

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Consolidated Financial Statements for the period of eleven months and fourteen days ended 31 December 2014, prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and Directors' Report, together with Independent Auditor's Report

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 32). In the event of a discrepancy, the Spanish-language version prevails.

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 32). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of LAR ESPAÑA REAL ESTATE SOCIMI, S.A.:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of total changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the period of eleven months and fourteen days then ended.

Directors' Responsibility for the Consolidated Financial Statements

The Parent's Directors are responsible for preparing the accompanying consolidated financial statements so that they present fairly the consolidated equity, consolidated financial position and consolidated results of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. and Subsidiaries in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain (identified in Note 2-a to the accompanying consolidated financial statements) and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the audit regulations in force in Spain. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation by the Parent's Directors of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. and Subsidiaries as at 31 December 2014, and their consolidated results and their consolidated cash flows for the period of eleven months and fourteen days then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

Report on Other Legal and Regulatory Requirements

The accompanying consolidated Directors' report for the period of eleven months and fourteen days ended 31 December 2014 contains the explanations which the Parent's Directors consider appropriate about the situation of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. and Subsidiaries, the evolution of their business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated Directors' report is consistent with that contained in the consolidated financial statements for the period of eleven months and fourteen days ended 31 December 2014. Our work as auditors was confined to checking the consolidated Directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the accounting records of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. and Subsidiaries.

DELOITTE, S.L.

Registered in ROAC under no. S0692



Antonio Sánchez-Covisa-Martín-González

25 February 2015



Real Estate

**LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND
SUBSIDIARIES**

**Consolidated Annual Accounts for the period of 11 months and 14 days ended 31 December
2014**

**(Prepared under International Financial Reporting Standards as adopted by the European
Union)**

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LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Consolidated statement of financial position at 31 December 2014

(Expressed in thousands of Euros)

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 32). In the event of a discrepancy, the Spanish-language version prevails.

<u>Assets</u>	<u>Note</u>	<u>2014</u>
Investment property	7	357,994
Equity-accounted investees	4b	18,087
Non-current financial assets	10	<u>3,841</u>
Total non-current assets		379,922
Inventories	11	2,843
Trade and other receivables	10, 12	1,970
Other current financial assets	10	32,032
Other current assets		136
Cash and cash equivalents	13	<u>20,252</u>
Total current assets		57,233
Total assets		<u><u>437,155</u></u>

The accompanying notes 1 to 32 and Appendix I form an integral part of the consolidated statement of financial position at 31 December 2014.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Consolidated statement of financial position at 31 December 2014

(Expressed in thousands of Euros)

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 32). In the event of a discrepancy, the Spanish-language version prevails.

<u>Equity and Liabilities</u>	<u>Note</u>	<u>2014</u>
Capital	14a	80,060
Share premium	14b	320,000
Other reserves	14c	(9,185)
Retained earnings		3,456
Treasury shares	14c	(4,838)
		<hr/>
Total equity		<u>389,493</u>
Loans and borrowings	16, 17	37,666
Other non-current liabilities	16, 18	<u>5,143</u>
Total non-current liabilities		42,809
Loans and borrowings	16	156
Trade and other payables	16, 19	<u>4,697</u>
Total current liabilities		4,853
Total equity and liabilities		<u>437,155</u>

The accompanying notes 1 to 32 and Appendix I form an integral part of the consolidated statement of financial position at 31 December 2014.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Consolidated income statement at 31 December 2014

(Expressed in thousands of Euros)

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 32). In the event of a discrepancy, the Spanish-language version prevails.

<u>Consolidated Income Statement</u>	<u>Note</u>	<u>2014</u>
Revenues	5, 23	8,606
Other income		217
Employee benefits expense	25	(108)
Other expenses	24	(7,231)
Changes in fair value of investment property	7	442
Results from operating activities		<u>1,926</u>
Finance income	26	2,391
Finance costs	26	(519)
Share in profit (loss) for the period of equity-accounted companies		342
Profit before tax from continuing operations		<u>3,456</u>
Profit from continuing operations	27	<u>3,456</u>
Income tax expense	21	<u>-</u>
Profit for the year		<u>3,456</u>
Basic earnings per share (in Euros)	15	0.09
Diluted earnings per share (in Euros)	15	0.09

<u>Consolidated Statement of Comprehensive Income</u>	<u>2014</u>
Profit for the year	3,456
Income and expense recognised directly in equity	-
Other amounts transferred to the income statement	-
Total Comprehensive Income	<u>3,456</u>

The accompanying notes 1 to 32 and Appendix I form an integral part of the consolidated statement of comprehensive income for the period of 11 months and 14 days ended 31 December 2014.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

Consolidated Statement of Total Changes in Equity at 31 December 2014
(Expressed in thousands of Euros)

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 32). In the event of a discrepancy, the Spanish-language version prevails.

	<u>Capital</u>	<u>Share premium</u>	<u>Other reserves</u>	<u>Other contributions</u>	<u>Retained earnings</u>	<u>Treasury shares</u>	<u>Total equity</u>
Incorporation of Parent Company	60	-	(2)	-	-	-	58
Capital increases	80,000	320,000	(9,419)	240	-	-	390,821
Treasury shares	-	-	(4)	-	-	(4,838)	(4,842)
Income and expense recognised directly in equity	-	-	-	-	3,456	-	3,456
Balance at 31 December 2014	<u>80,060</u>	<u>320,000</u>	<u>(9,425)</u>	<u>240</u>	<u>3,456</u>	<u>(4,838)</u>	<u>389,493</u>

The accompanying notes 1 to 32 and Appendix I form an integral part of the consolidated statement of changes in equity for the period of 11 months and 14 days ended 31 December 2014.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Consolidated Statement of Cash Flows for the period of 11 months and 14 days ended 31 December 2014
(Expressed in thousands of Euros)

Translation of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 32). In the event of a discrepancy, the Spanish-language version prevails.

	Note	2014
Cash flows from operating activities		
Profit for the year		3,456
Adjustments for:		(1,810)
Profit / (loss) from adjustments to fair value of investment property	7	(442)
Finance income	26	(2,391)
Finance costs	26	519
Share in profit / (loss) for the period of equity-accounted investees		342
Impairment	12	162
Change in working capital:		(414)
Inventories	11	(2,843)
Trade and other receivables	12	(2,132)
Trade and other payables	19	4,697
Other current assets		(136)
Other cash flows from operating activities:		1,575
Interest received		2,094
Interest paid		(519)
Cash flows from operating activities		<u>2,807</u>
Cash flows from investing activities		
Acquisition of equity-accounted associates		(18,429)
Acquisition of investment property	7	(357,552)
Acquisition of financial assets		(35,576)
Cash flows used in investing activities		<u>(411,557)</u>
Cash flows from financing activities		
Proceeds from capital issue	14a	390,879
Payments for acquisition of treasury shares and own equity instruments	14c	(4,842)
Loans and borrowings		37,822
Other non-current liabilities	18	5,143
Cash flows from financing activities		<u>429,002</u>
Net increase in cash and cash equivalents	13	20,252
Cash and cash equivalents		<u>20,252</u>
Cash and cash equivalents at 31 December	13	<u>20,252</u>

Notes 1 to 32 and Appendix I form an integral part of the consolidated statement of cash flows for the period of 11 months and 14 days ended 31 December 2014.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the Consolidated Annual Accounts for the period of 11 months and 14 days ended 31
December 2014

Translation of consolidated annual accounts originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2 and 32). In the event of a discrepancy, the Spanish-language version prevails.

(1) Nature, Activities and Composition of the Group

Lar España Real Estate SOCIMI, S.A. (hereinafter the Parent Company or Lar España) was incorporated with limited liability under Spanish law on 17 January 2014, as Lar España Real Estate, S.A. Its name was changed to the current name on 6 February 2014.

Its registered office is located at Rosario Pino 14-16, 28020 Madrid.

According to its articles of association, the Parent Company's statutory activity consists of the following:

- The acquisition and development of urban properties for lease.
- The holding of investments in the capital of other SOCIMIs (listed corporations for investment in the real estate market - Spanish "REITs") or in other entities not resident in Spain that have an identical statutory activity and are subject to a regime similar to that applicable to SOCIMIs, insofar as they have a legal or statutory obligation to distribute profits.
- The holding of investments in the capital of other resident or non-resident entities in Spain, the main activity of which is the acquisition of urban properties for lease. These entities must be subject to the same regime established for SOCIMIs insofar as they have a legal or statutory obligation to distribute profits and must also comply with the investment requirements stipulated in article 3 of Law 11/2009 of 26 October 2009, amended by Law 16/2012 of 27 December 2012 which governs SOCIMIs.
- The holding of shares or investments in property collective investment undertakings governed by Law 35/2003 of 4 November 2003 on collective investment undertakings, or legislation replacing that law in the future.
- In addition to the economic activity derived from the principal statutory activity, SOCIMIs may carry out complementary activities. These are understood to be activities that do not amount to more than 20% of the total earnings of the Group in each tax period or those which can be considered complementary pursuant to prevailing legislation.

The principal activity of the other Group companies consists of the acquisition and management of shopping centres and offices. However, they may invest on a smaller scale in other assets for rent or for direct sale (commercial premises, logistics bays, logistics centres or residential products).

Lar España Real Estate SOCIMI, S.A. has been listed on the Spanish Stock Exchanges and the Spanish automated quotation system since 5 March 2014.

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Notes to the Consolidated Annual Accounts for the period of 11 months and 14 days ended 31
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The Parent Company is regulated by Law 11/2009 of 26 October 2009, as amended by Law 16/2012 of 27 December 2012, which governs SOCIMIs. Article 3 establishes the investment requirements for this type of company, namely:

1. SOCIMIs must invest at least 80% of their assets in urban properties for lease, in land for the development of urban properties for lease, provided that development commences within three years after the acquisition, or in the capital or equity of other entities referred to in article 2.1 of Law 11/2009.

Asset value will be based on the average of the asset values reflected in the individual quarterly balance sheets for the year. To calculate this value, the Company may replace the carrying amount of the items comprising those balance sheets with their market value, which would apply to all the balance sheets for the year. For these purposes, cash or receivables derived from transfers of these properties or investments, if any, carried out in the current year or previous years shall not be included provided, in the latter case, that the period for reinvestment stipulated in article 6 of the aforementioned Law has not expired.

2. Furthermore, at least 80% of income for the tax period and corresponding to each period, excluding that derived from the transfer of those equity investments and properties held for the purpose of carrying out the principal statutory activity, once the mandatory period mentioned in the following section has elapsed, must originate from property leases and dividends or shares in profits arising from those equity investments.

This will be calculated as a percentage of consolidated profit if the company is the parent of a group in accordance with the criteria established in article 42 of the Spanish Code of Commerce, irrespective of domicile and of the obligation to draw up consolidated annual accounts. This group shall comprise solely the SOCIMIs and other entities to which article 2.1 of the above Law refers.

3. The properties that constitute the SOCIMI's assets must be leased for at least three years. The period of time during which the properties have been available for lease, up to a maximum of one year, shall be included for the purposes of this calculation.

The period shall be calculated as follows:

- a) For properties included in the SOCIMI's holdings prior to availing of the regime, from the starting date of the first tax period in which the special tax regime established in the Law is applied, provided that on that date the asset was leased or available for lease. If not, the provisions of the following letter shall apply.
- b) For properties developed or acquired subsequently by the Company, from the date on which they were leased or available for lease for the first time.

For shares or investments in the entities referred to in article 2.1 of the aforementioned Law, they should be maintained as assets on the SOCIMI's balance sheet for at least three years from their acquisition or, where applicable, from the start of the first tax period in which the special tax regime established in the above Law is applied.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
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Pursuant to the first transitional provision of Law 11/2009 of 26 October 2009, amended by Law 16/2012 of 27 December 2012 governing SOCIMIs, such entities may opt to apply the special tax regime under the provisions of article 8 of that Law, even if they do not meet the requirements set forth therein, provided these requirements are met within two years of the date on which they opt to apply the aforementioned regime.

Failure to comply with this condition will require the Parent to file tax under the general corporate income tax regime as of the tax year in which such failure arises, unless the failure is redressed in the following year. In addition, the Parent Company shall be obliged to deposit, together with the tax due for that tax period, the difference between the corporate income tax due under the general tax regime and the tax paid under the special tax regime in prior tax periods, without prejudice to any late payment interest, charges or fines that may be due.

Furthermore, Law 11/2009 of 26 October 2009, as amended by Law 16/2012 of 27 December 2012, establishes the following specific modifications:

- Flexible criteria for acquiring and maintaining properties: there is no lower limit regarding the number of properties that may be contributed when constituting a SOCIMI, except for residential properties, of which the minimum number of properties contributed shall be eight. Properties are no longer required to be kept on the SOCIMI's balance sheet for seven years, only for a minimum of three years.
- Reduced capital requirements and unlimited financial leverage: the minimum capital requirement has been reduced from Euros 15 million to Euros 5 million, and the ceiling on borrowing by the property investment vehicle has been lifted.
- Reduced dividend distribution: until this Law entered into force, it was compulsory to distribute 90% of profits; this payout requirement has been reduced to 80%, applicable as of 1 January 2013.
- The tax rate for SOCIMIs for corporate income tax purposes is 0%. However, when a SOCIMI distributes dividends to shareholders with an interest greater than 5%, or that are exempt from tax or are subject to tax at less than 10%, a special tax which shall have the consideration of corporate income tax shall be levied on the SOCIMI at a rate of 19% of the dividend distributed to those shareholders. Where applicable, this special tax must be paid by the SOCIMI within two months of the dividend distribution date.

The Parent Company's directors consider that the legal requirements for SOCIMIs will be met within the time frame for compliance provided for in the above law.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES
Notes to the Consolidated Annual Accounts for the period of 11 months and 14 days ended 31
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(2) Basis of Presentation

(a) Regulatory framework

The accompanying consolidated annual accounts for the period of 11 months and 14 days ended 31 December 2014 have been prepared on the basis of the accounting records of Lar España Real Estate SOCIMI, S.A. and subsidiaries, and in accordance with:

- The Spanish Code of Commerce and related mercantile legislation,
- International Financial Reporting Standards as adopted by the European Union (IFRS-EU) through Regulation (EC) No 1606/2002/EC of the European Parliament and Law 62/2003 of 31 December 2003, on tax, administrative and social measures, as well as the applicable standards and circulars issued by the Spanish Securities Market Commission,
- Law 11/2009 of 26 October 2009, as amended by Law 16/2012 of 27 December 2012, which governs SOCIMIs,
- All other applicable Spanish accounting principles.

To present fairly the consolidated equity and consolidated financial position of Lar España Real Estate SOCIMI, S.A. and subsidiaries at 31 December 2014 and the consolidated results of operations, changes in consolidated equity and consolidated cash flows for the period of 11 months and 14 days then ended.

These consolidated annual accounts have been prepared applying the regulations in force at 31 December 2014.

(b) Functional and presentation currency

The figures disclosed in the consolidated annual accounts for the period of 11 months and 14 days ended 31 December 2014 are expressed in thousands of Euros, which is the functional and presentation currency of the Group.

(c) Comparative information

As mentioned in note 1, the Parent Company was incorporated on 17 January 2014, and, therefore, the reporting period for the consolidated annual accounts for the period of 11 months and 14 days ended 31 December 2014 is from 17 January 2014 to 31 December 2014. Since this is the Parent's first year of activity, the directors have not included comparative figures in the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows, or the notes thereto.

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Notes to the Consolidated Annual Accounts for the period of 11 months and 14 days ended 31
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(d) Relevant accounting estimates, assumptions and judgements used when applying accounting principles

The information included in the consolidated annual accounts is the responsibility of the Parent Company's Board of Directors.

Relevant accounting estimates and judgements, and other estimates and assumptions have to be made when applying the Group's accounting principles to prepare its consolidated annual accounts in accordance with IFRS-EU.

A summary of the items requiring a greater degree of judgement or which are more complex, or where the assumptions and estimates made are significant to the preparation of the consolidated financial statements, is as follows:

(i) Relevant accounting estimates and assumptions

- Calculation of fair value of investment property (see note 7)
- Valuation allowances for bad debts and the review of individual balances based on customers' credit ratings, market trends and the historical analysis of bad debts at an aggregated level all require a high degree of judgement by the management (see note 12).
- Determination of the fair value of certain financial instruments (see note 10).
- Assessment of provisions and contingencies (see note 4(i)).
- Financial risk management (see note 22).

(ii) Changes in accounting estimates

Although estimates are calculated by the Parent Company's directors based on the best information available at 31 December 2014, future events may require changes to these estimates in subsequent years. The effect on the consolidated financial statements of any changes arising from the adjustments to be made in subsequent periods would be recognised prospectively, in accordance with the provisions of IAS 8.

(iii) Determination of fair value

Certain accounting and Group policies require the fair value of assets and liabilities, both financial and non-financial, to be determined.

To determine the fair value of an asset or liability, the Group uses observable market data to the largest extent possible. Fair values are classified according to the fair value hierarchy based on the input data used in the valuation techniques, as follows:

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Notes to the Consolidated Annual Accounts for the period of 11 months and 14 days ended 31
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- Level 1: listed price (unadjusted) on active markets for identical assets or liabilities.
- Level 2: observable inputs other than the listed prices used in Level 1 for assets or liabilities, directly (i.e., such as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

If the input data used to measure the fair value of an asset or a liability can be classified according to the fair value hierarchy, then the fair value measurement is classified in its entirety in the same level of the fair value hierarchy, which would be the lowest level of significant input data required for full measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the period in which the change occurs.

(e) Standards and interpretations adopted since 1 January 2014

The following mandatory standards and interpretations already adopted by the European Union entered into force in 2014 and, where applicable, have been used by the Group to prepare the accompanying consolidated annual accounts at 31 December 2014:

- IFRS 10: Consolidated Financial Statements This establishes a single consolidation model for all entities based on the control concept, irrespective of the nature of the investee. It replaces the consolidation requirements of IAS 27.
- IFRS 11: Joint Arrangements. This replaces the consolidation requirements of IAS 31.
- IFRS 12: Disclosure of Interests in Other Entities This establishes the disclosure requirements for subsidiaries, associates, joint arrangements and unconsolidated structured entities.
- IAS 27: Separate Financial Statements Following the issue of IFRS 10, this standard shall only apply to the separate financial statements of an entity.
- IAS 28: Investments in Associates and Joint Ventures Revision issued simultaneously to the issue of IFRS 11. Joint arrangements: this now also addresses the treatment of jointly owned entities as they have no option but to be accounted for under the equity method as associates are.
- Transitional provisions: Amendment to IFRS 10, 11 and 12 Clarification of the transitional provisions for these standards.
- Investment entities: Amendment to IFRS 10, IFRS 12 and IAS 27 Exception to the consolidation of parents that meet the criteria to be defined as investment entities.

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- Amendment of IAS 32: Financial Instruments: Presentation Offsetting Financial Assets and Financial Liabilities Additional clarifications of the rules for offsetting financial assets and financial liabilities under IAS 32.
- Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets. This amendment clarifies when certain disclosures are necessary and extends the scope of the requirements when the recoverable amount is based on the fair value less costs to sell.
- Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting. The amendments specify the cases and criteria under which the novation of derivatives does not require hedge accounting to be discontinued.

(f) Standards and interpretations issued but not effective at 1 January 2014

At the date of approval of these consolidated annual accounts, the following standards and interpretations had been issued by the IASB but had not yet entered into force, either because the date on which they become effective is subsequent to the date of the consolidated annual accounts or because they have not yet been adopted by the European Union:

- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018). This replaces the requirements for classification, measurement and derecognition of financial assets and financial liabilities and hedge accounting under IAS 39. Pending adoption by the EU.
- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture. Effective for annual periods beginning on or after 1 January 2016.
- Amendment to IFRS 11 Accounting for acquisitions of interests in joint operations (published in May 2014). The amendment specifies how to account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. Effective for annual periods beginning on or after 1 January 2016.
- IFRS 14 Regulatory Deferral Accounts. Effective for annual periods beginning on or after 1 January 2016.
- IFRS 15 Revenue from Contracts with Customers (published in May 2014). New revenue recognition standard (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31) Effective for annual periods beginning on or after 1 January 2017. Pending adoption by the EU.

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- IAS 16 and IAS 38 Acceptable Methods of Depreciation and Amortisation (published in May 2014). Clarification of acceptable methods of depreciation and amortisation. Effective prospectively from 1 January 2016. Pending adoption by the EU.
- Amendment to IAS 19 Defined Benefit Plans: Employee Contributions (published in November 2013). The amendments to clarify the requirements on how to allocate employee or third-party contributions linked to service periods. Effective for annual periods beginning on or after 1 July 2014.
- IFRIC 21 Levies (published in May 2013). The European Union has endorsed IFRIC 21 (EU Bulletin of 14 June 2014), amending the original date of entry into force established by the IASB, 1 January 2014, to 17 June 2014. Interpretation on when to recognise a liability to pay a levy that is conditional upon the entity's participation in an activity at a specific date.
- IAS 27 Amendments to address the application of the equity method in separate financial statements. Effective for annual periods beginning on or after 1 January 2016.

The Group is currently evaluating the impact that the future application of these standards could have on the consolidated annual accounts when they enter into force. The Group's preliminary assessment is that the impact of applying these standards will not be material.

(3) Distribution of Profit

The proposed distribution of profit prepared by the Parent Company's directors, to be submitted to the shareholders for approval at their annual general meeting, is as follows:

	<u>Thousands of Euros</u>
<u>Basis of allocation</u>	
Profit for the year	1,664
	<hr/>
<u>Distribution</u>	
Legal reserve	166
Dividends	1,331
Voluntary reserve	167
	<hr/>
	<u>1,664</u>

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(4) Consolidation Principles

Companies in which the Group holds a majority of voting rights in the representative or decision-making bodies, or which are effectively managed by the Group, are fully consolidated; jointly controlled entities managed with third parties are accounted for using the equity method.

The Group companies have been consolidated using the financial statements at 31 December 2014.

(a) Subsidiaries

Subsidiaries are entities, including structured entities, over which the Parent Company, either directly or indirectly through subsidiaries, exercises control. The Parent Company controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The Parent Company has power over a subsidiary when it has existing substantive rights that give it the ability to direct the relevant activities. The Parent is exposed, or has rights, to variable returns from its involvement with the subsidiary when its returns from its involvement have the potential to vary as a result of the subsidiary's performance.

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements.

The income, expenses and cash flows of subsidiaries are included in the consolidated financial statements from their acquisition date, which is the date on which the Group obtained effective control of the aforementioned subsidiaries. Subsidiaries are no longer consolidated from the date on which control is lost.

Transactions and balances with Group companies and unrealised gains or losses have been eliminated upon consolidation. Nevertheless, unrealised losses have been considered as an indicator of impairment of the assets transferred.

The subsidiaries' accounting policies have been adapted to Group accounting policies for like transactions and other events in similar circumstances.

The annual accounts or financial statements of the subsidiaries used in the consolidation process have been prepared as of the same date and for the same period as those of the Parent Company.

Details of the subsidiaries and relevant information thereon are presented in Appendix I to the notes on the consolidated annual accounts.

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(b) Joint Ventures

Joint ventures are understood as contractual agreements whereby two or more entities (“venturers”) take part in entities (jointly controlled) or carry out operations or hold assets such that any strategic decision of a financial or operational nature that affects them requires the unanimous consent of all venturers.

In the consolidated annual accounts, joint ventures are measured using the equity method, which consists of incorporating the net asset value and goodwill, if any, of the investment held in the associate into the consolidated statement of financial position item, Equity-accounted investees. The net profit or loss for each year corresponding to the percentage of the investment in these companies is reflected in the consolidated statement of comprehensive income as Share in profit (loss) for the period of equity-accounted companies.

Details of the joint ventures and relevant information thereon are presented in Appendix I to the notes on the consolidated annual accounts.

(c) Business combinations

The Group applies the acquisition method for business combinations. The acquisition date is the date on which the Group obtains control of the acquiree.

The consideration transferred is calculated as the sum of the acquisition-date fair values of the assets transferred, the liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition costs such as professional fees are not included in the cost of the business combination and are recognised in the consolidated income statement.

The contingent consideration, where applicable, is measured at the acquisition-date fair value. Any subsequent change to the fair value of the contingent consideration is recognised in the consolidated income statement, unless the change occurs within the one-year period established as the provisional accounting period, in which case it is reflected as a change in goodwill.

Goodwill is calculated as the difference between the sum of the consideration transferred, plus non-controlling interests, plus the fair value of any previously held investment in the acquiree, less the acquiree's identifiable net assets.

Should the acquisition cost of identifiable net assets be below their fair value, the lesser amount shall be recognised in the consolidated statement of comprehensive income for the year.

(d) Harmonisation of account items

The accounting policies of the Parent Company have been applied to all companies of the consolidated Group, in order to present the different items in the consolidated annual accounts in a standardised format. Therefore, in general, uniform measurement standards have been applied.

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In 2014, the same date has been used for the accounting close of the annual accounts of all the companies included in the consolidated group, or the reporting dates have been temporarily standardised to match that of the Parent Company.

(e) Consolidated Group

The companies included in the consolidated Group and the consolidation method used at 31 December 2014 are as follows:

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Name	Inclusion	Activity	% ownership	Consolidation method
LAR España Inversión Logística, S.A.	On incorporation	The acquisition and development of urban properties for lease	100%	Fully consolidated
LAR España Shopping Centres, S.A.	On incorporation	The acquisition and development of urban properties for lease	100%	Fully consolidated
Lar España Parque de Medianas, S.A.	On incorporation	The acquisition and development of urban properties for lease	100%	Fully consolidated
LAR España Offices, S.A.	On incorporation	The acquisition and development of urban properties for lease	100%	Fully consolidated
Riverton Gestión, S.L.U.	On acquisition	The acquisition and development of urban properties for lease	100%	Fully consolidated (ii)
Global Noctua, S.L.	On acquisition	The acquisition and development of urban properties for lease	100%	Fully consolidated (ii)
Lavernia Investments, S.L.	On acquisition	The acquisition and development of urban properties for lease	50%	Equity-accounted method (ii)
Puerta Marítima Ondara, S.L.	On acquisition	The acquisition and development of urban properties for lease	58.78%	Equity-accounted method (i)

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- (i) The Group company Puerta Marítima Ondara, S.L. has been included in the consolidated financial statements using the equity method, in accordance with IFRS 11, because, as stipulated in the articles of association and shareholder agreements, it is jointly controlled by the Parent Company and by Grupo Lar Inversiones Inmobiliarias, S.A.
- (ii) These companies, which were acquired in 2014, did not have any significant activity, assets or liabilities at the acquisition date.

The main indicators for joint ventures (standardized to the regulatory framework applicable to the Group) at 31 December 2014 are as follows:

	Thousands of Euros	
	2014	
	Puerta Marítima Ondara, S.L.	Lavernia Investments, S.L.
Non-current assets	82,576	-
Current assets	2,718	4
Non-current liabilities	46,571	-
Current liabilities	7,959	-
Revenues	5,249	-
Profit for the year	158	(3)

(5) Accounting Principles

(a) Investment property

Investment property is property, including that which is under construction or being developed for future use as investment property, which is earmarked totally or partially to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services, for administrative purposes within the Group or for sale in the ordinary course of business.

All assets classified as investment property are in operation and occupied by various tenants. These properties are intended for lease to third parties. The directors of the Parent Company do not plan to dispose of these assets in the foreseeable future and have therefore decided to maintain these assets in the consolidated statement of financial position as investment property.

Investment property is presented at fair value at the reporting date and is not depreciated. Profits or losses derived from changes in the fair value of the investment properties are recognised when they arise.

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Execution and finance costs are capitalised during the period in which the works are carried out. When the asset enters into service it is recognised at fair value.

When determining the fair value of its investment property, the Group commissions independent appraisers not related to the Group to appraise all of its assets at 30 June and 31 December. Buildings are appraised individually, taking into consideration each of the lease contracts in force at the appraisal date. Buildings with areas that have not been rented out are appraised on the basis of estimated future rents, minus a marketing period.

(b) Leases

(iii) Classification of leases

The Group classifies leases as finance leases when substantially all the risks and rewards incidental to ownership of the leased asset are transferred to the lessee under the terms and conditions of the lease, otherwise they are classified as operating leases. The Group has not engaged in any finance lease transactions.

(iv) Operating leases

- Lessor accounting records

Assets leased to third parties under operating lease contracts are presented according to their nature.

Operating lease income, net of incentives granted, is recognised in income on a straight-line basis over the lease term.

Contingent rents are recognised as income when it is probable that they will be obtained, which is generally when the conditions agreed in the contract arise.

- Lessee accounting records

Lease payments under an operating lease, net of incentives received, are recognised as an expense on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the lease's benefit.

The Group recognises initial direct costs of operating leases as an expense when incurred.

Contingent rents are recognised as an expense when it is probable that they will be incurred.

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(c) Financial instruments

(i) Classification of financial instruments

Financial instruments are classified on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the economic substance of the contractual arrangement and the definitions of a financial asset, a financial liability and an equity instrument in IAS 32 Financial Instruments: Presentation.

The Group recognises financial instruments when it becomes party to the contract or legal transaction, in accordance with the terms set out therein.

Financial instruments are classified into the following categories: loans and receivables, held-to-maturity investments, available-for-sale financial assets and financial liabilities at amortised cost. Financial instruments are classified into different categories based on the nature of the instruments and the Group's intentions on initial recognition.

(ii) Offsetting principles

A financial asset and a financial liability are offset only when the Group currently has the legally enforceable right to offset the recognised amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

(iii) Loans and receivables

This item comprises non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They mainly comprise security deposits received from lessees and placed with public bodies, bank deposits and accrued interest receivable on the deposits. These assets are classified as current unless they mature more than 12 months after the reporting date, in which case they are classified as non-current. Loans and receivables related to trade operations are included under trade and other receivables in the consolidated statement of financial position, and the security deposits and guarantees are shown under non-current financial assets or other current financial assets, according to when they mature.

These financial assets are initially measured at fair value, including directly attributable transaction costs, and subsequently carried at amortised cost, recognising accrued interest at the effective interest rate, which is the discount rate that matches the instrument's carrying amount with all estimated cash flows to maturity. Nevertheless, trade receivables falling due in less than one year are carried at their nominal amount on both initial recognition and subsequent measurement, provided that the effect of not discounting the cash flows is immaterial.

At least at year end, the necessary impairment losses are recognised when there is objective evidence that not all the amounts receivable will be collected.

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(iv) Impairment and uncollectibility of financial assets

A financial asset or a group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and the event or events have an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

- Impairment of financial assets carried at amortised cost

The amount of the impairment loss of financial assets carried at amortised cost is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For floating-rate financial assets, the effective interest rate corresponding to the measurement date under the contractual conditions is used.

If the financial asset is secured by collateral, impairment is determined based on the present value of the cash flows that could be generated from the foreclosure of the asset, less costs of foreclosing and sale, discounted at the original effective interest rate. If the financial asset is not secured by collateral, the Group applies the same criteria when the foreclosure is considered probable.

The Group recognises the impairment loss and uncollectibility of loans and receivables and debt instruments by recognising an allowance account for financial assets. When impairment and uncollectibility are considered irreversible, their carrying amount is eliminated against the allowance account.

The impairment loss is recognised in profit and loss and may be reversed in subsequent periods if the decrease can be objectively related to an event occurring after the impairment has been recognised. The loss can only be reversed to the limit of the amortised cost of the assets had the impairment loss not been recognised. The reversal of the loss is recognised against the allowance account.

(v) Financial liabilities

Financial liabilities, including trade and other payables, are initially recognised at fair value, adjusted for directly attributable transaction costs, and subsequently carried at amortised cost using the effective interest method. The effective interest rate is the discount rate that matches the instrument's carrying amount with the expected future flow of payments to the maturity date of the liability.

Nevertheless, trade payables falling due in less than one year that have no contractual interest rate are carried at their nominal amount on both initial recognition and subsequent measurement, since the effect of discounting the cash flows is immaterial.

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Loans to the Group maturing in more than one year are recognised as non-current liabilities. According to the contractual terms between the Group and the financial institutions, interest payable is recognised as it accrues.

Derecognition of financial assets

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Derecognition and modifications of financial liabilities

The Group derecognises all or part of a financial liability when it either discharges the liability by paying the creditor, or is legally released from primary responsibility for the liability either by process of law or by the creditor.

The exchange of debt instruments between the Group and the counterparty or substantial modifications of initially recognised liabilities are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability, providing the instruments have substantially different terms.

The Group considers the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

If the exchange is accounted for as an extinguishment of the financial liability, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

The difference between the carrying amount of a financial liability, or part of a financial liability, extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

(d) Treasury shares of the Parent Company

The Group's acquisition of equity instruments of the Parent Company is recognised separately at cost of acquisition in the consolidated statement of financial position as a reduction in equity, irrespective of the reason for the purchase. Any gains or losses on transactions with own equity instruments are not recognised.

The subsequent redemption of the equity instruments of the Parent Company entails a capital reduction equivalent to the par value of the shares. Any positive or negative

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difference between the purchase price and the par value of the shares is debited or credited to reserves.

Transaction costs related to own equity instruments are accounted for as a reduction in equity, net of any tax effect.

(e) Distributions to shareholders

Dividends are in cash and are recognised as a reduction in equity when approved by the shareholders.

The Parent Company files taxes under the special regime for SOCIMIs. Pursuant to article 6 of Law 11/2009 of 26 October 2009, amended by Law 16/2012 of 27 December 2012, SOCIMIs adopting the special tax regime are required to distribute profit for the period as dividends to shareholders, after settling all corresponding trading obligations. The dividend distribution must be agreed within six months after each period end and the dividend paid within one month from the date of the agreement.

Pursuant to Law 11/2009 of 26 October 2009, amended by Law 16/2012 of 27 December 2012, the Parent Company must distribute as dividends:

- (i) 100% of profits deriving from dividends or shares of profits distributed by the entities referred to in article 2.1 of Law 11/2009.
- (ii) At least 50% of the profits derived from the transfer of the properties and shares or equity investments referred to in article 2.1 of Law 11/2009, held for the purpose of complying with the principal statutory activity, realised once the periods mentioned in article 3.2 of Law 11/2009 have elapsed. The remainder of these profits must be reinvested in other properties or equity investments to be held for the purpose of complying with the statutory activity, within three years after the transfer date. Otherwise, these profits must be distributed in full together with any profits obtained during the period in which the reinvestment period expires. If the items in which the investment is made are transferred in the mandatory period during which they must be held, the associated profits must be distributed in full together with any profits obtained during the period in which the items were transferred. The mandatory distribution of profits does not apply to any portion of profits attributable to periods in which the Parent Company will not be taxed under the special regime provided for by that law.
- (iii) At least 80% of the remaining profits obtained. When the distribution of dividends is charged to reserves deriving from profits for a period to which the special tax regime has been applied, the distribution must be carried out as described above.

(f) Inventories

Inventories are measured at cost of purchase.

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The purchase price comprises the amount invoiced by the seller, after deduction of any discounts, rebates or other similar items.

The Group uses the same cost formula for all inventories of the same or similar nature and use within the Group.

When the cost of inventories exceeds net realisable value, materials are written down to net realisable value, which is understood to be the estimated selling cost less costs to sell.

The previously recognised write-down is reversed against profit and loss when the circumstances that previously caused inventories to be written down no longer exist or when there is clear evidence of an increase in net realisable value because of changed economic circumstances. The reversal of the valuation adjustment is limited to the lower of the cost and the revised net realisable value of the inventories.

At 31 December 2014 the Group holds inventories comprising the acquisition of several parking spaces linked to a property development transaction intended for sale.

(g) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits in financial institutions. They also include other short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. An investment normally qualifies as a cash equivalent when it has a maturity of less than three months from the date of acquisition.

(h) Employee benefits

Short-term employee benefits comprise employee remuneration other than termination benefits that are expected to be settled wholly before 12 months after the end of the reporting period in which the employees render the related services.

Short-term employee benefits shall be reclassified as long-term if the characteristics of the remuneration are modified or if the expectations regarding settlement change with regard to a non-timing related aspect.

The Group recognises the expected cost of profit-sharing and bonus plans when it has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made.

(i) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

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The amount recognised as a provision in the consolidated statement of financial position is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period, taking into account all risks and uncertainties surrounding the amount to be recognised as a provision and, where the time value of money is material, the financial effect of discounting, provided that the expenditure to be made each period can be reliably estimated. The discount rate is a pre-tax rate that reflects the time value of money and the specific risks for which future cash flows associated with the provision have not been adjusted at each reporting date.

Single obligations are measured using the individual most likely outcome. When the provision involves a large population of identical items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. Where there is a continuous range of possible outcomes, and each point in that range is as likely as any other, the mid-point of the range is used.

The financial effect of provisions is recognised as a finance cost in profit and loss.

The tax effect and expected gains on the disposal of assets are not taken into account in measuring a provision.

Rights to reimbursement from third parties of the expenditure required to settle a provision are recognised as a separate asset provided that it is virtually certain that the reimbursement will be received. Any income deriving from the reimbursement is recognised in profit and loss as a reduction in the provision expense up to the amount of the provision.

If it is not probable that an outflow of resources will be required to settle an obligation, the provision is reversed. The provision is reversed against the consolidated income statement item in which the related expense was recognised, and any surplus is accounted for in other income.

(j) Revenue recognition

Revenue from leases is recognised at the fair value of the consideration received or receivable.

Discounts (rent-free periods and bonuses) granted to customers are recognised as a reduction in sales revenue when it is probable that the discount conditions will be met.

Discounts are recognised by allocating the total amount of rent waived during the rent-free period or of the bonus on a straight-line basis over all the periods in which the tenant's contract is in force. Should the rental contract end sooner than expected, the unrecognised portion of the waived rent or bonus will be recorded in the last period prior to contract termination.

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(i) Lease of investment property to third parties

The principal activity of the companies that form the Group consists of the acquisition and management of shopping centres and offices. However, they may invest on a smaller scale in other assets for rent or for direct sale (commercial premises, logistics bays, logistics centres or residential products). Group revenues originate from the lease of this investment property to third parties.

Revenues derived from the lease of investment property are recognised by reference to the stage of completion at the reporting date when the outcome of the transaction can be estimated reliably. The Group companies recognise revenue from leases on a monthly basis in accordance with the terms and amounts agreed in the different agreements entered into with their tenants. This revenue is recognised only when it can be measured reliably and it is probable that the economic benefits associated with the lease will be received.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of costs incurred that are recoverable.

Invoices issued to tenants include Euros 2,713 thousand for communal charges (shared utility costs, services, etc.) passed on to them. This amount is presented, according to its nature, net of the corresponding expenses under other expenses in the accompanying consolidated statement of comprehensive income for the period ended 31 December 2014.

The Group regularly assesses whether any service contracts are onerous and, where applicable, recognises the necessary provisions.

(k) Income tax

(i) General regime

The income tax expense or tax income for the year comprises current and deferred tax.

Current tax reflects income tax settlements payable for the year. Deductions and other tax relief applicable to payable taxes, excluding withholdings and payments on account, and tax loss carryforwards applied in the current reporting period are accounted for as a reduction in current tax.

Deferred tax income or expenses derive from the recognition and cancellation of deferred tax assets and liabilities. These include temporary differences, which are defined as the amounts which are expected to be paid or recovered in the future for differences between the carrying amount of assets and liabilities and their tax value, as well as tax loss carryforwards and tax deductions pending application. These

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amounts are recognised by applying the rate of tax at which they are expected to be recovered or settled.

(ii) Tax regime for SOCIMIs

The Parent Company and the subsidiaries file tax returns under the special regime for SOCIMIs. This tax regime, following the amendment introduced by Law 16/2012 of 27 December 2012, is based on paying a corporate income tax rate of 0%, provided certain requirements are met. Among these, it bears mentioning that at least 80% of their assets must comprise urban properties for rental under outright ownership or through shares in companies fulfilling these same investment and profit distribution criteria, whether Spanish or foreign and whether quoted in an organised securities market or not. Similarly, the main source of income for these companies must be the real estate market, whether through rentals, the subsequent sale of properties following a minimum rental period, or income from shareholdings in companies of a similar nature. Nevertheless, tax is accrued proportionately to the dividends distributed. Dividends received by shareholders are exempt from tax, unless the recipient is a legal entity subject to corporate income tax or a permanent establishment of a foreign entity, in which case a deduction is applied to the tax payable so that this income is taxed at the tax rate applicable to the shareholder. However, the remaining income is not subject to taxation provided it is not distributed among shareholders.

Pursuant to the ninth transitional provision of Law 11/2009 of 26 October 2009, amended by Law 16/2012 of 27 December 2012, governing SOCIMIs, the entity shall be subject to a special tax rate of 19% on the total amount of dividends or shares in profits distributed among shareholders with an interest in the entity exceeding 5%, when such dividends are tax-exempt or are taxed at a rate of less than 10% at the shareholders' seat of economic activity. The Group has established a procedure whereby shareholders confirm their tax status and, where applicable, 19% of the amount of the dividend distributed among the shareholders that do not meet the aforementioned tax requirements is withheld.

(l) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, whose operating results are regularly reviewed by the Group's chief operating decision-maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

(m) Classification of assets and liabilities as current and non-current

The Group classifies assets and liabilities in the consolidated statement of financial position as current and non-current. Current assets and liabilities are determined as follows:

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- Assets are classified as current when they are expected to be realised or are intended for sale or consumption in the Group's normal operating cycle, they are held primarily for the purpose of trading, they are expected to be realised within 12 months after the reporting date or are cash or a cash equivalent, unless the assets may not be exchanged or used to settle a liability for at least 12 months after the reporting date.
- Liabilities are classified as current when they are expected to be settled in the Group's normal operating cycle, they are held primarily for the purpose of trading, they are due to be settled within 12 months after the reporting date or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(n) Insurance contracts

The Group is insured against civil liability and against damage to the investment property in operation or under construction. In addition, the Group has taken out insurance in connection with the members of the board of directors and senior management.

(o) Environmental information

The Group takes measures to prevent, reduce and repair the damage caused to the environment by its activities.

Expenses derived from environmental activities are recognised as operating expenses in the period in which they are incurred. However, due to its nature, the Group's activity does not have a significant impact on the environment.

(p) Statement of cash flows

The statement of cash flows has been prepared using the indirect method and the following expressions and definitions:

- Cash flows: inflows and outflows of cash and cash equivalents, the latter being short-term, highly liquid investments not subject to significant risk of changes in value.
- Operating activities: the usual activity of the Group and other activities that cannot be classified as investing or financing activities.
- Investing activities: the acquisition, sale or other disposal of non-current assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of equity and of liabilities that do not form part of operating activities.

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(6) Segment Reporting

The Group is organised internally into operating segments, with three distinct lines of business: shopping centres (which comprises the rental of shopping centre and single-tenant commercial premises), offices (constituting the office rental business) and logistics (the logistics bay rental business). These are the strategic business units.

At 31 December 2014 the Group comprises the operating segments listed below, with the following revenues and principal services:

- Shopping centres: Txingudi, Las Huertas, Albacenter, Anec Blau, Hiper Albacenter, Nuevo Alisal and Villaverde.
- Office buildings: Arturo Soria, Cardenal Marcelo Spinola, Egeo and Eloy Gonzalo.
- Logistics: Alovera I and Alovera II.

The profit generated by each segment and by each asset within each segment is used as a measure of its performance because the Group considers that this is the most relevant information by which to assess the profits generated by specific segments as compared with other groups which operate in these businesses.

Details of these activities by segment at 31 December 2014 are shown below:

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	Thousands of Euros				
	2014				
	Shopping centres	Office buildings	Logistics	Head Office and other*	Total
Revenue from external customers:	6,298	1,115	1,193	-	8,606
Revenue from leases	6,298	1,115	1,193	-	8,606
Total revenues	6,298	1,115	1,193	-	8,606
Other income	217	-	-	-	217
Changes in fair value of investment property	462	(27)	7	-	442
Personnel expenses	-	-	-	(108)	(108)
Operating expenses	(2,772)	(374)	(125)	(3,960)	(7,231)
Operating profit (Operating loss)	4,205	714	1,075	(4,068)	1,926
Net finance cost	(195)	(324)	-	2,391	1,872
Equity-accounted investees	(342)	-	-	-	(342)
	3,668	390	1,075	(1,677)	3,456

* The line item Head Office and other essentially comprises the income and expense related to the start-up of the Group.

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Thousands of Euros					
2014					
	Shopping centres	Office buildings	Logistics	Head Office and other*	Total
Investment property	189,053	122,870	46,071	-	357,994
Equity-accounted investees	18,087	-	-	-	18,087
Non-current financial assets	2,029	964	848	-	3,841
Total non-current assets	209,169	123,834	46,919	-	379,922
Inventories	-	-	-	2,843	2,843
Trade and other receivables	1,171	89	-	710	1,970
Other current financial assets	-	-	-	32,032	32,032
Other current assets	95	4	-	37	136
Cash and cash equivalents	-	-	-	20,252	20,252
Total current assets	1,266	93	-	55,874	57,233
Total assets	210,435	123,927	46,919	55,874	437,155

Thousands of Euros					
2014					
	Shopping centres	Office buildings	Logistics	Head Office and other*	Total
Loans and Borrowings	7,822	30,000	-	-	37,822
Other non-current liabilities	3,163	1,084	896	-	5,143
Trade and other payables	1,145	1,909	176	1,449	4,679
Other current liabilities	-	-	-	18	18
Total liabilities	12,130	32,993	1,072	1,467	47,662

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(a) Geographical segments

Revenues per geographical segment are presented on the basis of the location of the assets. Segment assets are also determined by geographical location.

The table below summarises revenues, property, plant and equipment and non-current investment property for each of the assets owned by the Group in each geographical region:

Thousands of Euros				
31 December 2014				
	Revenues	%	Non-current assets	%
Basque Country	1,887	21.93	28,500	7.96
Catalonia	2,377	27.62	81,310	22.71
Castile La Mancha	2,070	24.05	86,962	24.29
Castile and Leon	776	9.02	12,000	3.35
Community of Madrid	1,446	16.80	132,215	36.94
Cantabria	50	0.58	17,007	4.75
	<u>8,606</u>	<u>100.00</u>	<u>357,994</u>	<u>100.00</u>

The Group carries out its activity entirely in Spain.

(b) Main customers

This item presents details of the tenants that contributed the most rental revenues during the period ended 31 December 2014, as well as the main characteristics of each one:

Ranking	Trade name	Project	% of total rental income	% Accumulated	Expiry	Sector
1	Centros Comerciales Carrefour, S.A.	Alovera II (Alondra)	8.05%	8.05%	2015	Distribution
2	Tech Data	Alovera I	4.21%	12.26%	2019	Technology
3	Media Markt	Media Markt Villaverde	4.57%	16.83%	2022	Technology
4	Segurcaixa Adeslas, S.A.	Arturo Soria	3.71%	20.54%	2020	Offices
5	C&A	Txingundi/Anec Blau	3.59%	24.13%	2020	Textile/Fashion
6	Mercadona	Anecblau	3.18%	27.31%	2030	Distribution
7	Los Telares	Txingundi/Las Huertas	2.86%	30.17%	2018	Textile/Fashion
8	Bershka	Albacenter/Anec Blau	2.62%	32.78%	2033 / 2025	Textile/Fashion
9	Pull & Bear	Las Huertas/ Albacenter/ Anec Blau	2.57%	35.36%	2025	Textile/Fashion
10	Zara	Anecblau	2.53%	37.89%	2025	Textile/Fashion

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(7) Investment Property

Details of the Group's investment property and movement during the period ended 31 December 2014 are as follows:

	Thousands of Euros	
	Investment property	Total
Additions for the period	357,552	357,552
Changes in fair value	442	442
Balance at 31 December 2014	357,994	357,994
Fair value at 31 December 2014	357,994	357,994

Investment property is presented at fair value.

The investment property owned by the Group comprises five shopping centres, four office buildings, two single-tenant commercial properties and two logistics bays, and the land on which these are located, which are held to obtain rental income and are not occupied by the Group.

The main additions for 2014 are as follows:

Type of asset	Name	Thousands of Euros	
		Cost of purchase	Fair value at 31 December 2014
Shopping centre	Txingudi	27,811	28,500
Shopping centre	Las Huertas	12,031	12,000
Office building	Arturo Soria	24,563	24,690
Single-tenant commercial premises	Villaverde	9,328	9,345
Shopping centre	Anec Blau	81,290	81,310
Shopping centre	Albacenter	28,968	29,103
Office building	Cardenal Marcelo Spinola	19,539	19,300
Shopping centre	Albacenter hypermarket	11,823	11,788
Single-tenant commercial premises	Nuevo Alisal	17,340	17,007
Office building	Egeo building	65,874	65,980
Office building	Eloy Gonzalo building	12,921	12,900
Logistics bay	Alovera I	12,929	12,900
Logistics bay	Alovera II	33,135	33,171
		357,552	357,994

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At 31 December 2014 Group investment property totalling Euros 81,900 thousand has been pledged as collateral to secure several loans whose balances at 31 December 2014 total Euros 37,822 thousand. The Group has no agreements for the use of investment property, attachment orders thereon or analogous situations.

At 31 December 2014 all buildings comprising investment property are insured.

At 31 December 2014 the Group had no binding commitments to purchase investment property.

(i) Disclosures on the fair value of investment property

Details of the assets measured at fair value and the hierarchy in which they are classified are as follows:

	Thousands of Euros			
	2014			
	Total	Level 1	Level 2	Level 3
Recurrent fair value measurements				
<i>Investment property</i>				
Shopping centres				
- Land	73,096	-	-	73,096
- Buildings	115,957	-	-	115,957
Office buildings				
- Land	63,023	-	-	63,023
- Buildings	59,847	-	-	59,847
Logistics bays				
- Land	4,995	-	-	4,995
- Buildings	41,076	-	-	41,076
Total assets measured recurrently at fair value	357,994	-	-	357,994

No assets have been transferred between the different levels during the period.

At 31 December 2014 details of the gross lettable area and occupancy rate by line of business are as follows:

	Square metres	
	Gross lettable area	Occupancy rate
Shopping centres and single-tenant commercial property	84,904	90.20%
Office buildings	41,732	83.10%
Logistics bays	119,147	91.74%

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The fair value of the investment property was determined by professionally accredited external independent appraisal companies with recent experience in the locations and categories of the properties being appraised. Independent appraisal companies determine the fair value of the Group's investment property portfolio every six months.

The appraisal of this investment is conducted in accordance with the statements of the RICS Valuation - Professional Standards published by The Royal Institution of Chartered Surveyors ("Red Book"), based in the United Kingdom.

The methodology used to calculate the market value of investment assets consists of preparing 10 years' worth of income and expense projections for each asset, which will subsequently be updated at the reporting date using a market discount rate. The residual amount at the end of year 10 is calculated applying a rate of return ("exit yield" or "cap rate") to the net income projections for year 10. The market values thus obtained are analysed by calculating and analysing the yield capitalisation implicit in these values. The projections are aimed at reflecting the Group's best estimate, reviewed by the appraiser, of the future income and expenses of the real estate assets. Both the rate of return and the discount rate are defined in accordance with local property companies and considering the conditions prevailing in the institutional market, and the reasonableness of the market value thus obtained is tested in terms of initial gain.

The appraisal companies that performed the valuations of the Group's investment property at 31 December 2014 are listed below:

	<u>Appraisal Company</u>
Txingudi shopping centre	Cushman & Wakefield
Las Huertas shopping centre	Cushman & Wakefield
Arturo Soria office building	Jones Lang Lasalle España, S.A.
Single-tenant commercial premises Villaverde	Jones Lang Lasalle España, S.A.
Anec Blau shopping centre	Jones Lang Lasalle España, S.A.
Albacenter shopping centre	Jones Lang Lasalle España, S.A.
Cardenal Marcelo Spinola office building	Cushman & Wakefield
Albacenter hypermarket shopping centre	Jones Lang Lasalle España, S.A.
Single-tenant commercial premises Nuevo Alisal	Jones Lang Lasalle España, S.A.
Egeo building	Jones Lang Lasalle España, S.A.
Eloy Gonzalo building	Cushman & Wakefield
Alovera I logistics bay	Cushman & Wakefield
Alovera II logistics bay	Jones Lang Lasalle España, S.A.

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Fees paid by the Group to the appraisal companies for valuations at 31 December 2014 are as follows:

	Thousands of Euros
	<u>2014</u>
Appraisal services	39
	<u>39</u>

The main assumptions used to calculate the fair value of the real estate assets are as follows:

	<u>Net Initial Yield</u>	<u>Discount rate</u>
Shopping centres and single-tenant commercial properties	6.12% - 7.59%	9.2% - 12.18%
Office buildings	5.4% - 5.62%	5.6% - 7.89%
Logistics bays	<u>7.97%</u>	<u>9.29%</u>

The effect on the consolidated assets and the consolidated statement of comprehensive income of a one-quarter percentage point variation in the required rates of return, calculated as the income from the assets divided by their market value, after tax, with respect to investment property, would be as follows:

	<u>Thousands of Euros</u>	
	<u>Consolidated assets</u>	<u>Consolidated statement of comprehensive income</u>
One-quarter point increase in the rate of return	(10,224)	(10,224)
One-quarter point decrease in the rate of return	<u>11,542</u>	<u>11,542</u>

Details of changes in fair value of investment property in the income statement are as follows:

	<u>Thousands of Euros</u>
Shopping centres and single-tenant commercial property	462
Office buildings	(27)
Logistics bays	<u>7</u>
	<u>442</u>

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(8) Operating Leases - Lessee

The Parent Company held an operating lease on premises of the hypermarket at the Albacenter shopping centre, which was owned by a third party. On 19 December 2014, the Group company Lar España Shopping Centres, S.A. acquired these premises, and the lease held by Lar España Real Estate SOCIMI, S.A. on these premises was terminated with immediate effect.

Operating lease instalments recognised as an expense in 2014 are as follows:

	Thousands of Euros
	2014
Minimum lease payments (note 24)	32
	32

(9) Operating Leases – Lessor

At 31 December 2014 the Group has leased the shopping centres, office buildings, single-tenant commercial properties and logistics bays to third parties under operating leases.

The occupancy rates of the buildings for lease at 31 December 2014 are as follows:

	Occupancy rate
Shopping centres and single-tenant commercial property	90.20%
Office buildings	83.10%
Logistics bays	91.74%

The revenues and fair value of each asset are detailed in the table below:

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Thousands of Euros														
	Shopping centres							Offices				Logistics bays		Total
	Txingudi	Huertas	Albacenter	Hiper Albacenter	Anec Blau	Villaverde	Nuevo Alisal	Egeo	Cardenal Marcelo Spinola	Arturo Soria	Eloy Gonzalo	Alovera I	Alovera II	
Revenues*	1,888	776	862	15	2,377	331	50	155	321	638	-	449	744	8,606
Fair value	28,500	12,000	29,103	11,788	81,310	9,345	17,007	65,980	19,300	24.690	12,900	12,900	33,171	357,994

* Revenues for the period from the date of acquisition of the asset. The estimated annualised amount is Euros 22,419 thousand.

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The lease contracts between the Group and its customers stipulate a fixed rent and, where applicable, a variable rent based on the performance of the tenants' activity.

The accrued revenues shown in the preceding table refer to the rental income from shopping centres single-tenant commercial properties, office buildings and bays accrued from 24 March 2014 to 31 December 2014.

Future minimum payments receivable under non-cancellable operating leases are as follows:

	Thousands of Euros
	2014
Less than one year	23,581
One to five years	34,126
Over five years	19,801
	<u>77,508</u>

(10) Financial Assets by Category

(a) Classification of financial assets by category

The Group's financial assets at 31 December 2014 are security deposits placed with public bodies, trade receivables, receivables from public entities and fixed-term cash deposits. The following table shows a breakdown of these assets at 31 December 2014:

	Thousands of Euros	
	2014	
	Non-current	Current
	Carrying amount	Carrying amount
Loans and receivables		
Security deposits and guarantees	3,841	31,735
Other financial assets	-	297
Trade and other receivables		
Trade receivables (note 12)	-	1,260
Public entities, other (note 21)	-	710
Total	<u>3,841</u>	<u>34,002</u>
Total financial assets	<u>3,841</u>	<u>34,002</u>

The carrying amount of financial assets recognised at cost or amortised cost does not differ significantly from their fair value.

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At 31 December 2014, security deposits and guarantees mainly comprise the security deposits and guarantees received from the tenants of the shopping centres mentioned in note 5, which the Group has deposited with the corresponding public bodies (Security deposits and guarantees - non-current) and deposits at financial institutions maturing within less than twelve months after 31 December 2014 (Security deposits and guarantees - current).

Other financial assets (current) reflect accrued interest receivable on current accounts held by the Group. This interest is earned monthly at market rates, and is collected each month in arrears.

(b) Classification of financial assets by maturity

The classification of financial assets by maturity is as follows:

	2014		
	Thousands of Euros		
	Less than 1 year	Indefinite	Total
Security deposits and guarantees	31,735	3,841	35,576
Other financial assets	297	-	297
Trade and other receivables	1,970	-	1,970
	<u>34,002</u>	<u>3,841</u>	<u>37,843</u>

(c) Net losses and gains by category of financial asset

Net losses and gains by category of financial asset are as follows:

	Thousands of Euros	
	2014	
	Loans and receivables	Total
Net finance income at amortised cost	2,391	2,391
Net gains in profit and loss	2,391	2,391
Total	<u>2,391</u>	<u>2,391</u>

(11) Inventories

Inventories reflect parking spaces which the Group acquired during the period for a real estate development project.

This item has a balance of Euros 2,843 thousand for a total of 16 parking spaces.

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Details of inventories and movement during the year are as follows:

	Thousands of Euros	
	2014	
	Parking spaces	Total
Carrying amount at 17 January 2014	-	-
Purchases	2,843	2,843
Balance at 31 December 2014	2,843	2,843

(12) Trade and other receivables

Details of trade and other receivables are as follows:

	Thousands of Euros	
	2014	
	Non-current	Current
Operating lease receivables	-	1,385
Operating lease receivables - pending invoices	-	399
Public entities, other (note 21)	-	710
Less, valuation allowance for uncollectibility	-	(524)
Total	-	1,970

(a) Impairment

Movement in impairment and uncollectibility valuation allowances for amounts payable to the Group by the tenants is as follows:

	Thousands of Euros
	2014
Balance at 17 January	-
Impairment during the year	362
Impairment losses (note 24)	217
Reversals of impairment losses (note 24)	(55)
Total	524

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Impairment during the year and uncollectibility of amounts payable to the Group by the tenants reflect receivables at zero cost relating to the acquisitions of the investment property in the Txingudi and Las Huertas shopping centres.

(13) Cash and Cash Equivalents

Details of cash and cash equivalents are as follows:

	Thousands of Euros
	2014
Banks	20,252
	<u>20,252</u>

At 31 December 2014 the cash at banks is in demand deposits that are available for use.

(14) Equity

(a) Capital

At 31 December 2014 the share capital of Lar España Real Estate SOCIMI, S.A. amounts to Euros 80,060 thousand represented by 40,030,000 registered shares, represented through book entries, with a par value of Euros 2 each, subscribed and fully paid, all granting the same rights.

All of the shares of the Parent Company, Lar España Real Estate SOCIMI, S.A., are quoted on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges. These shares are freely transferable.

The Parent Company was incorporated on 17 January 2014 with a share capital of Euros 60 thousand represented by 30,000 shares of Euros 2 par value each. On 5 February 2014, Grupo Lar Inversiones Inmobiliarias, S.A., at the time the sole shareholder of Lar España Real Estate SOCIMI, S.A., resolved to increase the latter's share capital by Euros 80,000 thousand, to be carried out through the issue of 40 million ordinary shares with a par value of Euros 2 each. The shares were to be sold via a subscription offer and paid in through a monetary contribution (Subscription offer). The sole shareholder also decided to issue the shares at par value of Euros 2, plus a share premium of Euros 8 per share, for a total issue price of Euros 10 per share.

To offset the difference between the share issue price of the shares subscribed by Grupo Lar Inversiones Inmobiliarias S.A. (Euros 2 per share) and that of the Subscription offer (Euros 10 per share), Grupo Lar Inversiones Inmobiliarias, S.A. decided to increase the equity of Lar España Real Estate, SOCIMI, S.A., without increasing the share capital, by making a monetary contribution to equity of Euros 240 thousand, an amount obtained by multiplying the number of shares subscribed by Grupo Lar Inversiones Inmobiliarias

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S.A. when Lar España Real Estate SOCIMI, S.A. was incorporated by the difference between the two share issue prices (Euros 8).

At 31 December 2014 the Parent's main shareholders are as follows:

	2014
Franklin Templeton Institutional, LLC	16.9%
PIMCO Bravo II Fund, L.P.	12.5%
Cohen & Steers, Inc	6.5%
Other shareholders with an interest of less than 5%	64.1%
Total	100%

(b) Share premium

The Revised Spanish Companies Act expressly provides for the use of share premium to increase share capital and does not stipulate any restrictions as to its use.

This reserve is unrestricted provided that the Parent's equity is not reduced to less than its share capital as a result of any distribution.

At 31 December 2014, the Group's share premium stands at Euros 320,000 thousand.

(c) Other reserves

(i) Legal reserve

The legal reserve is to be appropriated in compliance with article 274 of the Revised Spanish Companies Act, which requires that companies transfer 10% of profits for the year to a legal reserve until this reserve reaches an amount equal to 20% of share capital.

The legal reserve is not distributable to shareholders and if it is used to offset losses, in the event that no other reserves are available, the reserve must be replenished with future profits.

At 31 December 2014 the Group has not appropriated to this reserve the minimum amount required by the Revised Spanish Companies Act as 2014 is the first year of activity for Lar España Real Estate SOCIMI, S.A. The reserve will be appropriated using the profit for 2014.

Pursuant to Law 11/2009 which governs SOCIMIs, the legal reserve of companies that have opted to avail themselves of the special tax regime provided by this Law may not exceed 20% of their share capital. The articles of association of these companies may not stipulate any restricted reserve other than the legal reserve.

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(ii) Other reserves

This reserve mainly comprises expenses related to the incorporation of the Parent Company and to the capital increase through a share issue carried out on 5 March 2014 amounting to Euros 9,421 thousand.

(iii) Treasury shares

At 31 December 2014 the Group holds shares of the Parent Company amounting to Euros 4,838 thousand. Movement during the period of 11 months and 14 days is as follows:

	Number of shares	Thousands of Euros
17 January 2014	-	-
Additions	719,551	6,562
Disposals	(188,184)	(1,724)
31 December 2014	<u>531,367</u>	<u>4,838</u>

Parent Company treasury shares held by the Group at 31 December 2014 represent 1.3% of share capital, have a total par value of Euros 1,063 thousand, and an acquisition price of Euros 4,838 thousand, with an average acquisition price per share of Euros 9.10. The average selling price of treasury shares was Euros 9.14 per share. Profits from the sale of treasury shares for the period of 11 months and 14 days amounted to Euros 4 thousand and are recognised under other reserves in the consolidated statement of financial position.

(d) Capital management

The Group is essentially self-financing. The Company may resort to market financing through mortgage-backed loans or funding from related parties solely to fund the acquisition of new investments.

The Group manages its capital with the aim of safeguarding its capacity to continue operating as a going concern, so as to continue providing shareholder remuneration and benefiting other stakeholders, while maintaining an optimum capital structure to reduce the cost of capital.

To maintain and adjust the capital structure, the Group can adjust the amount of dividends payable to shareholders, reimburse capital, issue shares or dispose of assets to reduce debt.

Like other groups in the sector, the Group controls its capital structure on a leverage ratio basis. This ratio is calculated as net debt divided by total capital. Net debt is the sum of financial debt less cash and cash equivalents. Total capital is the sum of equity plus net debt.

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	Thousands of Euros
Total financial debt	37,822
Less cash and cash equivalents	<u>(20,252)</u>
Net debt	17,570
Equity	<u>389,493</u>
Total capital	407,063
Total financial debt	<u>4.31%</u>

(15) Earnings per share

(a) Basic

Basic earnings per share are calculated by dividing the profit for the year attributable to the ordinary shareholders of the Parent by the weighted average number of ordinary shares outstanding during the period, excluding treasury shares.

Details of the calculation of basic earnings per share are as follows:

	Thousands of Euros 31 December 2014
Profit for the period attributable to equity holders of the Parent Company (thousands of Euros)	3,456
Weighted average number of ordinary shares in circulation (number of shares)	38,276,618
Diluted earnings per share (Euros)	<u>0.09</u>

The weighted average number of ordinary shares outstanding is determined as follows:

	31 December 2014
Ordinary shares (incorporation of the Parent Company)	30,000
Share capital increase	38,390,805
Average effect of treasury shares	<u>(144,187)</u>
Weighted average number of ordinary shares in circulation at 31 December (shares)	<u>38,276,618</u>

(b) Diluted

Diluted earnings per share are calculated by adjusting profit for the year attributable to equity holders of the Parent Company and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares; that is, as if all potential ordinary shares treated as dilutive had been converted.

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The Parent Company does not have different classes of ordinary shares that are potentially dilutive.

(16) Financial Liabilities by Category

(c) Classification of financial liabilities by category

The classification of financial liabilities by category and class is as follows:

	2014	
	Non-current	Current
	Carrying amount	Carrying amount
Loans and borrowings	37,666	156
Debts and payables		
Other financial liabilities - security deposits	5,143	-
Trade and other payables		
Trade payables	-	4,410
Personnel	-	18
Public entities, other	-	269
Total financial liabilities	42,809	4,853

The carrying amount of financial liabilities recognised at cost or amortised cost does not differ from their fair value.

(d) Classification of financial liabilities by maturity

Details by maturity of other non-current financial liabilities and trade and other payables are as follows:

	2014				
	Thousands of Euros				
	Less than 1 year	2 to 4 years	More than 5 years	Indefinite	Total
Loans and borrowings	156	468	37,198	-	37,822
Other financial liabilities - security deposits	-	-	-	5,143	5,143
Trade and other payables	4,697	-	-	-	4,697
Total	4,853	468	37,198	5,143	47,662

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(17) Financial Liabilities from Borrowings

(a) Main characteristics of loans and payables

The terms and conditions of loans and payables are as follows:

Rate	Currency	Effective rate	Maturity	Thousands of Euros
				Carrying amount Nominal amount
Lar España Offices, S.A.	Euros	EURIBOR 3M + 2% spread	15 December 2019	30,000
Lar España Parque de Medianas, S.A.	Euros	3.02% (until 16 December 2015). Subsequently EURIBOR 3M + spread	16 June 2025	7,822

On 16 December 2014 the Group company Lar España Offices, S.A. acquired the EGEO office building from MEAG MUNICH ERGO Kapitalanlagegesellschaft mbH Spanish branch ("MEAG"), on which there is a mortgage of Euros 30,000 thousand extended by the bank, Westdeutsche ImmobilienBank AG. The novation of the mortgage loan establishes 15 December 2019 as the new maturity date, on which date all the principal must be paid. The interest on the mortgage loan is accrued and paid quarterly at 3-month Euribor plus a spread of 2%.

On 17 December 2014, the Group company Lar España Parque de Medianas, S.A. assumed the mortgage loan that Bankinter had previously extended to Grupo Empresarial Sadisa, S.L. The assumption of this loan is part of the payment for the acquisition of the Nuevo Alisal single-tenant commercial property retail park, which was acquired by Lar España Parque de Medianas from Grupo Empresarial Sadisa, S.L. The principal of the loan amounts to Euros 7,822 thousand. The principal is payable in equal quarterly instalments. Interest is accrued and payable quarterly at a rate of 3.02% until 16 June 2015, when the rate will be changed to 3-month Euribor plus a spread. The mortgage loan matures on 16 June 2025. The mortgage loan is guaranteed by the asset purchased.

At 31 December 2014 the effective interest rate on borrowings is 2.44%.

(18) Other non-current financial liabilities

Other non-current financial liabilities at 31 December 2014 reflect Euros 5,143 thousand that comprise security deposits delivered to the Group by the various tenants of the commercial premises located in its properties. This amount generally represents two months' rent, which is reimbursed at the end of the contract term.

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(19) Trade and Other Payables

Details of trade and other payables are as follows:

	Thousands of Euros
	2014
Trade payables	3,544
Trade payables, related parties (note 28)	866
Salaries payable	18
Public entities, other (note 21)	269
	<u>4,697</u>

(20) Late Payments to Suppliers. "Reporting Requirement". Third Additional Provision of Law 15/2010 of 5 July 2010

Details of late payments to suppliers by consolidated companies are as follows:

	Thousands of euros	
	Payments made and outstanding at the reporting date	
	2014	
	Amount	%
Within the maximum legal period	370,774	99.77%
Other	861	0.23%
Total payments for the period	371,635	100%
Weighted average payment days	31	-
Weighted average late payment days	29	-
Late payments exceeding the maximum legal period at the reporting date	147	24.78%

Late payments exceeding the maximum legal period at the reporting date (147 thousand euros) as well as the indicated percentage (24.78%) refer to invoices for current transactions received by the Group and pending payment at December 31 2014, with a maturity of more than 60 days, excluding from the calculation provisions for invoices to be received. These invoices for current transactions pending payment (147 thousand euros) represent a 0.04% of the total payments for the year (371,635 thousand euros) made by the Group for the period of 11 months and 14 days ended on December 31 2014.

The amount registered as "Late payments exceeding the maximum legal period at the reporting date" (147 thousand euros) represents 3.33% of the total "Trade and other payables" (4,410 thousand euros excluding balances with the Public Administrations) at December 31, 2014.

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The payments to suppliers reflected in the above table are trade payables as they relate to goods and services, and therefore include the trade payables recognised under current liabilities in the statement of financial position.

Weighted average payment days were calculated by dividing the sum of the products of each payment to suppliers made between 25 December 2014 and 31 December 2014 (6 days) within the legal period and the payment days for each payment, by the total amount paid between 25 December 2014 and 31 December 2014 (6 days) within the legal period.

Weighted average late payment days were calculated by dividing the sum of the products of each payment to suppliers made during the year exceeding the legal payment period and the corresponding number of days exceeded, by the total amount of payments made during the year exceeding the legal payment period.

The maximum legal payment period under Law 3/2004 of 29 December 2004, containing measures to combat late payments in commercial transactions, is 30 days. This period may be extended by mutual consent between the parties but in no event may a period exceeding 60 calendar days be agreed.

(21) Public Entities and Taxation

(a) Current balances with public entities

Receivables

	Thousands of Euros
	31 December 2014
Taxation authorities, VAT recoverable	251
Taxation authorities, other withholdings	459
	<u>710</u>

Payables

	Thousands of Euros
	31 December 2014
Taxation authorities, VAT payable	193
Taxation authorities, personal income tax withholdings payable	72
Social Security contributions payable	4
	<u>269</u>

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(b) Reconciliation of accounting profit and taxable income

At 31 December 2014 the Group's tax base has been calculated on the basis of the accounting profit for the year plus those expenses derived from the incorporation of the Parent Company and its share capital increase that have been recognised directly in equity, the effect of the changes in fair value of investment property and the temporary differences due to the limitations in place. At the reporting date of the consolidated financial statements, the Group has not recognised the corresponding deferred tax assets.

	Thousands of Euros
Profit before tax from continuing operations	3,456
Permanent differences	(10,730)
Temporary differences - Measurement of investment property	(442)
Temporary differences - Others	443
Taxable income (tax loss)	(7,273)
Tax payable (30%)	-
Tax payable (0%)	-
Income tax expense/(tax income)	-

In accordance with the SOCIMI regime, the Parent Company's directors do not expect any asset to be sold before the three-year time limit expires, which is the reason the deferred tax liabilities for the increase in value (IAS 40) have been calculated at 0%.

(c) Years open to inspection and tax inspections

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the taxation authorities or before the inspection period of four years has elapsed. At the 2014 reporting date the Group has open to inspection by the taxation authorities all the main applicable taxes since its incorporation. The Parent Company's directors consider that the aforementioned taxes have been adequately settled and, consequently, even if discrepancies were to arise in the interpretation of prevailing standards with respect to the tax treatment of operations, the accompanying consolidated financial statements would not be significantly affected by any resulting liabilities.

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(d) Reporting requirements for SOCIMIs pursuant to Law 11/2009 amended by Law 16/2012

	2014
a) Reserves from years prior to the application of the tax regime provided in Law 11/2009, amended by Law 16/2012 of 27 December 2012.	-
b) Reserves for each year in which the special tax regime provided by that Law is applicable	Proposed 2014 profits distribution to reserve: Euros 166 thousand to legal reserve and Euros 167 thousand to voluntary reserve.
a. Profits from income subject to the general income tax rate	-
b. Profits from income subject to a tax rate of 19%	-
c. Profits from income subject to a tax rate of 0%	Proposed 2014 profits distribution to reserve: Euros 166 thousand to legal reserve and Euros 167 thousand to voluntary reserve.
c) Dividends distributed with a charge to profits for each year in which the tax regime provided by this Law is applicable	Proposed dividend distribution for 2014: Euros 1,331 thousand
a. Dividends from income subject to the general income tax rate	-
b. Dividends from income subject to a tax rate of 18% (2009) and 19% (2010 to 2012)	-
c. Dividends from income subject to a tax rate of 0%	Proposed dividend distribution for 2014: Euros 1,331 thousand
d) Dividends distributed charged to reserves,	-
a. Distribution charged to reserves subject to the general income tax rate	-
b. Distribution charged to reserves subject to a tax rate of 19%	-
c. Distribution charged to reserves subject to a tax rate of 0%	-
e) Date on which distribution was agreed of dividends referred to in c) and d) above	2014 dividends: Pending AGM
f) Date of acquisition of properties for lease that generate income subject to this special regime	Txingudi shopping centre: 24 March 2014 Las Huertas shopping centre: 24 March 2014 Arturo Soria office building: 29 July 2014 Single-tenant commercial premises Villaverde: 29 July 2014 Albacenter shopping centre: 30 July 2014 Anec Blau shopping centre: 31 July 2014 Cardenal Marcelo Spinola office building: 31 July 2014

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g) Date of acquisition of shares in the capital of the entities referred to by article 2.1 of the above Law.	LAR España Inversión Logística, S.A.: 23 July 2014 Riverton Gestión, S.L.U.: 18 December 2014 LAR España Shopping Centres, S.A.: 4 November 2014 LAR España Offices, S.A.: 4 November 2014 LAR España Parque de Medianas, S.A.: 4 November 2014 Global Noctua, S.L.: 18 December 2014
h) Identification of the asset included in the 80% mentioned in article 3.1 of this Law	<p>- Investment property:</p> <p style="padding-left: 20px;">Txingudi shopping centre Las Huertas shopping centre Arturo Soria office building Single-tenant commercial premises Villaverde Albacenter shopping centre Anec Blau shopping centre Cardenal Marcelo Spinola office building</p> <p>- Capital investments:</p> <p style="padding-left: 20px;">LAR España Inversión Logística, S.A. Riverton Gestión, S.L.U. LAR España Shopping Centres, S.A. LAR España Offices, S.A. LAR España Parque de Medianas, S.A. Global Noctua, S.L.</p>
i) Reserves from years in which the special tax regime provided in this Law is applicable that have been applied in the tax period other than for the distribution thereof or to offset losses. The year from which these reserves have been taken should be specified.	

(22) Risk Management Policy

(a) Financial risk factors

The Group's activities are exposed to various financial risks: market risk, credit risk, liquidity risk and interest rate risk in cash flows. The Group's global risk management programme focuses on uncertainty in the financial markets and aims to minimise the potential adverse effects on the Group's profits.

The senior management of the Group manages risks in accordance with policies approved by the board of directors. Senior management identifies, evaluates and mitigates financial risks in close collaboration with the Group's operational units. The board of directors issues global risk management policies in writing, as well as policies for specific issues such as market risk, interest rate risk, liquidity risk and investments of cash surpluses.

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(i) Market risk

In light of current conditions in the property sector, the Group has established specific measures that it plans to adopt to minimise their impact on its financial position.

The application of these measures is dependent on the outcome of the sensitivity analyses that the Group performs periodically. These analyses take the following factors into consideration:

- The economic environment in which the Group performs its activity: The design of various economic scenarios with different key variables that can affect the Group (interest rates, share price, occupancy rates of investment property, etc.). The identification of variables that are interconnected and their degree of connection.
- Time frame within which the assessment is made: The time frame for the analysis and the potential deviations should be taken into account.

(ii) Credit risk

Defined as the risk of financial loss for the Group if a customer or counterparty fails to discharge its contractual obligations.

The Group is not significantly exposed to credit risk. The Group has policies in place to limit customer credit risk and it manages its exposure to credit recovery risk as part of its normal activities.

The Group has formal procedures in place to detect impairment of trade receivables. By means of these procedures and the individual analysis by business area, delays in payment can be detected and methods for estimating the impairment loss can be established.

The maximum exposure to credit risk for loans and other receivables at the reporting date of the consolidated statement of financial position is as follows:

	In thousands of Euros	
	Note	2014
Security deposits and guarantees	10	35,873
Trade and other receivables	12	1,970
Cash and cash equivalents	13	20,252
		<u>58,095</u>

Group policy for impairment of trade receivables stipulates that a provision must be made for debts of over 90 days for the full amount outstanding, minus any security deposits and guarantees pledged by the debtor.

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Thousands of Euros				
2014				
	Not past due	Less than 3 months	Between 3 months and 6 months	Between 6 months and 1 year
	Total			
Trade and other receivables	399	726	135	710
Total assets	399	726	135	710

At 31 December 2014, the Group has recognised impairment on all trade receivables at risk of default covering the maximum exposure at risk. Impairment of receivables by geographical region representing the Group's activities is as follows:

Thousands of Euros	
2014	
Basque Country	342
Castile and Leon	99
Catalonia	64
Castile La Mancha	19
	524

Cash and cash equivalents

The Group has cash and cash equivalents totalling Euros 20,252 thousand, which represents its maximum exposure to risk associated with these assets.

Cash and cash equivalents are held at banks and financial institutions.

(iii) Liquidity risk

Defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The Group applies a prudent policy to cover its liquidity risks based on having sufficient liquidity to meet its obligations when they fall due in both normal and stressed conditions, without incurring unacceptable losses or placing the Group's reputation at risk.

The Group's exposure to liquidity risk at 31 December 2014 is detailed below. The following tables show the analysis of financial liabilities by remaining contractual maturity dates.

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	2014					
	Thousands of Euros					
			3			
	Less than 1 month	1 to 3 months	months to 1 year	More than 1 year	Indefinite	Total
Loans and borrowings	-	39	117	37,666	-	37,822
Other non-current liabilities - security deposits	-	-	-	-	5,143	5,143
Trade and other payables (excluding balances payable to public entities)	701	3,727	-	-	-	4,428
Total	701	3,766	117	37,666	5,143	47,393

(iv) Cash flow and fair value interest rate risks

At 31 December 2014 the Group holds short-term fixed-rate financial assets (deposits) to generate a return on cash surpluses not invested in investment property. Fixed-rate financial assets are for the most part independent of market interest rate fluctuations.

At the reporting date, income and cash flows from the Group's operating activities are not significantly affected by fluctuations in market interest rates.

(v) Tax risk

As mentioned in note 4(c), the Parent Company and subsidiaries have availed of the special tax regime for SOCIMIs. Pursuant to article 6 of Law 11/2009 of 26 October 2009, amended by Law 16/2012 of 27 December 2012, SOCIMIs adopting the special tax regime are required to distribute profit for the period as dividends to shareholders, after settling all corresponding trading obligations. The dividend distribution must be agreed within six months after each period end and the dividend paid within one month from the date of the agreement (note 4(e)).

Should the shareholders of the companies not approve the dividend distribution proposed by the board of directors, calculated in accordance with the requirements set forth in the aforementioned law, the companies would be in breach of said law and, consequently, would have to file their tax returns under the general tax regime rather than that applicable to SOCIMIs.

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(23) Revenue

Details of revenue are presented in note 6, in conjunction with segment reporting.

(24) Other Expenses

Details of other expenses are as follows:

	Thousands of Euros 2014
Operating lease expenses	32
Independent professional services	5,357
Insurance premiums	139
Bank fees and commissions	6
Advertising and publicity	241
Taxes	582
Impairment losses and uncollectibility of trade and other receivables (see note 12)	162
Remuneration of the Board of Directors*	260
Other expenses	452
	<u>7,231</u>

(25) Employee Benefits Expense

Details of employee benefits expense at 31 December 2014 are as follows:

	Thousands of Euros 2014
Salaries and wages	93
Other benefits and taxes	15
	<u>108</u>

(26) Finance Income and Finance Costs

Details of finance income and finance costs are as follows:

	Thousands of Euros 2014
Finance income from other financial assets at amortised cost	2,391
Finance costs – Mortgage loans	(519)
Total finance income	<u>1,872</u>

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(27) Profit for the Period

Each company's contribution to consolidated profit for the period is as follows:

	Thousands of Euros
	2014
LAR ESPAÑA REAL ESTATE SOCIMI, S.A.	3,602
LAR ESPAÑA INVERSION LOGISTICA, S.A.	1,071
LAR ESPAÑA SHOPPING CENTRES, S.A.	(111)
LAR ESPAÑA OFFICES, S.A.	(171)
LAR ESPAÑA PARQUE DE MEDIANAS, S.A.	(530)
RIVERTON GESTIÓN, S.L.	(60)
GLOBAL NOCTUA, S.L.	(3)
PUERTA MARÍTIMA ONDARA, S.L.	(342)
LAVERNIA INVESTMENTS, S.L.	-
Profit before income tax	3,456
Income tax	-
Profit after income tax	3,456

(28) Related Party Balances and Transactions

(a) Related party transactions and balances

On 12 February 2014, Grupo Lar Inversiones Inmobiliarias, S.A. and Lar España Real Estate SOCIMI, S.A. signed an investment management agreement for the rendering of management services by Grupo Lar Inversiones Inmobiliarias, S.A., including, among others, the acquisition and management of property assets on behalf of the Parent Company and financial management. Under this agreement fixed fees are accrued based on a percentage of the fair value (EPRA NAV) of the investments made plus variable fees based on the profitability of the management services.

These services are recognised as other operating expenses in the consolidated statement of comprehensive income. At 31 December 2014 fee expenses amount to Euros 2,083 thousand and the thresholds for the agreed variable remuneration have not been met.

At 31 December 2014, the Group has a balance payable for this item totalling Euros 771 thousand.

The Group has also signed a contract with a related company, Gentalia 2006, S.L., (an investee of Grupo Lar Inversiones Inmobiliarias, S.A.) for the provision of services related to the management and administration of the properties. At 31 December 2014 the related expense amounts to Euros 288 thousand (of which Euros 95 thousand is outstanding at 31 December 2014).

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(b) Information on the Parent Company's board of directors and senior management personnel of the Group

The remuneration received by the members of the board of directors and senior management personnel of the Group during 2014, classified by item, is as follows:

	Thousands of Euros	
	2014	
	Salaries	Allowances
Board of directors	-	260*
Senior management personnel	93	-

* Allowances for the board of directors include Euros 50 thousand for the non-executive secretary of the board of directors.

At 31 December 2014 the Group has no pension or life insurance obligations with former or current members of the board of directors or senior management personnel of the Parent Company.

At 31 December 2014 no advances or loans have been extended to members of the board or senior management.

(c) Transactions other than ordinary business or under terms differing from market conditions carried out by the directors of the Parent and members of its supervisory board

Apart from the transactions with related parties listed above, in 2014 the directors of the Parent Company and members of its steering committee have not carried out any transactions other than ordinary business or applying terms that differ from market conditions with the Parent Company or any other Group company.

(d) Investments and positions held by the directors and their related parties in other companies

The directors of the Parent Company and their related parties have had no conflicts of interest requiring disclosure in accordance with article 229 of the Revised Spanish Companies Act.

Notwithstanding the above, it is informed that the board member Mr. Miguel Pereda Espeso holds the following positions in other companies.

- i) Board member of Grupo Lar Inversiones Inmobiliarias S.A. (managing company of the Company). This situation of potential conflict of interest was saved at the time being sole shareholder of the company by the appointment of Miguel Pereda as board member of Lar España Real Estate SOCIMI, S.A. on 5 February 2014.

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- ii) President of the board of Villamagna, S.A.
- iii) Chief Executive Officer of Fomento del Entorno Natural, S.L. in which he is as well shareholder (holding property of 13,85% of the shares).
- iv) Positions in affiliated companies of Grupo Lar Inversiones Inmobiliarias S.A. as indicated below:

Company	Position/Role	Number of Shares	Percentage of Participation
Grupo Lar Terciario, S.L.	Individual representing the president of the board of directors of Global Byzas S.L.	N/A	N/A
Inmobérica De Gestión, S.L.	Sole Administrator	N/A	N/A
Grupo Lar Actividad Arrendamiento, S.A.	President and several and joint Chief Executive Officer of the board of directors	N/A	N/A
Grupo Lar Senior, S.L.	Individual representing the president of the board of directors of Desarrollos Ibéricos Lar, S.L. (previously Grupo Lar Desarrollos de Oficinas S.L.)	N/A	N/A
Grupo Lar Europa Del Este, S.L.	Individual representing the secretary of Global Byzas S.L.	N/A	N/A
Grupo Lar Actividad Residencial, S.L.	Individual representing the president of the board of directors of Global Byzas S.L.	N/A	N/A
Parque Comercial Cruce De Caminos, S.L.	Individual representing the joint and several director of Grupo Lar, S.L.	N/A	N/A
Parque Castilleja, S.L.	Individual representing the president of the board of directors of Global Caronte S.L. and the director Global Byzas S.L.	N/A	N/A
Grupo Lar Grosvenor Servicios Dos, S.L.	Individual representing the sole administrator of Grupo Lar Terciario S.L.	N/A	N/A

(29) Employee Information

The average headcount of the Group for the period ended 31 December 2014, distributed by category, is as follows:

	2014
Professional category	
Senior management personnel	2
Board members	5
Total	7

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The distribution of Group personnel by gender at 31 December 2014 is as follows:

	Number	
	2014	
	Female	Male
Senior management personnel	1	2
Board members	-	5
Total	1	7

At 26 June 2014 the Group hired two male employees to fill senior management positions. In November a female employee was hired for one senior management position. The expense associated with these employees at 31 December 2014 is Euros 108 thousand.

(30) Audit Fees

At 31 December the Group recognised the following fees for audit services and other related services provided to the Group by Deloitte, S.L.

	Thousands of Euros
	31 December 2014
Audit-related services	
Audit at 24 January 2014	4
Audit at 31 December 2014	90
Other audit-related services	458
Other services	12
Total	564

Other audit-related services include services rendered for the Company's share capital increase and IPO as well as due diligence work related to asset purchases.

(31) Events after the Reporting Period

On 30 January 2015, the Parent Company signed the acquisition, through two jointly owned companies split 50/50 with the Luxembourg-based company LVS II LUX XIII S.à.r.l., whose investment advisor is Pacific Investment Management Company LLC or its subsidiaries ("PIMCO"), of the following property assets located in a prime neighbourhood in the city of Madrid:

(i) Terrain at Juan Bravo 3 Street to be used for residential development, with a total buildable area of 26,203 sqm, of which the buildable area above ground, according to the special urban plan, is 19,453 sqm with 6,750 sqm spread over three floors below ground.

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(ii) The residential property located at Claudio Coello 108 Street, which has a total built area of 5,318 sqm, of which 4,479 sqm is above ground and 839 sqm below ground, and which is occupied on a rental basis.

In addition, on 12 February 2015 Morgan Stanley & Co. International plc (“Morgan Stanley”), as authorised in the mandate granted by Lar España Real Estate SOCIMI, S.A., successfully completed the prospection process aimed solely at qualified investors for a secured senior bond placement (the “bonds”) to be issued by the Parent Company for a total amount of Euros 140,000 thousand, maturing on 21 February 2022. In accordance with the bond agreement (the “issue”) adopted by the Parent Company's board of directors, the bonds will be issued at par with a face value of Euros 100 thousand and an annual coupon rate of 2.90%.

The bonds are listed on the regulated Main Securities Market of the Irish Stock Exchange.

(32) Explanation added for translation to English

These consolidated annual accounts are presented on the basis of the regulatory financial reporting framework applicable to the Group (see Note 2.a). Certain accounting practices applied by the Group that conform with that regulatory framework may not conform with other generally accepted accounting principles and rules.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

Appendix I

a) Subsidiaries

Company	Registered office	Activity	Auditor	Type of entity	% ownership		Thousand Euros			
					Direct	Total	Share capital	Profit/(loss)	Other equity	Carrying amount of investment
LAR ESPAÑA INVERSIÓN LOGÍSTICA, S.A.	Rosario Pino 14-16; Madrid	The acquisition and development of urban properties for lease	-	Subsidiary	100%	100%	60	840	45,149	45,209
LAR ESPAÑA SHOPPING CENTRES, S.A.	Rosario Pino 14-16; Madrid	The acquisition and development of urban properties for lease	-	Subsidiary	100%	100%	60	(79)	12,000	12,060
LAR ESPAÑA PARQUE DE MEDIANAS, S.A.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	60	(205)	10,500	10,560
LAR ESPAÑA OFFICES, S.A.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	60	(304)	35,200	35,260
RIVERTON GESTIÓN, S.L.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	3	(40)	13,000	13,003
GLOBAL NOCTUA, S.L.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	4	(3)	-	4

b) Joint venture

Company	Registered office	Activity	Auditor	Type of entity	% ownership		Thousand Euros			
					Direct	Total	Share capital	Profit/(loss)	Other equity	Carrying amount of investment
PUERTA MARÍTIMA ONDARA, S.L.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	Deloitte	Associate	58.78%	58.78%	27,240	(308)	3,366	18,425
LAVERNIA INVESTMENTS, SL	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Associate	50%	50%	3	(5)	10	4

Lar España Real Estate SOCIMI, S.A. and subsidiaries

Consolidated Directors' Report for the year ended 31 December 2014

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

1 Situation of the Group

1.1 Situation in the real estate market

Office market

- **Madrid**

At 31 December 2014 the office rental market in the centre of Madrid has seen an improvement in the level of rentals in the central business district (CBD), with an increase of 5.15% with respect to the same period of the prior year. Rental levels in the secondary CBD have remained constant.

The gross take-up for 2014 is up 3% compared with 2013, standing at 390,000 m² at the 2014 reporting date.

At 31 December 2014 the vacancy rate is 12.1%.

The rental price of prime properties in Madrid is Euros 25.5/m²/month.

- **Barcelona**

Rental prices in Barcelona have risen 3.38% in 2014. Paseo de Gracia and Diagonal have seen an increase of 1.42% compared with the same period of the prior year.

The gross take-up in 2014 was 281,700 m², reflecting an increase of 51% on 2013 figures.

At 31 December 2014 the vacancy rate is 12.5%.

The rental price of prime properties in Barcelona is Euros 17.75/m²/month.

Logistics market

The volume of investment has increased from approximately Euros 100 million in 2013 to over Euros 600 million at the 2014 reporting date as a result of investments from large institutional investors and recently created SOCIMIs (listed corporations for investment in the real estate market - Spanish "REITs").

Returns have ranged from 7.25% to 8.25%.

Take-up has risen with respect to 2013, although to a lesser extent than investment volume.

Residential market

According to the latest statistical data published by the Spanish National Statistics Office (INE), prices in the residential market have climbed 1.6% in 2014.

It should be noted that this includes a 2% increase in the price of new homes and a 1.5% rise in the price of second hand homes.

New real estate developments have been undertaken in Madrid and Barcelona, where the offering of residential property is limited.

Commercial premises

According to the latest report published by the INE, at 30 December 2014 the national occupancy rate was up 0.9% compared with 2013.

This improvement has been supported by the 1.2% rise in sales in shopping centres at 31 December 2014 with respect to the same period in 2013.

The general retail trade index has improved by 1.9% in 2014, with the personal accessories (0.9%), household accessories (6.6%) and other (1.4%) sectors performing particularly well.

Consumer spending in Spain is currently recovering and has improved with respect to 2013.

Investment market

The investment market has become more competitive, due primarily to the following factors:

- The appearance of new SOCIMIs competing for certain types of assets.
- Growing interest in the Spanish market among international investors looking for opportunities.
- Financing has improved in terms of LTV and cost.
- There has not been a particularly extensive market of real estate available for sale in 2014, especially in the office sector.

Asset management capacity and access to the market will be the key elements for predicting the behaviour of the Spanish real estate sector in the coming months.

These trends have not altered the initially planned investment schedule or the expected returns therefrom.

1.2 Organisational structure and functioning

The Group comprises a group of recently incorporated companies that outsource their management functions. It has assigned Grupo Lar Inversiones Inmobiliarias, S.A. to be the sole manager. This company has over 40 years' experience in the real estate market and a long history of generating value over the course of various real estate cycles spanning recent decades and has alliances with some of the most renowned international investors.

The main responsibilities of the Parent's board of directors include establishing an investment strategy, allocating resources, managing risks and corporate control, as well as bookkeeping and preparing the financial reports.

The Group's activity focuses primarily on three types of assets:

- Shopping centres: the lease of commercial premises and of single-tenant commercial properties.

The Group's strategy is based on seeking out shopping centres with high growth potential and deficiencies in asset management, particularly where there are opportunities for replacement or expansion.

The Group intends to continue investing in single-tenant commercial properties in favourable locations and with good transport links.

The Group's investment approach is to evaluate the possibility of entering into joint venture agreements in order to limit asset concentration risk and be able to access larger commercial premises.

- Office: office rental business.

The Group focuses primarily on the Madrid and Barcelona markets, which attract the greatest interest from institutional investors and have the highest levels of liquidity. The Group's strategy is to invest in refurbishment and the improvement of installations and occupancy rates of existing buildings.

- Logistics: logistics centre rental business.

The Group seeks to invest in large centres located in logistics platforms with good land transport connections and high-profile tenants. It also seeks out assets and locations where rental prices are projected to grow.

The Group is planning to invest in the residential market, with a particular focus on first homes located in the most consolidated areas of the largest cities in Spain. (See note 31 to the annual accounts).

The Group's investment policy principally encompasses:

- Investment opportunities in medium-sized assets that offer significant opportunities for management, avoiding segments with higher levels of competition.
- Risk diversification, expanding throughout Spain with the primary focus being on investments in commercial premises. With respect to offices and logistics centres, the focus is on Madrid, Barcelona and, to a lesser extent, certain large cities such as Valencia, Seville etc., while in the residential market (first homes) the focus is on the main cities and market segments with a limited offering. This will give the Group a portfolio that is diverse in terms of both asset type and location.

The Group has a robust pipeline that will enable it to comfortably achieve its investment plans as forecast.

For further information on lines of business and geographical areas see note 6 to the consolidated annual accounts.

2 Business outlook

2.1 Introduction

At the 2014 reporting date the Group's revenues amount to Euros 8,606 thousand derived from the Group's activity, i.e. the rental business.

The Group's other operating expenses for 2014 amount to Euros 7,231 thousand and primarily relate to advisory services for the acquisition of assets (commercial, technical and legal due diligence etc.) provided by entities not related to the Parent (Euros 2,597 thousand) and the fees for management services provided to the Parent by Grupo Lar Inversiones Inmobiliarias, S.A. (Euros 2,083 thousand).

Operating profit before revaluations, provisions and interest (EBITDA) totals Euros 1,926 thousand.

The independent appraisal performed by Cushman & Wakefield and Jones Lang LaSalle at the reporting date revalued the Group's real estate investments by Euros 442 thousand.

At the 2014 reporting date the Group's rental business was valued at Euros 357,740 thousand by the same independent appraisers mentioned in the previous paragraph. The appraisal values are updated every six months in line with market best practices (see note 7).

Net finance income is Euros 1,872 thousand excluding the profit/(loss) on equity-accounted investees.

The Group made a profit of Euros 3,456 thousand in 2014.

By area of activity is should be noted that:

- A significant percentage of the Group's revenues comprises rental income from shopping centres, which represents 73% of total revenues, compared with rental income from offices and logistics, which accounts for 13% and 14%, respectively.
- Over 67% of rental income from shopping centres is earned through the Txingudi and Aneclau shopping centres.

At 31 December 2014 the Group's entire business has an occupancy rate of 89.75% of the gross lettable area (GLA), with occupancy rates of 90.2% in shopping centres, 83.1% in offices and 91.7% in logistics.

At the 2014 reporting date the Group has a portfolio of rental property projects that includes seven shopping centres (84,904 sqm), four office buildings (41,732 sqm) and two logistics centres (119,147 m²), with a total gross lettable area of 245,783 sqm.

2.2 Other financial indicators

At 31 December 2014 the Group presents the following financial indicators:

- Working capital of Euros 52,380 thousand.
- Liquidity ratio of 11.8.
- Solvency ratio of 1.1.

These ratios are high, indicating that the Group has sufficient liquidity and a substantial security margin to meet its payment obligations.

The ROE (Return on Equity), which measures the return obtained by the Group on its equity, is 0.89%; the ROA (Return on Assets), which measures the efficiency of the Group's total assets irrespective of the sources of financing employed, i.e., the capacity of the assets of a company to generate income, is 0.79%.

2.3 Environmental and personnel issues

Environmental issues

The Group takes measures to prevent, reduce and repair the damage caused to the environment by its activities. However, due to its nature, the Group's activity does not have a significant impact on the environment.

Personnel

See note 29 to the consolidated annual accounts.

3 Liquidity and capital

3.1 Liquidity and capital

In what has been the Group's first year of activity, the Parent has obtained its liquidity primarily by issuing 40,030,000 shares of Euros 2 par value each plus a share premium of Euros 8 per share.

The Group's outstanding financial debt totals Euros 37,822 thousand at 31 December. This level of debt is due to the acquisition of the Egeo office building and the Nuevo Alisal shopping centre during the year.

The Group aims for the maturity of its debt to be in line with its capacity to generate cash flows to service this debt.

See section 1.2 of this report for details of how the Group expects to fund its future investments.

3.2 Analysis of contractual obligations and off-balance sheet transactions

At 31 December 2014 the Group does not have any contractual obligations that would give rise to future cash outflows.

At 31 December 2014 the Group does not have any off-balance sheet transactions that have had, or will foreseeably have, a significant effect on the Group's financial position, income and expense structure, results of operations, liquidity, capital expenses or equity.

4 Main risks and uncertainties

See note 22 to the consolidated annual accounts and section E of the Corporate Governance Report for 2014.

5 Events after the reporting period

See note 31 to the consolidated annual accounts.

6 Outlook for the Group

The outlook for the Spanish rental market is as follows:

- 2015 is expected to be the year of consolidation and subsequent upturn in activity in the Spanish real estate market in general.
- There will be divergences in price, returns and availability between different areas.
- The offering in the rental market is predicted to grow as a result of assets that were acquired by investors when prices in the sector were at their lowest point now becoming available on the market.
- Prices are expected to increase, while returns in prime areas in Madrid and Barcelona will decline as a result of the scant offering of premium assets coupled with rising demand, especially from institutional investors.

Given the current level of reserves, we are confident that the Group will be able to continue making good progress in 2015 and subsequent years.

See section 1.2 of this report for information on the investments that the Group expects to carry out in the future.

7 R&D&i activities

Given the characteristics, activities and structure of the companies comprising the Group they do not usually engage in research, development or innovation activities.

8 Acquisition and disposal of treasury shares

See note 14.c.iii) to the consolidated annual accounts for information on treasury share transactions.

These purchases were carried out in the framework of a discretionary treasury share management agreement that was reported to the CNMV in compliance with the recommendations published by that entity on 18 July 2013.

At 31 December 2014 the share price is Euros 9.18.

At the 2014 reporting date the Parent holds 531,367 shares, which represent 1.3% of the total shares issued.

9 Other significant information

9.1 Stock market information

The IPO share price was Euros 10 and the par value of the Parent's shares at the reporting date is Euros 9.18. The average share price for the year has been Euros 9.59.

The Group does not currently have a credit rating from the main international ratings agencies.

9.2 Dividend policy

See note 5.e) to the consolidated annual accounts for information on the dividend policy.

9.3 Average payment period for suppliers

The average payment period for suppliers stood is 31 days.

10 Annual Corporate Governance Report

For the purposes of article 538 of the Spanish Companies Act, it should be noted that the 2014 Annual Corporate Governance Report forms part of this Directors' Report.

EXHIBIT I
ANNUAL CORPORATE GOVERNANCE REPORT FOR PUBLICLY-LISTED
COMPANIES

DATA IDENTIFYING THE ISSUER

FINANCIAL YEAR END:

TAX ID NUMBER (CIF): A-86918307

Registered Business name:

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Registered office:

Rosario Pino 14-16, Madrid.

ANNUAL CORPORATE GOVERNANCE REPORT FORM FOR PUBLICLY LISTED COMPANIES

A OWNERSHIP STRUCTURE

A.1 Complete the following table on the company's share capital:

Date of last modification	Share capital (€)	Number of shares	Number of voting rights
05/03/2014	80,060,000	40,030,000	40,030,000

State whether there are different classes of shares with different rights attaching to them:

Yes ☐ No ☒

Class	Number of shares	Unit par value	Unit no. of voting rights	Other rights

A.2 List the company's significant direct and indirect shareholders at year-end, excluding directors:

Name or company name of shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
AMERIPRISE FINANCIAL, INC	0	1,500,000	3.747%
BESTINVER GESTION, S.A., S.G.I.I.C.	0	1,674,681	4.184%
COHEN & STEERS, INC.	0	2,618,092	6.540%
FRANKLIN TEMPLETON INSTITUTIONAL, LLC	0	6,773,300	16.921%
PIMCO BRAVO II FUND, L.P.	0	5,000,000	12.491%

(*) Held through:

Name or company name of the direct shareholder	Number of direct voting rights	% of total voting rights
AMERIPRISE FINANCIAL- Various funds managed by different management companies under the control of the declarant.	Not broken down into the CNMV's notice	3.747%
BESTINVER GESTION, S.A., S.G.I.I.C. –	Not broken down into	4.184%

Through a Collective Investment Institution and Other	the CNMV's notice	
COHEN & STEERS CAPITAL MANAGEMENT INC	Not broken down into the CNMV's notice	4.880%
COHEN & STEERS UK LIMITED	Not broken down into the CNMV's notice	1.660%
FTIF - FRK EUR SMALL MID CP	Not broken down into the CNMV's notice	9.728%
FGT- FRANKLIN INTERNATIONAL SMALL CAP GROWTH FUND	2,504,000	6.255%
JNL- FRANKLIN TEMPLETON INTERNATIONAL SMALL CAP GROWTH FUND	Not broken down into the CNMV's notice	0.937%
PIMCO BRAVO II FUND, L.P- A través de LVS II LUX XII, S.A.R.L.	Not broken down into the CNMV's notice	12.491%

Indicate the most significant movements in the shareholder structure during the financial year:

Name or company name of shareholder	Transaction date	Nature of the transaction
AMERIPRISE FINANCIAL, INC	05/03/2014	Exceeds 3% threshold
BESTINVER GESTION, S.A., SGIIC	05/03/2014	Exceeds 3% threshold
COHEN & STEERS, INC.	05/03/2014	Exceeds 5% threshold
FRANKLIN TEMPLETON INSTITUTIONAL, LLC.	05/03/2014	Exceeds 5% threshold
FTIF- FRK EUR SMALL MID CAP	05/03/2014	Exceeds 5% threshold
PIMCO BRAVO FUND II, L.P.	05/03/2014	Exceeds 10% threshold
MARSHALL WACE HOLDINGS LTD.	05/03/2014	Exceeds 3% threshold
UBS AG	05/03/2014	Exceeds 3% threshold
UBS AG	07/04/2014	Downs 3% threshold
FRANKLIN TEMPLETON INSTITUTIONAL, LLC.	30/05/2014	Exceeds 10% threshold
DEUTSCHE BANK AG	18/06/2014	Exceeds 3% threshold

MARSHALL WACE HOLDINGS LTD.	20/06/2014	Downs 3% threshold
COHEN & STEERS, INC.	15/07/2014	Downs 5% threshold
DEUTSCHE BANK AG	04/08/2014	Downs 3% threshold
FRANKLIN INTERNATIONAL SMALL CAP GROWTH FUND	14/08/2014	Exceeds 3% threshold
FRANKLIN INTERNATIONAL SMALL CAP GROWTH FUND	17/09/2014	Exceeds 5% threshold
FRANKLIN TEMPLETON INSTITUTIONAL, LLC.	17/09/2014	Exceeds 15% threshold

A.3 Complete the following tables detailing the directors who have voting shares in the company:

Name or company name of director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
Del Valle Doblado, José Luis	0		0.000
Emmott , Alec	500		0.001
Cooke, Roger M.	0		0.000
Miguel Pereda Espeso	0		0.000
Uriarte Santamarina, Pedro Luis	24,500		0.061

(*) Held through:

Name or company name of shareholder	Number of direct voting rights	% of total voting rights

% of total voting shares held by the board of directors	0.062
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Complete the following table detailing the directors who have stock options in the company:

Name or company name of the director	Number of stock options held directly	Number of stock options held indirectly	Number of equivalent shares	% of total voting rights

A.4 Where applicable, list family, commercial, contractual or corporate relationships between significant shareholders, to the extent that the company is aware of them, unless they are scanty material or derive from the company's ordinary course of business:

Name or company name of related party	Type of relationship	Brief description

- A.5** Where applicable, list commercial, contractual or corporate relationships between significant shareholders and the company and/or its group, unless they are scanty material or derive from the company's ordinary course of business:

Name or company name of related party	Type of relationship	Brief description
LVS II LUX XII, S.A.R.L.	Contractual "subscription Agreement"	Rights regarding the first offer in relation to certain co-investment opportunities in commercial and residential real estate

- A.6** Indicate whether the company has been notified of any agreements between shareholders within the meaning of article 112 of the Spanish Securities Market Act. Provide a brief description and list the shareholders bound by them, as applicable:

Yes ☐ No ☒

Shareholders bound by agreement	% of share capital affected	Brief description of agreement

Indicate whether the company is aware of the existence of any concerted actions among its shareholders. If so, describe briefly.

Yes ☐ No ☒

Parties to the concerted actions	% of share capital affected	Brief description of the concerted action

Expressly indicate any change in, or break-up of, said concerted actions or agreements during the year.

- A.7** Indicate whether any natural or legal persons currently exercise or may exercise control over the company pursuant to article 4 of the Spanish Securities Market Act. If so, identify them.

Yes ☐ No ☒

Name or company name

Remarks

A.8 Complete the following tables on the company's treasury stock:

At year end:

Number of shares held directly	Number of shares held indirectly (*)	% of total share capital
531,367	0	1.33%

(*) Held through:

Name or company name of the direct shareholder	Number of shares held directly
Not applicable	Not applicable
TOTAL	

List any significant variations arising during the financial year, pursuant to Spanish Royal Decree 1362/2007:

Date of notification	Total no. of directly-held shares acquired	Total no. of indirectly-held shares acquired	% of total share capital
31/10/2014	402,082		1%

Gains / (losses) from treasury stock sold during the financial year	4 thousand euros
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A.9 Detail the terms and conditions of the authorisation conferred at the general meeting to the board of directors to purchase or sell treasury stock.

As stipulated in article 5.k of the Shareholder Meeting Regulations, it is the remit of the shareholders in general meeting to authorise the derivative acquisition of own shares.

Against this backdrop, on 5 February 2014 Grupo Lar Inversiones Inmobiliarias, S.L., in its capacity as sole shareholder of Lar España Real Estate, S.A. (sole-shareholder company), granted the Board of Directors the following authorisations:

- In keeping with the terms of article 297.1b) of the Spanish Corporate Enterprises Act, to increase share capital, during a period of up to five years, if considered opportune, by as much as half of current share capital, on one or more occasions; the Board of Directors is entitled to choose the optimal timing and amount of such capital raises and to waive preferential subscription rights.
- To issue bonds, debentures and other fixed-income securities, whether simple or exchangeable and/or convertible into shares, warrants, promissory notes and preference shares; the Board is also entitled to waive preferential subscription

rights and to allow the Company to guarantee fixed-income securities issued by subsidiaries.

- The derivative acquisition of own shares, either directly or through Group companies, and to sell them after the date of admission to trading on the stock market.

A.10 Itemise any restrictions on the ability to transfer securities and/or exercise voting rights. Specifically indicate the existence of any restrictions intended to impede the company's takeover by means of share purchases on the open market.

Indicate whether there are any legal restrictions on the exercise of voting rights:

Yes ☐ No ☒

Description of the restrictions

A.11 Indicate whether any measures have been adopted at the general meeting with the aim of neutralising a hypothetical takeover bid within the meaning of Spanish Law 6/2007.

Yes ☐ No ☒

If so, explain the measures approved and the terms under which they could be rendered unenforceable:

A.12 Indicate whether the company has issued any securities that are not traded on a regulated European Union exchange.

Yes ☐ No ☒

If so, indicate the various classes of shares, listing the rights and obligations conferred in respect of each class.

B**GENERAL MEETING**

- B.1** Indicate the quorum for validly calling the shareholders' meeting to order and detail any differences with respect to the minimum quorums stipulated in the Spanish Corporate Enterprises Act.

Yes ☐ No **X**

- B.2** Indicate and detail any differences between the rules governing the adoption of corporate resolutions and the regime set forth in the Spanish Corporate Enterprises Act:

Yes **X** No ☐

Describe any differences from the provisions set forth in the Spanish Corporate Enterprises Act:

Article 17 of the Shareholder Meeting Regulations stipulates in sections 2, 4 and 5 the regime applicable to ratifying corporate resolutions:

2. For the valid ratification at ordinary or extraordinary General Meetings of shareholders of the issuance of debentures, the waiving or curtailment of pre-emptive subscription rights in issues of new shares or the transformation, merger or spin-off of the Company, the assignment of all its assets and liabilities or the transfer of its registered office abroad, and, in general, any amendment to the Company's Articles of Association, the attendance of shareholders, in person or by proxy, holding at least 50% of subscribed voting share capital will be necessary on first call. At second call, the quorum falls to 25%. However, when attending shareholders represent less than 50% of subscribed voting share capital, the resolutions referred to in this paragraph may only be validly ratified pursuant to the favourable vote of two-thirds of the capital present or represented at the General Meeting.

4. In the event that applicable law or the Articles of Association require a specific quorum for the valid ratification of a resolution regarding one or more General Meeting agenda items and such quorum is not met on first call, the General Meeting shall be held on second call; if the required quorum is also not met on second call, the General Meeting held on second call shall be limited to deliberating the agenda items that do not require such a quorum for valid resolution ratification.

5. The provisions of this article shall be deemed to be without prejudice to the qualified majorities for meeting or resolution quorums that may be established under prevailing law or in the Articles of Association.

- B.3** Indicate the rules governing the amendment of the company's bylaws. Specifically, indicate the majorities required to amend the bylaws and any rules in place for protecting shareholders' rights in these instances.

There are no specific rules governing the amendment of the company's Articles of Association.

- B.4** Indicate the attendance figures for the shareholder meetings held during the year to which this report relates and during the prior year:

Attendance data					
General meeting date	% attending in person	% attending by proxy	% correspondence voting		Total
			Votes cast electronically	Other	

B.5 Indicate whether the bylaws impose any minimum requirement on the number of shares required to attend the general meeting.

Yes ☐ No ☒

B.6 Indicate whether resolutions entailing a fundamental corporate change (“subsidiarisation”, sale-purchase of core business assets, transactions tantamount to the company’s liquidation, etc.) have to be submitted for shareholder approval even when not expressly required under prevailing company law.

Yes ☒ No ☐

One of the powers reserved to the shareholders in general meeting, as provided in article 5.j of the Shareholder Meeting Regulations, is approval of transactions entailing a fundamental structural change in the Company, specifically the following changes: (i) transformation of listed companies in holding companies by means of "subsidiarisation" or the transfer of core business activities formerly carried out by the Company to subsidiaries, even if the former retains full control over the latter; and (ii) the acquisition of disposal of core business assets when so doing effectively changes the Company's corporate purpose.

B.7 Indicate the address and mode of accessing corporate governance content on your company's website as well as other general meeting related disclosures which must be provided to shareholders on the corporate website.

<http://larespana.com> > Corporate Governance > Shareholders Meeting

C**CORPORATE GOVERNANCE STRUCTURE****C.1 Board of Directors**

C.1.1. State the maximum and minimum number of directors stipulated in the company's bylaws:

Maximum number of directors	15
Minimum number of directors	5

C.1.2. Fill in the following table with the board members' details:

Name or company name of director	Representative	Position on the board	Date of first appointment	Date of last appointment	Election procedure
José Luis del Valle Doblado		Independent Chairman	05/02/2014		Not applicable
Alec Emmott		Independent director	05/02/2014		Not applicable
Roger M. Cooke		Independent director	05/02/2014		Not applicable
Miguel Pereda Espeso		Proprietary director	05/02/2014		Not applicable
Pedro Luis Uriarte Santamarina		Independent director	05/02/2014		Not applicable

Total number of directors	5
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Indicate any members who stepped down during the reporting period:

Name or company name of director	Status of director at the time of departure	Date of departure

C.1.3. Fill in the following tables on the various classes of directorships:

EXECUTIVE DIRECTORS

Name or company name of director	Committee endorsing appointment	Position at the company

Total number of executive directors	
% of total board members	

EXTERNAL PROPRIETARY DIRECTORS

Name or company name of director	Committee endorsing appointment	Name or company name of the significant shareholder represented or proposing the appointment
Miguel Pereda Espeso	Not applicable	Grupo Lar Inversiones Inmobiliarias, S.A.

Total number of proprietary directors	1
% of total board members	20

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of director

Mr. JOSE LUIS DEL VALLE

Background

Mr. del Valle has a very wide career in the banking and energy sector. From 1988 until 2002, Mr. del Valle held different positions in Banco Santander, one of the largest banks in Spain. In 1999 he was appointed Executive Vice President and Chief Financial Officer of the bank (1999-2002). He subsequently served as Chief Strategy and Research Officer of Iberdrola, one of the leading energy companies in Spain (2002-2008), Chief Executive Officer of Scottish Power (2007-2008), Chief Strategy and Research Officer of Iberdrola (2008-2010) and Advisor to the Chairman of wind turbine manufacturer Gamesa (2011-2012). Mr. del Valle is currently Chairman of the Board of GES – Global Energy Services, a leading independent service provider of construction, operations and maintenance services to the global renewable energy industry and a member of the Accenture Global Energy Board. Mr. del Valle holds a Mining Engineering degree from Universidad Politécnica (Madrid, Spain), with no. 1 ranking of his class, and a Master of Science and Nuclear Engineering from the Massachusetts Institute of Technology (Boston, USA). He also holds an MBA with High Distinction from Harvard Business School (Boston, USA).

Name or company name of director

Mr. PEDRO LUIS URIARTE

Background

Mr. Uriarte has a long professional career. From 1975 to 2001 he held different positions in BBVA, one of the largest banks in Spain such as ViceChairman both in BBV and BBVA. He was appointed CEO of BBV in 1994. He served as Deputy Chairman of the board of Telefonica, the Spanish leading telecom company in the Spanish market. Mr. Uriarte was appointed Regional Minister of Economy and Finance of the Basque Government in 1980. In 2007 he founded and headed Innobasque, the Basque Innovation Agency. He is currently Executive Chairman of “Economía, Empresa, Estrategia”, a strategic consultancy firm, and sits on several different companies’ boards of directors or advisory boards. He is also Deputy Chairman of Bilbao Civil Council and was a member of the board of UNICEF Spain. Mr. Uriarte holds a Business and Law degree from Deusto University (Bilbao, Spain) and is a member of the Board and Executive Committee of Deusto Business School and has been honoured with many relevant professional accolades such as the “Gran Cruz al Mérito Civil” (Spanish Government) in 2002 or “Manager of the Year” (Spanish Confederation of Managers & Executives – CEDE) in 2011.

Name or company name of director

Mr. ALEC EMMOT

Background

Mr. Emmott has a wide career in the listed and unlisted real estate sector in Europe, and is based in Paris. He served as CEO of Société Foncière Lyonnaise (SFL) from 1997 to 2007 and subsequently as senior advisor to SFL until 2012. He is currently the Principal of Europroperty Consulting, and since 2011, is a Director of CeGeREAL S.A. (representing Europroperty Consulting). He is also member of the advisory committee of Weinberg Real Estate Partners (WREP I and II), Cityhold AP and MITSUI FUDOSAN. He has been a member of the Royal Institution of Chartered Surveyors (MRICS) since 1971. Mr. Emmott holds an MA from Trinity College (Cambridge UK).

Name or company name of director

Mr. ROGER M. COOKE

Background

Mr. Cooke is an experienced professional with more than 30 years of experience in the real estate sector. Mr. Cooke joined Cushman & Wakefield in 1980 in London where he had a role in drafting valuation standards (Red Book). Since 1995 until the end of 2013, he served as General Director of Cushman & Wakefield Spain, leading the company to attain a leading position in the sector. Mr. Cooke holds an Urban Estate Surveying degree from Trent Polytechnic University (Nottingham, UK) and is currently President of the British Chamber of Commerce in Spain and a Fellow of the Royal Institution of Chartered Surveyors (FRICS). Since May 2014, Mr. Cooke is a Senior Advisor at Ernst & Young.

Total number of independent directors	4
% of total board members	80

List any independent directors who receive from the company or any of its group companies any amount or benefit other than their remuneration as directors, along with those that currently have or have had during the reporting period a business relationship with the company or any company within its group, either directly or in their capacity as significant shareholder, director or senior executive of an entity party to such an arrangement.

If so, include a substantiated statement from the board arguing the reasons for which it believes the director in question can carry on its duties as an independent director.

Name or company name of director**Description of the relationship****Substantiated statement****Name or company name of director****Description of the relationship****Substantiated statement**

OTHER EXTERNAL DIRECTORS

Name or company name of director	Committee endorsing or proposing appointment

Total number of other external directors	
% of total members	

List the reasons why they cannot be considered proprietary or independent and the links that person maintains with the company, its senior officers or its shareholders:

Name or company name of director

Related company, officer or shareholder

Reasons

List any changes in director classification during the reporting period:

C.1.4 Fill in the following table detailing the number of female directors serving on the board during the last four years and their classification:

	Number of female directors				% of of each directorship category			
	2013	2012	2011	2010	2013	2012	2011	2010
Executive								
Proprietary								
Independent								
Other external								
Total:								

C.1.5 Outline the measures taken, if any, to endeavour to include enough women on the board to achieve balanced gender representation.

Article 34 of the Articles of Association state that the shareholders in general meeting and the Board of Directors should attempt to foster balanced gender representation on the Board.

C.1.6 Indicate whether the nomination committee has taken any measures to ensure the process of filling board vacancies is not implicitly biased against female candidates, and whether the company makes a conscious effort to seek out female candidates that match the required profile:

Explanation of the measures
Lar España was incorporated on 17/01/2014 and did not have a specific director selection procedure in place in 2014. However, the Appointments

and Remuneration Committee plans to establish a director selection policy in 2015 with a view to ensuring that the director selection process is free of bias and emphasises the background match (knowledge, skills and past experience) and other aspects, such as diversity.

When the number of female directors is scant or nil despite these measures, provide an explanation:

Explanation of the measures
Article 34 of the Articles of Association state that the shareholders in general meeting and the Board of Directors should attempt to foster balanced gender representation on the Board.

C.1.7 Explain how shareholders with significant holdings are represented on the board:

Article 8.3 of the Board of Directors Regulations, establishes that the Board will seek that, within the external Directors, the number of Proprietary Directors and Independent Directors will reflect the proportion of capital represented by the first ones and the rest of capital.

C.1.8 Explain any reasons why proprietary directors have been appointed at the urging of shareholders controlling less than 5% of capital:

Name or company name of shareholder	Reasons
Miguel Pereda Espeso	<p>Subject to applicable law and regulations and the Company's by-laws, and subject to any proposed nominee being appropriately qualified to act as member of the Board of Directors and his or her identity having been approved by the Remuneration and Nomination Committee of the Company (such approval not to be unreasonably withheld, conditioned or delayed), the Investment Manager is entitled to require the Board of Directors to propose to the general shareholders' meeting of the Company (the "General Shareholders' Meeting") the appointment of:</p> <p>(i) one non-executive director of the Company nominated by the Investment Manager, provided that the Board of Directors is comprised of five or fewer persons; or</p> <p>(ii) up to two non-executive directors nominated by the Investment Manager, provided that the Board of Directors is comprised of more than five persons.</p> <p>Subject to compliance with the foregoing requirements, the Investment Manager is entitled to require the Board of Directors to propose to the General Shareholders' Meeting to remove or</p>

	<p>replace any such person whom it has nominated as a member of the Board of Directors provided that in the case of any such removal, the Investment Manager shall indemnify and hold harmless the Company (and any member of its group) against any and all costs, losses, liabilities and/or expenses suffered by the relevant company in connection with such removal.</p> <p>No director of the Company nominated by the Investment Manager pursuant to this Clause shall be paid any fee or remuneration by the Company for his services as such.</p> <p>The Chairman of the Board of Directors shall be entitled to request the attendance of the Chairman of Grupo Lar to the meetings of the Board of Directors and the Investment Manager shall procure that the Chairman of Grupo Lar shall attend such meetings when so required, unless there is a material cause impeding it. The Company's by-laws and the Board of Directors' regulations shall permit and regulate such attendance commitment.</p>
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Indicate whether any formal requests for a board seat from shareholders whose equity interest is equal to or greater than that of others applying successfully for a proprietary directorship have been rejected. If so, explain why these requests have not been entertained.

Yes ☐ No ☒

Name or company name of shareholder	Explanation

C.1.9 Indicate whether a director has resigned from office before their term of office expired, whether any such director has stated their reasons to the board and how, and, if in writing to the entire board, explain the reasons given:

Yes ☐ No ☒

Name or company name of shareholder	Reasons for resignation

C.1.10 Indicate, if appropriate, any powers delegated to the chief executive officer(s):

Yes ☐ No ☒

Name or company name of shareholder	Brief description

C.1.11 Name any directors who are also executives or directors of other companies that form part of the listed company group:

Name or company name of director	Registered name of the group company	Position
Mr. Miguel Pereda Espeso	Lar España Inversión Logística SA	Administrator
Mr. Miguel Pereda Espeso	Lar España Offices SA	Administrator
Mr. Miguel Pereda Espeso	Lar España Shopping Centres SA	Administrator
Mr. Miguel Pereda Espeso	Lar España Parque de Medianas SA	Administrator
Mr. Miguel Pereda Espeso	Riverton Gestión SL	Administrator
Mr. Miguel Pereda Espeso	Global Noctua SL	Administrator
Mr. Roger Cooke	Lavernia Investments SL	Director

C.1.12 List any company board members who likewise sit on the boards of directors of other non-group companies that are listed on official securities markets, other than your own group, insofar as these have been reported to the company:

Name or company name of director	Registered name of the group company	Position
Mr. Pedro Luis Uriarte	Técnicas Reunidas, S.A.	Director

C.1.13 Indicate whether the company has any rules about the number of directorships its board members can hold and if so explain them:

Yes ☐ No ☒

Explanation of the rules

Indicate the company's general policies and strategies that are reserved for approval by the board in plenary session:

	Yes	No
Investment and financing policy	X	
Design of the structure of the corporate group	X	
Corporate governance policy	X	
Corporate social responsibility policy	X	
Strategic or business plan, management targets and annual budgets	X	

Remuneration and evaluation of senior officers	X	
Risk control and management, and the periodic monitoring of internal information and control systems	X	
Dividend policy, as well as the policies and limits applying to treasury stock	X	

C.1.15 Itemise total remuneration paid to the members of the board of directors as a whole:

Board remuneration (thousands of euros)	210
Amount of total remuneration corresponding to accrued pension entitlements (thousands of euros)	0
Total board remuneration (thousands of euros)	210

C.1.16 Identify the members of senior management who are not executive directors and indicate total remuneration accruing to them during the reporting period:

Name or company name	Position(s)
Mr. Jon Armentia	Corporate Director
Mr. Sergio Criado	CFO
Mrs. Susana Guerrero	Legal Director

Total senior management remuneration (in thousands of euros)	93
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C.1.17 Indicate the identity of any board members who likewise sit on the boards of directors of companies having significant shareholdings and/or their group companies:

Name or company name of director	Company name of significant shareholder	Position

Describe any relevant relationships other than those indicated under the previous heading that link members of the board with significant shareholders and/or their group companies:

Name or company name of related director:

Name or company name of related significant shareholder:

Description of relationship:

C.1.18 Indicate whether the board regulations were amended during the year:

Yes ☐ No ☒

C.1.19 Indicate the procedures for selecting, appointing, re-electing, evaluating and removing directors. List the competent bodies and the processes and criteria used for each of these procedures.

The Board of Directors, which is vested with the broadest powers to manage, direct, administer and represent the Company, generally delegates the Company's everyday management in the Board's steering committees and the management team so that it can concentrate on its general supervisory duty as well as attending to matters of particular significance to the Company.

Appointment of directors (article 19 of the Board Regulations)

1. Directors shall be appointed by the shareholders in general meeting or by the Board of Directors, in keeping with the provisions of applicable legislation, the Articles of Association and these Regulations.
2. When appointing a new director, he or she must take the Company's specific induction program for new directors in order to become rapidly acquainted with workings of the Company and its corporate governance rules.

Appointment of external directors (article 20 of the Board Regulations)

The Board of Directors shall endeavour to select candidates of renowned solvency, competence and experience, paying particular attention to the selection of candidates for independent director positions.

Re-election of directors (article 21 of the Board Regulations)

Prior to submitting director re-election motions at the General Meeting, the Board of Directors shall evaluate, in the absence of the directors up for re-election, the quality of the work performed by the candidates during their last term of office and their dedication to the post.

Term of office (article 22 of the Board Regulations)

1. Directors shall be appointed for a term of three years, at the end of which they may be re-elected once or more for the same maximum term.
2. Director appointments shall terminate when, their term of office being up, a General Meeting has taken place or the legal deadline for holding the meeting to ratify the prior-year annual financial statements has lapsed.
3. Directors appointed by means of co-option shall hold their positions until the next General Meeting scheduled after their appointment and must step down from the Board if their appointment is not ratified by the shareholders at that General Meeting.
4. Independent directors may not stay on as such for a continuous period of more than 12 years.

C.1.20 Indicate whether the board of directors evaluated its performance during the year:

Yes ☐ No ☒

If so, explain to what extent this self-assessment exercise has prompted significant changes in the board's internal organisational structure and the procedures followed:

Description of changes

C.1.21 Indicate the circumstances under which directors are obliged to resign.

Article 23 of the Board Regulations stipulates:

1. Directors shall cease to hold office at the end of the tenure for which they were appointed or when so determined by the shareholders at the General Meeting by exercising their legally-conferred or bylaw-stipulated powers.
2. Directors shall tender their resignation to the Board of Directors and the latter shall accept their resignation if deemed appropriate in the following situations:
 - a. When they resign from the executive position associated with their directorship.
 - b. When they are in breach of any of the legally-mandated or bylaw-stipulated conflicts of duty or interest.
 - c. When they are seriously reprimanded by the Board of Directors for having infringed any of their fiduciary obligations as directors.
 - d. When their continuity on the Board of Directors jeopardises the Company's interests or adversely affects its credibility or reputation or when the reasons for which they were appointed cease to exist (e.g. when proprietary directors dispose of or significantly reduce their ownership interests in the Company, as outlined in section e. below).
 - e. In the case of proprietary directors: (i) when the shareholder they represent sells or significantly reduces its shareholding; and (ii) proportionately, when the shareholder they represent reduces its shareholding to such a level as to lose some of its entitlement to proprietary director representation.
3. Directors who resign or otherwise stand down from the Board of Directors before the end of their mandate must state their reasons in a letter addressed to all its members.
4. The Board of Directors may only propose the removal of an independent director before the end of his or her mandate when it ascertains just cause.

Specifically, just cause shall be deemed to exist when a director has failed to uphold his or her fiduciary duties or breaches any of the safeguards itemised in the prevailing legal definition of independent director or, in absence thereof, the then-prevailing corporate governance recommendations applicable to the Company.

C.1.22 Indicate whether the duties of chief executive officer fall upon the chairman of the board. If so, indicate the measures taken to limit the risks posed by excessive concentration of powers in a single person:

Yes ☐ No ☒

Risk-limitation measures

Indicate and explain, as warranted, whether the company has rules empowering an independent director to request the calling of board meetings or include new business on the agenda, to coordinate and give voice to the concerns of external directors, and to lead the board's evaluation.

Yes ☒ No ☐

Explanation of the rules
<p>The Board Regulations (article 13.4) indicate that in the event that the Chairman of the Board of Directors exercises executive duties, the Board must empower an independent director to:</p> <ul style="list-style-type: none">a. Ask the Chairman of the Board of Directors to call a Board meeting when he or she deems appropriate.b. Request the addition of items of business to Board meeting agendas.c. Gather and relay feedback from the external directors.d. Spearhead evaluation of the Chairman of the Board of Directors.

C.1.23 Are qualified majorities other than those prescribed by law required for any decisions?

Yes ☒ No ☐

Describe the differences, if any.

Description of the differences
Article 13.1 of the Board Regulations empowers, without prejudice to any powers that may be vested in other persons, the Board of Directors to set up a permanent Executive Committee, made up of a minimum of three and maximum of seven members, and to appoint a Chief Executive Officer, at the proposal of the Chairman of the Board, and to delegate in them, on a temporary or permanent basis, any and all powers that are not reserved to the Board under law. Valid delegation and the designation of the members of the Board of Directors to such positions shall require the favourable vote of two-thirds of the members of the Board of Directors and shall not take effect until the resolution has been duly registered in the Companies Register.

C.1.24 Explain if there are other specific requirements, other than those established for directors, for being appointed chairman of the board.

Yes ☐ No ☒

Description of the requirements

C.1.25 Indicate whether the chairman has the casting vote:

Yes ☐ No ☒

Matters for which the chairman has the casting vote

C.1.26 Indicate whether the bylaws or the board regulations set any age limit for directors:

Yes ☐ No ☒

C.1.27 Indicate whether the bylaws or board regulations set any limit on the term of office of independent directors different from that stipulated by law:

Yes ☐ No ☒

C.1.28 Indicate whether the bylaws or board regulations stipulate specific rules governing the appointment of proxies for board voting purposes, the manner for so doing and, specifically, the maximum number of proxy appointments a director may hold. Also specify whether it is mandatory

to delegate votes in another director of the same category. If so, describe the rules briefly.

Directors are required to do everything in their power to attend Board meetings. When they absolutely cannot avoid doing so in person, they may grant proxy to another Board member, in writing and on the occasion of each meeting, indicating the opportune voting instructions and notifying the Chairman of the Board of the proxy (article 17.2 of the Board Regulations).

C.1.29 Indicate the number of board meetings held during the year, indicating the number of times, if any, the board met without its chairman in attendance. This calculation should include proxies appointed with specific voting instructions as attendances:

Number of board meetings	15
Number of board meetings held without the chairman in attendance	0

Indicate the number of meetings the various board committees held during the year:

Number of executive committee meetings	N/A
Number of audit committee meetings	5
Number of nomination and remuneration committee meetings	5
Number of nomination committee meetings	N/A
Number of remuneration committee meetings	N/A
Number of sustainability committee meetings	N/A

C.1.30 Indicate the number of board meetings held during the year with all members in attendance. This calculation should include proxies appointed with specific voting instructions as attendances:

Fully-attended meetings	13
% attendance over total votes cast in the year	86.7

C.1.31 Indicate whether the individual and consolidated annual financial statements are certified prior to their presentation to the board of directors for approval:

Yes ☐ No ☒

Identify, if appropriate, the person(s) certifying the individual and consolidated annual financial statements prior to their authorisation for issue:

C.1.32 Explain the mechanisms, if any, established by the board of directors to prevent the individual and consolidated financial statements from being presented at the general shareholders' meeting with a qualified audit report.

Article 41.3 of the Board Regulations: The Board of Directors shall endeavour to authorise the annual financial statements for issue such that they do not give rise to reservations or qualifications in the auditor's report. In the unlikely instance that they were to arise, both the Chairman of the Audit and Control Committee and the external auditor shall provide shareholders with a clear account of the content of such reservations or qualifications. Nonetheless, when the Board considers that its criteria should prevail, it shall publicly disclose the content and scope of the discrepancy.

C.1.33 Is the secretary of the board also a director?

Yes ☐ No ☒

C.1.34 Explain the procedure governing the appointment or removal of the secretary of the board, indicating whether his or her appointment has been reported on by the nomination committee and approved at a full board meeting.

Procedures for appointment and removal
Article 11.1 of the Board Rules provides that the Board of Directors elect, at the proposal of its Chairman, a Secretary, who may either be one of its members or a duly qualified non-member. If the Secretary of the Board of Directors is not a director, he or she shall have a say but not vote. Regardless, in order to safeguard the independence, impartiality and professionalism of the Secretary, his or her appointment and removal must be approved by the Board of Directors in plenary session, subject to a report from the Appointments and Remuneration Committee.

	Yes	No
Does the nomination committee propose the appointment?	X	
Does the nomination committee propose dismissals?	X	
Is the appointment approved at a full board meeting?	X	
Is the dismissal approved at a full board meeting?	X	

Does the board secretary have the specific duty of overseeing corporate governance recommendations?

Yes ☒ No ☐

Remarks
Article 11.3 of the Board Regulations stipulates that the Secretary pay especial attention to ensuring that the conduct of the members of the Board of Directors: (i) adheres to the spirit

and letter of the law and implementing regulations, including those issued by regulatory authorities; (ii) complies with the Articles of Association, the Shareholders Meeting Regulations, the Board Regulations and the Internal Code of Conduct in the Securities Markets; and (iii) are informed by the Company's corporate governance recommendations.

C.1.35 Indicate the mechanisms, if any, established by the company to preserve the independence of the auditor, financial analysts, investment banks and rating agencies.

The Audit and Control Committee's duties include that of safeguarding the independence of the external auditor, specifically undertaking the duties of: (i) notifying the securities market regulator of any change in auditor, accompanied by a statement of the fact of disagreement with the outgoing auditor, if any, and the nature of such disagreement, in the form of a price-sensitive filing; (ii) ensuring that the Company and the auditor uphold prevailing rules governing the provision of non-audit services and, in general, the other rules in place to safeguard auditor independence; and (iii) should the auditor resign, investigating the circumstances giving rise to such decision (article 14.5.b.iii of the Board Regulations).

C.1.36 Indicate whether the company has changed external auditor during the year. If so, identify the outgoing and incoming auditor:

Yes ☐ No ☒

Outgoing auditor	Incoming auditor

In the event of disagreements with the outgoing auditor, explain the substance thereof:

Yes ☐ No ☐

Explanation of the disagreements

Indicate whether the audit firm performs non-audit work for the company and/or its group. If so, state the fees it receives for such work and the percentage they represent of total fees invoiced to the company and/or its group.

Yes ☒ No ☐

	Company	Group	Total
Fees for non-audit work (thousands of euros)	412	58	470
Fees for non-audit work / total amount invoiced by the audit firm (%)	81	100	83

C.1.38 Indicate whether the audit report on the previous year's financial statements is qualified or includes reservations. If so, indicate the account given to shareholders by the chairman of the audit committee of their scope and content.

Yes ☐ No ☒

Explanation of the reasons

C.1.39 State the number of consecutive years the current audit firm has been auditing the annual financial statements of the company and/or its group. Likewise, indicate how many years the current audit firm has been auditing the annual financial statements as a percentage of the total number of years for which the financial statements have been audited:

	Company	Group
Number of consecutive years	1	

	Company	Group
Number of years audited by the current audit firm / number of years the company's financial statements have been audited (%)	100%	

C.1.4. Indicate whether there are procedures in place for directors to receive external advice:

Yes ☒ No ☐

Details of the procedure
<p>Article 26 of the Board Regulations stipulates:</p> <p>1. In order to help them fulfil their duties, any of the directors may seek the assistance they need from the Company. To this end, the Company will enable the appropriate channels, which, in special circumstances, may include external advisory services whose cost would be borne by the Company.</p> <p>Any such engagement must necessarily relate to specific problems of a certain scale and complexity arising in the performance of their duties.</p> <p>2. The decision to hire external advisers at a cost to the Company must be notified to the Chairman and may be vetoed by the Board of Directors if it can certify that:</p> <ul style="list-style-type: none"> a. It is not necessary to due performance of the duties incumbent upon the external directors; b. Its cost is not reasonable in light of the scale of the issue or in relation to the Company's assets or revenues; or c. The expertise sought can be adequately furnished by the Company's own experts and specialists.

C.1.41 Indicate whether there are procedures for providing directors with the information they need to prepare for the meetings of the governing bodies sufficiently in advance:

Yes ☒ No ☐

Details of the procedure

Article 16 of the Board Regulations establishes the following under headings 3 and 4:

3. Board meetings must be called by the Secretary of the Board of Directors or whoever substitutes him in this task, as duly authorised by its Chairman, using any method that ensures notice delivery. Meetings will be called with at least three days' notice. The call notice must always include the meeting agenda and be accompanied by the relevant information, duly summarised and documented.

4. The Chairman of the Board of Directors has the power to call extraordinary Board meetings whenever he believes the circumstances so warrant, waiving the minimum notice period and other requirements set out above for ordinary meetings. Notwithstanding the foregoing, an effort will be made to provide the directors with any required documentation sufficiently in advance of the extraordinary meeting.

In addition, article 25 of the Board Regulations stipulates:

1. Directors may request information about any matter falling within the purview of the Board of Directors, to which end they may examine the Company's books, accounting records and other documentation. This right to information applies to all subsidiaries and, wherever practicable, investees.

2. Information requests should be addressed to the Secretary of the Board of Directors, who will let the Chairman of the Board and appropriate contact person within the Company know.

3. The Secretary shall warn the director in question of the confidential nature of the information requested and provided and of his/her confidentiality duty under these Board Regulations.

4. The Chairman may deny the information requested if he considers: (i) it is not required for due performance of the duties incumbent upon the director; or (ii) its cost is not reasonable in light of the scale of the issue or in relation to the Company's assets or revenues.

C.1.42 Indicate whether the company has any rules obliging directors to inform the board of any circumstance that might harm the organisation's good name or reputation and tendering their resignation as the case may be:

Yes ☒ No ☐

Details of the rules

Article 36 of the Board Regulations stipulates:

1. Directors must inform the Company of the shares they hold in it either directly or via the persons indicated in article 31 of the Board Regulations, all of which in keeping with the provisions of the Company's Internal Code of Conduct in Securities Markets.

2. Directors must also inform the Company of directorships held at other listed companies and, in general, of facts, circumstances or situations of potential significance with respect to their performance as directors of the Company, as provided for in these Regulations.

3. Directors must similarly inform the Company of any circumstance that could harm the Company's name or reputation, with particular mention of any criminal charges brought against them and the progress of any subsequent proceedings.

If a director is indicted or tried for any of the crimes itemised in article 213 of the Corporate Enterprises Act, the Board must investigate the matter as quickly as possible and, in view of the specific circumstances, decide whether or not to call on that director to resign.

C.1.43 Indicate whether any member of the board of directors has notified the company that he or she has been indicted or tried for any of the offences listed in article 213 of the Spanish Corporate Enterprises Act:

Yes ☐ No ☒

Name of director	Offence	Remarks

Indicate whether the board has analysed the case. If so, give a substantiated explanation of the decision taken as to whether or not the director in question should remain in office and, as warranted, outline the actions taken or planned by the board of directors as of the date of this report.

C.1.44 List any significant agreements entered into by the company which take effect, alter or terminate upon a change of control of the company following a takeover bid and the effects thereof.

C.1.45 Indicate (individually and on aggregate) the agreements between the company and its directors, officers or employees that provide for termination benefits or guarantee or golden parachute clauses upon their resignation or unfair dismissal or termination of the employment relationship as a result of a takeover bid or other kind of transaction.

Number of beneficiaries

Type of beneficiary

Description of the agreement

Indicate whether these agreements must be reported to and/or approved by the governing bodies of the company or its group:

	Board of directors	General meeting
Body authorising the clauses		

	Yes	No
Are shareholders informed of these clauses in general meeting?		

C.2 Board committees

C.2.1 List all the board committees, their members and their make-up in terms of proprietary and independent directors:

Executive or Steering Committee

Name	Position	Class of director

% of executive directors	
% of proprietary directors	
% of independent directors	
% of other external directors	

Audit and Control Committee

Name	Position	Class of director
José Luis del Valle Doblado	Chairman	Independent
Pedro Luis Uriarte Santamarina	Member	Independent
Miguel Pereda Espeso	Member	Proprietary
Juan Gómez-Acebo Sáenz de Heredia	Secretary	

% of executive directors	0
% of proprietary directors	33.3
% of independent directors	66.6
% of other external directors	0

Appointments and Remuneration Committee

Name	Position	Class of director
Roger Maxwell Cooke	Chairman	Independent
Alec Emmott	Member	Independent
Miguel Pereda Espeso	Member	Proprietary
Juan Gómez-Acebo Sáenz de Heredia	Secretary	

% of executive directors	0
% of proprietary directors	33.3
% of independent directors	66.6
% of other external directors	0

Sustainability Committee

Name	Position	Class of director

% of executive directors	
% of proprietary directors	
% of independent directors	
% of other external directors	

C.2.2 Fill out the following table indicating the number of female directors represented on the board committees over the last four years:

	Number of female directors			
	2013 Number %	2012 Number %	2011 Number %	2010 Number %
Executive committee				
Audit committee				
Nomination and remuneration committee				
Nomination committee				
Remuneration committee				
Sustainability committee				

C.2.3 State whether the audit committee's duties include:

	Yes	No
Monitoring the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.	X	
Reviewing internal control and risk management systems on a regular basis, so the main risks are properly identified, managed and disclosed.	X	
Monitoring the independence and efficacy of the internal audit function; proposing the selection, appointment, reappointment and removal of the head of internal audit; proposing the department's budget; receiving regular feedback on its activities; and verifying that senior management is acting on the findings and recommendations of its reports.	X	
Establishing and supervising a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.	X	
Making recommendations to the board for the selection, appointment,	X	

reappointment and removal of the external auditor, and the terms and conditions of the engagement.		
Receiving regular information from the external auditor on the progress and findings of the audit plan, and checking that senior management is acting on its recommendations.	X	
Safeguarding the independence of the external auditor. In the case of groups, the committee should urge the group auditor to take on the auditing of all component companies.	X	

C.2.4 Describe the organisational and operational rules governing and the responsibilities attributed to each of the board committees.

Appointments and Remuneration Committee

The rules governing the make-up and operation of the Appointments and Remuneration Committee are set forth in article 43 of the Articles of Association and article 13 of the Board Regulations, as follows:

A) Organisation and operation

The Board of Directors shall set up a permanent Appointments and Remuneration Committee to act as an internal advisory and reporting body, without executive duties but with the power to inform, advise and propose within its purview, as stipulated in this article.

B) Composition

The Appointments and Remuneration Committee shall comprise at least three and at most five directors appointed by the Board of Directors from amongst its external members, at the proposal of the Chairman of the Board. The majority of the members of the Appointments and Remuneration Committee shall be independent directors. The Board of Directors shall also appoint a committee chair from among the independent directors comprising the committee. The Secretary of the Board of Directors shall also serve as the Secretary of the Appointments and Remuneration Committee.

At least one of the members of the Appointments and Remuneration Committee shall have knowledge of and experience in remuneration policy issues.

The Board members sitting on the Appointments and Remuneration Committee shall hold their offices as long as their appointments as Company directors remain valid, unless the Board of Directors resolves otherwise. The renewal, re-election and dismissal of the members of the committee shall be governed under the terms and conditions agreed by the Board of Directors.

C) Duties

The Appointments and Remuneration Committee's purview shall include participating in the process of hiring the Company's senior management (as proposed by the Chief Executive Officer, should there be one) and supporting the Board of Directors in determining and supervising their remuneration policy.

Notwithstanding any other mandate that may be assigned to it by the Board of Directors, the Appointments and Remuneration Committee shall have the following basic duties:

- Devising and reviewing the criteria to be used to configure the senior management team of the Company and its subsidiaries and for selecting candidates.
- Reporting to the Board of Directors on the appointment or dismissal of the Company's senior executives and any potential benefits or severance pay which may be set in the event of termination, all of which at the proposal of the Chief Executive Officer, should there be one.
- Reporting to the Board of Directors on matters of gender equality and director qualifications.
- Raising to the Board of Directors, substantiated by the corresponding report, the proposals made to it by the Chief Executive Officer, should there be one, on the remuneration policy applicable to the senior executives and the basic terms and conditions of their contracts.
- Reviewing remuneration schemes periodically, assessing their suitability and effectiveness.
- Overseeing compliance with the remuneration policy set by the Company and the principal of remuneration transparency in general.

Executive or Steering Committee

The rules governing the make-up and operation of the Executive or Steering Committee are set forth in article 41 of the Articles of Association and article 13 of the Board Regulations.

Note that Lar España did not avail of this power to set up an Executive Committee in 2014.

A) Organisation and operation

Without prejudice to the powers that may be granted to any party, the Board of Directors may set up a permanent Executive Committee.

B) Composition

The Executive Committee shall comprise at least three and at most seven members, and it may also appoint a Chief Executive Officer at the proposal of the Chairman of the Board of Directors; the Board of Directors may delegate in them, on a temporary or permanent basis, any and all powers that are not reserved to the Board under law. Valid delegation and the designation of the members of the Board of Directors to such positions shall require the favourable vote of two-thirds of the members of the Board of Directors and shall not take effect until the resolution has been duly registered in the Companies Register.

The Company shall endeavour, to the extent possible, to have the composition of the Executive Committee mirror that of the Board of Directors in terms of the mix of director types. The Secretary of the Board of Directors shall also serve as the Secretary of the Executive Committee.

C) Duties

The Chairman of the Executive Committee shall report to the Board of Directors on the matters debated and resolutions taken at its meetings; it shall record the minutes of all its meetings and submit copies thereof to all of the Board members.

Audit Committee

The rules governing the make-up and operation of the Audit and Control Committee are set forth in article 42 of the Articles of Association and article 13 of the Board Regulations, as follows:

A) Organisation and operation

The Audit and Control Committee shall meet, ordinarily, on a quarterly basis, to review the interim financial information to be submitted to the securities market authorities and the information that the Board of Directors has to approve and include in its annual public disclosures. Similarly, the Committee shall meet when called on to do so by any or its members and whenever convened by its Chairman, who in turn is obliged to do so whenever the Board or its Chairman requests it to issue a report or adopt a resolution, and, in any event, whenever a meeting is considered advisable to correctly fulfilling its duties.

The quorum for validly calling Audit and Control Committee meetings to order shall be the majority of its members, present or duly represented, and its resolutions shall be ratified by means of majority vote. In the case of a tie, the Chairman of the Audit and Control Committee shall have the deciding vote. It shall draw up an annual report on its activities, highlighting the main incidents arising, if any, in relation to the duties assigned to it. In addition, whenever deemed opportune by the Audit and Appointments Committee, this report shall include proposals on how to improve the Company's governance rules. The Audit and Control Committee report shall be appended to the Company's annual corporate governance report and made available to shareholders and potential investors on the corporate website.

The Audit and Control Committee is entitled to call on any member of the Company's management team or staff to assist it. Those so summonsed shall be obliged to attend the meetings of the Audit and Control Committee, help it and provide it with access to any information it requires. The Committee may also require the external auditor to attend its meetings.

In order to do its job better, the Audit and Control Committee may also seek external expert counsel when it considers so doing necessary to the correct fulfilment of its duties.

The Company shall have an internal audit function, under the supervision of the Audit and Control Committee, to ensure that the internal reporting and control systems work properly. The head of the internal audit department must present the department's annual work programme to the Audit and Control Committee. He or she must also report any incidents that arise in the course of the internal audit work to the committee and submit an annual report on its activities at the end of each year.

B) Composition

The Board of Directors shall set up a permanent Audit and Control Committee which shall comprise at least three and at most five directors appointed by the Board of Directors from amongst its external and non-executive members. At least one member of the Audit and Control Committee must be independent and appointed with regard to their knowledge and background in accounting, auditing or both.

The members of the Audit and Control Committee shall hold such office for a maximum term of three years, and they can be re-elected one or more times for equal intervals.

The office of Chairman shall also be held for a maximum term of three years, from the the end of which term he or she cannot be re-elected as Chairman until one year has elapsed, notwithstanding their eligibility to continue or be re-elected as a member of the Committee.

C) Duties

- Supervising the calculation of the fees received by the Management Company in the course of its duties.
- Reporting to the General Meeting on matters raised by shareholders on issues within its remit.
- Supervising the effectiveness of the internal controls of the Company and its group and of its enterprise risk management systems.
- Analysing, in conjunction with the external auditor, any material internal control system weaknesses uncovered during the audit process.
- Monitoring the process of drawing up and disclosing regulated financial information.
- Proposing the appointment, re-election or replacement of the account auditor to the Board of Directors for submission at the general meeting, in keeping with prevailing regulations.
- Supervising the work of the Company's internal audit service.
- Establishing the opportune relationship with the auditor in order to receive feedback on any issues that could jeopardise auditor independence, for the purpose of investigation by the Audit and Control Committee, and on any other matters related to the account auditing process, as well as communicating any other matters provided for in prevailing audit legislation and other audit standards.
- Issuing annually, prior to issuance of the audit report, a report expressing an opinion on the independence of the auditor. This report should refer specifically to the provision of the non-audit services referred to above.
- Naming and supervising the external asset appraisers commissioned to value the Company's assets.

Sustainability Committee

A) Composition

B) Duties and powers

C) Operation

C.2.5 Indicate, as appropriate, whether there are any regulations governing the board committees, where they are available for consultation and any amendments to the same during the financial year. State whether any annual report has been drawn up voluntarily on the activities of each committee.

The Board of Directors Regulation establishes the functioning process of the Audit Committee and Remuneration Committee in its Articles 14 and 15 respectively. The Regulation is available in the corporate website:

<http://larespana.com/gobierno-corporativo/normas-internas-de-gobierno/>

C.2.6 Indicate whether the composition of the executive committee reflects the participation within the board of the different types of directors:

Yes ☐ **No** ☐

If not, describe the composition of the executive committee

D**RELATED PARTY AND INTRA-GROUP TRANSACTIONS****D.1. Identify the body tasked with approving related-party and intra-group transactions and any procedures in place to this end.**

Body tasked with approving related-party transactions
Board of Directors

Procedure for approving related-party transactions

The Board of Director's powers include approving, subject to a prior report by the Audit and Control Committee, related-party transactions, as defined under prevailing applicable legislation (article 5.4.1 of the Board Regulations).

The Audit and Control Committee's duties include reporting to the Board of Directors before the latter takes the corresponding decisions regarding related-party transactions, as defined under prevailing applicable legislation (article 14.5.d.iii of the Board Regulations).

However, Board authorisation shall not be required for related-party transactions that simultaneously meet the following three conditions: (i) they are governed by standard-form agreements applied on an across-the-board basis to a large number of customers; (ii) they go through at market rates, generally set by the person supplying the goods or services; and (iii) their amount is no more than 1% of the Company's annual revenues (article 37.3 of the Board Regulations).

Within the Investment Manager Agreement, BETWEEN Grupo Lar Inversiones Inmobiliarias, S.A. as Investment Manager AND Lar España Real Estate SOCIMI, S.A. as the Managed Company, signed the 12th of February 2014, specifies in its 5th clause the following:

The Investment Manager shall be entitled to perform the Services and to conduct and enter into transactions provided that it shall seek prior written consent from the Company if such Services or transactions involve any of the following (each of them, a "Reserved Matter"):

- (i) any acquisition/disposal of a property investment or the entry into any binding agreement to acquire/dispose of a property investment where the aggregate acquisition cost/gross proceeds attributed to the Company in respect of such property investment is/are in excess of €30 million;
- (ii) any new financing or refinancing, including associated hedging arrangements, entered into in respect of a property investment where the amount of the facility to be entered into in respect of such arrangements is in excess of €30 million, or any material amendments thereof;
- (iii) any capital expenditure on a property investment in excess of, in aggregate, €10 million;
- (iv) any proposed lease agreement or termination where the annual rent is greater than 10% of the aggregate rental income of the Company;

- (v) any co-investment or joint venture in Commercial Property; if approved, Grupo Lar shall be entitled to manage the whole co-investment or joint-venture in its own name and on behalf of the Company. The Investment Manager undertakes to submit in good faith to the Company any co-investment or joint venture offers in Commercial Property received from third parties for the whole stake that such third party has actually offered to the Investment Manager as agreed in Clause 6.1 below;
- (vi) any co-investment or joint venture in Residential Property with an investment by the Company of above €10 million. The Investment Manager undertakes to submit in good faith to the Company any co-investment or joint venture offers in Residential Property received from third parties for at least a 20% stake in the total investment pursuant to the terms agreed in Clause 6.2 below;
- (vii) any hedging or use of derivatives, including related to debt facilities, interest, or property investments (which may only be used to the extent (if any) permitted by any regulatory requirements applicable to the Company and/or the Investment Manager), unless comprised within the relevant financing as indicated in (ii) above;
- (viii) the entry by the Company into any transaction for the purchase of assets from, or the provision of services of a material nature by, any company, undertaking or person which is from time to time (1) a subsidiary or a subsidiary undertaking (whether direct or indirect) of the Investment Manager; (2) a direct or indirect (through controlled entities under article 42 of the Spanish Commercial Code) shareholder of the Investment Manager (other than those shareholders in Grupo Lar which are not part of the Pereda family (the “Minority Shareholders”)); or (3) another subsidiary or subsidiary undertaking controlled directly or indirectly pursuant to Article 42 of the Spanish Commercial Code by the entities referred to in (2) above (other than the Minority Shareholders) (each of the entities described under (1), (2) and (3) above, an “Investment Manager Affiliate”), or for the sale of assets or provision of services of a material nature to any Investment Manager Affiliate except if covered under a framework agreement approved by the Board of Directors. The entry by the Company into any transaction for the purchase of assets from, or the provision of services of a material nature by, an individual associated with an Investment Manager Affiliate should also be considered a Reserved Matter. For the avoidance of doubt, Gentalia (as defined below) will not be an Investment Manager Affiliate for purposes of this Agreement.
- (ix) any disposal of any right, title or interest in any of the Company’s properties at less than its acquisition cost;
- (x) related-party transactions and situations which may give rise to a conflict of interest situation in connection with the Investment Manager and the Management Team including any transaction with third parties pursuant to which the Investment Manager is entitled to receive any compensation, fee or commission;
- (xi) the appointment by the Investment Manager of one or more managing agents (as foreseen in clause 8 below) or the execution of any third-party service agreement for an annual amount exceeding €1 million; and
- (xii) any transaction executed with Gentalia, unless it is regulated under an arm’s length basis framework agreement between the Company and Gentalia approved by the Board of Directors, and provided that the relevant assets fall within the parameters of such framework agreement.

Notwithstanding the foregoing, the Investment Manager shall be entitled to perform Services and conduct and enter into transactions involving Reserved Matters without seeking prior written consent from the Company, provided that such Services or transactions are required to be performed by the Investment Manager:

- (i) as a matter of law (including but not limited to any laws relating to health and safety, taxation, accounting and employment matters and compliance with the requirements of any statute or any government department, local authority or other public or competent jurisdiction or any duly appointed expert pursuant to any bona fide dispute resolution proceedings or any duly appointed arbitrator pursuant to any bona fide arbitration proceedings (or a like process)); or
- (ii) in order to respond to a bona fide emergency where time is of the essence (in which case the Investment Manager shall be entitled to perform that Reserved Matter without the prior written approval of the Company but, in all such cases, shall give notice in writing to the Company as soon as reasonably possible (and in any event within five Business Days, as defined below, to the extent within the Investment Manager's power) upon the Investment Manager becoming aware of such requirement or emergency).

Where the Company's approval is required for a transaction under the terms of this Agreement, the Investment Manager shall, either by means of an update to the Business Plan or a separate proposal, submit a proposal to the Board of Directors as to the transaction in question and provide the Company with such information as the Board of Directors may reasonably require to consider and, if it decides to do so, approve the transaction.

Explain whether the power to approve related-party transactions has been delegated and, if so, the body or persons in which it has been delegated.

D.2. List any transactions considered significant by virtue of their amount or substance between the company or its group companies and the company's significant shareholders:

D.3. List transactions considered significant by virtue of their amount or substance between the company or its group companies and the company's directors and/or officers:

D.4. Report any significant transactions undertaken by the company with other companies in its group that are not eliminated in the process of drawing up the consolidated financial statements and whose purpose or terms fall outside the company's ordinary course of business:

D.5. Indicate the amounts of related-party transactions carried out.

- Grupo Lar inversiones Inmobiliarias, S.A. – 2,083 thousands of euros
- Gentalia 2006, S.L. – 288 thousands of euros

D.6. List the mechanisms established to detect, analyse and resolve any possible conflicts of interest between the company and/or its group, and its directors, officers or significant shareholders.

The Board Regulations and the Internal Code of Conduct regulate the mechanisms in place to detect and manage potential conflicts of interest.

[Article 31 of the Board Regulations](#)

A conflict of interest is deemed to exist in situations in which the interests of the Company or its group companies and the personal interests of the director clash, directly or indirectly. The director shall be deemed to have a personal interest in a matter when that matter affects him or a person related to him or, in the case of a proprietary director, the shareholder(s) that proposed his appointment or persons related directly or indirectly to them.

Definitions:

a. Persons related to natural person directors:

- i. Their spouses or significant others.
- ii. The ancestors, descendants and siblings of the director and of the spouse (or significant other) of the director.
- iii. The spouses of the ancestors, descendants and siblings of the director.
- iv. The companies or entities at which the director or any of his related parties, directly or through a representative, fulfils any of the circumstances contemplated in article 42 of Spain's Code of Commerce.
- v. The companies or entities at which the director or any of his related parties, directly or through a representative, holds a directorship or management position or from which he receives any compensation for any reason.
- vi. In the case of proprietary directors, additionally, the shareholders appointing him as their representative.

b. Persons related to legal person directors:

- i. The shareholders of these legal entities that fulfil any of the circumstances contemplated in article 42 of Spain's Code of Commerce.
- ii. The companies in the same group, as defined in article 42 of Spain's Code of Commerce, and their owners.
- iii. These legal entities' natural person representatives, directors, de facto or by law, liquidators and legal representatives with general power of attorney.
- iv. The persons who are considered related parties of the representative of the legal person director in keeping with the above provisions with respect to natural person directors.

3. Directors are obliged to report the existence of conflicts of interest to the Board of Directors and abstain from intervening as Company representative in the transaction underlying the conflict in question.

Internal Code of Conduct of Lar España

A conflict of interest is deemed to exist when the Bound Parties meet any of the following conditions in relation to the entities referred to in this article:

1. Serves as a director or senior executive.
2. Owns a significant interest (understood in the case of a company listed on any official Spanish or foreign stock exchange as the shareholdings referred to in article 53 of the Spanish Securities Markets Act and enacting regulations, and in the case of unlisted

Spanish or foreign companies, any direct or indirect shareholding of over twenty per cent of issued share capital).

3. Has kinship up to the second degree by marriage or third degree by birth with the Company's directors, owners of significant shareholdings or senior executives.

4. Has significant contractual relationships, direct or indirect.

Conflicted Bound Parties must observe the following general codes of conduct:

Independence: Bound Parties must act in good faith in what they consider to be the interests of the Company and its shareholders, irrespective of their own or other interests. Accordingly they must refrain from placing their own interests over those of the Company, and from placing the interests of one shareholder over those of others.

Abstention: Bound Parties must abstain from participating in or influencing decisions that may affect conflicted persons or entities and from obtaining confidential information concerning the conflict in question.

Disclosure: Bound Parties must notify the head of compliance of potential conflicts of interest deriving from their activities outside of the Company, their family relationships, their personal finances or arising on any other grounds with:

- a. The Company or any of the companies comprising Grupo Lar España.
- b. Significant suppliers or customers of the Company or the companies comprising Grupo Lar España.
- c. Entities devoted to the same business as or that compete with the Company or any of its subsidiaries.

Any questions regarding a potential conflict of interest must be addressed to the head of compliance. The final decision is ultimately the responsibility of the Audit and Control Committee.

D.7. Is more than one group company listed in Spain?

Yes ☐ No ☒

Identify the subsidiaries listed in Spain:

Listed subsidiaries

E.1. Explain the scope of the company's risk management system.

Lar España's enterprise risk management (ERM) system has been implemented at the corporate level and designed to mitigate the risks to which the Company is exposed on account of its business activities. This system establishes the policy for identifying, assessing, prioritising and managing risks effectively and efficiently, factoring in the Company's specific circumstances and the economic and regulatory environments in its operating markets. The system's overriding goal is to guarantee reasonable assurance that the Company will be able to achieve its strategic, operations, reporting and compliance objectives. The system is aligned with the key guidelines established in the "Enterprise Risk Management - Integrated Framework. Committee of Sponsoring Organizations of the Treadway Commission (COSO)" report (hereinafter, COSO).

As set out in the ERM system, the Company views risk management as a continuous and dynamic process which encompasses the following steps:

- Identification and assessment of the risks that may affect the Company, evaluating their probability of occurrence and potential impact.
- Identification of the controls in place at the Company for mitigating these risks.
- Identification of the processes in which these risks and controls arise, determining the relationship between the Company's key risks and processes.
- Evaluation of the effectiveness of the controls in place to mitigate these risks.
- Design of action plans in response to the risks identified.
- Risk monitoring and reporting.
- Ongoing evaluation of the suitability and effectiveness of the system in use and benchmarking of best practices and recommendations in risk management.

Ultimately, having identified the risks and analysed the suitability and effectiveness of the decisions taken to mitigate them, management, under the supervision of the internal audit function, establishes risk management priorities and the measures to be implemented, ensuring that the Company's processes are performed and working as intended.

E.2. Identify the bodies responsible for designing and implementing the enterprise risk management system.

While the ERM system affects and involves all Company staff, the model's most important participants are as follows:

Process manager or owner

These people are directly responsible for managing risk in its everyday manifestations; their work encompasses the identification, analysis, assessment and management of the risks which are crucial to delivery of the objectives set for each area, under the scope of current business plans.

Risk officer

The risk officer's job is to analyse and consolidate the risk information prepared by the process owners, which is crystallised and compiled in the form of 'risk files'. He or she is also tasked with identifying new events, gathering and assessing information regarding the key risk indicators intrinsic to the Company's processes and proposing any monitoring action plans, as required.

Audit and Control Committee

Article 14 of the Board Regulations specifically attributes the following duties to the Audit and Control Committee:

- *“Identifying the different types of risk (operational, technological, financial/reporting, legal, reputational) to which the Company is exposed”.*
- *“Identifying the risk levels the Company deems acceptable”.*
- *“Identifying measures for mitigating the identified risks”.*
- *“Identifying the internal reporting and control systems to be used to control and manage the said risks”.*

In light of the above, the Audit and Control Committee is tasked with monitoring application of the Risk Control and Management Policy defined by the Board of Directors. Ultimately, it has to report to the Board on its activities throughout the course of the year.

Board of Directors

The Board of Directors is the body tasked with approving the Group’s Risk Control and Management Policy.

It assumes, among other powers, the duty of identifying the Company's main risks and supervising the internal control systems, to which end it is kept informed by its Audit and Control Committee.

E.3. State the main risks that could prevent the company from achieving its business targets.

In 2014 the Company undertook the exercise of identifying the risks that could jeopardise its ability to achieve its objectives and successfully execute its strategies. In order to identify those risks, management's experience in the real estate sector and the Company's specific circumstances were factored in, as were the medium-term strategic initiatives contemplated by the firm.

Lar España drew up a risk map depicting the universe of risks that could affect the Company. The risks listed below are the risks that have been prioritised by Lar España in the wake of the risk mapping exercise; in 2014 it began to manage and monitor these risks, a process that will be ongoing in the years to come:

- Tax management and sector-specific regulation (SOCIMIs)
- Investment planning
- Accounting and financial reporting
- Investment project monitoring
- Confidentiality
- Real estate asset sale-purchases
- Dependence on the Asset/Investment Manager
- Valuation, price-setting criteria and due diligence
- Interest rate risk
- Supplier selection (procurement tendering)
- Monitoring of other outsourced activities
- Financing
- Investor and media relations
- Natural disasters, terrorism and vandalism

The risk monitoring process consists of tracking all internal and external variables that could help anticipate or foresee the materialisation of these or other risks of relevance to the Company and its group.

E.4. State whether the company has a defined risk tolerance threshold

The risk map is the tool used by Lar España to identify and assess its risks. All the risks contemplated are evaluated considering various indicators of impact and likelihood.

Lar España's ERM system defines risk tolerance as *“the acceptable level of variation in outcomes relative to the achievement of objectives”*. The proposed risk tolerance criteria are used to prioritise and itemise the level of management and monitoring assigned to each risk category. Accordingly, the more critical the objective with which an identified risk is associated, the lower the level of tolerance accepted by Lar España.

Against this backdrop, three levels of risk have been defined: high, medium and low, depending on how critical the objective with which the risk is associated is deemed. The risk tolerance determination system is reviewed at least annually by the Audit and Control Committee.

E.5. State the risks materialising during the reporting period

To the best of the Company's knowledge, no significant risks materialised in 2014, its first year in operations.

E.6. Outline the response and monitoring plans for the company's key risk factors

The recent creation of Lar España, coupled with the characteristics of the real estate sector in which the Company operates, make it of tantamount importance to correctly monitor and update the various risks to which the organisation is exposed.

The level and frequency with which it monitors the risks identified varies as a function of the perceived importance or criticality of these risk factors and the level of effectiveness of the controls currently in place. Accordingly, Lar España has defined different scenarios for managing its risks: a) exhaustive analysis of the risks deemed highly critical to achieving an adequate level of control; b) assessment and surveillance of risks deemed of medium importance to achieving adequate control as a function of the real level of risk; and c) rationalisation and optimisation of the controls applied to risks of relatively less importance. Based on these levels, Lar España has established four kinds of strategies to be pursued in relation to the level of risk assumed in each instance:

- Reduction: this implies undertaking response activities designed to reduce the probability of occurrence or impact of the risk, or both simultaneously, i.e., the introduction of new controls or the improvement of existing ones.
- Sharing: a risk's probability of occurrence or impact can be reduced by transferring or sharing a portion of that risk (e.g., via insurance policies).
- Avoidance: this implies withdrawal from the risk-generating activities. In this instance, the risk response may be to get out of a given business unit or line and/or decide not to pursue new business activities that could give rise to unwanted risks.
- Acceptance: in this instance no action is taken to modify the risk's probability or impact. This exercise assumes inherent risk levels.

Lar España prioritises action plans depending on how critical the risks being mitigated are, the cost/benefit analysis of the proposed course of action and available resources. To this end, the organisation's most significant risks have been identified; work has begun on documenting these risks in individual risk files in order to enable enhanced monitoring. These files specify the controls in place and the key indicators (KRIs) that enable anticipation and/or monitoring of the associated risks. In the coming years the Company plans to further advance this risk management and monitoring process.

Note that the Audit and Control Committee will periodically analyse the effectiveness of the organisation's risk map at least annually and will add, modify or disregard risks as warranted as a result of changes in the Company's strategic objectives, organisational structure, legislative environment, etc.

Describe the mechanisms comprising the risk control and management systems as they affect your company's internal control over financial reporting (ICFR) system

F.1. The entity's control environment

Indicate the existence of at least the following components, describing their main characteristics:

F.1.1. The bodies and/or functions responsible for: (i) the existence and regular updating of a suitable, effective ICFR system; (ii) its implementation; and (iii) its monitoring.

The internal control over financial reporting (hereinafter, ICFR) system has been designed and configured to provide reasonable assurance as to the reliability of the financial information disclosed to the markets.

The bodies responsible for the existence and/or oversight of Lar España's ICFR model are:

Board of Directors

The Board of Directors is ultimately responsible for the existence and maintenance of a suitable and effective ICFR system.

To this end, article 5 of the Board Regulations reserves the following power to the Board in plenary session:

- *“Approving the financial information which the Company must report periodically in its capacity as a listed entity”.*
- *“Approving the risk control and management policy and the periodic monitoring of the internal information and control systems”.*

To achieve these objectives, the Board is assisted by its Audit and Control Committee, which is tasked with supervision of the ICFR system (with the help of the internal audit function). It is additionally supported by the work performed by the process owners tasked with implementation of the ICFR system and the firm's Corporate Management, which is ultimately responsible for ensuring the system is adequate and effective.

Each time the Board of Directors authorises annual financial statements for issue, in conjunction with approval of the annual corporate governance report, it approves and validates the existence of an effective ICFR system and its description.

Audit and Control Committee

Article 14 of the Board Regulations specifically attributes the following duties and powers to the Audit and Control Committee:

- *“Supervising the effectiveness of the internal controls of the Company and its group and of its enterprise risk management systems”.*
- *“Analysing, in conjunction with the external auditor, any material internal control system weaknesses uncovered during the audit process”.*
- *“Monitoring the process of drawing up and disclosing regulated financial information”.*

As a result, the Audit and Control Committee's work is articulated and focused around four main areas:

- The risk identification and internal control system
- The review and approval of financial information
- The external audit of the annual financial statements
- Compliance with the law and the Company's body of internal rules and regulations

The Audit and Control Committee supervises effectiveness of the ICFR system by verifying that it addresses all the issues itemised in the securities market regulator's recommendations and reporting on its findings to the Board of Directors.

Corporate Management

The Corporate Management team is responsible for the design, implementation and workings of the ICFR system, which effort includes:

- *“Defining, proposing and implementing a model for generating financial information”.*
- *“Defining, implementing and documenting the ICFR system”.*
- *“Assisting the Audit and Control Committee in preparing the financial statements and other financial information and in selecting the criteria used in the process”.*

Internal Audit Service

The Audit and Control Committee has tasked the Internal Audit Service with assisting it with supervision of the ICFR system, which remit specifically includes:

- *“Supervising the operation of the ICFR system and its general controls and processes”.*
- *“Collaborating on the definition and classification of incidents and on the design of any required action plans, and monitoring the latter”.*
- *“Reporting to the Audit and Control Committee on the incidents detected during the evaluation and oversight process”.*
- *“Assisting Corporate Management to prepare reports on the status and description of the ICFR system”.*

Process owners involved in the financial reporting process

The duties of the parties responsible for the various processes related to the generation of financial information include the performance of specific activities, as dictated by Corporate Management guidelines, with a view to:

- *“Defining, documenting, and updating the internal processes and procedures applicable within their sphere of responsibility”.*
- *“Executing the control activities as designed and intended and documenting evidence of their performance for traceability purposes”.*
- *“Reporting to Corporate Management on any change to their modus operandi or transactions that could trigger the need to update how their processes and controls are defined and documented and on any control shortcomings they may detect”.*
- *“Defining and implementing action plans in response to incidents observed within their sphere of responsibility”.*

F.1.2. The existence or otherwise of the following components, especially in connection with the financial reporting process:

- **The departments and/or mechanisms in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of duties and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company:**

Corporate Management, following the guidelines set by the Board of Directors, ensures the existence of an adequate organisational structure, allocation of roles and accountability and the staggered deployment of sufficient procedures, which are allocated among the parties intervening in the processes.

- **Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action.**

On 24 February 2015, the Board of Directors approved the Company's Code of Conduct, the purpose of which is to establish the guidelines governing the conduct of any and all people acting in the name of Lar España and its subsidiaries.

The body responsible for ensuring due compliance with, updating of and dissemination of the Code is the Audit and Control Committee.

Principle 4, regarding the recording of transactions and the financial reporting process specifies that *"Lar España pledges to ensure that the Company's financial information, most particularly its annual financial statements, reflects its financial reality, in keeping with applicable generally accepted accounting principles and international financial reporting standards. To this end, no professional may conceal or distort the information contained in the Company's accounting registers and reports, which must be complete, accurate and precise."*

The failure to honestly report the Company's financial information, whether internally - to employees, subsidiaries, departments, internal bodies, governing bodies, etc. - or externally - to auditors, shareholders/investors, regulatory bodies, media, etc. - breaches this Code. The delivery of incorrect information, its incorrect configuration or any attempt to confuse its recipients are similarly deemed to constitute financial reporting misconduct.

- **'Whistle-blowing' channel, for the purpose of reporting any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation to the audit committee, stating whether reports made through this channel are kept confidential.**

Article 14.5.iv of the Board Regulations empowers the Audit and Control Committee to establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the Company.

On 24 February 2015, the Board of Directors of Lar España approved the set of rules governing the operation of this Whistle-blowing Channel, by virtue of which any party bound by Lar España's Code of Conduct or by any prevailing legislation or other body of internal rules who believes they are being breached can present a complaint or claim with the aim of making the issue known and having it resolved.

The Whistle-blowing Channel applies to Lar España and the parties bound by the Code of Conduct and may be used by the Company's internal or external stakeholders.

In order to ensure effective management of the Whistle-blowing Channel, Lar España has set up an Ethics Committee which is tasked with the duties deriving from implementation of this channel.

- **Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk management..**

Corporate Management, in its capacity as the party responsible for the design, implementation and operation of the ICFR system, is obliged to make sure that all staff involved in preparing the Group's financial statements have received sufficient and up-to-date training on the International Financial Reporting Standards (IFRS) and the internal control over financial reporting principles. Lar España has a relatively small staff which is, however, bolstered by the assistance provided by external advisers in certain areas, specifically certain activities related to the financial statement preparation process and the implementation and launch of the Company's ICFR system.

Lar España selects the advisors to which it outsources these activities rigorously so that it works with specialist firms of renowned prestige that are chosen for their quality and expertise.

Corporate Management ensures that these advisors indeed have the expertise required and continuous learning policies in respect of these areas of expertise.

In addition, the Internal Audit Plan prepared by the Internal Audit Service and approved by the Audit and Control Committee of Lar España contemplates the training needed by the people involved in these matters.

F.2. Risk assessment in financial reporting

Report at least:

F.2.1. The main characteristics of the risk identification process, including risks of error or fraud, stating whether:

- **The process exists and is documented.**

The process of identifying financial reporting risks, including risks of error or fraud, is one of the most important aspects of Lar España's ICFR methodology. This process is documented in an internal methodology guide explaining the ICFR management and assessment process: "Internal Control over Financial Reporting (ICFR) Manual of Grupo Lar España Real Estate SOCIMI".

In 2014, Lar España assessed the risk associated with its financial accounts using quantitative and qualitative criteria. Once it had determined the level of risk associated with each account, the most significant risks were related with the Company processes which generate and control its material financial information. The purpose of this mapping exercise is to identify the processes or business units within the Group of greatest importance in terms of financial information generation.

The Company is in the process of documenting these significant processes. This documentation identifies and analyses, among other things, transaction flows, potential financial reporting error and fraud risks and the controls established by the Company to mitigate the risks associated with each process. Having documented some of the most significant processes in 2014, the idea is to continue to flesh out and fine-tune this information in 2015 for these and other processes related with the financial reporting function.

- **The process covers all financial reporting objectives (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.**

As stipulated in the ICFR Manual, the significant processes documentation covers existing risks and defines controls related with different financial reporting objectives: existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations. The documentation is updated whenever significant changes occur and is additionally subjected to an annual review.

- **A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies, etc.**

Article 5 of the Board Regulations states that the Board of Directors “reserves the power to define the structure of the corporate group”.

Against this backdrop, in 2014, Corporate Management took responsibility for analysing continually the companies added to the scope of consolidation and notifying any such additions to the Audit and Control Committee, enabling knowledge of the companies included at all times.

One of the Audit and Control Committee's duties is to supervise the process of drawing up and presenting the financial information the Company has to disclose. Specifically, the Audit and Control Committee reviews the Group's scope of consolidation on the occasion of each quarterly close.

- **The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.**

The process of identifying the risk of financial reporting error takes into consideration the impact of all classes of risks, whether operational, technological, financial, legal, reputational, environmental, or tax-related, insofar as they could affect the quality and reliability of the Company's financial information.

- **Which of the company's governing bodies is responsible for overseeing the process.**

The Audit and Control Committee is in charge of overseeing the effectiveness of the Company's internal controls and enterprise risk management systems, which remit specifically includes oversight of the ICFR system.

As stipulated in article 42 of the Articles of Association of Lar España and article 14 of the Board Regulations, the Audit and Control Committee is tasked with the duty of “*identifying the different types of risk (operational, technological, financial/reporting, legal, reputational, etc.) to which the Company is exposed, including within financial risks contingent liabilities and other off-balance-sheet risks*”.

F.3. Control activities

Indicate the existence of at least the following components and specify their main characteristics:

F.3.1. Procedures for reviewing and authorising financial information and the description of the ICFR to be disclosed to the market, indicating the corresponding lines of responsibility, as well as documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, valuations and projections.

As stipulated in the Board Regulations, the Board of Directors establishes “*the precise measures needed to ensure that the half-yearly and quarterly financial information, and any other information that warrants public disclosure in keeping with prudent strategy, is prepared applying the same principles, criteria and professional practices used to draw up the annual financial statements so that the interim information is as reliable as the annual disclosures*”.

The Board of Directors is ultimately responsible for the existence and maintenance of an appropriate and effective ICFR system and has authority over the financial reporting function. It also approves the Risk Control and Management Policy and the periodic monitoring of the internal information and control systems established by Lar España. In order to perform these duties, it is assisted by the

Audit and Control Committee, which, in conjunction with the Internal Audit Service, supervises the Company's ICFR system. The Board is also supported in this task by the process owners and Corporate Management, which is responsible for ensuring the ICFR system is appropriate and effective.

Lar España publicly discloses financial information quarterly. This information is prepared by a specialist external firm and reviewed by Corporate Management. The information is subsequently sent to the Audit and Control Committee for review.

Note in this respect that Lar España's ICFR system is essentially based on the COSO model which is designed to help companies to provide reasonable assurance as to the reliability of their financial disclosures.

The Company's ICFR principles, definitions and management criteria are documented in its ICFR Manual.

In 2014 the Group documented some of the most significant processes (including the closing of accounts, specifically providing for a specific review of critical judgements, estimates, valuations and projections). This documentation includes a description of the risk, the risk and control matrices and summarised flowcharts for each process liable to have a material impact on the financial reporting process. As stipulated in the ICFR Manual, Corporate Management is responsible for identifying and documenting these critical processes.

In the course of 2015 the Company plans to continue to document other processes related with the financial reporting function in detail.

F.3.2. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving support to key company processes regarding the preparation and publication of financial information.

Lar España has outsourced its accounting services to a specialist firm. As a result, the Company does not have proprietary IT systems of significance in relation to the the preparation and publication of its financial information. However, Corporate Management does continually monitor and supervise the financial information reported by this third party to ensure that it does not contain errors.

F.3.3. Internal control policies and procedures for overseeing the management of outsourced activities and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.

Since it has outsourced some of its financial reporting activities, Lar España has identified all of the organisations that provide it with services in the various business processes, determining the impact of their activities on the financial reporting system.

Specifically, the Company has identified certain services provided by third parties which are considered part of its financial reporting system. These services include the analysis performed to document and assess the ICFR system, with the outsourcing of the accounting function and the half-yearly asset appraisals to accredited and independent entities standing out in this respect.

As for the policies and procedures in place for evaluating and overseeing the management of outsourced activities, the Company has exhaustive external advisor engagement procedures that are designed to ensure the providers' competence, independence, expertise and legal know-how with respect to the services provided.

F.4. Information and communication

Indicate the existence of at least the following components and specify their main characteristics:

F.4.1. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over

their interpretation, which is in regular communication with the team in charge of operations.

Corporate Management is responsible for informing and communicating the main accounting policies applied internally and externally.

In addition, Lar España is in the process of drawing up an Accounting Policy Manual encompassing, in a structured manner, the accounting rules, policies and criteria being applied in general at all of the Group companies.

The book-keeping process *per se* is handled at present by an outsourced, prestigious, specialist firm which is working with Lar España on the definition and application of accounting criteria, in keeping with prevailing legislation. This process is being supervised continually by the Company's Corporate Management, which is reporting to the Audit and Control Committee on the progress made on a regular basis. In addition, the external auditor is being contacted as required to confirm certain stances taken in order to resolve any questions and avoid any potential conflicts arising from the interpretation of any given accounting standard.

Lastly, the Board of Directors approves the financial information which the Company must report periodically in its capacity as a listed entity.

F.4.2. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.

As already noted in section F.4.1 above, the book-keeping process and the preparation of the Company's individual and consolidated financial statements has been outsourced to a prestigious, specialist firm.

Nevertheless, Lar España and the external firm that provides the accounting services have mechanisms for the capture and preparation of financial information, configured with adequate formats and applications, which are used on an across-the-board basis at all Group units and companies. In addition, the Company has established adequate controls over the financial preparation and reporting process. Lastly, Corporate Management supervises and reviews the financial information before presenting it to the Audit and Control Committee.

F.5. System monitoring

Indicate the existence of at least the following components, describing their main characteristics:

F.5.1. Describe the ICFR monitoring activities performed by the audit committee, including an indication of whether the entity has an internal audit function whose competencies include supporting the audit committee in its role of monitoring the internal control system, including ICFR. Also describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.

The Audit and Control Committee is the advisory body through which the Board of Directors supervises the ICFR system. Against this backdrop, article 14 of the Board Regulations attributes multiple duties to the Audit and Control Committee, specifically including the following:

- *“Supervising the effectiveness of the internal controls of the Company and its group and of its enterprise risk management systems”.*
- *“Analysing, in conjunction with the external auditor, any material internal control system weaknesses uncovered during the audit process”.*
- *“Monitoring the process of drawing up and disclosing regulated financial information”.*

The Audit and Control Committee has in turn entrusted ICFR oversight to the Internal Audit Service, to which end the latter function's work includes the following tasks:

- Supervising the operation of the ICFR system and its general controls and processes.
- Including supervision of the critical ICFR-related processes within the Business Plan and the Annual Internal Audit Plan.
- Collaborating on the definition and classification of incidents and on the design of any required action plans, and monitoring the latter.
- Reporting to the Audit and Control Committee on the incidents detected during the evaluation and oversight process.
- Assisting Corporate Management with preparation of reports on the status and description of the ICFR system.

Since 2014 was Lar España's first year in business, the ICFR system was rolled out gradually over the course of the year, by identifying the most critical accounts and processes and beginning the task of documenting them in detail. Management and the Audit and Control Committee were kept abreast of related developments and the progress made on implementing the system.

In addition, Management reviewed the information submitted to the securities market regulator (and its timeliness) in painstaking detail.

The ICFR Manual contemplates the annual assessment and oversight of the system's various components.

F.5.2. Indicate whether there is a discussion procedure whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments to the company's senior management and its audit committee or board of directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.

As already noted, the Company embarked on implementation of its ICFR system and on the documentation of some of its most critical processes in 2014. It is worth noting in this respect that Corporate Management met regularly with the external auditor to discuss its proposed financial reporting criteria and the level of progress made on developing the ICFR system.

In addition, the steps were taken to enable the provisions of the Board Regulations with respect to its mandate to the Audit and Control Committee, specifically that of:

- Analysing, in conjunction with the external auditor, any material internal control system weaknesses uncovered during the audit process.
- Establishing the opportune relationship with the auditor in order to receive feedback on any issues that could jeopardise auditor independence, for the purpose of investigation by the Audit and Control Committee, and on any other matters related to the account auditing process, as well as communicating any other matters provided for in prevailing audit legislation and other audit standards.

F.6. Other relevant disclosures

In addition to the ICFR oversight process (entrusted by the Audit and Control Committee to the Internal Audit Service), the ICFR Manual of Lar España contemplates the performance of an annual internal evaluation intended to ensure that the ICFR controls remain valid, well-designed and capable of delivering their intended objectives.

F.7. External auditor report

State whether:

F.7.1. The ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.

The description of the ICFR system provided to the market has not been reviewed by the external auditor as such assurance was not deemed warranted given the current level of implementation of the system and because the general review of internal controls performed by the external auditor in keeping with prevailing auditing standards and as part of the financial statement audit was considered sufficient to this end.

G**DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE
RECOMMENDATIONS**

Indicate the degree to which the company is in compliance with the recommendations of the Unified Good Governance Code. If the company does not comply or only partially complies with any of the recommendations, provide a detailed explanation for so doing such that shareholders, investors and the market in general have sufficient information to assess the company's course of action in this respect. General explanations are not acceptable

1. The bylaws of listed companies should not place an upper limit on the votes that can be cast by a single shareholder, or impose other obstacles to the takeover of the company by means of share purchases on the market.

See sections: A.10, B.1, B.2, C.1.23 and C.1.24.

Compliant ☒ Partially compliant ☐ Explain ☐

2. When a dominant and a subsidiary company are stock market listed, the two should provide detailed disclosure on:

- a) The type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies;
- b) The mechanisms in place to resolve possible conflicts of interest.

See sections: D.4 and D.7

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

3. Even when not expressly required under company law, any decisions involving a fundamental corporate change should be submitted to the general shareholders' meeting for approval or ratification. In particular:

- a) The transformation of listed companies into holding companies through the process of subsidiarisation, i.e. reallocating core activities to subsidiaries that were previously carried out by the originating firm, even though the latter retains full control of the former;
- b) Any acquisition or disposal of key operating assets that would effectively alter the company's corporate purpose;
- c) Operations that effectively add up to the company's liquidation.

See section: B.6

Compliant ☒ Partially compliant ☐ Explain ☐

4. Detailed proposals of the resolutions to be adopted at the general shareholders' meeting, including the information stated in recommendation 28, should be made available at the same time as the publication of the meeting notice.

Compliant ☒ Explain ☐

5. Separate votes should be taken at the general shareholders' meeting on materially separate items, so shareholders can express their preferences in each case. This rule shall apply in particular to:

- a) The appointment or ratification of directors, with separate voting on each candidate;**
- b) Amendments to the bylaws, with votes taken on all articles or groups of articles that are materially different.**

Compliant ☒ Partially compliant ☐ Explain ☐

6. Companies should allow split votes, so financial intermediaries acting as nominees on behalf of different clients can issue their votes according to instructions.

Compliant ☒ Explain ☐

7. The board of directors should perform its duties with unity of purpose and independent judgement, according all shareholders the same treatment. It should be guided at all times by the company's best interests and, as such, strive to maximise its value over time.

It should likewise ensure that in dealing with all its stakeholders, the company abides by the laws and regulations; fulfils its obligations and contracts in good faith; respects the customs and good practices of the sectors and territories where it does business; and upholds any additional social responsibility principles it has subscribed to voluntarily.

Compliant ☒ Partially compliant ☐ Explain ☐

8. The board should see the core component of its mission to approve the company's strategy and authorise the organisational resources to carry it forward, and to ensure that management meets the objectives set while pursuing the company's interests and corporate purpose. As such, the board in full should reserve the right to approve:

- a) The company's general policies and strategies, and in particular:**
 - i. The strategic or business plan, management targets and annual budgets;**
 - ii. Investment and financing policy;**
 - iii. Design of the structure of the corporate group;**
 - iv. Corporate governance policy;**
 - v. Corporate social responsibility policy;**
 - vi. Remuneration and evaluation of senior officers;**
 - vii. Risk control and management, and the periodic monitoring of internal information and control systems;**
 - viii. Dividend policy, as well as the policies and limits applying to treasury stock**

See sections: C.1.14, C.1.16 and E.2

b) The following decisions:

- i. On the proposal of the company's chief executive, the appointment and removal of senior officers, and their remuneration clauses.**

- ii. **Director remuneration and, in the case of executive directors, the additional compensation for their management duties and other contractual obligations**
 - iii. **The financial information that all listed companies must periodically disclose.**
 - iv. **Investments or operations considered strategic by virtue of their amount or special characteristics, unless their approval falls within the remit of the general shareholders' meeting.**
 - v. **The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.**
- c) **Transactions which the company conducts with directors, significant shareholders, shareholders with board representation or other persons related thereto ("related-party transactions").**

However, board authorisation need not be required for related-party transactions that simultaneously meet the following three conditions:

- 1. They are governed by standard-form agreements applied on an across-the-board basis to a large number of clients;**
- 2. They go through at market rates, generally set by the person supplying the goods or services;**
- 3. Their amount is no more than 1% of the company's annual revenues.**

It is advisable that related-party transactions should only be approved on the basis of a favourable report from the audit committee or some other committee handling the same function; and that the directors involved should neither exercise nor delegate their votes, and should withdraw from the meeting room while the board deliberates and votes.

Ideally the above powers should not be delegated with the exception of those mentioned in b) and c), which may be delegated to the executive committee in urgent cases and later ratified by the full board.

See sections: D.1 and D.6

Compliant ☐ Partially compliant ☒ Explain ☐

The Board of Directors of Lar España has all the powers listed above, as enshrined in article 4, sections 4, 5, 13 and 37, of the Board Regulations, except for the following:

- Evaluation of senior officers
- Director remuneration and, in the case of executive directors, any additional compensation for their management duties and other contractual obligations

9. In the interests of maximum effectiveness and participation, the board of directors should ideally comprise no fewer than five and no more than fifteen members.

See section: C.1.2.

Compliant ☒ Explain ☐

10. External directors, proprietary and independent, should occupy an ample majority of board places, while the number of executive directors should be the minimum practical

bearing in mind the complexity of the corporate group and the ownership interests they control.

See sections: A.3 and C.1.3

Compliant X Partially compliant ☐ Explain ☐

11. That among external directors, the relation between proprietary members and independents should match the proportion between the capital represented on the board by proprietary directors and the remainder of the company's capital.

This proportional criterion can be relaxed so the weight of proprietary directors is greater than would strictly correspond to the total percentage of capital they represent:

- 1°. In large-cap companies where few or no equity stakes attain the legal threshold for significant shareholdings, despite the considerable sums actually invested.**
- 2°. In companies with a plurality of shareholders represented on the board but not otherwise related.**

See sections: A.2, A.3 and C.1.3

Compliant X Explain ☐

12. The number of independent directors should represent at least one third of all board members.

See section: C.1.3.

Compliant X Explain ☐

13. The nature of each director should be explained to the general meeting of shareholders which will make or ratify his or her appointment. Such determination should subsequently be confirmed or reviewed in each year's Annual Corporate Governance Report, after verification by the nomination committee. The said report should also disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 5% of capital; and explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

See sections: C.1.3 and C.1.8

Compliant ☐ Partially compliant X Explain ☐

At present, the Board Regulations do not contemplate inclusion in the report of an explanation of the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 5% of capital; or a requirement to explain any rejection of a formal request for a board place from shareholders whose equity stake is equal to or greater than that of others applying successfully for a proprietary directorship.

14. When female directors are few or nil, the nomination committee should take steps whenever new vacancies come up to ensure that:

- a) The process of filling board vacancies has no implicit bias against women candidates;**

b) The company makes a conscious effort to include women with the target profile among the candidates for board places.

See sections: C.1.2, C.1.4, C.1.5, C.1.6, C.2.2 and C.2.4.

Compliant ☐ Partially compliant ☐ Explain X Not applicable ☐

Lar España was incorporated on 17/01/2014 and did not have a specific director selection procedure in place in 2014. However, the Appointments and Remuneration Committee plans to establish a director selection policy in 2015 with a view to ensuring that the director selection process is free of bias and emphasises the background match (knowledge, skills and past experience) and other aspects, such as diversity.

15. The chairman, as the person responsible for the proper operation of the board of directors, should ensure that directors are supplied with sufficient information in advance of board meetings, and work to procure a good level of debate and the active involvement of all members, safeguarding their rights to freely express and adopt positions; he or she should organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive, along with the chairmen of the relevant board committees.

See sections: C.1.19 and C.1.41

Compliant X Partially compliant ☐ Explain ☐

16. When a company's chairman is also its chief executive, an independent director should be empowered to request the calling of board meetings or the inclusion of new business on the agenda; to coordinate and give voice to the concerns of external directors; and to lead the board's evaluation of the chairman.

See section: C.1.22

Compliant X Partially compliant ☐ Explain ☐ Not applicable ☐

17. The secretary should take care to ensure that the board's actions:

- a) **Adhere to the spirit and letter of laws and their implementing regulations, including those issued by regulatory agencies;**
- b) **Comply with the company bylaws and the regulations of the general shareholders' meeting, the board of directors and other company rules and regulations;**
- c) **Are informed by those good governance recommendations of the Unified Code that the company has subscribed to.**

In order to safeguard the independence, impartiality and professionalism of the secretary, his or her appointment and removal should be proposed by the nomination committee and approved by a full board meeting, the relevant appointment and removal procedures being spelled out in the board's regulations.

See section: C.1.34

Compliant X Partially compliant ☐ Explain ☐

18. The board should meet with the necessary frequency to properly perform its functions, in accordance with a calendar and agendas set at the beginning of the year, to which each director may propose the addition of other items.

See section: C.1.29

Compliant ☒ Partially compliant ☐ Explain ☐

19. Director absences should be kept to the bare minimum and quantified in the Annual Corporate Governance Report. When directors have no choice but to delegate their vote, they should do so with instructions.

See sections: C.1.28, C.1.29 and C.1.30

Compliant ☒ Partially compliant ☐ Explain ☐

20. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved at the meeting, the person expressing them can request that they be recorded in the minute book.

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

21. The board in full should evaluate the following points on a yearly basis:

- a) **The quality and efficiency of the board's operation;**
- b) **Starting from a report submitted by the nomination committee, how well the chairman and chief executive have carried out their duties;**
- c) **The performance of its committees on the basis of the reports furnished by the same.**

See sections: C.1.19 and C.1.20

Compliant ☒ Partially compliant ☐ Explain ☐

22. All directors should be able to exercise their right to receive any additional information they require on matters within the board's competence. Unless the bylaws or board regulations indicate otherwise, such requests should be addressed to the chairman or secretary.

See section: C.1.41

Compliant ☒ Explain ☐

23. All directors should be entitled to call on the company for the advice and guidance they need to carry out their duties. The company should provide suitable channels for the exercise of this right, extending in special circumstances to external assistance at the company's expense.

See section: C.1.40

Compliant ☒ Explain ☐

24. Companies should organise induction programmes for new directors to acquaint them rapidly with the workings of the company and its corporate governance rules. Directors should also be offered refresher programmes when circumstances so advise.

Compliant ☒ Partially compliant ☐ Explain ☐

25. Companies should require their directors to devote sufficient time and effort to perform their duties effectively, and, as such:

- a) Directors should apprise the nomination committee of any other professional obligations, in case they might detract from the necessary dedication;**
- b) Companies should lay down rules about the number of directorships their board members can hold.**

See sections: C.1.12, C.1.13 and C.1.17

Compliant ☐ Partially compliant ☒ Explain ☐

At present Lar España's internal body of rules and regulations does not contemplate specific rules regarding the number of directorships its directors may hold. As indicated in article 28.2 of the Board Regulations, however, directors are required to devote sufficient time and effort to perform their duties effectively, to which end they are required to report to the Appointments and Remuneration Committee on their other professional obligations so it can check they will not detract from the required level of dedication.

26. The proposal for the appointment or renewal of directors which the board submits to the general shareholders' meeting, as well as provisional appointments by the method of co-option, should be approved by the board:

- a) On the proposal of the nomination committee, in the case of independent directors.**
- b) Subject to a report from the nomination committee in all other cases.**

See section: C.1.3.

Compliant ☐ Partially compliant ☒ Explain ☐

Lar España's body of rules and regulations does not currently contemplate the appointment or re-election of its directors at the proposal of the Appointments and Remuneration Committee in the case of independent directors or subject to a report from this same committee in the case of all other directors.

27. Companies should post the following director particulars on their websites, and keep them permanently updated:

- a) Professional experience and background;**
- b) Directorships held in other companies, listed or otherwise;**
- c) An indication of the director's classification as executive, proprietary or independent; in the case of proprietary directors, stating the shareholder they represent or have links with;**
- d) The date of their first and subsequent appointments as a company director, and;**
- e) Shares held in the company and any options on the same.**

Compliant ☐ Partially compliant ☒ Explain ☐

Article 38 of the Board Regulations stipulates that the material information required under securities market legislation be uploaded onto the corporate website; however, the wording does not specifically include the particulars stated in this recommendation. The Company will take this into consideration when updating its Regulations in 2015.

28. Proprietary directors should resign when the shareholders they represent dispose of their ownership interest in its entirety. If such shareholders reduce their stakes, thereby

losing some of their entitlement to proprietary directors, the latter's number should be reduced accordingly.

See sections: A.2, A.3 and C.1.2

Compliant ☒ Partially compliant ☐ Explain ☐

29. The board of directors should not propose the removal of independent directors before the expiry of their tenure as mandated by the bylaws, except where just cause is found by the board, based on a proposal from the nomination committee. In particular, just cause will be presumed when a director is in breach of his or her fiduciary duties or no longer qualifies as independent in keeping with the provisions of Ministerial Order ECC/461/2013.

The removal of independents may also be proposed when a takeover bid, merger or similar corporate operation produces changes in the company's capital structure, in order to meet the proportionality criterion set out in recommendation 11.

See sections: C.1.2, C.1.9, C.1.19 and C.1.27

Compliant ☒ Partially compliant ☐ Explain ☐

30. Companies should establish rules obliging directors to inform the board of any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.

The moment a director is indicted or tried for any of the crimes stated in article 213 of the Corporate Enterprises Act, the board should examine the matter and, in view of the particular circumstances and potential harm to the company's name and reputation, decide whether or not he or she should be called on to resign. The board should also disclose all such determinations in the Annual Corporate Governance Report.

See sections: C.1.42 and C.1.43

Compliant ☒ Partially compliant ☐ Explain ☐

31. All directors should express clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors unaffected by the conflict of interest should challenge any decision that could go against the interests of shareholders lacking board representation.

When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.

The terms of this recommendation should also apply to the secretary of the board, director or otherwise.

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

32. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board.

Irrespective of whether such resignation is filed as a significant event, the motive for the same must be explained in the Annual Corporate Governance Report.

See section: C.1.9

Compliant **X** Partially compliant ☐ Explain ☐ Not applicable ☐

33. Remuneration comprising the delivery of shares in the company or other companies in the group, share options or other share-based instruments, payments linked to the company's performance or membership of pension schemes should be confined to executive directors.

The delivery of shares is excluded from this limitation when directors are obliged to retain them until the end of their tenure.

Compliant **X** Explain ☐

34. External directors' remuneration should sufficiently compensate them for the dedication, abilities and responsibilities that the post entails, but should not be so high as to compromise their independence.

Compliant **X** Explain ☐

35. In the case of remuneration linked to company earnings, deductions should be computed for any qualifications stated in the external auditor's report.

Compliant ☐ Explain ☐ Not applicable **X**

36. In the case of variable awards, remuneration policies should include technical safeguards to ensure they reflect the professional performance of the beneficiaries and not simply the general progress of the markets or the company's sector, atypical or exceptional transactions or circumstances of this kind.

Compliant ☐ Explain ☐ Not applicable **X**

37. When the company has an executive committee, the breakdown of its members by director category should be similar to that of the board itself. The secretary of the board should also act as secretary to the executive committee.

See sections: C.2.1 and C.2.6

Compliant **X** Partially compliant ☐ Explain ☐ Not applicable ☐

38. The board should be kept fully informed of the business transacted and decisions made by the executive committee. To this end, all board members should receive a copy of the committee's minutes.

Compliant **X** Explain ☐ Not applicable ☐

39. In addition to the Audit Committee mandatory under the Securities Market Law, the Board of Directors should form a committee, or two separate committees, of Nomination and Remuneration.

The rules governing the make-up and operation of the audit committee and the committee or committees of nomination and remuneration should be set forth in the board regulations, and include the following:

- a. The board of directors should appoint the members of such committees with regard to the knowledge, aptitudes and experience of its directors and the terms of reference of each committee; discuss their proposals and reports; and be responsible for overseeing and evaluating their work, which should be reported to the first board plenary following each meeting;**
- b. These committees should be formed exclusively of external directors and have a minimum of three members. Executive directors or senior officers may also attend meetings, for information purposes, at the committees' invitation.**
- c. Committees should be chaired by an independent director.**
- d. They may engage external advisors, when they feel this is necessary for the discharge of their duties.**
- e. Meeting proceedings should be minuted and a copy sent to all board members.**

See sections: C.2.1 and C.2.4

Compliant ☒ Partially compliant ☐ Explain ☐

40. The job of supervising compliance with internal codes of conduct and corporate governance rules should be entrusted to the audit committee, the nomination committee or, as the case may be, separate compliance or corporate governance committees.

Compliant ☒ Partially compliant ☐ Explain ☐

41. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and background in accounting, auditing and risk management matters.

Compliant ☒ Partially compliant ☐ Explain ☐

42. Listed companies should have an internal audit function, under the supervision of the audit committee, to ensure the proper operation of internal reporting and control systems.

See section: C.2.3

Compliant ☒ Explain ☐

43. The head of internal audit should present an annual work programme to the audit committee; report to it directly on any incidents arising during its implementation; and submit an activities report at the end of each year.

Compliant ☒ Partially compliant ☐ Explain ☐

44. Control and risk management policy should specify at least:

- a. The different types of risk (operational, technological, financial, legal, reputational, etc.) the company is exposed to, with the inclusion under financial or economic risks of contingent liabilities and other off-balance-sheet risks;**
- b. The determination of the risk level the company sees as acceptable;**

- c. The measures in place to mitigate the impact of risk events should they occur;
- d. The internal reporting and control systems to be used to control and manage the above risks, including contingent liabilities and off-balance-sheet risks.

See section: E

Compliant ☒ Partially compliant ☐ Explain ☐

45. The audit committee's role should be:

1. With respect to internal control and reporting systems, to:

- a. Monitor the preparation and the integrity of the financial information prepared on the company and, where appropriate, the group, checking for compliance with legal provisions, the accurate demarcation of the consolidation perimeter, and the correct application of accounting principles.
- b. Review internal control and risk management systems on a regular basis, so the main risks are properly identified, managed and disclosed.
- c. Monitor the independence and efficacy of the internal audit function; propose the selection, appointment, reappointment and removal of the head of internal audit; propose the department's budget; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.
- d. Establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the firm.

2. With respect to the external auditor, to:

- a) Receive regular information from the external auditor on the progress and findings of the audit program, and verify that senior management is acting on its recommendations.
- b) Monitor the independence of the external auditor, to which end:
 - i. The company should notify any change of auditor to the CNMV as a significant event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.
 - iii. The committee should investigate the issues giving rise to the resignation of any external auditor.

See sections: C.1.36, C.2.3, C.2.4 and E.2

Compliant ☒ Partially compliant ☐ Explain ☐

46. The audit committee should be empowered to meet with any company employee or manager, even ordering their appearance without the presence of another senior officer.

Compliant ☒ Explain ☐

47. The audit committee should prepare information on the following points from recommendation 8 for input to board decision-making:

- a. The financial information that all listed companies must periodically disclose. The committee should ensure that interim statements are drawn up under the same accounting principles as the annual statements and, to this end, may ask the external auditor to conduct a limited review.**
- b. The creation or acquisition of shares in special purpose vehicles or entities resident in jurisdictions considered tax havens, and any other transactions or operations of a comparable nature whose complexity might impair the transparency of the group.**
- c. Related-party transactions, except where their scrutiny has been entrusted to some other supervision and control committee.**

See sections: C.2.1 and C.2.4

Compliant ☒ Partially compliant ☐ Explain ☐

48. The board of directors should seek to present the annual accounts to the general shareholders' meeting without reservations or qualifications in the audit report. Should such reservations or qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.

See section: C.1.38

Compliant ☒ Partially compliant ☐ Explain ☐

49. The majority of nomination committee members – or nomination and remuneration committee members as the case may be – should be independent directors.

See section: C.2.1

Compliant ☒ Explain ☐ Not applicable ☐

50. The nomination committee should have the following functions in addition to those stated in earlier recommendations:

- a. Evaluate the balance of skills, knowledge and experience on the board, define the roles and capabilities required of the candidates to fill each vacancy, and decide the time and dedication necessary for them to properly perform their duties.**
- b. Examine or organise, in appropriate form, the succession of the chairman and chief executive, making recommendations to the board so the handover proceeds in a planned and orderly manner.**
- c. Report on the senior officer appointments and removals which the chief executive proposes to the board.**
- d. Report to the board on the gender diversity issues discussed in recommendation 14 of this Code.**

See section: C.2.4

Compliant ☐ Partially compliant ☒ Explain ☐ Not applicable ☐

Article 15 of the Board Regulations entrusts the Appointments and Remuneration Committee with the following duties, among others:

- Evaluating the balance of skills, knowledge and experience on the Board, defining the roles and capabilities required of the candidates to fill each vacancy, and deciding the time and dedication necessary for them to properly perform their duties.
- Reporting on the senior officer appointments and removals which the chief executive proposes to the Board.
- Reporting to the Board on the gender diversity issues discussed in recommendation 13 of this Code.

51. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.

Any board member may suggest directorship candidates to the nomination committee for its consideration.

Compliant ☐ Partially compliant ☒ Explain ☐ Not applicable ☐

Article 15.10 of the Board Regulations states that the Appointments and Remuneration Committee should consult the Chairman and chief executive of the Company, particularly in relation to matters concerning executive directors and senior officers; the only eventuality not specifically contemplated is the possibility that any Board member may suggest directorship candidates to the nomination committee for its consideration.

52. The remuneration committee should have the following functions in addition to those stated in earlier recommendations:

- a) **Make proposals to the board of directors regarding:**
 - i. **The remuneration policy for directors and senior officers.**
 - ii. **The individual remuneration and other contractual conditions of executive directors.**
 - iii. **The standard conditions for senior officer employment contracts.**
- b) **Oversee compliance with the remuneration policy set by the company.**

See sections: C.2.4

Compliant ☐ Partially compliant ☒ Explain ☐ Not applicable ☐

Lar España plans to submit a director remuneration policy for shareholder approval at its 2015 Annual General Meeting at the proposal of its Appointments and Remuneration Committee; this policy will enshrine the need to remunerate directors enough to compensate them for the dedication, abilities and responsibilities that the post entails, but should not so much as to compromise their independence as part its general principles. Lar España plans to modify its in-house body of rules and regulations to duly incorporate the contents of this recommendation.

53. The remuneration committee should consult with the chairman and chief executive, especially on matters relating to executive directors and senior officers.

Compliant ☒ Explain ☐ Not applicable ☐

H**OTHER INFORMATION OF INTEREST**

1. If you consider that there is any material corporate governance related matter relating to your company or its group that has not been addressed anywhere else in this report that is necessary to provide a more comprehensive and substantiated picture of corporate governance structure or practices at your company or its group, outline them briefly here.
2. You may include in this section other relevant, but not reiterative, information, clarification or qualification related to the earlier sections of this report.

Specifically, indicate whether the company is subject to the corporate governance legislation of any country other than Spain and, if so, include any mandatory disclosures that are different from those required for this report.

3. State also whether the company voluntarily subscribes to other business ethics or corporate governance codes, whether international, sector-specific or other. If so, identify the codes applied and the date of membership.

This annual corporate governance report was approved by the Company's Board of Directors on 24 February 2015.

Indicate whether any directors voted against or abstained from voting on the approval of this report:

Yes ☐ **No** ☒

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES

Authorisation of the consolidated annual accounts

For the period of 11 months and 14 days ended 31 December 2014 and statement of compliance
LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

At their meeting held on 24 February 2015, pursuant to the requirements of article 253 of the Revised Spanish Companies Act and article 37 of the Spanish Code of Commerce, the Directors of Lar España Real Estate SOCIMI, S.A. (hereinafter the Company or Lar España) authorised for issue the consolidated annual accounts for the period of 11 months and 14 days ended 31 December 2014. The consolidated annual accounts comprise the documents that precede this certification.

According to the provisions of Royal Decree 1362/2007, of 19 October, (article 8.1 b) the undersigning Directors of Lar España and Subsidiaries (the “Group”), hereby declare that:

To the best of their knowledge, the consolidated annual accounts for the period of 11 months and 14 days ended 31 December 2014, prepared in accordance with applicable accounting principles, present fairly the equity, financial position and results of the Group and that the consolidated directors’ report accompanying the consolidated annual accounts includes a reliable analysis of the development and business results and position of Lar España and Subsidiaries together with a description of the principal risks and uncertainties that they face.

Signatories:

Mr. Jose Luis del Valle Doblado (Chairman)

Mr. Alec Emmott

Mr. Roger Maxwell Cooke

Mr. Pedro Luis Uriarte Santamarina

Mr. Miguel Pereda Espeso

Madrid, 24 February 2015