



REPORT BY THE BOARD OF DIRECTORS OF LAR ESPAÑA REAL ESTATE SOCIMI, S.A. IN CONNECTION WITH THE APPROVAL OF THE AUDIT AND CONTROL COMMITTEE'S REGULATIONS WHICH IS INCLUDED IN ITEM ELEVEN OF THE AGENDA OF THE GENERAL SHAREHOLDERS' MEETING CALLED FOR 18 AND 19 APRIL 2018, 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 with the purpose of informing the General Shareholders' Meeting about the approval of the Audit and Control Committee's Regulations (the "**Regulations**") approved by the Board of Directors of the Company on 27 December 2017.

The complete text of the referred Regulations is **attached** to this report.

2. GENERAL JUSTIFICATION OF THE PROPOSAL

These regulations are based on the amendment of article 14 of the Board of Directors' Rules and Regulations, developing this amendment through a specific Regulation for the Audit and Control Committee, as recommended by the Spanish Securities Market Commission's Technical Guide 3/2017, on audit committees.

The amendments to the Board of Directors' Rules and Regulations are carried out within the continuous review and updating process carried out by the Company in connection with its internal corporate governance rules. In general terms, the objective of this resolution of the Board of Directors is to incorporate the basic provisions set forth in the Spanish Securities Market Commission's Technical Guide 3/2017, on audit committees, with regards the composition and functioning of the Audit and Control Committee, and in connection with the Recommendations included in the Good Governance Code for Listed Companies (2015) that are also applicable to the referred Committee.

3. COMPLETE TEXT OF THE REGULATIONS

The complete text of the Audit and Control Committee's Regulations is attached to this report.

Madrid, 15 March 2018



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

ANNEX
COMPLETE TEXT OF THE AUDIT AND CONTROL COMMITTEE'S REGULATIONS APPROVED
BY THE COMPANIES' BOARD OF DIRECTORS IN THEIR MEETING OF 27 DECEMBER 2017



Audit and Control Committee Regulations
of
Lar España Real Estate SOCIMI, S.A.

Madrid, 27 December 2017

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Article 1. Purpose

1. The Audit and Control Committee of the Board of Directors of Lar España Real Estate SOCIMI, S.A. (hereinafter, the “**Company**”) is formed in accordance with that set forth in the Spanish Corporations Act and in Article 42 of the Bylaws and Article 14 of the Company’s Board of Directors Regulations.
2. The purpose of these Audit and Control Committee Regulations, approved by the Company’s Board of Directors, is to establish the rules regarding the organisation and functioning of its Audit and Control Committee, implementing, with regard to that deemed appropriate to better carry out its functions, the provisions of the Bylaws and the Board of Directors Regulations based on good governance recommendations and criteria established by the Spanish National Securities Market Commission and taking into account the characteristics of the Company and its Group.
3. With regard to that not expressly envisaged in these Regulations, the provisions set forth by the Committee itself shall apply, and that established in the Bylaws and the Board Regulations regarding the functioning of the Board of Directors shall also be applicable to the extent possible given its nature and functions.

Article 2. Interpretation, amendment and dissemination

1. The Audit and Control Committee shall take into account the applicable legislation and the good governance recommendations and criteria established by supervisory bodies and, in particular, by the Spanish National Stock Market Commission in applying and interpreting these Regulations.
2. The Regulations shall be reviewed on a regular basis by the Board of Directors, taking into account the proposals put forward in this regard by the Audit and Control Committee, and shall be available to shareholders and the market in general through their publication on the Company’s website.

Article 3. Composition of the Audit and Control Committee

1. The Board of Directors shall form an Audit and Control Committee, on a permanent basis, that will be composed by a minimum of three and a maximum of five directors appointed by the Board of Directors amongst the external or non-executive directors, the majority of which must be independent directors. The members of the Audit and Control Committee and particularly its Chairman shall be appointed on the basis of their knowledge and background in accounting, audit and risk management. Additionally, the Board will endeavour that they have knowledge and experience in other areas that may be appropriate for the Audit and Control Committee to fulfil its functions as a whole, such as finance, internal control and information technologies.

Likewise, and without prejudice to endeavouring the promotion on diversity of gender and geographical origin, the Committee members, who will be appointed taking into account the necessary dedication to carry out the functions entrusted thereto, shall have, as a whole, the technical knowledge necessary in relation to the Company’s business sector.

2. The members of the Audit and Control Committee shall perform their duties for a maximum period of three years and may be re-elected for one or more subsequent terms of equal length.
3. In any case, the Committee members shall be relieved of their duties once their tenure as a director ceases, or when agreed by the Board of Directors.

Article 4. Committee positions

1. The Board of Directors shall appoint the Chairman of the Committee from among the independent directors that form part thereof.

The position of Chairman shall be held for a maximum of three years, after which he may not be eligible for re-election as such until one year has elapsed since completing their term, without prejudice to their continuity or re-election as a Committee member.

2. The position of Secretary and Deputy Secretary of the Audit and Control Committee shall be held by the Secretary and by the Deputy Secretary of the Board of Directors.

The Secretary or, where applicable, the Deputy Secretary must assist the Chairman of the Committee in planning the meetings and gathering and providing the necessary information sufficiently in advance, drawing up the minutes of the meetings.

Article 5. Functions of the Audit and Control Committee

1. Without prejudice to any other tasks that may be assigned at any given time by the Board of Directors, the Audit and Control Committee shall exercise the following basic functions:

- a. With regard to the supervision of financial information:
 - i. Report to the General Shareholders' Meeting on any matters raised by the shareholders regarding its competence and, in particular, on the results of the audit, explaining how it contributed to the integrity of the financial information and the function discharged by the Committee in this process.
 - ii. Supervise the process of preparing and submitting the required financial information and submit recommendations or proposals to the managing body aimed at safeguarding its integrity.
 - iii. Oversee that the Board of Directors endeavours to present the financial statements to the General Shareholders' Meeting without reservations or qualifications in the auditors' report. Should such reservations or qualifications exist, both the Chairman of the Audit and Control Committee and the auditors should clearly explain to the shareholders of the content and scope of such reservations or qualifications.
 - iv. Give the Board of Directors prior notice of any financial information that the Company, as a listed company, is obliged to publish periodically. The Audit and Control Committee must ensure that the half-yearly financial reports and the

interim management reports are drawn up in accordance with the same accounting policies as the annual financial statements and, to this end, may ask the external auditor to conduct a limited review of the half-yearly financial reports.

- b. With regard to the supervision of internal control and reporting systems:
- i. Supervise the preparation and the integrity of the financial information prepared on the Company and, where appropriate, the Group, checking the fulfilment of legal provisions, the accurate demarcation of the scope of consolidation, and the correct application of accounting principles and, in particular, know, understand and monitor the effectiveness of the internal control over financial reporting system (ICFR).
 - ii. Supervise on a regular basis the effectiveness of the internal control of the Company and its Group as well as the activities of the Company's internal audit function, discussing, together with the auditors, any significant weaknesses in the internal control system detected in the audit, and drawing conclusions on the system's level of accuracy and reliability, all without diminishing its independence. To this effect, and where applicable, the Committee shall submit recommendations or proposals to the Board of Directors and the corresponding period for the follow-up thereof.
 - iii. Supervise the unit that assumes the internal audit function, which shall oversee the proper functioning of the reporting and internal control systems and will report functionally to the Chairman of the Audit and Control Committee and, in particular: (a) monitor the independence and effectiveness of the internal audit function; (b) propose the selection, appointment, re-election and removal of the head of the internal audit unit; (c) propose the unit's budget; (d) approve its priorities and work plans, ensuring that its activity focuses primarily on the main risks to which the Company is exposed; (e) receive regular reports on its activities; (f) verify that senior management take into account the findings and recommendations of its reports; and (g) assess, on an annual basis, the functioning of the internal audit unit as well as the performance of its functions by its head, whereby the opinion of executive management shall be sought out for such purposes.

The head of the internal audit unit should present an annual work plan to the Committee; report on any incidents arising during its implementation; and submit an activities' report at the end of each year.
 - iv. Establish and monitor a mechanism whereby employees and any third party can report, in a confidential or, if appropriate, anonymous manner, any potentially significant irregularities within the Company, particularly of a financial and accounting nature, receiving regular reports on its functioning and proposing any actions deemed appropriate to improve the mechanism and reduce the risk of irregularities in the future.

- c. With regard to the external auditor:
- i. Submit to the Board the proposals for the selection, appointment, re-election and replacement of the external auditor, taking responsibility for the selection process, in accordance with that set forth in applicable legislation, as well as the contracting conditions, and for such purpose it must:
 - 1º. determine the process of selection of the auditor; and
 - 2º. issue a reasoned proposal that shall contain a minimum of two alternatives for selecting the auditor, unless the same auditor is being re-elected.
 - ii. Receive regular information from the external auditor on the audit plan and on the results of its implementation, and check that senior management is acting on its recommendations.
 - iii. Establish the proper relationships with auditors to receive information on any matters that may threaten their independence, in particular any discrepancies that may arise between the auditor and the Company's management, for examination by the Audit and Control Committee, and any other matters related to the audit process and, where applicable, the authorisation of the services other than those prohibited, under the terms envisaged in applicable legislation, as well as other notices envisaged in audit legislation and other audit regulations.

In any event, written confirmation on its independence with respect to the Company or entities directly or indirectly connected thereto must be received, on an annual basis, from the external auditor, as well as detailed and individual information on any type of additional services provided and the related fees received from these entities by the external auditor or by persons or entities related to the auditor, pursuant to the applicable accounting legislation.
 - iv. Issue an annual report, prior to the issue of the auditors' report, containing an opinion on whether the independence of the auditors or audit companies has been compromised, which will be available to shareholders and investors through the Company's website well in advance of the Ordinary General Shareholders' Meeting. Such report shall, in all cases, contain the reasoned evaluation of the provision of each of the additional services mentioned in the section above, considered individually and as a whole, other than legal audit services, and in relation to the rules on independence or in accordance with the regulations governing audit activities.
 - v. Preserve the independence of the external auditor in the performance of its duties and, for such purpose: (i) ensure that the Company notifies the Spanish National Stock Market Commission as a Significant Event any change of auditor, accompanied by a statement of any possible disagreements arising with the outgoing auditor and, if any, of its content; (ii) ensure that the Company and

the auditor adhere to current regulations on the provision of non-audit services and, in general, other requirements designated to safeguard auditors' independence; and (iii), in the event of auditor's resignation, examine the reasons thereto.

- vi. In the case of groups, the Committee should favour that the Group auditor takes on the auditing of all companies of the Group.
 - vii. Ensure that the remuneration of the external auditor does not compromise its quality or independence.
 - viii. Ensure that the external auditor has an annual meeting with the Board of Directors in plenary session to inform it on the work undertaken and developments in the Company's risk and accounting positions.
 - ix. Carry out a final assessment regarding the auditor's performance and how it contributed to the quality of the audit and the integrity of the financial information.
- d. With regard to the supervision of risk management and control:
- i. Supervise the effectiveness of the risk management systems and, in particular, review these systems in order for the main risks being properly identified, managed and disclosed.
 - ii. Supervise the internal risk management and control function.
 - iii. In relation to the risk policy and risk management, identify (i) the different types of risk (operating, technological, financial, legal, reputational) to which the Company is exposed, including financial or economic risks of contingent liabilities and other off-balance sheet risks; (ii) the determination of the risk levels the Company deems acceptable; (iii) the measures in place to mitigate the impact of the identified risks, should they occur; and (iv) the internal reporting and control systems to be applied to control and manage the aforementioned risks, including contingent liabilities and off-balance risks.
 - iv. Reassess, at least on an annual basis, the list of most significant financial and non-financial risks and assess their level of tolerance, proposing any adjustments to the Board of Directors, where applicable.
 - v. Hold a meeting, at least on an annual basis, with the senior managers of the business units to explain the business trends and associated risks.
- e. With regard to the obligations of listed companies:

Report to the Board of Directors, prior to the Board passing the related resolutions on the following:

- i. The incorporation or acquisition of ownership interests in special purpose vehicles or entities resident in jurisdictions considered to be tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.
- ii. Related transactions, as they are defined by the legislation applicable at any given time.

With regard to related transactions, the annual report issued, where applicable, by the Audit and Control Committee on related transactions will be available to shareholders and investors through the Company's website well in advance of the Ordinary General Shareholders' Meeting.

- iii. The economic conditions, the accounting impact and, where applicable, the impact on the exchange ratio of the structural changes and corporate transactions that the Company plans to carry out.
 - iv. Any amendment to the internal code of conduct.
- f. With regard to the Company's corporate governance obligations:
- i. Monitor compliance with legal requirements and the Company's internal governance regulations, including internal codes of conduct.
 - ii. Regularly review the Company's internal governance regulations and propose to the Board of Directors, for approval or submission at the General Shareholders' Meeting, as the case may be, any amendments and updates that contribute to its development and ongoing improvement.
 - iii. Promote the Company's corporate governance strategy and regularly evaluate the effectiveness of the Company's governance system, to confirm that it is fulfilling its mission to promote the corporate interest and takes into account, as appropriate, to the legitimate interests of remaining stakeholders.
 - iv. Supervise the communication strategy and shareholders and investors' relations, including small- and medium-sized shareholders.
 - v. Assess all aspects related to non-financial risks of the Company (including operational, technological, legal, social, environmental, political and reputational risks).
 - vi. Coordinate non-financial information and diversity reporting processes in accordance with applicable legislation and international benchmarks.
 - vii. Be apprised of, promote, guide and supervise the Company's performance regarding corporate reputation and report thereon to the Board of Directors or, where applicable, to the Executive Committee.

- viii. Report on the matters of Title IX of the Board of Directors Regulations, under the terms envisaged therein.
 - ix. Report on, prior to its approval, the Company's annual governance report, obtaining for such purposes the reports from the Appointments and Remuneration Committee in relation to these sections of such report that are within their competence.
- g. Other functions of the Committee:
- i. Supervise the calculation of fees received by the Management Company in the performance of its functions.
 - ii. Appoint and supervise the services of external appraisers in relation to the appraisal of the Company's assets.
 - iii. Any other general or specific reporting function and proposal commissioned by the Board of Directors.
 - iv. Any other competence or function attributed by law, the Bylaws or the Board Regulations.
2. In carrying out and performing its functions, the Audit and Control Committee must take into account the principles and criteria established in the CNMV Technical Guide 3/2017, on audit committees, of 27 June 2017, without prejudice to its adjustment to the particular circumstances and characteristics of the Company and its Group.

Article 6. Call of the meetings

1. The Audit and Control Committee shall meet regularly, on a quarterly basis, to review the periodic financial information that must be submitted to the supervisory authorities, as well as the information that the Board of Directors has to approve and include as part of its annual public documents. In relation to these matters, the internal auditor must attend the Committee's meetings and, if any type of review report is issued, the external auditor must also attend, however, they will not be present in the decision-making part of the meeting when the Audit and Control Committee must adopt the relevant decisions.
2. Additionally, the Committee shall also meet at the request of any of its members and when called by its Chairman, which must call a meeting whenever the Board or its Chairman requests the issuance of a report or the adoption of proposals and, in any case, whenever deemed appropriate for the successful performance of its functions.
3. Audit and Control Committee meetings shall be called by the Secretary of the Committee or, where applicable, the Deputy Secretary, by order of the Chairman, at least ten days prior to the meeting, except in cases of emergency that justify calling a meeting immediately or within less time. The call notice will be sent by letter, fax, e-mail or by any other means that provide evidence of receipt.

The call notice shall always include the agenda of the meeting and will be accompanied by the necessary information, without prejudice to the fact that in certain circumstances all or part of the information may be provided at the meeting itself.

Article 7. Meetings

1. Audit and Control Committee meetings shall be held, in accordance with its annual work plan, at the Company's registered office or at any location previously designated by the Chairman and indicated in the call notice.
2. Committee meetings may be held through multiconference calls, videoconference or any other similar systems such that one or several members may attend the meeting through the indicated system. For such purpose, the call notice of the meeting, in addition to indicating the location where the actual meeting will take place, must mention that members may also attend the meeting through conference calls, videoconference or an equivalent system, whereby the technical means necessary for such purpose must be indicated and available, which in any case must enable direct and simultaneous communication between all attendees. The Secretary of the Audit and Control Committee must place on record in the minutes of the meetings held, in addition to those members attending the meeting in person or, where applicable, represented by another Committee member, those that attend the meeting through the multiconference call, videoconference or similar system.
3. Constructive discussions among its members shall be encouraged at the Committee meetings, promoting free expression and the supervisory and analysis mindset of its members, whereby the Chairman of the Committee must ensure that its members freely participate in discussions.
4. The Audit and Control Committee shall draft an annual report on its performance during the year, which will serve as the basis for the evaluation to be carried out by the Board of Directors, highlighting the main incidents, if any, that have arisen in relation to its functions. The report shall include, among other issues, the significant activities carried out during the period, and report on those that were carried out in collaboration with external experts and, when deemed appropriate by the Committee, this report will include proposals to improve the Company's governance rules. The report shall be available to shareholders and investors through the Company's website well in advance of the Ordinary General Shareholders' Meeting.
5. The Audit and Control Committee may call any of the members of the management team or the Company's personnel, even ordering their appearance without the presence of another senior officer. Those called shall be obliged to attend the meetings of the Audit and Control Committee and provide their collaboration and access to the information they have available. The Committee may also require attendance at its meetings by other persons (executive directors, experts, auditors, etc.), although only by invitation of the Chairman of the Committee and only to discuss those specific items on the agenda for which they are summoned. In particular, senior officers or other executive or non-executive directors shall only occasionally attend Committee meetings.

Article 8. Convening of meetings and adoption of resolutions

1. The Audit and Control Committee shall be validly convened when the majority of its members are present, in person or represented, adopting resolutions by an absolute majority of those present or represented. The Chairman of the Audit and Control Committee shall have the casting vote in the event of a tie.
2. Audit and Control Committee members may grant its representation to another member of the Committee. Representation shall be granted in writing specifically for each meeting.
3. In case of conflicts of interest, the Committee member affected must abstain from participating in the deliberation and voting on resolutions or decisions in which such member or a person related thereto has a direct or indirect conflict of interest.

Article 9. Committee meeting minutes

1. The conclusions and proposals drawn up at Audit and Control Committee meetings, which shall be signed by the Chairman and the Secretary or, where applicable, by whoever replaces them in the performance of their functions, shall be placed on record in the minutes.
2. A copy of the Committee meeting minutes shall be sent to all members of the Board of Directors.

Article 10. Access to information and advice

1. The Audit and Control Committee may access in an appropriate, timely and sufficient manner any information or documentation that the Company has relating to matters of its competence, provided it is deemed necessary to carry out its functions.
2. Additionally, the Committee may engage, at the expense of the Company, the collaboration with or advisory services of external professionals when deemed necessary or appropriate to better perform its functions.

Article 11. Means and resources

1. The Audit and Control Committee shall approve a regular training plan that ensures the knowledge of the members of the Audit and Control Committee is up to date. A welcome programme for new members shall also be provided.
2. In order to fulfil its functions, the Audit and Control Committee shall have the necessary means and resources at its disposal for an independent performance. Resources needs must be channelled through the Secretary of the Company's Board of Directors.

Article 12. Relationships of the Audit and Control Committee with the Board, the external auditor and the internal auditor

1. The Audit and Control Committee must establish an effective and regular communication channel with its usual partners, which will normally correspond to the Chairman of the Committee and, among others, with:
 - a) Company's management, in particular, corporate management and financial management;
 - b) the head of internal audit; and
 - c) the main auditor responsible for the audit.
2. In any event, communication between the Audit and Control Committee and the external auditor must be fluid, continuous and in accordance with the regulations governing audit activities, and must not compromise the auditor's independence or the effectiveness with which the audit is carried out or the audit processes are conducted.
3. The Committee shall report the business transacted and account for the work performed at the first plenary session of the Board of Directors subsequent to its meetings.
4. The Chairman of the Committee shall act as the spokesperson at the Board of Directors meetings and, where applicable, at the Company's General Shareholders' Meeting.

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