

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Financial Statements for the period of
eleven months and fourteen days ended
31 December 2014 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 financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 25). 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 financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 25). In the event of a discrepancy, the Spanish-language version prevails.

AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Report on the Financial Statements

We have audited the accompanying financial statements of LAR ESPAÑA REAL ESTATE SOCIMI, S.A., which comprise the balance sheet as at 31 December 2014, and the income statement, statement of changes in equity, statement of cash flows and notes to the financial statements for the period of eleven months and fourteen days then ended.

Directors' Responsibility for the Financial Statements

The directors are responsible for preparing the accompanying financial statements so that they present fairly the equity, financial position and results of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. in accordance with the regulatory financial reporting framework applicable to the Company in Spain (identified in Note 2-b to the accompanying financial statements) and for such internal control as the directors determine is necessary to enable the preparation of 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the 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 financial statements.

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

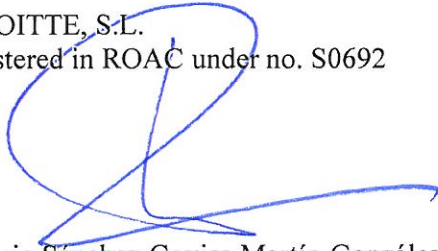
Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. as at 31 December 2014, and its results and its cash flows for the period of eleven months and fourteen days then ended in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein.

Report on Other Legal and Regulatory Requirements

The accompanying directors' report for the period of eleven months and fourteen days ended 31 December 2014 contains the explanations which the directors consider appropriate about the Company's situation, the evolution of its business and other matters, but is not an integral part of the financial statements. We have checked that the accounting information in the directors' report is consistent with that contained in the financial statements for the period of 11 months and 14 days ended 31 December 2014. Our work as auditors was confined to checking the directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the Company's accounting records.

DELOITTE, S.L.
Registered in ROAC under no. S0692

A handwritten signature in blue ink, consisting of a large, stylized initial 'A' followed by a long horizontal stroke.

Antonio Sánchez-Covisa Martín-González

25 February 2015



LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Annual Accounts and Directors' Report
for the period of 11 months and 14 days ended 31 December 2014

Prepared in accordance with Royal Decree 1514/2007, of 16 November 2007, as amended by Royal Decree 1159/2010, of 17 September 2010, approving the Spanish General Chart of Accounts



LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Annual Accounts and Directors' Report
for the period of 11 months and 14 days ended 31 December 2014

Prepared in accordance with Royal Decree 1514/2007, of 16 November 2007, as amended by Royal Decree 1159/2010, of 17 September 2010, approving the Spanish General Chart of Accounts

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Balance Sheet at 31 December 2014
(Expressed in thousands of Euros)

(Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 25). In the event of a discrepancy, the Spanish-language version prevails.)

<u>Assets</u>	<u>Note</u>	<u>2014</u>
Investment property		202,310
Land	5	80,456
Buildings	5	121,854
Non-current investments in Group companies and associates		134,525
Equity instruments	9	134,525
Non-current investments		2,409
Other financial assets	10	2,409
Total non-current		339,244
Inventories		3,102
Goods for resale	11	2,843
Advances	11	259
Trade and other receivables		1,870
Trade receivables	10.12	1,170
Public entities, other	10.12	700
Current investments		32,066
Other financial assets	10	32,066
Prepayments for current assets		95
Cash and cash equivalents		17,467
Cash	8.13	17,467
Total current assets		54,600
Total assets		<u>393,844</u>

Notes 1 to 25 and Appendix I thereto form an integral part of the balance sheet at 31 December 2014.

Balance Sheet at 31 December 2014
(Expressed in thousands of Euros)

(Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 25). In the event of a discrepancy, the Spanish-language version prevails.)

<u>Equity and Liabilities</u>	<u>Note</u>	<u>2014</u>
Capital and reserves		
Capital		80,060
Share capital	14a	80,060
Share premium	14b	320,000
Reserves		(9,425)
Other reserves	14c	(9,425)
(Treasury shares and equity holdings)	14c	(4,838)
Other shareholder contributions	14a	240
Profit for the year		1,664
Total equity		387,701
Non-current payables		3,603
Other financial liabilities	15.16	3,603
Total non-current liabilities		3,603
Trade and other payables		2,540
Current suppliers, related parties	15a, 17	866
Other payables	15a, 17	1,578
Personnel (<i>salaries payable</i>)	15a, 17	18
Public entities, other	15a, 17, 19	78
Total current liabilities		2,540
Total equity and liabilities		393,844

Notes 1 to 25 and Appendix I thereto form an integral part of the balance sheet at 31 December 2014.

Income Statement for the period of 11 months and 14 days ended 31 December 2014
(Expressed in thousands of Euros)

(Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 25). In the event of a discrepancy, the Spanish-language version prevails.)

	Note	2014
Continuing operations		
Revenues		7,207
Sales	21a	7,207
Other operating income		217
Non-trading and other operating income		217
Personnel expenses		(108)
Salaries and wages	21b	(93)
Employee benefits expense	21b	(15)
Other operating expenses		(6,824)
External services	21c	(6,441)
Taxes	21c	(221)
Losses, impairment and changes in trade provisions	21c	(162)
Amortisation and depreciation	5	(1,219)
Results from operating activities		(727)
Finance income		2,391
Marketable securities and other financial instruments		2,391
Other	10c	2,391
Net finance income		2,391
Profit before income tax		1,664
Income tax expense	19a	-
Profit from continuing operations		1,664
Profit for the year		1,664

Notes 1 to 25 and Appendix I thereto form an integral part of the income statement for the period of 11 months and 14 days ended 31 December 2014.

Statement of Comprehensive Income for the period of 11 months and 14 days ended 31 December 2014
(Expressed in thousands of Euros)

(Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 25). In the event of a discrepancy, the Spanish-language version prevails.)

	<u>2014</u>
Profit for the year	<u>1,664</u>
Total income and expense recognised directly in equity	-
Total amounts transferred to the income statement	-
Total recognised income and expense	<u><u>1,664</u></u>

Notes 1 to 25 and Appendix I thereto form an integral part of the statement of recognised income and expense for the period of 11 months and 14 days ended 31 December 2014.

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

(Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 25). In the event of a discrepancy, the Spanish-language version prevails.)

	Registered capital	Share premium	Reserves	Treasury shares and equity holdings	Other shareholder contributions	Profit for the year	Interim dividend	Total
Company incorporation on 17 January 2014	60	-	(2)	-	-	-	-	58
Recognised income and expense	-	-	-	-	-	1,664	-	1,664
Transactions with equity holders or owners								
Capital increases	80,000	320,000	(9,419)	-	240	-	-	390,821
Treasury shares	-	-	(4)	(4,838)	-	-	-	(4,842)
Balance at 31 December 2014	<u>80,060</u>	<u>320,000</u>	<u>(9,425)</u>	<u>(4,838)</u>	<u>240</u>	<u>1,664</u>	<u>-</u>	<u>387,701</u>

Notes 1 to 25 and Appendix I thereto form an integral part of the statement of total changes in equity for the period of 11 months and 14 days ended 31 December 2014.

Statement of Cash Flows for the period of 11 months and 14 days ended 31 December 2014
(Expressed in thousands of Euros)

(Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 25). In the event of a discrepancy, the Spanish-language version prevails.)

	Note	2014
Cash flows from operating activities		
Profit for the period before tax		1,664
Adjustments for:		(1,010)
Amortisation and depreciation (+)		1,219
Impairment (+/-)		162
Finance income (-)	10c	(2,391)
Changes in operating assets and liabilities		914
Inventories (+/-)		(3,102)
Trade and other receivables (+/-)		(2,032)
Trade and other payables (+/-)		2,540
Other current assets (+/-)		(95)
Other non-current assets and liabilities (+/-)		3,603
Other cash flows from operating activities		2,094
Interest received (+)		2,094
Cash flows from operating activities		3,662
Cash flows from investing activities		
Payments for investments (-)		(372,232)
Group companies and associates		(134,525)
Investment property		(203,529)
Other financial assets		(34,178)
Cash flows used in investing activities		(372,232)
Cash flows from financing activities		
Proceeds from and payments for equity instruments		386,037
Issue of equity instruments		390,879
Proceeds from/(Payments for) the sale and purchase of treasury shares		(4,842)
Cash flows from financing activities		386,037
Net increase in cash and cash equivalents		17,467
Cash and cash equivalents at beginning of period		-
Cash and cash equivalents at period end		17,467

Notes 1 to 25 and Appendix I form an integral part of the statement of cash flows for the period of 11 months and 14 days ended 31 December 2014.

Notes to the annual accounts for the period of 11 months and 14 days ended 31 December 2014

(Translation of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2 and 25). In the event of a discrepancy, the Spanish-language version prevails.)

(1) Nature, Activities of the Company and Composition of the Group

Lar España Real Estate SOCIMI, S.A. (hereinafter the 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 Company's statutory activity consists of the following:

1. The acquisition and development of urban properties for lease.
2. 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.
3. The holding of investments in the share 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.
4. 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.
5. 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 percent of the total earnings of the Company in each tax period or those which can be considered complementary pursuant to prevailing legislation.

The principal activity of Lar España Real Estate SOCIMI, S.A. consists mainly of the acquisition and management of shopping centres and offices. However, it 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 Exchange and the Spanish automated quotation system since 5 March 2014.

As the parent of the Group, Lar España Real Estate SOCIMI, S.A. 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 complying with 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 Company'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 calculation purposes. The period shall be calculated as follows:
 - a) For properties included in the Company'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 were 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 put up 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 Company'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.

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 Company 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 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:

1. Flexible criteria for acquiring and maintaining properties: there is no lower limit regarding the number of properties that may be contributed when incorporating 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 company's balance sheet for seven years, but only for at least three years.
2. 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.
3. 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.
4. 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 who 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 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.

As explained in note 9 the Company holds investments in subsidiaries and associates. Consequently, in accordance with prevailing legislation, the Company is the parent of a group of companies. In accordance with generally accepted accounting principles in Spain, consolidated annual accounts must be prepared to present fairly the financial position of the Group, the results of operations and changes in its equity and cash flows. Details of investments in Group companies and associates are included in Appendix I.

On 24 February 2015 the directors prepared the consolidated annual accounts of Lar España Real Estate SOCIMI, S.A. and subsidiaries for 2014, which show a consolidated profit of Euros 3,456 thousand and consolidated equity of Euros 389,493 thousand

(2) Basis of Presentation

(a) Fair presentation

The accompanying 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 in accordance with prevailing legislation and the Spanish General Chart of Accounts to present fairly the equity and financial position at 31 December 2014 and results of operations, changes in equity, and cash flows for the period of 11 months and 14 days then ended.

The directors consider that the annual accounts for 2014, authorised for issue on 24 February 2015, will be approved with no changes by the shareholders at their annual general meeting.

(b) Financial information reporting framework applicable to the Company

These annual accounts have been prepared by the directors within the financial information framework applicable to the Company established in the following:

1. The Spanish Code of Commerce and related mercantile legislation.
2. The Spanish General Chart of Accounts approved by Royal Decree 1514/2007 and sector adaptations.
3. Mandatory standards approved by the Spanish Accounting and Auditing Institute (ICAC) in drafting the Spanish General Chart of Accounts and its supplementary standards.
4. Law 11/2009 of 26 October 2009, as amended by Law 16/2012 of 27 December 2012, which governs SOCIMIs.
5. All other applicable Spanish accounting principles.

(c) Comparative information

As explained in note 1, the Company was incorporated on 17 January 2014 and, therefore, the reporting period is from 17 January 2014 to 31 December 2014. Since this is the Company's first year of activity, the directors have not included comparative figures in the balance sheet, income statement, statement of changes in equity, statement of cash flows, or the notes thereto.

(d) Functional and presentation currency

The figures disclosed in the annual accounts are expressed in thousands of Euros, the Company's functional and presentation currency, rounded off to the nearest thousand.

(e) Critical issues regarding the valuation and estimation of relevant uncertainties and judgements used when applying accounting principles

Relevant accounting estimates and judgements and other estimates and assumptions have to be made when applying the Company's accounting principles to prepare the annual accounts. 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 annual accounts, is as follows:

(i) *Relevant accounting estimates and assumptions*

1. 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 management (note 12a).
2. Assessment of provisions and contingencies.
3. Financial risk management.
4. Evaluation of possible impairment losses on certain assets (notes 4b and 4d).
5. Market value of certain financial instruments (note 4d).
6. The useful life of property, plant and equipment and investment property (notes 4a and 4b).

(ii) *Changes in accounting estimates*

Although estimates are calculated by the Company's directors based on the best information available at 31 December 2014, future events may require changes to these estimates in subsequent years. Any effect on the annual accounts of adjustments to be made in subsequent years would be recognised prospectively.

(3) Distribution of Profit

The proposed distribution of profit for the period ended 31 December 2014 and other reserves to be submitted to the shareholders for approval at the 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/>
	1,664
	<hr/>

(4) Significant Accounting Policies

These notes to the annual accounts for the period of 11 months and 14 days ended 31 December 2014 have been prepared applying the recognition and measurement criteria laid down in the Spanish General Chart of Accounts approved by Royal Decree 1514/2007 of 16 November 2007, amended by Royal Decree 1159/2010 of 17 September 2010.

(a) Investment property

Investment property comprises property, including that which is under construction or being developed, 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 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. Company management does not plan to dispose of these assets in the foreseeable future and has therefore decided to maintain these assets in the balance sheet as investment property.

These assets are initially booked at cost of acquisition or production and are subsequently carried at cost less accumulated depreciation and any impairment.

Repair and maintenance costs incurred on the different items that make up investment property are charged to the income statement in the period in which they are incurred. Conversely, investments in improvements that help to increase the capacity or efficiency

of the assets or extend their useful life are recognised as an increase in the cost of the assets.

Expenses capitalised in relation to assets that will not be available for use for more than one year include borrowing costs charged by the supplier or associated with loans or other specific external financing, and which are directly attributable to the acquisition of the assets.

The Company reclassifies investment property to property, plant and equipment when it begins to use the property in the production or supply of goods or services, or for administrative purposes.

The Company reclassifies investment property to inventories when it commences construction work to substantially alter the property with a view to selling it.

The Company reclassifies property, plant and equipment to investment property when it ceases to use the building in the production or supply of goods or services, for administrative purposes or when it is held to earn rentals or for capital appreciation or both.

The Company reclassifies inventories to investment property when the property is leased under an operating lease.

Investment property is depreciated applying the following policies:

	Depreciation method	Estimated years of useful life
Buildings	Straight-line	50
Improvements to commercial premises	Straight-line	Term of rental agreement with tenant

Assets under construction earmarked for rental, or for other purposes as yet undefined, are recognised at cost, less any impairment. As with other investment property, depreciation of these assets commences when the assets are ready for their intended use.

(i) Impairment of investment property

The Company evaluates whether there are indications of possible impairment losses on non-financial assets subject to amortisation or depreciation to determine whether the carrying amount of these assets exceeds the recoverable amount.

The recoverable amount is the higher of fair value less costs to sell and the value in use. Value in use is the present value of the future cash flows expected to be obtained through use of the asset in the ordinary course of business and, where applicable, its disposal, taking into consideration its present state, discounted at a

risk-free market interest rate, adjusted for any risks specific to the asset for which the estimated future cash flows have not been adjusted.

When determining the fair value of its investment property, the Company commissions independent appraisers not related to the Company to appraise properties classified as investment property. These appraisals are carried out at 30 June and 31 December of each year (note 5). Buildings are measured individually taking into consideration each of the rental contracts in force at the appraisal date. Buildings with areas that have not been rented out have been measured based on estimated future rents, minus a marketing period.

When determining the value in use of investment property, the amount the Company expects to recover through the lease is taken into account. To this end, projections of the cash flows to be derived from the lease instalments are considered, based on the best estimate, applying the discount rate, and taking into account any uncertainty that could reduce the amount thereof. The value in use is not necessarily the same as the fair value, since the former pertains to factors specific to the entity; primarily its ability to impose prices above or below market prices, as it assumes different risks, or because it undergoes interruptions (in construction or marketing in the case of investments in progress, refurbishing costs, maintenance, etc.) different to those experienced by most other companies in the sector.

The carrying amount of the Company's investment property is adjusted at the interim and period-end reporting date by recognising an impairment provision to write the carrying amount down to the recoverable amount, where the latter is the lower of the two.

Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased by the revised estimate of its recoverable amount. The increased carrying amount of an asset may not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment are recognised as income.

(b) Leases

(i) Classification of leases

Leases are classified 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. All other leases are classified as operating leases. The Company has not engaged in any finance lease transactions.

(ii) Lessee accounting records

- Operating leases

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 Company 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.

(iii) Lessor accounting records

- Operating leases

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.

(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.

The Company classifies financial instruments into different categories based on the nature of the instruments and the Company's intentions on initial recognition.

(ii) Offsetting principles

A financial asset and a financial liability are offset only when the Company 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) Financial assets and financial liabilities held for trading

Financial assets or financial liabilities held for trading are those which are classified as held for trading from initial recognition.

A financial asset or financial liability is classified as held for trading if it:

- Is acquired or incurred principally for the purpose of selling or repurchasing it in the immediate future;
- Forms part, from initial recognition, of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking or
- Is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

Financial assets and financial liabilities at fair value through profit or loss are initially recognised at fair value. Transaction costs directly attributable to the acquisition or issue are recognised as an expense when incurred.

After initial recognition, they are recognised at fair value through profit or loss. Fair value is not reduced by transaction costs incurred on sale or disposal.

The Company does not reclassify any financial asset or financial liability into or out of this category while it is recognised in the balance sheet, except when there is a change in the classification of hedging instruments.

(iv) Loans and receivables

This item comprises non-derivative loans and receivables with fixed or determinable payments that are not quoted in an active market. These are mainly deposits in banking institutions and accrued interest receivable on the deposits contracted as well as receivables arising from the Company's activity. These assets are classified as current unless they mature in more than 12 months after the reporting date, in which case they are classified as non-current. Loans and receivables are included under trade and other receivables in the balance sheet 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 are 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 the reporting date, the necessary impairment losses are recognised when there is objective evidence that not all the amounts receivable will be collected.

(v) Equity instruments in Group companies, associates and jointly controlled entities.

Group companies are those over which the Company exerts control whereas associates are entities over which the Company has significant influence. In addition, jointly controlled entities include entities in which the Company exercises control together with one or more partners, by virtue of an agreement.

In general, investments in Group companies are recognised initially at the fair value of the consideration paid.

As of 1 January 2010, any fees of legal advisors or other professionals who may be involved in the acquisition of investments in equity instruments of Group companies which grant control over a subsidiary, are taken directly to the income statement.

After initial valuation, investments in Group companies, associates and jointly controlled entities are measured at cost net of any accumulated impairment. This impairment is calculated as the difference between the carrying amount and the recoverable amount, which is the higher of fair value less costs to sell and the present value of future cash flows deriving from the investment. Unless better evidence of the recoverable amount is available, impairment is determined based on the investee's equity, corrected for any unrealised gains existing at the measurement date.

(vi) Impairment 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 variable income 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 Company applies the same criteria when the foreclosure is considered probable.

The Company 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.

(vii) Financial liabilities

Financial liabilities, including trade and other payables that are not recognised at fair value through profit or loss, 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.

(viii) 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 Company has transferred substantially all the risks and rewards of ownership.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received, net of transaction costs, including any new asset obtained less any new liability assumed and any cumulative gain or loss deferred in recognised income and expense, is recognised directly in equity.

(ix) Derecognition and modifications of financial liabilities

The Company 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 Company 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, provided that the instruments have substantially different terms.

The Company considers the terms to be 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 per cent 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. In the latter case, a new effective interest rate is determined on the modification date, calculated as the rate that equates the present value of the flows payable under the new terms to the carrying amount of the financial liability at that date.

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. If the Company transfers non-monetary assets in settlement of the debt, the difference between their fair value and their carrying amount is recognised as results from operating activities, and the difference between the value of the debt being settled and the fair value of the assets as net finance income/cost. If the Company transfers inventories, the corresponding sale transaction is recognised at their fair value and the change in inventories at their carrying amount.

(d) Own equity instruments held by the Company

Equity instruments acquired by the Company are shown separately at cost of acquisition as a reduction in capital and reserves in the balance sheet. Any gains or losses on transactions with own equity instruments are not recognised in profit or loss.

The subsequent redemption of the instruments entails a capital reduction equivalent to the par value of the shares. Any positive or negative 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, including issue costs related to a business combination, are accounted for as a deduction from reserves, net of any tax effect.

Dividends relating to equity instruments are recognised as a reduction in equity when approved by the shareholders.

(e) Distributions to shareholders

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

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 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 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 initially measured at cost of purchase or production.

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

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

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.

(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) Short-term 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 Company 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 Company has a present obligation (legal, contractual, constructive or tacit) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable

estimate can be made of the amount of the obligation.

The amount recognised as a provision 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 the income statement.

The tax effect and gains on the expected 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 there is no doubt that the reimbursement will be received. The reimbursement is recognised as income in the income statement based on the nature of the expenditure 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.

(j) Recognition of revenue

Revenue from leases is measured 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.

(i) Lease of investment property to third parties

The principal activity of the Company consists of the acquisition and management of shopping centres and offices. However, it may invest on a smaller scale in other assets for rent or for direct sale (commercial premises, logistics bays, logistics centres or residential products). Company 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 Company recognises revenue from leases on a monthly basis in accordance with the terms and amounts agreed in the different agreements entered into with its 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 2,626,000 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 included under external services in the accompanying income statement for the period ended 31 December 2014.

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

(k) Income tax

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 carry forwards 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 carry forwards and tax deductions pending application. These amounts are recognised by applying the rate of tax at which they are expected to be recovered or settled.

The special tax regime for SOCIMIs, 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 Company has established a procedure whereby shareholders confirm their tax status and, where applicable, 19% of the amount of the dividend distributed among the shareholders who do not meet the aforementioned tax requirements is withheld.

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

The Company classifies assets and liabilities in the balance sheet as current and non-current. Current assets and liabilities are determined as follows:

- Assets are classified as current when they are expected to be realised or are intended for sale or consumption in the Company'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 Company'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 Company does not have an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.
- Financial liabilities are classified as current when they are due to be settled within 12 months after the reporting date, even if the original term was for a period longer than 12 months, and an agreement to refinance or to reschedule payments on a long-term basis is completed after the reporting date and before the annual accounts are authorised for issue.

(m) Insurance contracts

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

(n) Environmental issues

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

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

(o) Transactions between Group companies

Transactions between Group companies, except those related to mergers, spin-offs and non-monetary contributions, are recognised at the fair value of the consideration given or received. The difference between this value and the amount agreed is recognised in line with the underlying economic substance of the transaction.

(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 Company and other activities that cannot be classified as investing or financing activities.
- Investing activities: the acquisition, sale or disposal by other means of long-term 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.

(5) Investment Property

Details of investment property and movement during the period are as follows:

	Thousands of Euros		
	2014		
	Land	Buildings	Total
Cost at 17 January 2014	-	-	-
Additions	80,456	123,073	203,529
Cost at 31 December 2014	80,456	123,073	203,529
Accumulated depreciation at 17 January 2014	-	-	-
Charges	-	(1,219)	(1,219)
Accumulated depreciation at 31 December 2014	-	(1,219)	(1,219)
Carrying amount at 31 December 2014	80,456	121,854	202,310

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

Details by line of business of the carrying amount of the Company's investment property held under operating leases at 31 December 2014 are as follows:

	Thousands of Euros	
	2014	
Shopping centres and single-tenant commercial property		158,404
Office buildings		43,906
		202,310

The Company has recognised non-recoverable direct tax incurred of Euros 3,165 thousand as an increase in the cost of purchase.

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

	Gross lettable area (sqm)	Occupancy rate (% of sqm)
Shopping centres and single-tenant commercial property	64,770	87.1 %
Office buildings	17,247	60.5 %

Pursuant to accounting legislation, the fair value of the investment property was determined by a professionally accredited external independent appraisal company with recent experience in the location and category of the property being appraised. Independent appraisal companies determine the fair value of the Company's investment property portfolio every six months.

The appraisal companies that performed the appraisals of the Company'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

A breakdown of the market value of each investment property at 31 December 2014 is as follows:

	<u>Thousands of Euros</u>
Txingudi shopping centre	28,500
Las Huertas shopping centre	12,000
Arturo Soria office building	24,690
Single-tenant commercial premises Villaverde	9,345
Anec Blau shopping centre	81,310
Albacenter shopping centre	29,103
Cardenal Marcelo Spinola office building	19,300
	<u>204,248</u>

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

	<u>Thousands of Euros</u>
	<u>2014</u>
Appraisal services	17
	<u>17</u>

Insurance

The Company has taken out insurance policies to cover the risk of damage to its investment property. The coverage provided by these policies is considered sufficient.

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

(6) Operating Leases - Lessee

The Company held an operating lease on the premises of the hypermarket at the Albacenter shopping centre, 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.

On the same date, Lar España Real Estate SOCIMI, S.A. signed a new operating lease on other premises with the Group company “Lar España Shopping Centres, S.A.”, which it has sublet to the PRIMARK clothing group.

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

	Thousands of Euros
	2014
Minimum lease payments (note 21(c))	32
	<u>32</u>

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

	Thousands of Euros
	2014
Less than one year	75
One to five years	200
Over five years	-
	<u>275</u>

(7) Operating Leases – Lessor

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

At 31 December 2014 properties earmarked for rental had occupancy rates of 87.1% (shopping centres) and 60.5% (office buildings) and generated the revenues shown in the following table:

Item	Thousands of Euros				
	Cost	Accumulated depreciation at 31/12/2014	Depreciation charge	Carrying amount	Accrued income
Txingudi commercial park (Irun, Basque Country, Spain)	27,811	(257)	(257)	27,554	1,887
Las Huertas Shopping Centre (Palencia, Castile and Leon, Spain)	12,031	(155)	(155)	11,876	776
Single-tenant commercial premises Villaverde (Madrid, Spain)	9,327	(36)	(36)	9,291	331
Aneq Blau shopping centre (Barcelona, Spain)	81,290	(477)	(477)	80,813	2,377
Albacenter shopping centre (Albacete, Spain)	28,968	(98)	(98)	28,870	877
Arturo Soria office building (Madrid, Spain)	24,563	(83)	(83)	24,480	638
Cardenal Marcelo Spinola office building (Madrid, Spain)	19,539	(113)	(113)	19,426	321
Total	203,529	(1,219)	(1,219)	202,310	7,207

The lease contracts between the Company and its customers stipulate a fixed rent and 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 the shopping centres and office buildings accrued from 24 March 2014 to 31 December 2014.

The nominal amount of future minimum payments receivable under non-cancellable operating leases are as follows:

	Thousands of Euros
	2014
Less than one year	12,671
One to five years	25,171
Over five years	19,212
	57,054

The most significant operating lease contracts at 31 December 2014 and their main characteristics are shown below:

Ranking	Trade name	Project	% of total rental income	% Accumulated	Expiry	Sector
1	MEDIA MARKT	MediaMarkt Villaverde	5.46%	5.46%	2022	Technology
2	SEGURCAIXA ADESLAS, S.A.	Arturo Soria	4.43%	9.89%	2020	Offices
3	C&A	Txingudi/Anec Blau	4.29%	14.18%	2020/2025	Textile/Fashion
4	MERCADONA	Anec Blau	3.80%	17.98%	2030	Distribution
5	LOS TELARES	Txingudi/Las Huertas	3.42%	21.40%	2018/2017	Textile/Fashion
6	BERSHKA	Albacenter/Anec Blau	3.12%	24.52%	2033/2025	Textile/Fashion
7	PULL & BEAR	Las Huertas/Albacenter/Anec Blau	3.07%	27.59%	2027/2025/2028	Textile/Fashion
8	ZARA	Anec Blau	3.03%	30.62%	2025	Textile/Fashion
9	INSIDE	Txingudi/Las Huertas/Albacenter/Anec Blau	2.82%	33.44%	2016/2015/2020/2019	Textile/Fashion
10	KIABI ESPAÑA KSCE, S.A.	Txingudi	2.59%	36.03%	2027	Textile/Fashion

(8) Risk Management Policy

(a) Financial risk factors

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

Company senior management 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 Company'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.

(i) Market risk

In light of current conditions in the property sector, the Company has established specific measures which 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 Company performs periodically. These analyses take the following factors into consideration:

- The economic environment in which the Company performs its activity: The design of various economic scenarios with different key variables that can affect the Company (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 Company if a customer or counterparty fails to discharge its contractual obligations.

The Company is not significantly exposed to credit risk. The Company 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 Company 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 is as follows:

	In thousands of Euros	
	Note	2014
Security deposits and guarantees	10(b)	34,178
Other financial assets	10(b)	297
Trade and other receivables	12	1,870
Cash and cash equivalents	13	17,467
		<u>53,812</u>

The Company's exposure to trade and other receivables at 31 December 2014 is detailed below. The tables show the ageing analysis of trade and other receivables at 31 December 2014 that are not impaired.

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

	Thousands of Euros				Total
	2014				
	Not past due	Less than 3 months	Between 3 months and 6 months	Between 6 months and 1 year	
Trade and other receivables	399	636	135	700	1,870
Total assets	399	636	135	700	1,870

The following table presents details of impaired balances by the geographic region in which the Company operates.

	Thousands of Euros
	2014
Basque Country	341
Castile and Leon	99
Catalonia	64
Castile La Mancha	20
	524

Cash and cash equivalents

The Company has cash and cash equivalents totalling Euros 17,467 thousand, which represents its maximum exposure to the 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 Company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

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

Details of the Company's exposure to liquidity risk at 31 December 2014 and financial liabilities by remaining contracted maturity are as follows:

	2014			Total
	Thousands of Euros			
	Less than 1 month	1 to 3 months	Indefinite	
Other non-current liabilities - security deposits	-	-	3,603	3,603
Trade and other payables	403	2,137	-	2,540
Total	403	2,137	3,603	6,143

(iv) Cash flow and fair value interest rate risks

At 31 December 2014 the Company 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 Company's operating activities are not significantly affected by fluctuations in market interest rates.

At 31 December 2014, the Company has not received any loans or credit from the Group, related parties, unrelated parties or third parties.

(v) Tax risk

As mentioned in note 1, the Company has adopted 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 not approve the dividend distribution proposed by the board of directors, which has been calculated in accordance with the requirements set forth in the aforementioned law, the Company would be in breach of said law and, consequently, would have to file its tax returns under the general tax regime rather than that applicable to SOCIMIs.

(9) Investments in Equity Instruments of Group Companies and Associates

Details of investments in equity instruments of Group companies and associates are as follows:

	Thousands of Euros		
	2014		
	Acquisition value	Voluntary contributions	Total investments
Investments in Group companies			
LAR ESPAÑA INVERSION LOGISTICA, S.A.	60	45,149	45,209
LAR ESPAÑA SHOPPING CENTRES, S.A.	60	12,000	12,060
LAR ESPAÑA OFFICES, S.A.	60	35,200	35,260
LAR ESPAÑA PARQUE DE MEDIANAS, S.A.	60	10,500	10,560
RIVERTON GESTIÓN, S.L.U.	3	13,000	13,003
GLOBAL NOCTUA, S.L.	4	-	4
	247	115,849	116,096
Investments in Associates			
PUERTA MARÍTIMA ONDARA, S.L.	17,543	882	18,425
LAVERNIA INVESTMENTS, S.L.	4	-	4
	17,547	882	18,429
Total	17,794	116,731	134,525

LAR España Inversión Logística, S.A., a Spanish company incorporated on 23 July 2014 with share capital of Euros 60 thousand made up of 30,000 shares with a par value of Euros 2 each. The company's statutory activity is the rental of properties (logistics bays) on its own behalf. Group subsidiary whose capital is 100% owned by LAR España Real Estate SOCIMI, S.A. Throughout 2014 the Company has made voluntary contributions to LAR España Inversión Logística, S.A. amounting to Euros 45,149 thousand for the acquisition of the Alovera I and Alovera II logistics bays.

On 4 November, the Company incorporated a subsidiary, LAR España Shopping Centres, S.A., of which it owns 100% of the share capital of Euros 60 thousand made up of 30,000 registered shares with a par value of Euros 2 each. In December 2014, the Company made two voluntary contributions to LAR España Shopping Centres, S.A. totalling Euros 12,000 thousand for the purpose of, among other things, acquiring the hypermarket and two adjacent commercial premises located at the Albacenter shopping centre.

On 4 November, the Company incorporated a subsidiary, LAR España Offices, S.A., a Spanish company of which it owns 100% of its share capital of Euros 60 thousand made up of 30,000 registered shares with a par value of Euros 2 each. On 16 December 2014, the Company made a voluntary contribution to LAR España Offices, S.A. amounting to Euros 35,200 thousand for the purpose of, among other things, acquiring the Egeo office building in Madrid.

On 4 November, the Company incorporated a subsidiary, LAR España Parque de Medianas, S.A., a Spanish company of which it owns 100% of its share capital of Euros 60 thousand made up of 30,000 registered shares with a par value of Euros 2 each. On 16 December 2014, the Company made a voluntary contribution to LAR España Parque de Medianas, S.A. amounting to Euros 10,500 thousand for the purpose of, among other things, acquiring Nuevo Alisal, (two single-tenant commercial premises located in Santander).

On 18 December 2014, the Company acquired 100% of the shares of Riverton Gestión, S.L.U., a Spanish company set up on 17 November 2014 with a share capital of Euros 3 thousand made up of 3,000 shares with a par value of one Euro each. On 23 December 2014, the Company made a voluntary contribution to Riverton Gestión, S.L.U. amounting to Euros 13,000 thousand for the purpose of, among other things, acquiring the office building at Eloy Gonzalo street in Madrid.

On 18 December 2014, the Company acquired 100% of the shares of Global Noctua, S.L., a Spanish company incorporated on 13 November 2014 with a share capital of Euros 4 thousand made up of 3,600 shares with a par value of one Euro each.

On 10 October 2014, the Company entered into an agreement with Cecosa Hipermercados, S.A. to acquire shares representing 58.78% of the share capital of Puerta Marítima Ondara, S.L., the owner of the “Portal de la Marina” shopping centre located in Ondara (Alicante). The acquisition was made for Euros 17,543 thousand, and paid in full using Company equity. The remaining investment in Puerta Marítima Ondara, S.L. is owned by a subsidiary of Grupo Lar Inversiones Inmobiliarias Lar, S.A., the Company's management company. On 23 December 2014, the shareholders agreed to make a total voluntary contribution of Euros 1,500 thousand to the Company to cover payment commitments assumed by the latter until the 2014 reporting date. The contribution made by LAR España Real Estate SOCIMI, S.A. amounted to Euros 882 thousand.

On 17 December 2014, the Company acquired 50% of the shares of Lavernia Investments, S.L., a Spanish company incorporated on 15 November 2013 with a share capital of Euros 8 thousand made up of 3,000 shares with a par value of Euro 2.586 each.

Details of investments in Group companies and associates are included in Appendix I.

(10) Financial Assets by Category(a) Classification of financial assets by category

The classification of the Company's financial assets by category at 31 December 2014 is as follows:

	Thousands of Euros	
	2014	
	Non-current	Current
	Carrying amount	Carrying amount
Loans and receivables		
Security deposits and guarantees	2,409	31,769
Other financial assets	-	297
Trade and other receivables		
Trade receivables	-	1,170
Public entities, other	-	700
Total	2,409	33,936
Total financial assets	2,409	33,936

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

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 8, which the Company has deposited with the corresponding public bodies (Security deposits and guarantees - non-current) and deposits at financial institutions maturing within less than 12 months after 31 December 2014 (Security deposits and guarantees - current).

Other financial assets (current) reflect accrued interest receivable on current accounts held by the Company. 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:

	Thousands of Euros		
	2014		
	Less than 1 year	Indefinite	Total
Security deposits and guarantees	31,769	2,409	34,178
Other financial assets	297	-	297
Trade and other receivables	1,870	-	1,870
	33,936	2,409	36,345

(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
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

The balance sheet item inventories primarily comprises the acquisition of several parking spaces linked to a property development intended for sale.

The balance for this item is Euros 3,102 thousand for a total of 16 parking spaces.

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

	Thousands of Euros		
	2014		
	Parking spaces	Other	Total
Purchases	2,843	-	2,843
Advances to suppliers	-	259	259
Balance at 31 December 2014	<u>2,843</u>	<u>259</u>	<u>3,102</u>

(12) Trade and Other Receivables

Details of loans and other receivables at 31 December 2014 are as follows:

	Thousands of Euros	
	2014	
	Non-current	Current
Operating lease receivables	-	1,694
Public entities, other (note 19)	-	700
Less, valuation losses for uncollectibility	-	(524)
Total	<u>-</u>	<u>1,870</u>

(a) Impairment

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

	<u>Thousands of Euros</u>
	<u>2014</u>
Balance at 17 January	-
Impairment during the year	362
Impairment allowances	217
Reversals of impairment losses	(55)
Balance at 31 December	<u>524</u>

(13) Cash and Cash Equivalents

Details of cash and cash equivalents are as follows:

	<u>Thousands of Euros</u>
	<u>2014</u>
Banks	17,467
	<u>17,467</u>

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

(14) Equity

Details of equity and movement during the period are shown in the statement of changes in equity.

(a) Capital

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

All of the shares of Lar España Real Estate SOCIMI, S.A., which have a par value of Euros 2 each, are quoted on the Madrid, Barcelona, Bilbao and Valencia Stock Exchanges. These shares are freely transferable.

On 5 February 2014, Grupo Lar Inversiones Inmobiliarias, S.A., 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 their 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 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 S.A. when the Company was incorporated by the difference between the two share issue prices (Euros 8).

At 31 December 2014 the Company'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%

The purpose of the Company's capital management is to safeguard its capacity to continue operating as a going concern so as to provide remuneration for shareholders and benefit other stakeholders while reducing the cost of capital by maintaining an optimum capital structure.

To maintain and adjust its capital structure, the Company can adjust the amount of the dividends it pays its shareholders, it can refund capital, issue shares or sell assets to reduce its borrowings.

At 31 December 2014, the Company has not received any loans or credit from the Group, related parties, unrelated parties or third parties.

(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 Company's equity is not reduced to less than its share capital as a result of any distribution.

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

(c) Reserves(i) Legal reserve

The legal reserve is to be appropriated in compliance with article 274 of the 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 Company has not appropriated to this reserve the minimum amount required by the Revised Spanish Companies Act as 2014 is the first year of operation 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.

(ii) Other reserves

This reserve is mainly for expenses related to incorporation and to the capital increase through a share issue carried out on 5 March 2014 amounting to Euros 9,425 thousand.

(d) Treasury shares

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

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

Treasury shares held by the Company at 31 December 2014 represent 1.3% of share capital and have a total par value of Euros 1,063 thousand. With a total acquisition price of Euros 4,838 thousand, the average acquisition price is Euros 9.10 per share and the average sale price is Euros 9.14 per share. Profits from the sale of treasury shares for the period of 11 months and 14 days amount to Euros 4 thousand and are recognised under other reserves in the balance sheet.

(e) Capital management

The Company is essentially self-financing through the use of equity. The Company can resort to market financing through mortgage-backed loans only to finance new investments, or else it can obtain funding from associates.

The purpose of the Company's capital management is to safeguard its capacity to continue operating as a going concern so as to provide remuneration for shareholders and benefit other stakeholders while reducing the cost of capital by maintaining an optimum capital structure.

To maintain and adjust its capital structure, the Company can adjust the amount of the dividends it pays its shareholders, it can refund capital, issue shares or sell assets to reduce its borrowings.

(15) Financial Liabilities by Category

(a) Classification of financial liabilities by category

The classification of financial liabilities by category and class at 31 December 2014 is as follows:

	Thousands of Euros	
	2014	
	Non-current Carrying amount	Current Carrying amount
Debts and payables		
Other financial liabilities	3,603	-
Trade and other payables		
Payables and suppliers	-	2,444
Personnel	-	18
Public entities, other	-	78
Total financial liabilities	<u>3,603</u>	<u>2,540</u>

(b) Classification of financial liabilities by maturity

Details of the items comprising other non-current financial liabilities and trade and other payables are as follows:

	Thousands of Euros		
	2014		
	Less than 1 year	Indefinite	Total
Other financial liabilities - security deposits	-	3,603	3,603
Trade and other payables	2,540	-	2,540
Total	2,540	3,603	6,143

(16) Other non-current financial liabilities

Under other non-current financial liabilities, the Company shows a balance of Euros 3,603 thousand at 31 December 2014 for security deposits delivered to the Company by the various tenants of the commercial premises located in the properties. This amount generally represents two months' rent, which is reimbursed at the end of the contract term.

(17) Trade and Other Payables

Details of trade and other payables are as follows:

	Thousands of Euros
	2014
Trade payables	1,578
Suppliers, related companies (note 20)	866
Personnel	18
Public entities, other (note 19(a))	78
Total	2,540

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

Details of late payments to suppliers are as follows:

	Thousands of Euros	
	Payments made and outstanding at the reporting date	
	2014	
	Amount	%
Within maximum legal period	218,988	99.61%
Other	861	0.39%
Total payments for the period	219,849	100%
Weighted average payment days	31	-
Weighted average late payment days	29	-
Late payments exceeding the maximum legal period at the reporting date	146	28.98%

Late payments exceeding the maximum legal period at the reporting date (146 thousand euros) as well as the indicated percentage (28.98%) refer to invoices for current transactions received by the Company 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 (146 thousand euros) represent a 0.07% of the total payments for the year (219,849 thousand euros) made by the Company 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" (146 thousand euros) represents 8.82% of the total "Trade and other payables" (1,655 thousand euros excluding balances with the Public Administrations) at December 31, 2014.

Payments to suppliers reflected in the above table are trade payables as they relate to goods and services, and therefore include other payables recognised under current liabilities in the balance sheet.

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 applicable to the Company, 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.

(19) Public Entities and Taxation

(a) Current balances with public entities

Details of balances with public entities at 31 December 2014 are as follows:

Receivables

	Thousands of Euros
Taxation authorities, VAT recoverable	241
Taxation authorities, other withholdings	459
	<u>700</u>

Payables

	Thousands of Euros
Taxation authorities, VAT payable	2
Taxation authorities, withholdings	72
Social Security contributions	4
	<u>78</u>

(b) Reconciliation of accounting profit and taxable income

At 31 December 2014 the Company's taxable income has been calculated on the basis of the accounting profit for the year plus the expenses derived from the incorporation of the Company and the share capital increase, which have been recognised directly in equity, together with temporary differences due to the existing limitations on fixed asset depreciation and amortisation charges. At the reporting date of the interim financial statements, as the Company is subject to the tax regime for SOCIMIs, it has not recognised the corresponding deferred tax assets.

	Thousands of Euros
Profit before tax from continuing operations	1,664
Permanent differences	(9,158)
Temporary differences	366
Taxable income (tax loss)	(7,128)
Tax payable (0%)	-
Income tax expense/(tax income)	-

(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 Company has open to inspection by the taxation authorities all the main applicable taxes since its incorporation. The 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 annual accounts would not be significantly affected by any resulting liabilities.

(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. Profits from income subject to the general income tax rate	-
b. Profits from income subject to a tax rate of 18% (2009 and 19% (2010 to 2012)	-
c. Profits from income subject to a tax rate of 0%	Proposed dividend distribution for 2014: Euros 1,331 thousand
d) Dividend 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 of agreement of dividend distribution referred to in points c) and d) above	2014 dividends: pending AGM
f) Date of acquisition of properties for lease which 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 Villaverde shopping centre: 29 July 2014 Albacenter shopping centre: 30 July 2014 Anec Blau shopping centre: 31 July 2014 Cardenal Marcelo Spinola office building: 31 July 2014
g) Data of acquisition of shares in the capital of the entities to which article 2.1 of the above Law refers.	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 that qualifies as part of the 80% mentioned in article 3.1 of this Law	Investment property:
	Txingudi Shopping Centre
	Las Huertas Shopping Centre
	Arturo Soria Office Building
	Villaverde Shopping Centre
	Albacenter Shopping Centre
	Anec Blau Shopping Centre Cardenal Marcelo Spinola Office Building
	Participation in Equity:
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 which 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.</p>	-
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(20) Related Party Balances and Transactions

(a) Related party transactions and balances

On 12 February 2014, Grupo Lar Inversiones Inmobiliarias, S.A. (at the time the sole shareholder of the Company) 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, advice on the acquisition and management of property assets on behalf of the Company and financial management. The contract will accrue fees set at a percentage of the fair value (EPRA NAV) of the investments plus variable fees based on the management performance.

These services are recognised as other operating expenses in the consolidated income statement. 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 Company has a payable balance for this item totalling Euros 771 thousand.

The Company has also signed a contract with a related company, Gentalia 2006, S.L., 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. At 31 December 2014, the Company has recognised a payable for this item amounting to Euros 95 thousand under suppliers in the accompanying balance sheet.

The Company has entered into an operating lease agreement with Lar España Shopping Centres, S.A. whereby the subsidiary acts as the lessor of commercial premises adjacent to the hypermarket at the Albacenter shopping centre.

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

The remuneration received by the members of the Company's board of directors and senior management personnel during the period of 11 months and 14 days ended 31 December 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 Company has no pension or life insurance obligations with former or current members of the board of directors or senior management personnel of the Parent.

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 Company and members of its supervisory board

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

(21) Income and Expenses

(a) Revenues

Revenues at 31 December 2014 total Euros 7,207 thousand and reflect income from the Company's principal statutory activity, namely the leasing of properties owned by the Company.

The distribution and details of the Company's revenues by geographical area is as follows:

	Thousands of Euros	
	2014	
	Revenues	% of total revenues
Basque Country	1,887	26%
Catalonia	2,376	33%
Castile La Mancha	877	12%
Castile and Leon	776	11%
Community of Madrid	1,291	18%
	<u>7,207</u>	<u>100%</u>

The Company carried out its activity entirely in Spain.

(b) Personnel expenses

Details of personnel expenses at 31 December 2014 are as follows:

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

(c) Other operating expenses

	Thousands of Euros
	2014
Operating lease expenses	32
Repairs and maintenance	45
Independent professional services	5,565
Insurance premiums	127
Bank fees and commissions	6
Advertising and publicity	241
Supplies	349
Other expenses	76
Taxes	221
Impairment losses on trade and other receivables (see note 12(a))	162
	<u>6,824</u>

Operating expenses mainly comprise the costs of advisory services to acquire assets and are recognised under independent professional services.

(22) Employee Information

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

	<u>2014</u>
Professional category	
Senior management personnel	<u>2</u>
Board members	<u>5</u>
Total	<u>7</u>

At year end the distribution by gender of Company personnel is as follows:

	<u>Number</u>	
	<u>2014</u>	
	<u>Female</u>	<u>Male</u>
Senior management personnel	1	2
Board members	-	5
Total	<u>1</u>	<u>7</u>

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

(23) Audit Fees

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

	<u>Thousands of Euros</u>
	<u>31 December 2014</u>
Audit-related services	
Audit at 24 January 2014	4
Audit at 31 December 2014	90
Other audit-related services	400
Other services	12
Total	<u>506</u>

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.

(24) Events after the Reporting Period

On 30 January 2015, Lar España Real Estate SOCIMI, S.A. 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 one of its subsidiaries (“PIMCO”), of the following property assets located in a prime area in the city of Madrid:

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

(ii) The residential property located at Claudio Coello 108 street, which has a total floor 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.

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 Company for a total amount of Euros 140,000 thousand, maturing on 21 February 2022. In accordance with the bond agreement adopted by the Company's board of directors (the “issue”), the bonds 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.

(25) Explanation added for translation to English

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

Appendix I

Name	Registered office	Activity	Auditor	Type of entity	% ownership		Thousands of 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, SA	Rosario Pino 14-16; Madrid	The acquisition and development of urban 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 urban 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 urban 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 urban properties for lease	-	Subsidiary	100%	100%	4	(3)	-	4
LAVERNIA INVESTMENTS, S.L.	Rosario Pino 14-16; Madrid	The acquisition and development of urban properties for lease	-	Associate	50%	50%	3	(5)	10	4
PUERTA MARÍTIMA ONDARA, S.L.	Rosario Pino 14-16; Madrid	The acquisition and development of urban properties for lease	Deloitte, S.L.	Associate	58.78%	58.78%	27,240	(308)	3,366	18,425

Lar España Real Estate SOCIMI, S.A.

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 Company

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 Company was created recently and externalises its management. 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 Company'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 Company's activity focuses primarily on three types of assets:

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

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

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

- Logistics: logistics centre rental business.

The Company 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 Company 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 24 to the annual accounts).

The Company'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 Company a portfolio that is diverse in terms of both asset type and location.

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

2 Business outlook

2.1 Introduction

At the 2014 reporting date the Company's revenues amount to Euros 7,207 thousand derived from the Company's activity, i.e. the rental business.

The Company's other operating expenses for 2014 amount to Euros 6,824 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 Company (Euros 2,290 thousand) and the fees for management services provided to the Company by Grupo Lar Inversiones Inmobiliarias, S.A. (Euros 2,083 thousand).

Operating profit before depreciation, amortisation, provisions and interest (EBITDA) totals Euros 492 thousand.

Net finance income is Euros 2,391 thousand.

The Company's profit for 2014 amounts to Euros 1,664 thousand.

At the reporting date the Company's rental business has been appraised by the following independent experts: Cushman & Wakefield and Jones Lang LaSalle.

By area of activity is should be noted that:

- A significant percentage of the Company's revenues comprises rental income from shopping centres, which represents 87% of total revenues, compared with rental income from offices, which accounts for the remaining 13%.
- Over 68% of rental income from shopping centres is earned through the Txingudi and Aneclau shopping centres.

At 31 December 2014 the Company's entire business has an occupancy rate of 81.49% of the gross lettable area (GLA), with occupancy rates of 87.1% in shopping centres and 60.5% in offices.

At the 2014 reporting date the Company has a portfolio of rental property projects that includes four shopping centres and a single-tenant commercial property (64,770 sqm) and two office buildings (17,247 sqm), with a total gross lettable area of 82,017 sqm.

2.2 Other financial indicators

At 31 December 2014, the Company presents the following financial indicators:

- Working capital of Euros 52,060 thousand.
- Liquidity ratio of 21.5.
- Solvency ratio of 1.15.

These ratios are high, indicating that the Company 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 Company on its equity, is 0.43%; the ROA (Return on Assets), which measures the efficiency of the Company's total assets irrespective of the sources of financing employed, i.e., the capacity of the assets of a company to generate income, is 0.42%.

2.3 Environmental and personnel issues

Environmental issues

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

Personnel

See note 22 to the annual accounts.

3 Liquidity and capital

3.1 Liquidity and capital

In what has been the Company's first year of activity, it 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.

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

3.2 Analysis of contractual obligations and off-balance sheet transactions

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

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

4 Main risks and uncertainties

See note 8 to the annual accounts and section E of the Corporate Governance Report for 2014.

5 Events after the reporting period

See note 24 to the annual accounts.

6 Outlook for the Company

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 Company 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 Company expects to carry out in the future.

7 R&D&i activities

Given the characteristics, activities and structure of the Company it does not usually engage in research, development or innovation activities.

8 Acquisition and disposal of treasury shares

See note 14.d) 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 Company 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 Company's shares at the reporting date is Euros 9.18. The average share price for the year has been Euros 9.59.

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

9.2 Dividend policy

See note 4.e to the annual accounts for information on the dividend policy.

9.3 Average payment period for suppliers

The average payment period for suppliers 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

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 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
----------------------------------	---

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 Comitee 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 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 X 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 X 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 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 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 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 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 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 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 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

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

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 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 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 **X 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 **X 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 **X 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.

Authorisation for issue of the annual accounts and
Directors' report for 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 253.2 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) authorized for issue the annual accounts and directors' report for the period from 17 January 2014 to 31 December 2014. The 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, hereby declare that:

To the best of their knowledge, the 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 Company and that the directors' report accompanying the annual accounts includes a reliable analysis of the development and business results and position of the Company 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