



REPORT BY THE AUDIT AND CONTROL COMMITTEE ON THE INDEPENDENCE OF THE AUDITOR AND ADDITIONAL SERVICES

1. Introduction

The Board Regulations provide that the Audit and Control Committee must issue an annual report, prior to the issuance of the audit report, stating an opinion on the independence of the auditor or audit firm and, in all cases, on the provision of additional services.

This report fulfills said obligation.

2. Basis for the report

In preparing this report, the Committee has taken the following background information and data as a basis:

- (i) In order to ensure the independence of the external auditor, the Audit and Control Committee has supervised compliance in 2016 by both the Company and the external auditor of the rules in force on the provision of non-audit services.
- (ii) At the meeting of July 27, 2016, and with a view to complying with one of the Committee's remits, a request was made to ascertain what work had been carried out by the Company's auditor outside of the audit proper, as well as the amounts paid for such work, in order to assess the independence of the auditor. At that date, according to information from the CFO, the fees amounted to two mandates of 3,000 euros each, in relation to the loan of the TREE assets and in order to validate the fulfillment of covenants, and to services for the preparation of the pro-forma report (Merlin-Testa), which entailed fees of 30,000 euros.

The Committee reiterated that it is necessary to report regularly on the work entrusted to the auditor, as far in advance as possible of the performance of the work, with a view to verifying the type of work to be performed by the auditor and the amount thereof, and so that it can be verified that the letter of independence in relation to the work performed has been sent.

- (iii) The external auditor was present at the Committee meeting on December 12, 2016, to present its conclusions on the preliminary work performed on the preliminary closing at September 30, 2016. At the meeting, the CFO discussed the auditor's fees, as well as the amounts for non-audit work. In summary, such amounts are as follows:

- (a) as a result of the change in the scope of the audit due to the inclusion of the assets of Metrovacesa, an increase in the auditor's remuneration was recognized (initially set at 200,000 euros for the audit and 75,000 for the preliminary six-month review) to 300,000 euros for the audit and 125,000 for the review of the six months ended June 2017.
- (b) apart from strictly audit services, the auditor also received 180,000 euros for work on the bond issues in April and June, 6,000 euros for the review of the covenants in the TREE financial agreements, and 30,000 for a pro forma report on the capital increase.

In addition, fees of approximately 500,000 euros were billed under "other services" during the year, in relation to the due diligence services provided for the divestment of Testa Residencial, which were known to the Committee in the preceding year but, as a result of the length of the work, were finally billed in 2016.

- (iv) On February 24, 2017, a letter was received from the auditor expressly confirming its independence vis-à-vis the Company, signed by Mr. Antonio Sánchez-Covisa and issued in accordance with the provisions of the Audit Law.

This declaration of independence also stated that the auditor was not subject to any of the grounds for incompatibility set out in the law during the 2015 fiscal year. A copy is attached hereto as an **Exhibit**.

The external auditor has also confirmed that the abovementioned amounts for non-audit services have remained unchanged.

In addition to the above, the Audit and Control Committee has verified

- (i) the limits on the concentration of the auditor's business as established in the Audit Law. In this connection, the total amounts billed by the external auditor in 2016, amounting to 1,221.4 thousand euros, do not represent a significant percentage of the total annual income of said auditor; and
- (ii) the non-application, given the date of formation of the Company, of the obligation to rotate the audit partner signing the financial statements.

3. Conclusions

Based on the above, the committee has reasonably concluded the following:

- (i) That in its audit work during 2016, the auditor has acted in accordance with the applicable rules on independence in accordance with the audit legislation in force.
- (ii) That, in relation to the work classed as non-audit services:
 - (a) it mainly consisted of corporate tasks, a limited review of the financial information and the issue of comfort letters in relation to same;
 - (b) it does not represent a significant percentage of the total annual income of said auditor, for the purposes of the provisions of the Audit Law; and
 - (c) the fees have been reasonably justified and are not deemed to exceed the reasonable market prices applicable to the work.
- (iii) The obligation to rotate the audit partner signing the financial statements is not applicable at the date hereof.
- (iv) There are no aspects that may reasonably be considered to breach audit legislation in relation to the independence of the auditor or the provision of non-audit services.