

**REPORT OF THE BOARD OF DIRECTORS OF PROSEGUR COMPAÑÍA DE SEGURIDAD, S.A. WITH RESPECT TO THE PROPOSAL TO AUTHORISE THE BOARD OF DIRECTORS TO ISSUE CONVERTIBLE AND/OR EXCHANGEABLE SECURITIES, REFERRED TO IN ITEM 9 OF THE AGENDA OF THE SHAREHOLDERS' GENERAL MEETING TO BE HELD AT FIRST CALL FOR 27 APRIL 2016 AND AT SECOND CALL FOR 28 APRIL 2016**

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The aim of this report is to justify the proposal to authorise the Board of Directors, with substitution powers, to issue securities (including, in particular, debentures, bonds and *warrants*) that can be converted into new Company shares and/or exchanged for existing Company shares, pursuant to the general rules for issuing debentures and according to the provisions in articles 286, 297 and 511 of the Spanish Corporations Act and 319 of the Mercantile Registry Regulations, whose approval is submitted to the Shareholders' General Meeting of Prosegur Compañía de Seguridad, S.A. (the "**Company**") in item nine of the agenda, all of which is in conformity with the provisions in said Spanish Corporations Act.

The Board of Directors considers that it would be highly convenient to have the delegated powers, permitted by the current regulations, in order to always be able to obtain, in the primary securities markets, the funds necessary to adequately manage the Company's interests.

The purpose of the delegation of powers is to give the Board of Directors the room for manoeuvre and capacity of response that such a competitive environment requires, where the success of a strategic initiative or a financial transaction or an opportunity to obtain financial resources often depends on the capacity to act quickly, without the delays and costs that are unavoidable when convening and holding a Shareholders' General Meeting. Thus, the Company's Board of Directors shall have the relevant powers, when necessary, to obtain a significant amount of resources in a reduced period.

The issue of securities that are convertible and/or exchangeable for shares is one of the instruments used to finance companies by means of obtaining external resources. These securities present, on the one hand, the advantage of offering the investor the possibility to transform credits against the Company into Company shares, obtaining a higher potential profitability than that offered by other debt instruments and, on the other hand, they may allow the Company to increase its own resources. These characteristics lead to the coupon for the convertible and/or exchangeable securities usually being less than the cost of simple fixed-income securities and bank debt, as the value of the option given to investors to convert the securities into Company shares is reflected in the debenture's interest type.

For this purpose, under the provisions of the current regulations, the proposed resolution established in item nine of the agenda is submitted to the Shareholders' General Meeting for consideration. In the case of *warrants* it is anticipated that the legal and conventional regulations regarding convertible and/or exchangeable debentures shall apply insofar as they are compatible with their specific nature.

The proposal specifically grants the Board of Directors the powers to issue once or more times convertible and/or exchangeable securities (including debentures, bonds, preferential shares and any other similar securities) and *warrants* that give the right to subscribe to newly issued Company shares or to acquire existing Company shares, as well as to decide, when appropriate, to increase the amount of share capital necessary to carry out the conversion or exercise the subscription option, provided that this increase does not exceed the non-use limit authorised at all times by the Shareholders' General Meeting, under the provisions in article 297.1.b) of the Spanish Corporations Act.

In this respect, article 510 of the Spanish Corporations Act states that the limit for issuing securities established in article 405 of the same legal text does not apply to listed companies. Therefore, the proposed resolution sets 1,000 million Euros (or its equivalent in any other currency) as the maximum amount for which authorisation to issue may be requested. For the purposes of calculating the previous limit in the case of *warrants*, the joint value of the premiums and warrant exercise *prices* of the issues agreed upon by way of this authorisation shall be taken into account.

The proposed resolution that is being submitted for approval to the Shareholders' General Meeting also establishes the criteria for determining the bases and modalities of the conversion and/or exchange, although it entrusts the Board of Directors, should it decide to make use of the authorisation granted, with the task of specifying some of said bases and modalities for each issue within the limits and according to the criteria set by the General Meeting. Therefore, it shall be the Board of Directors that determines the specific conversion terms, and for this purpose it shall compile, at the time of approving an issue of convertible and/or exchangeable securities within the scope of the delegated powers according to the authorisation granted by the General Meeting, a report indicating the specific bases and modalities of the conversion, applicable to said issue, which shall also be the subject of the consecutive report by the audit committee referred to in articles 414 and 511 of the Spanish Corporations Act

Specifically, the proposed resolution that is being submitted by the Board of Directors to the Shareholder's General Meeting for approval anticipates that, for the purposes of the conversion and/or exchange, the securities shall be valued at their nominal amount. In turn, the shares shall be valued at the fixed exchange rate established in the Board of Director's resolution in which this authorisation is presented, or the variable exchange rate to be determined on the date or dates indicated in said Board of Director's resolution, based on the market value of the Company shares on the date/s or period/s used as a reference in said resolution.

In the case of establishing fixed conversion and/or exchange terms, the fixed exchange rate shall not be less than the arithmetic mean of the closing prices of the Company shares in the Spanish electronic trading system during a period to be determined by the Board of Directors, no more than three months nor less than five calendar days before the date of the securities issue agreement by the Board of Directors or the date on which the shareholders pay for the securities, with a premium or, where applicable, a discount on said price per share, although in the case of setting a discount on the price per share, this discount shall be no more than 25% of the value of the shares used as a reference in accordance with the foregoing.

In the case of establishing variable conversion and/or exchange terms, the price of the shares for the purposes of the conversion and/or exchange shall be the arithmetic mean of the closing prices of the Company shares in the Spanish electronic trading system during a period to be determined by the Board of Directors, no more than three months nor less than five calendar days before the date of conversion and/or exchange, with a premium or, where applicable, a discount on said price per share. The premium or discount shall be different for each conversion and/or exchange date of each issue (or, where applicable, each tranche of an issue), although in the case of setting a discount on the price per share, this discount shall be no more than 25% of the value of the shares used as a reference in accordance with the foregoing.

In this way, the Board of Directors considers that it would have sufficient flexibility to determine the value of the shares for the purposes of conversion according to market conditions and other relevant considerations.

In the case of **warrants** on newly issued shares, the rules for convertible securities set forth in the proposed resolution shall apply insofar as they are compatible with their nature.

In addition, and as established in article 415.2 of the Spanish Corporations Act, the resolution to delegate to the Board the powers to issue convertible securities anticipates that, for the purposes of their conversion, the nominal value of the debentures shall not be less than the nominal value of the shares. Nor shall the convertible debentures be issued for an amount that is less than their nominal value.

In addition, it is hereby stated that the authorisation for the issue of convertible and/or exchangeable securities as well as *warrants* or other similar securities that give the direct or indirect rights of subscription and acquisition for Company shares includes, under the provisions of article 511 of the Spanish Corporations Act, empowering the Board of Directors to exclude, fully or partially, the shareholders' right of preferential subscription, when required in order to obtain financial resources in the markets or for other reasons in the Company's interests.

The Board of Directors considers that suppressing the right of preferential subscription allows for a relative reduction of financial costs and the costs associated with the operation (including, especially, commissions for the financial entities participating in

the issue) in comparison with issuing the right of preferential subscription, and it simultaneously has less of a distorting effect on the trading of Company shares during the issue period. In any case, in accordance with the provisions in article 511 of the Spanish Corporations Act, if the Board of Directors decides to suppress the shareholders' right of preferential subscription on account of one or all the issues that it may decide to carry out under said delegated powers, it must issue, when it adopts the corresponding issue agreement, a report indicating the specific reasons as to why the measure is in the Company's interest, which shall be the subject of the consecutive report by the audit committee named by the Mercantile Registry and different from the Company's audit committee, referred to in article 414 of the Spanish Corporations Act. Said reports shall be made available to the shareholders, who must be notified of them at the first Shareholders' General Meeting held after the issue agreement.

In any case, following corporate governance best practice, the authorisation to exclude, fully or partially, the right of preferential subscription, shall be limited to increases of share capital made under this authorisation, which is the subject of item eight of this General Meeting's agenda, up to the maximum amount, overall, of 20% of the Company's current share capital, i.e. up to the maximum nominal amount of 7,405,495.68 Euros.

In addition, it is anticipated that the securities issued under these delegated powers may be admitted to trading in the appropriate secondary market, whether official or unofficial, organised or unorganised, national or foreign.

On the other hand, it may at times prove convenient to issue the securities under this proposal through a subsidiary with the Company's guarantee. Consequently, it is deemed important that the Shareholders' General Meeting authorises the Board of Directors to guarantee on behalf of the Company, within the previously established limits, the issue of the convertible and/or exchangeable securities or *warrants* through subsidiaries during the term of this resolution, with the aim of granting the Board of Directors the utmost flexibility to structure the issue of securities in the most convenient fashion depending on the circumstances.

All the powers granted to the Board of Directors should this resolution be passed, shall entail express substitution powers in order to further promote the aim sought, which is to provide greater flexibility for the proposed operations.

Finally, a proposal is made to terminate, in the part unused, the authorisation granted in point eight of the agenda for the Ordinary General Shareholders Meeting held on 27 June 2011.

#### **Proposed resolution for the Shareholders' General Meeting**

The proposed resolution for the Shareholder's General Meeting with respect to item nine of the agenda is literally transcribed below:

***Authorisation of the Board of Directors, with substitution powers, during the maximum term of five years, to issue securities convertible into new Company shares and/or exchangeable for existing Company shares, as well as warrants (options to subscribe new Company shares and/or acquire existing Company shares). Establishment of the criteria to determine the bases and modalities of the conversion and/or exchange and delegation to the Board of Directors of the powers to increase share capital by the necessary amount, as well as to exclude the right of preferential acquisition, although the latter powers shall be limited to 20% of the total share capital on the date of the authorisation.***

### PROPOSED RESOLUTION

*Authorisation of the Board of Directors, in compliance with the general rules for issuing debentures and according to the provisions in articles 286, 297 and 511 of the Spanish Corporations Act and 319 of the Mercantile Registry Regulations, to issue securities under the following conditions::*

- 1.- *Securities issued**The securities referred to in this authorisation are debentures, bonds, preferred stocks and any other similar securities, convertible into new shares in the Company and/or exchangeable for existing shares in the Company, and warrants (options to subscribe new shares in the Company and/or to acquire existing shares in the Company).*
- 2.- *Term of delegated powers:* *The issue of securities under this authorisation shall be carried out one or more times within the maximum term of five years from the date that this agreement is adopted.*
- 3.- *Maximum amount of the authorisation:* *The total maximum nominal amount of the issue or issues of securities agreed under these delegated powers shall be 1,000 million Euros or its equivalent in any other currency. For the purposes of calculating the previous limit in the case of warrants, the joint value of the premiums and warrant exercise prices of the issues agreed upon by way of this authorisation shall be taken into account.*
- 4.- *Scope of the authorisation:* *This authorisation extends, as broadly and sufficiently as may be required by law, to establishing different aspects and conditions for each issue, including, by way of example but not exhaustively: their amount, always within the expressed quantitative overall limit, the place of issue – in Spain or abroad – and the money or currency and in the case that it is foreign, its equivalent in Euros; the specific instrument to issue, whether it is bonds or debentures, including subordinated debentures, warrants (which may also be settled by means of the physical delivery of shares or, where applicable, the differences), or any other modality permitted in law; the date or dates of issue; the number of securities and their nominal value, which in the case of convertible and/or exchangeable bonds or debentures shall not be higher than the nominal amount of the shares; in the case of warrants and similar securities, the price of*

*issue and/or premium, the price of exercise – which may be fixed or variable – and the method, term and other conditions applicable to the exercise of the right of subscription for the underlying shares or, where applicable, the exclusion of said right; the type of interest, fixed or variable; the dates and payment methods for the coupon; the class of instrument issued, whether perpetual or callable and, in the case of the latter, the non-callable period and maturity date/s; the guarantees, the type of payment, premiums and sets; the means of representation, by means of bonds or book entries; the establishment of anti-dilution clauses; the placement and subscription system; the approval for listing; the range of values and their possible subordination clauses; the legislation applicable to the issue; and, in general, any other condition of the issue, as well as, when appropriate, the appointment of a commissioner and approval of the fundamental rules that shall govern the legal relations between the Company and the union of the holders of the securities issued, where necessary or if said union is created.*

5.- *Bases and modalities of conversion and/or exchange:* *In the case of issuing convertible and/or exchangeable securities (including debentures or bonds), and for the purposes of determining the bases and modalities of the conversion and/or exchange, it is agreed to establish the following criteria:*

- a) *The securities issued under this resolution shall be convertible into newly issued Company shares and/or exchangeable for existing Company shares in accordance with a fixed or variable, determined or determinable, conversion and/or exchange term. The Board of Directors shall have the powers to determine if they are convertible and/or exchangeable, and if they are necessarily or voluntarily convertible and/or exchangeable and, in the case that they are voluntary, at the option of the holder and/or the Company, with the frequency and during the term established in the issue agreement, which shall be no more than 30 days from the date of issue.*
- b) *The Board of Directors shall also establish, in the case that the issue is convertible and exchangeable, that the issuer reserves the right to choose at any time between the conversion into new Company shares or the exchange for existing Company shares, specifying the nature of the shares to be delivered at the time of the conversion or exchange, being able to choose to deliver a combination of newly issued Company shares and existing Company shares and to carry out the settlement of the difference in cash.*
- c) *For the purposes of the conversion and/or exchange, the securities shall be valued at their nominal amount and the shares at the fixed exchange rate established in the Board of Director's resolution in which this authorisation is presented, or at the variable exchange rate to be determined on the date or dates indicated in said Board of Director's resolution, based on the market value of the Company shares on the date/s or period/s that are used as a reference in said resolution.*

- d) *In the case of establishing fixed conversion and/or exchange terms, the fixed exchange rate shall be no less than the arithmetic mean of the closing prices of the Company shares in the Spanish electronic trading system during a period to be determined by the Board of Directors, no more than three months nor less than five calendar days before the date of the securities issue agreement by the Board of Directors or the date on which the shareholders pay for the securities, with a premium or, where applicable, a discount on said price per share, although in the case of setting a discount on the price per share, this discount shall be no more than 25% of the value of the shares used as a reference in accordance with the foregoing.*
- e) *In the case of establishing variable conversion and/or exchange terms, the price of the shares for the purposes of the conversion and/or exchange shall be the arithmetic mean of the closing prices of the Company shares in the Spanish electronic trading system during a period to be determined by the Board of Directors, no more than three months nor less than five calendar days before the date of conversion and/or exchange, with a premium or, where applicable, a discount on said price per share. The premium or discount shall be different for each conversion and/or exchange date of each issue (or, where applicable, each tranche of an issue), although in the case of setting a discount on the price per share, this discount shall be no more than 25% of the value of the shares used as a reference in accordance with the foregoing.*
- f) *Under no circumstances shall the value of the share for the purposes of the rate for converting the securities into shares be less than their nominal value. In addition, in accordance with the provisions in article 415 of the Spanish Corporations Act, securities shall not be converted into shares when the nominal value of the former is lesser than that of the latter.*
- 6.- *Bases and modalities of the exercise of warrants and other similar securities: In the case of the issue of warrants, to which the provisions of the Spanish Corporations Act regarding convertible debentures shall be applied due to their similarity, to determine the bases and modalities of their exercise, the Board of Directors shall have the powers to specify, in the broadest terms, the criteria applicable to the exercise of the rights of subscription or acquisition for Company shares derived from the securities of this type issued under the authorisation granted here, to which the criteria established in the previous section 5 shall apply, with any necessary changes in order to make them compatible with the legal and financial regulations for this type of securities.*
- 7.- *Other delegated powers: This authorisation of the Board of Directors also includes, by way of example but not exhaustively, the delegation in their favour of the following powers:*

- a) *The powers such that the Board of Directors, under the provisions in article 511 of the Spanish Corporations Act, may exclude, totally or partially, the shareholders' right to preferential subscription, fulfilling the legal requirements established for this purpose. In all cases, these powers shall be limited to the increases of capital made under this authorisation, which is the subject of item eight of this General Meeting's agenda, up to the nominal maximum amount, overall, of 7,405,495.68 Euros, corresponding to 20% of the Company's share capital on the date on which this resolution is passed.*
- b) *The powers to increase capital by the amount necessary to deal with the requests to convert and/or exercise the subscription right for shares. These powers shall only be exercised provided that the capital increased by the Board of Directors to deal with the issue of convertible securities or warrants does not exceed the non-use limit authorised at all times by the Shareholders' General Meeting under the provisions in article 297.1.b) of the Spanish Corporations Act. This authorisation to increase capital includes the possibility to issue and put in circulation, one or more times, the shares representing said capital that are necessary to carry out the conversion and/or exercise the subscription right for shares, as well as the possibility to rewrite the articles of the Company Statutes relating to the amount of share capital and the number of shares and, where applicable, to cancel the part of said capital increase that was not necessary for the conversion and/or exercise of the subscription right for shares.*
- c) *The powers to develop and specify the bases and modalities of the conversion, exchange and/or exercise of the subscription and/or acquisition rights for shares, derived from the securities to issue, taking into account the criteria established in the previous sections 5 and 6.*
- d) *The delegation to the Board of Directors comprises powers, as broad and sufficient as may be required by law, to interpret, apply, execute and develop the issue agreements for convertible or exchangeable securities or warrants, one or more times, and the corresponding increase of capital, also granting it the powers to correct and complement these actions wherever necessary, as well as to comply with as many requisites as may be legally binding in order to correctly carry them out, including the capacity to correct omissions or defects in said agreements, indicated by any authority, public servant or body, whether national or foreign, while also having the powers to adopt as many agreements or present as many public or private documents that it deems necessary or convenient in order to adjust the preceding issue agreements for convertible or exchangeable securities or warrants and the corresponding increase of capital for the oral or written assessment of the Mercantile Registry or, in general, of any other authorities, public servants or relevant national or foreign institutions.*

- 8.- Permission to trade: *The company shall request, as necessary, permission to trade on secondary markets –whether official or unofficial, organised or unorganised, national or foreign– the debentures and/or convertible and/or exchangeable bonds or warrants that are issued by the Company under these delegated powers, granting the Board of Directors the authority, as broadly and sufficiently as may be required by law, to carry out the tasks and actions necessary for the approval for listing before the relevant bodies of the different national and foreign stock markets.*

*It is expressly recorded that, in the case of the subsequent request for exclusion from trading, this request will be adopted with the same formalities as the request for permission, to the extent that they are applicable, and, in such case, the interest of the shareholders and holders of the securities that opposed or did not vote for the agreement in the terms established in the current legislation shall be guaranteed. Furthermore, it is expressly declared that the Company shall abide by the existing rules, or rules that may be in place in the future, that govern matters related to the Stock Exchange and, in particular, trading, continued trading and exclusion from trading.*

- 9.- Guarantee of the issue of convertible and/or exchangeable securities or warrants by subsidiaries: *The Board of Directors is equally authorised to guarantee on behalf of the Company, within the previously established limits, the new issues of convertible and/or exchangeable securities or warrants that, during the term of this agreements, are carried out by subsidiaries.*
- 10.- Powers of substitution: *The Board of Directors is also expressly authorised to delegate, under the provisions in article 249 of the Spanish Corporations Act, the powers referred to in this agreement.*
- 11.- Termination of the current authorisation: *To terminate, in the part unused, the authorisation granted in item nine of the agenda of the Ordinary General Shareholders' Meeting held on 27 June 2011."*

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Madrid, 21 March 2016.