board of Directors may resolve an incomplete subscription of the share capital increase and declare the share capital increased in the amount effectively subscribed in accordance with article 311 of the Spanish Companies Act.
9. Delegation of powers. Pursuant to the provisions of article 297.1.a) of the Spanish Companies Act, to authorize the Board of Directors, with express substitution faculties in all of its members, so that any of them, individually, may implement this resolution and set out all the conditions not resolved by this General Meeting of the Company and, in particular, without limitation, may:
  - (i) Notify Grupo Lar of the approval of this resolution, establish the date on which the capital increase will be implemented and request that Grupo Lar pays up the shares.
  - (ii) Declare the share capital increase completed once the new shares have been subscribed and paid up by Grupo Lar, either fully or not, granting any appropriate public or private companies for the share capital increase to be completed, and declare the Company By-laws amended in the terms set out in section 2 of the Board's report issued in relation to the capital increase; or, if the Company's share capital varies from the date of issuance of such report and the date on which the relevant capital increase is implemented, due to any capital increase or increase of the number of Company shares approved by the General Shareholders' Meeting, adjust the share capital figure and the number of shares to be issued and amend the Bylaws' article relating to the Company's share capital accordingly.



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- (iii) Appear before a notary public and grant the relevant share capital increase public deed, apply for its registry with the Commercial Registry and make any mandatory announcements of the issuance, as well as grant any necessary documents, either public or private, to declare completion of the capital increase's subscription.*
- (iv) Apply for the admission to trading of the Company's ordinary shares to be issued on the Stock Exchanges of Madrid, Barcelona, Bilbao and Valencia, as well as any other national or foreign markets in which the Company's shares are admitted to trading.*
- (v) Draft, subscribe and file with the CNMV or any competent supervisors any necessary documents in relation to the issuance and admission to trading of the new shares and, in particular, any documents or information that are required pursuant to the provisions of the Spanish Securities Act and Royal Decree 1310/2005 of 4 November (as amended by Royal Decree 1698/2012, of 21 December), concerning the admission to trading of securities on the official secondary markets, public offerings and the prospectus required for these purposes, to the extent applicable; moreover, carry out on behalf of the Company any acts, statements or steps that may be required before the CNMV, Iberclear, the Stock Exchanges governing bodies and any other organism or entity or registry, either public or private, domestic or foreign, and take any necessary steps for the new ordinary shares to be recorded in Iberclear's registries and admitted to listing on the Stock Exchanges where the Company's shares currently outstanding trade and the Automated Quotation System (Sistema de Interconexión Bursátil or SIBE).*
- (vi) Amend, clarify, construe, specify or complement any resolutions adopted by the General Meeting, or in any public deeds or documents granted to implement such resolutions, and in particular any errors or omissions, of form or substance, that may hinder the registry of the resolutions with the Commercial Registry, the CNMV's Official Records or any other registries.*
- (vii) Grant on behalf of the Company any necessary or appropriate documents, either public or private, to complete the share capital increase hereby approved and, in general, carry out any necessary acts for the implementation of this resolution and the issue of the shares.*