

# **LAR ESPAÑA REAL ESTATE SOCIMI, S.A. and Subsidiaries**

Consolidated Financial Statements for year then ended on 31 December 2015, prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and Directors' Report, together with Independent Auditor's Report

*Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2.a and 31). In the event of a discrepancy, the Spanish-language version prevails.*

*Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Group (see Notes 2.a and 31). In the event of a discrepancy, the Spanish-language version prevails.*

## INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

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

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes to the consolidated financial statements for the year then ended.

### *Directors' Responsibility for the Consolidated Financial Statements*

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

### *Auditor's Responsibility*

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

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

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

### *Opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. and Subsidiaries as at 31 December 2015, and their consolidated results and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

### **Report on Other Legal and Regulatory Requirements**

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

DELOITTE, S.L.

Registered in ROAC under no. S0692



Antonio Sánchez-Covisa Martín-González

26 February 2016



*Real Estate*

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

**Consolidated Annual Accounts for the 2015 period**

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

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LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES  
Consolidated Statement of Financial Position at 31 December 2015

(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 Note 2). In the event of a discrepancy, the Spanish-language version prevails)*

<u>Assets</u>	<u>Note</u>	<u>31.12.2015</u>	<u>31.12.2014</u>
Intangible assets		1	-
Investment properties	7	776,375	357,994
Financial assets with associates	10	16,774	-
Equity-accounted investees	9	43,217	18,087
Non-current financial assets	11	<u>8,475</u>	<u>3,841</u>
Total non-current assets		844,842	379,922
Inventories		-	2,843
Trade and other receivables	12	4,647	1,970
Financial assets with associates	10	26,717	-
Other current financial assets	11	1,676	32,032
Other current assets		601	136
Cash and cash equivalents	13	<u>35,555</u>	<u>20,252</u>
Total current assets		69,196	57,233
Total assets		<u>914,038</u>	<u>437,155</u>

The accompanying notes 1 to 31 and Appendix I form an integral part of the consolidated statement of financial position at 31 December 2015.



LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES  
Consolidated Statement of Financial Position at 31 December 2015

(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 Note 2). In the event of a discrepancy, the Spanish-language version prevails)*

<u>Equity and Liabilities</u>	<u>Note</u>	<u>31.12.2015</u>	<u>31.12.2014</u>
Share capital	14	119,996	80,060
Share premium	14	415,047	320,000
Other reserves	14,24	(5,767)	(9,185)
Retained earnings	14,15,26	43,559	3,456
Treasury shares	14	(709)	(4,838)
Valuation adjustments	14,16	(1,560)	-
 Total equity		 570,566	 389,493
Financial liabilities from issue of bonds and other marketable securities	16,17	138,233	-
Loans and borrowings	16	173,354	37,666
Derivatives	14,16	1,560	-
Other non-current liabilities	16,18	10,774	5,143
 Total non-current liabilities		 323,921	 42,809
Financial liabilities from issue of bonds and other marketable securities	17 16	3,504	-
Loans and borrowings	16	5,593	156
Other financial liabilities		2,651	-
Trade and other payables	14,21	7,803	4,697
 Total current liabilities		 19,551	 4,853
 Total equity and liabilities		 <u>914,038</u>	 <u>437,155</u>

The accompanying notes 1 to 31 and Appendix I form an integral part of the consolidated statement of financial position at 31 December 2015.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES  
Consolidated Statement of Comprehensive Income ended 31 December 2015  
(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 Note 2). In the event of a discrepancy, the Spanish-language version prevails.)*

<u>Consolidated Income Statement</u>	<u>Note</u>	<u>2015</u>	<u>2014</u>
Revenues	6,8,23	35,734	8,606
Other income		3,374	217
Personnel expenses	25	(396)	(108)
Other expenses	24,27	(20,013)	(7,231)
Changes in the fair value of investment properties	7	25,978	442
Results from operations		<u>44,677</u>	<u>1,926</u>
Financial income	10,11	2,444	2,391
Financial expenses	16,17	(6,127)	(519)
Impairment and gains/(losses) on disposal of financial instruments		(29)	-
Share in profit (loss) for the period of equity-accounted companies	9	2,594	(342)
Profit before tax from continuing operations		<u>43,559</u>	<u>3,456</u>
Profit from continuing operations		<u>43,559</u>	<u>3,456</u>
Income tax		-	-
Profit for the period		<u>43,559</u>	<u>3,456</u>
Basic earnings per share (in Euros)		0.91	0.09
Diluted earnings per share (in Euros)		0.91	0.09

<u>Consolidated Statement of Comprehensive Income</u>		<u>2015</u>	<u>2014</u>
Profit for the year (I)	26	43,559	3,456
Other Comprehensive Income Directly Recognised in Equity (II)	14	(1,560)	-
Other Amounts Transferred to the Income Statement (III)		-	-
Total Comprehensive Income (I+II+III)		<u>41,999</u>	<u>3,456</u>

The accompanying notes 1 to 31 and Appendix I form an integral part of the consolidated statement of comprehensive income for the period ended 31 December 2015.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES  
Consolidated Statement of Changes in Equity at 31 December 2015  
(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 Note 2). In the event of a discrepancy, the Spanish-language version prevails.)*

	Share Capital	Share premium	Other reserves	Other contributions	Retained earnings	Treasury shares	Valuation adjustments	Total equity
Incorporation of Parent Company	60	-	(2)	-	-	-	-	58
Capital increases	80,000	320,000	(9,419)	240	-	-	-	390,821
Treasury shares	-	-	(4)	-	-	(4,838)	-	(4,842)
Total income and expenses recognised in the period	-	-	-	-	3,456	-	-	3,456
Balance at 31 December 2014	80,060	320,000	(9,425)	240	3,456	(4,838)	-	389,493
Total income and expenses recognised in the period	-	-	-	-	43,559	-	(1,560)	41,999
Transactions with equity holders or owners								
Capital increases (note 14a)	39,936	95,047	(4,764)	-	-	-	-	130,219
Distribution of profit:								
Reserves	-	-	2,125	-	(2,125)	-	-	-
Dividends	-	-	-	-	(1,331)	-	-	(1,331)
Recognition of share-based payments (note 14g)	-	-	5,298	-	-	-	-	5,298
Treasury shares (note 14e)	-	-	759	-	-	4,129	-	4,888
Balance at 31 December 2015	119,996	415,047	(6,007)	240	43,559	(709)	(1,560)	570,566

The accompanying notes 1 to 31 and Appendix I form an integral part of the consolidated statement of changes in equity for the period ended 31 December 2015.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES  
Consolidated Statement of Cash Flows for the period ended 31 December 2015

(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 Note 2). In the event of a discrepancy, the Spanish-language version prevails)*

	Note	31 December 2015	31 December 2014
A) Cash flows used in operating activities		<u>22,674</u>	<u>2,807</u>
<i>Profit / (loss) for the period before tax</i>		43,559	3,456
<i>Adjustment for:</i>		(21,237)	(1,810)
Profit / (loss) from adjustments to fair value of investment properties	7	(25,978)	(442)
Impairment		95	162
Financial income		(2,444)	(2,391)
Financial expenses		6,127	519
Share in profit (loss) for the period of equity-accounted companies	9	(2,594)	342
Expenses from share-based payments	14.g	5,298	-
Adjustments to the consideration given against profit and loss from business combinations	2	(1,741)	-
<i>Changes in operating assets and liabilities</i>		1,885	(414)
Inventories		2,843	(2,843)
Trade and other receivables		(987)	(2,132)
Other current assets		(465)	(136)
Trade and other payables		494	4,697
<i>Other cash flows from operating activities</i>		(1,533)	1,575
Interest paid		(1,676)	(519)
Interest received		143	2,094
B) Cash flows from investing activities		<u>(370,221)</u>	<u>(411,557)</u>
<i>Payments for investments</i>		(400,577)	(411,557)
Associates		(64,175)	(18,429)
Intangible assets		(1)	-
Outflow of liquid in business acquisitions	4.c	(198,382)	-
Investment properties	7	(136,851)	(357,552)
Other financial assets		(1,168)	(35,576)
<i>Proceeds from sales on divestments</i>		30,356	-
Other financial assets		30,356	-
C) Cash flows from financing activities		<u>362,850</u>	<u>429,002</u>
<i>Payments made and received for equity instruments</i>		135,107	386,037
Proceeds from the issuance of share capital	14	130,219	390,879
Acquisition / disposal of equity instruments	14	4,888	(4,842)
<i>Proceeds from financial liability instruments</i>		229,074	42,965
Bonds and other marketable securities	17	138,005	
Loans and borrowings	17	86,149	37,822
Other financial liabilities		4,920	5,143
<i>Dividends paid</i>	14	(1,331)	-
D) Net increase in cash and cash equivalents		15,303	20,252
E) Cash and cash equivalents at the beginning of the period		20,252	-
F) Cash and cash equivalents at the end of the period		<u>35,555</u>	<u>20,252</u>

Notes 1 to 31 and Appendix I form an integral part of the consolidated statement of cash flows for the period ended 31 December 2015.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES  
Notes to the Consolidated Annual Accounts for the annual period ended 31 December 2015

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

(1) NATURE, ACTIVITIES AND COMPOSITION OF THE GROUP

Lar España Real Estate SOCIMI, S.A. (hereinafter the Parent Company or Lar España) was incorporated with limited liability under Spanish law on 17 January 2014 for an indefinite duration 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 Calle Rosario Pino 14-16, 28020 Madrid.

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

- The acquisition and development of urban properties for lease.
- The holding of investments in the share capital of other SOCIMIs (listed corporations for investment in the real estate market - Spanish "REITs") or in other entities not resident in Spain that have an identical statutory activity and are subject to a regime similar to that applicable to SOCIMIs, insofar as they have a legal or statutory obligation to distribute profits.
- The holding of investments in the 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.
- The holding of shares or investments in property collective investment undertakings governed by Law 35/2003 of 4 November 2003 on collective investment undertakings, amended by Law 22/2014 of 12 November 2014 on property collective investment undertakings.
- In addition to the economic activity derived from the principal statutory activity, SOCIMIs may carry out complementary activities. These are understood to be activities that do not amount to more than 20% of the total earnings of the Group in each tax period or those which can be considered complementary pursuant to prevailing legislation.

Lar España Real Estate SOCIMI, S.A. and its subsidiaries and associates, LE Logistic Alovera I y II, S.A.U. (formerly called Lar España Inversión Logística, S.A.U.), Puerta Marítima Ondara, S.L., LE Retail Hiper Albacenter, S.A.U. (formerly called Lar España Shopping Centres, S.A.U.), LE Offices Egeo, S.A.U. (formerly called Lar España Offices, S.A.U.), LE Retail Alisal, S.A.U. (formerly called Lar España Parque de Medianas, S.A.U.), LE Offices Eloy Gonzalo 27, S.A.U. (formerly called Riverton Gestión, S.A.U.), LE Retail As Termas,

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

Notes to the Consolidated Annual Accounts for the annual period ended 31 December 2015

S.L.U. (formerly called Global Noctua, S.L.U.), LE Logistic Alovera III y IV, S.L.U. (formerly called Global Tannenberg, S.L.U.), LE Offices Joan Miró 21, S.L.U. (formerly called Global Meiji, S.L.U.), LE Retail Hiper Ondara, S.L.U. (formerly called Global Brisulia, S.L.U.), LE Logistic Almussafes, S.L.U. (formerly called Global Zohar, S.L.U.), LE Retail Sagunto, S.L.U. (formerly called Global Regimonte S.L.U.), LE Retail Megapark S.L.U. (formed through a merger with Global Morello, S.L.U. being the absorbing company and Elisandra Spain VIII S.L.U. being the absorbed company), LE Retail Galaria, S.L.U. (formerly called Global Misner S.L.U.), LE Retail Villaverde, S.L.U. (formerly called Lar España Parque de Medianas Villaverde, S.L.U.), Lar España Shopping Centres VIII, S.L.U., Lar España Parque de Medianas III, S.L.U., Lar España Offices VI, S.L.U., LE Offices Arturo Soria, S.L.U. (formerly called Lar España Offices Arturo Soria, S.L.U.), Lar España Inversión Logística IV, S.L.U., LE Retail El Rosal, S.L.U., (formerly called El Rosal Retail, S.L.U.), Lavernia Investments, S.L., e Inmobiliaria Juan Bravo 3, S.L. (hereinafter the Group) have as their principal activity the acquisition and management of shopping centres and offices. However, they may invest on a smaller scale in other assets for rent or for direct sale (commercial premises, industrial bays, logistics centres or residential products).

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

The Parent Company is regulated by Law 11/2009 of 26 October 2009, as amended by Law 16/2012 of 27 December 2012, which governs SOCIMIs. Article 3 establishes the investment requirements for this type of company, namely:

1. SOCIMIs must invest at least 80% of their assets in urban properties for lease, in land for the development of urban properties for lease, provided that development commences within three years after the acquisition, or in the share 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 consolidated quarterly balance sheets for the year. To calculate this value, the Company may replace the carrying amount of the items comprising those balance sheets with their market value, which would apply to all the balance sheets for the year. For these purposes, cash or receivables derived from transfers of these properties or investments, if any, carried out in the current year or previous years shall not be included provided, in the latter case, that the period for reinvestment stipulated in article 6 of the aforementioned Law has not expired.

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

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES  
Notes to the Consolidated Annual Accounts for the annual period ended 31 December 2015

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

3. The properties that constitute the SOCIMI's assets must be leased for at least three years. The period of time during which the properties have been available for lease, up to a maximum of one year, shall be included for the purposes of this calculation. The period shall be calculated as follows:
  - a) For properties included in the SOCIMI's holdings prior to availing of the regime, from the starting date of the first tax period in which the special tax regime established in the Law is applied, provided that on that date the asset was leased or available for lease. If not, the provisions of the following letter shall apply.
  - b) For properties developed or acquired subsequently by the Company, from the date on which they were leased or available for lease for the first time.

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

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:

- Flexible criteria for acquiring and maintaining properties: there is no lower limit regarding the number of properties that may be contributed when constituting a SOCIMI, except for residential properties, of which the minimum number of properties contributed shall be eight. Properties are no longer required to be kept on the SOCIMI's balance sheet for seven years, only for a minimum of three years.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES  
Notes to the Consolidated Annual Accounts for the annual period ended 31 December 2015

- Reduced share capital requirements and unlimited financial leverage: the minimum capital requirement has been reduced from EUR 15 million to EUR 5 million, and the ceiling on borrowing by the property investment vehicle has been lifted.
- Reduced dividend distribution: until this Law entered into force, it was compulsory to distribute 90% of profits; this payout requirement has been reduced to 80%, applicable as of 1 January 2013.
- The tax rate for SOCIMIs for corporate income tax purposes is 0%. However, when a SOCIMI distributes dividends to shareholders with an interest greater than 5%, or that are exempt from tax or are subject to tax at less than 10%, a special tax which shall have the consideration of corporate income tax shall be levied on the SOCIMI at a rate of 19% of the dividend distributed to those shareholders. Where applicable, this special tax must be paid by the SOCIMI within two months of the dividend distribution date.

The Parent Company's Directors consider that the legal requirements in the above law are met.

The composition of the Group at 31 December 2015 and its method of integration in the consolidated financial statements are as follows:

Corporate Name	Company Address	Activity	Company holding the stake	% participation	Method of integration
LE Logistic Alovera I y II, S.A.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Hiper Albacenter, S.A.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Alisal, S.A.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Offices Egeo, S.A.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Offices Eloy Gonzalo 27, S.A.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail As Termas, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
Lavernia Investments, S.L.	Calle Rosario Pino, 14-16 28020 Madrid	Property leasing and development	Lar España Real Estate SOCIMI, S.A.	50	Shareholding
Puerta Marítima Ondara, S.L.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	58.78	Shareholding
Inmobiliaria Juan Bravo 3, S.L.	Calle Rosario Pino, 14-16 28020 Madrid	Property leasing and development	Lar España Real Estate SOCIMI, S.A.	50	Shareholding



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Corporate Name	Company Address	Activity	Company holding the stake	% participation	Method of integration
LE Logistic Alovera III y IV, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Offices Joan Miró 21, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Hiper Ondara, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Logistic Almussafes, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Sagunto, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	The acquisition and development of properties for lease	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Megapark, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Galaria, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Offices Arturo Soria, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Villaverde, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
Lar España Shopping Centres VIII, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
Lar España Parque de Medianas III, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
Lar España Offices VI, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
Lar España Inversión Logística IV, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail El Rosal, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global

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(2) BASIS OF PRESENTATION

(a) Regulatory framework

The accompanying consolidated annual accounts for the period ended 31 December 2015 have been prepared on the basis of the accounting records of Lar España Real Estate SOCIMI, S.A. and subsidiaries, and in accordance with:

- The Spanish Code of Commerce and related mercantile legislation,
- International Financial Reporting Standards as adopted by the European Union (IFRS-EU) through Regulation (EC) No 1606/2002/EC of the European Parliament and Law 62/2003 of 31 December 2003, on tax, administrative and social measures, as well as the applicable standards and circulars issued by the Spanish Securities Market Commission,
- Law 11/2009 of 26 October 2009, as amended by Law 16/2012 of 27 December 2012, which governs SOCIMIs,
- Any mandatory regulations approved by Spain's Accounting and Audit Institute to implement the General Chart of Accounts and its supplementary rules.
- All other applicable Spanish accounting principles.

To present fairly the consolidated equity and consolidated financial position of Lar España Real Estate SOCIMI, S.A. and subsidiaries at 31 December 2015 and the consolidated results of operations, changes in consolidated equity and consolidated cash flows for the 2015 financial year.

These consolidated annual accounts have been prepared applying the regulations in force at 31 December 2015.

(b) Functional and presentation currency

The figures disclosed in the consolidated annual accounts for the period ended 31 December 2015 are expressed in thousands of Euros, which is the functional and presentation currency of the Parent Company.

(c) Comparative information

In accordance with the international financial reporting standards adopted by the European Union, the information contained in these consolidated financial statements corresponding to the period ended 31 December 2014 is presented for comparative purposes together with the information related to the 2015 period.

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(d) Relevant accounting estimates, assumptions and judgements used when applying accounting principles

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

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

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

(i) Relevant accounting estimates and assumptions

- Calculation of fair value of investment properties (see note 7).
- Valuation allowances for bad debts and the review of individual balances based on customers' credit ratings, market trends and the historical analysis of bad debts at an aggregated level all require a high degree of judgement by the management (see note 12.a).
- Determination of the fair value of certain financial instruments (see note 9).
- Assessment of provisions and contingencies (see note 22).
- Financial risk management (see note 22).
- Calculation of fair value of share-based payments or equity instruments (note 14.g).
- Compliance with the requirements that regulate SOCIMIs.

(ii) Changes in accounting estimates

Although estimates are calculated by the Parent Company's directors based on the best information available at 31 December 2015, future events may require changes to these estimates in subsequent years. The effect on the consolidated financial statements of any changes arising from the adjustments to be made in subsequent periods would be recognised prospectively, in accordance with the provisions of IAS 8.

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(e) Standards and interpretations adopted since 1 January 2015

The following mandatory standards and interpretations already adopted by the European Union entered into force in 2015 and, where applicable, have been used by the Group to prepare the accompanying consolidated annual accounts at 31 December 2015:

- IFRIC 21 Levies (taxes/encumbrance). This interpretation applies to the moment of recognition of liabilities for fees or taxes charged by the government, concluding that they must be recognised when the event that leads to the aforementioned recognition takes place.

This event is normally the activity and the time identified by legislation as that which generates the levy, that is, of the taxable event and tax liability. The impact on the first implication of this regulation must be effected retroactively. The application of this regulation has had no material impact on the CFS of 2015.

(f) Standards and interpretations issued but not effective at 1 January 2015

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

(i) Approved for use in the European Union

- Amendment to IAS 19 Defined Benefit Plans: Employee Contributions (published in November 2013). The amendments are issued to clarify the requirements on how to allocate employee or third-party contributions linked to service periods. Effective for annual periods beginning on or after 1 February 2015.
- Improvements to IFRS Cycle 2010-2012 (published in December 2013). Minor amendments to a series of regulations. Effective for annual periods beginning on or after 1 February 2015.
- Amendment of IAS 16 and IAS 38 - Acceptable methods of depreciation and amortisation methods (published in May 2014). It clarifies the acceptable methods of tangible and intangible assets, not including those based on income. Effective for annual periods beginning on or after 1 January 2016.
- Amendment to IFRS 11 Accounting for acquisitions of interests in joint operations (published in May 2014). The amendment specifies how to account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. Effective for annual periods beginning on or after 1 January 2016.

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- Amendment to IAS 16 and IAS 41 Production plants (published in June 2014). Production plants will be charged at cost instead of fair value. Effective for annual periods beginning on or after 1 January 2016.
- Improvements to IFRS Cycle 2012-2014 (published in September 2014). Minor amendments to a series of regulations. Effective for annual periods beginning on or after 1 January 2016.
- Amendment to IAS 27 Application of the equity method in Separate Financial Statements (published in August 2014). The equity method will be allowed in the individual financial statements of an investor. Effective for annual periods beginning on or after 1 January 2016.
- Amendments IAS 1: Breakdown initiative (December 2014). Various clarifications on breakdowns (materiality, bundling, order of notes, etc.) Effective for annual periods beginning on or after 1 January 2016.

(ii) Not yet approved for use in the European Union

- IFRS 15 Revenue from Contracts with Customers (published in May 2014). New revenue recognition standard (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31). Effective for annual periods beginning on or after 01 January 2018.
- IFRS 9 Financial Instruments (effective for annual periods beginning on or after 1 January 2018). This replaces the requirements for classification, measurement and derecognition of financial assets and financial liabilities and hedge accounting under IAS 39. Effective for annual periods beginning on or after 01 January 2018.
- IFRS 16 Leases (Published in January 2016). New leasing regulation that substitutes IAS 17. Tenants will include all leases on the balance sheet as if they were financed purchases. Effective for annual periods beginning on or after 01 January 2019.

(iii) Amendments and/or interpretations

- Amendments to IFRS 10 y IAS 28 (published in September 2014), on the sale or contribution of assets between an investor and its associate or joint venture. Effective for annual periods beginning on or after 01 January 2016.
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Companies (December 2014). Clarifications on the exclusion from consolidation of investment companies.
- IFRS 14 Regulatory Deferral Accounts. Effective for annual periods beginning on or after 01 January 2016.

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The Group is currently evaluating the impact that the future application of these standards could have on the consolidated annual accounts when they enter into force, a reasonable estimate of the effects not being possible until said analysis is complete. In the case of IFRS 16 (Leases), this regulation will substitute the current IAS 17 and will be applied as of 1 January 2019. Its main change is a sole accounting model for tenants, that will include all leases in the balance sheet (with limited exceptions) as if they were financed purchases, that is with an impact similar to that of current financial leases. Otherwise, in the case of lessors, a dual model will continue to be used, similar to that which is currently used under IAS 17.

(g) Changes to the composition of the group

*2015 Period*

In Note 4.e. and Appendix I of the consolidated annual accounts relevant information is provided regarding the Group companies that were consolidated and those that were included using the equity method.

During the 2015 period there have been the following changes to the scope of the consolidation:

- a. Acquisition of 50% of the share capital of the company Inmobiliaria Juan Bravo 3, S.L. on 30 January 2015 for the sum of EUR 1,707 thousand. The corporate object of this associate is real estate development and promotion and it is integrated into the consolidated financial statements using the equity method in accordance with IFRS 11, given that it constitutes a joint venture between the Parent Company and the other partner.
- b. In March 2015 the Parent Company acquired holdings representing 100% of the share capital of the companies: Global LE Logistic Alovera III y IV, S.L.U. (formerly called Global Tannenberg, S.L.U.), LE Logistic Almussafes, S.L.U. (formerly called Global Zohar, S.L.U.), LE Offices Joan Miró 21, S.L.U. (formerly called Global Meiji, S.L.U.) and LE Retail Hiper Ondara, S.L.U. (formerly called Global Brisulia, S.L.U.). The amount paid for each of them amounted to EUR 4 thousand.
- c. In May 2015 the Parent Company acquired holdings representing 100% of the share capital of the companies: LE Retail Sagunto, S.L.U. (formerly called Global Regimonte, S.L.U.) and LE Retail Megapark, S.L.U. (formerly called Global Morello, S.L.U.). The amount paid for each of them amounted to EUR 4 thousand.
- d. In July 2015 the Parent Company acquired holdings representing 100% of the share capital of the company LE Retail Galaria, S.L.U. (formerly called Global Misner, S.L.U.). The amount paid was EUR 4 thousand.
- e. In August 2015, the Parent Company incorporated the companies Lar España Shopping Centres VIII, S.L.U., Lar España Parque de Medianas III, S.L.U., Lar España Offices VI, S.L.U. and Lar España Inversión Logística IV, S.L.U. The share capital of each of them totalled EUR 3 thousand, which was fully subscribed and paid by the Parent Company.

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

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- f. In September 2015, the Parent Company incorporated the Company LE Retail Villaverde, S.L.U. (formerly called Lar España Parque de Medianas Villaverde, S.L.U.). The share capital totalled EUR 3,000. The company shares are created with a business establishment bonus of EUR 3 thousand per share. The company shares and the business establishment bonus were fully paid by the Parent Company through a non-monetary contribution.
- g. In September 2015, the Parent Company incorporated the Company LE Offices Arturo Soria, S.L.U. (formerly called Lar España Offices Arturo Soria, S.L.U.). Share capital amounts to EUR 3 thousand. The company shares are created with a business establishment bonus of EUR 8 thousand per share. The company shares and the business establishment bonus were fully paid by the Parent Company through a non-monetary contribution.
- h. Nevertheless, the extraordinary general shareholders meeting of the Company held on 18 December 2015 approved, on an exceptional basis, the acquisition by the Company of the Investment Manager's stake of 41,22% in Puerta Marittima Ondara, S.L which is expected to be executed during the first quarter of 2016.

With the exception of LE Retail Sagunto, S.L.U., the statutory activity of the companies mentioned in b-g above is the rental of properties on their own behalf. The statutory activity of LE Retail Sagunto, S.L.U. is real estate development.

All the companies incorporated in the scope of consolidation in 2015, with the exception of Inmobiliaria Juan Bravo 3, did not have any significant activity, assets or liabilities at the acquisition date.

*Business combinations*

- a. In July 2015, the Parent Company acquired 100% of the shares of LE Retail El Rosal, S.L.U. (formerly called El Rosal Retail, S.L.U.)

The information on the acquired company and the consideration transferred in the business combination is as follows:

Company	Principal Activity	Date of acquisition	Percentage of shareholding (voting rights) acquired	Transferred consideration (thousands of Euros)
El Rosal Retail, S.L.U.	Leasing of property	07/07/2015	100%	4,054

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	Thousands of Euros		
	Carrying amount	Value adjustment	Fair value
Investment properties	80,532	6,968	87,500
Other assets	3,996	(589)	3,407
Non-current liabilities	(83,591)	-	(83,591)
Short-term liabilities	(1,521)	-	(1,521)
Total net assets	(584)	6,379	5,795
Transferred consideration	-	-	(4,054)
Profit from business combinations	-	-	1,741

The gain of Euros 1,741 thousand obtained in the business combination is recognised under the “Other revenues” heading on the Consolidated Statement of Comprehensive Income of these notes to the annual accounts.

On 7 July 2015 a private sales contract was signed, and notarised on said date, for the initial rate of EUR 3,459 thousand. Subsequently, on 11 December 2015, the price was increased by EUR 595 thousand due to a subsequent adjustment.

The assets attributed with the fair value are investment properties. The only asset of the acquired company is the El Rosal shopping centre located in Ponferrada (León), the fair value of which when purchased was EUR 87,500 thousand. Said asset is leased to several tenants, through lease contracts for the commercial premises that constitute the asset. Said rentals make up the sole source of income.

On the date of acquisition of the company, the Parent Company assumed the loan the acquired company held with the previous shareholder for the amount of EUR 28,335 thousand. Furthermore, on said date, the acquired company cancelled a mortgage debt it had with Hypothekenbank for the amount of EUR 54,266 thousand through the subscription of a new finance contract with Caixabank for the amount of EUR 50,000 thousand and a contribution by the Parent Company for the amount of EUR 4,266 thousand.

The fair value of acquired receivables, mainly of a commercial nature, totalled EUR 198 thousand and do not differ from their gross contractual amounts. At the acquisition date the Parent Company’s directors do not find any signs that these receivables will not be collected in their totality.

The net loss and income from leasing activities (without considering valuation adjustments to investment properties) incorporated in the 2015 period since the date of acquisition and included in the consolidated income statement for the 2015 period amount to EUR 414 thousand and EUR 2,854 thousand (including income from transfers), respectively.

If the acquisition had taken place on 1 January 2015, the income contributed to the Group would have increased by EUR 3,510 thousand. The Directors have used the income received from 1 January 2015 when determining said amount.



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The net cash flow in the acquisition was:

	<u>Thousands of Euros</u>
Cash paid:	
- For stakes	4,054
- For the acquired loan	28,335
Less: Cash and cash equivalents	<u>(1,005)</u>
Total	<u>31,384</u>

- b. In October 2015, the Parent Company acquired 100% of the shares Elisandra Spain VIII, S.L. from the Dutch company OCM Gaudí Master Holdco BV (a company controlled by Oaktree Capital Management).

The information on the acquired company and the consideration transferred in the business combination is as follows:

Company	Principal Activity	Date of acquisition	Percentage of shareholding (voting rights) acquired	Transferred consideration (thousands of Euros)
Elisandra Spain VIII, S.L.	Leasing of property	16/10/2015	100%	3,149

	<u>Thousands of Euros</u>		
	<u>Carrying amount</u>	<u>Value adjustment</u>	<u>Fair value</u>
Investment properties	165,526	2,526	168,052
Other assets	5,847	-	5,847
Non-current liabilities	(168,235)	-	(168,235)
Short-term liabilities	(2,515)	-	(2,515)
	<u>623</u>	<u>2,526</u>	<u>3,149</u>
Transferred consideration	-	-	(3,149)
Profit and loss from the business combination	-	-	-

The Parent Company attributes to investments properties the difference from the business combination for the amount of EUR 2,526 thousand.

At the time of the sale Elisandra Spain VIII, S.L. owned an outlet shopping centre and single-tenant commercial properties park located at the Megapark Barakaldo commercial complex in Biscay.

On the date said company was acquired, the Parent Company acquired the loan the

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acquired company held with the previous shareholder for the amount of EUR 166,317 thousand and made the payment of interest accrued under said loan same was granted for the amount of EUR 1,536 thousand.

On 12 November 2015, the subsidiary LE Retail Megapark, S.L. (formerly called “Global Morello, S.L.”), absorbed Elisandra Spain VIII, S.L.

The fair value of acquired receivables, mainly of a commercial nature, totalled EUR 7 thousand and do not differ from their gross contractual amounts. At the acquisition date the Parent Company’s directors do not find any signs that these receivables will not be collected in their totality.

The profit (loss) and income from leasing activities (without considering valuation adjustments to investment properties) incorporated in the 2015 period since the date of acquisition and included in the consolidated income statement for the 2015 period amounted to EUR 715 thousand and EUR 2,097 thousand respectively.

If the acquisition thereof had taken place when the company began its activity (July 2015), the income contributed to the group would have increased by EUR 3,546 thousand and EUR 621 thousand, respectively, compared with these financial statements. The Directors have used the income received from 01 July 2015 when determining said amount.

The net cash flow in the acquisition would be:

	<u>Thousands of Euros</u>
Cash paid:	
- For stakes	3,149
- For the acquired loan	167,853
Less: Cash and cash equivalents	<u>(4,013)</u>
Total	<u>166,989</u>

### 2014 Period

The Parent Company was incorporated on 17 of January of 2014 (see note 1). During the same year the Parent Company incorporated the following subsidiaries: Lar España Inversión Logística, S.A.U., (currently called LE Logistic Alovera I y II, S.A.U.), Lar España Shopping Centres, S.A.U., (currently called LE Retail Hiper Albacenter, S.A.U.), Lar España Parque de Medianas, S.A.U., (currently called LE Retail Alisal, S.A.U.), y Lar España Offices, S.A.U., (currently called LE Offices Egeo, S.A.U.)

Additionally, during 2014 period the Parent Company acquired 100% of the shares of the companies Riverton Gestión, S.L.U., (currently LE Offices Eloy Gonzalo 27, S.A.U.) and Global Noctua S.L.U., (currently LE Retail As Termas, S.A.U.). The price paid was EUR 13,003 thousand and EUR 4 thousand respectively.

On 10 October and on 17 December 2014 the Parent Company acquired 50% of the shares

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of Lavernia Investments, S.L. and 58.78% of the shares of Puerta Marítima Ondara.

All acquisitions were done at fair value and no combinations differences arose.

(3) DISTRIBUTION OF PROFIT

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

	<u>Thousands of Euros</u>
<u>Basis of allocation</u>	
Profit for the year	5,006
Share premium	7,538
<u>Distribution</u>	
Legal reserve	501
Dividends	12,037
Voluntary reserve	6

(4) CONSOLIDATION PRINCIPLES

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

The Group companies have been consolidated using the financial statements at 31 December 2015.

(a) Subsidiaries

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

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

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

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

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

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

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

(b) Joint Ventures

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

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

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

(c) Business combinations

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

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

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

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

(d) Harmonisation of account items

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

In 2015, the same date has been used for the accounting close of the annual accounts of all the companies included in the consolidated group, or the reporting dates have been temporarily standardised to match that of the Parent Company.

(e) Consolidated group

The companies included in the consolidated Group and the consolidation method used at 31 December 2015 are as follows:

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Company	Inclusion	Activity	% Participation	Consolidation method
Inmobiliaria Juan Bravo 3, S.L. <i>(i)</i>	On acquisition	Property leasing and development	50%	Shareholding
LE Logistic Alovera I y II, S.A.U.	On incorporation	Leasing of property	100%	Global
LE Logistic Alovera III y IV, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Logistic Almussafes, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Hiper Ondara, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Offices Joan Miró 21, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Megapark, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Sagunto, S.L.U.	On acquisition	The acquisition and development of properties for lease	100%	Global
LE Retail Galaria, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Villaverde, S.L.U.	On incorporation	Leasing of property	100%	Global
LE Offices Arturo Soria, S.L.U.	On incorporation	Leasing of property	100%	Global

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LE Retail Alisal, S.A.U	On incorporation	Leasing of property	100%	Global
Lavernia Investments, S.L. (i)	On acquisition	Property leasing and development	50%	Shareholding
Puerta Marítima Ondara, S.L. (ii)	On acquisition	Leasing of property	58.78%	Shareholding
LE Retail As Termas, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Offices Eloy Gonzalo 27, S.A.U.	On acquisition	Leasing of property	100%	Global
LE Offices Egeo, S.A.U.	On incorporation	Leasing of property	100%	Global
LE Retail Hiper Albacenter, S.A.U.	On incorporation	Leasing of property	100%	Global
LE Retail El Rosal, S.L.U.	On acquisition	Leasing of property	100%	Global
Lar España Shopping Centres VIII, S.L.U.	On incorporation	Leasing of property	100%	Global
Lar España Offices VI, S.L.U.	On incorporation	Leasing of property	100%	Global
Lar España Parque de Medianas III, S.L.U.	On incorporation	Leasing of property	100%	Global
Lar España Inversión Logística IV, S.L.U	On incorporation	Leasing of property	100%	Global

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Period 2014

Company	Inclusion	Activity	% Participation	Consolidation method
Global Noctua, S.L.	On acquisition	Leasing of property	100%	Global
Riverton Gestión, S.L.U.	On acquisition	Leasing of property	100%	Global
Lar España Inversión Logística, S.A.	On incorporation	Leasing of property	100%	Global
Lar España Shopping Centres, S.A.	On incorporation	Leasing of property	100%	Global
Lar España Parque De Medianas, S.A.	On incorporation	Leasing of property	100%	Global
Lar España Offices, S.A.	On incorporation	Leasing of property	100%	Global
Lavernia Investments, S.L. (i)	On acquisition	Property leasing and development	50%	Shareholding
Puerta Marítima Ondara, S.L. (ii)	On acquisition	Leasing of property	58,78%	Shareholding

(i) *Juan Bravo 3, S.L. and Lavernia Investments, S.L. are included in the consolidated financial statements using the equity method, in accordance with IFRS 11, because, as stipulated in the articles of association and shareholder agreements, they are jointly controlled by Lar España Real Estate SOCIMI, S.A. and LVS II LUX XIII, S.a.r.l.*

(ii) *Puerta Marítima Ondara, S.L. is included in the consolidated financial statements using the equity method, in accordance with IFRS 11, because, as stipulated in the articles of association and shareholder agreements, it is jointly controlled by the Parent Company and by Grupo Lar Inversiones Inmobiliarias, S.A.*



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(5) ACCOUNTING PRINCIPLES

(a) Investment properties

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

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

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

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

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

(b) Leases

(i) Classification of leases

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

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(ii) Operating leases

- Lessor accounting records

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

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

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

- Lessee accounting records

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

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

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

(c) Financial instruments

(i) Classification of financial instruments

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

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

Financial instruments are classified into the following categories: financial assets and liabilities at fair value with changes in profits and losses, separating those initially designated from those held for trading, loans and receivables, held-to-maturity investments, and financial liabilities at amortised cost. Financial instruments are classified into different categories based on the nature of the instruments and the Group's intentions on initial recognition.

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(ii) Offsetting principles

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

(iii) Loans and receivables

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

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

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

(iv) Impairment and uncollectibility of financial assets

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

- Impairment of financial assets carried at amortised cost

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

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

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

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

(v) Financial liabilities

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

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

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

- Derecognition of financial assets

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

- Derecognition and modifications of financial liabilities

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

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

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

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

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

(d) Derivative financial instruments and accounting of hedging transactions

The group uses derivative financial instruments to cover the risks to which its activities, operations and future cash flows are exposed. These risk are mainly changes in interest rates. Within the framework of said transactions the Group contracts economic hedging instruments.

In order for these financial instruments to be able to be classified as hedging instruments, they must be initially designated as such, and their hedging relationship must be recorded. Furthermore, the Company verifies initially as well as periodically throughout its life (at least at each reporting date) that the hedging relationship is effective, i.e. that it can be prospectively expected that the changes in cash flows of the hedged item (attributable to the hedged risk) will be compensated nearly entirely by the hedging instruments and that, retrospectively, the results of the hedge have varied within a range of 80% to 125% with respect to the result of the hedged item.

Derivatives are initially recorded at their acquisition cost in the consolidated statement of financial position and subsequently any necessary valuation allowances are effected to reflect their fair value from time to time. Profits and losses from these fluctuations are recorded in the consolidated income statement, unless the derivative has been designated a hedging instrument and is highly effective, in which case it is recorded as follows:

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- Cash flow hedges: In this type of hedge, the part of the profit or loss from the hedging instrument that has been determined to be an effective hedge is temporarily recognised in net equity and is recognised in the income statement in the same period in which the hedged element affects the result, unless the hedge corresponds to an intended transaction that results in the recognition of a non-financial asset or liability, in which case the amounts recorded in net equity shall be included in the cost of the asset or liability when it is acquired or assumed.
- The accounting of hedges is interrupted when the hedging instrument matures, or is sold, finalised or exercised, or it ceases to meet the criteria for accounting hedges. At that time, any accumulated profit or loss corresponding to the hedging instrument that may have been recorded in net equity remains in net equity until the intended transaction occurs. When the hedged transaction is not expected to take place, the net accumulated profits or losses recognised in net equity are transferred to the net results of the period.

The fair value of the various derivative financial instruments is calculated using the valuation techniques described in the following note.

(e) Valuation techniques and assumptions applicable to fair value measurement

Fair values of financial assets and liabilities are determined as follows:

- The fair values of financial assets and liabilities with standard terms and conditions that are traded on active markets and cash are determined by referencing the prices listed on the market.
- The fair value of other financial assets and liabilities (excluding derivative instruments) are determined according to the valuation models generally accepted on the cash flow discount basis using prices of observable market transactions and contributor quotes for similar instruments.
- The fair value of interest rate derivatives is calculated by updating future settlements between the fixed and variable rate, according to implicit market interest rates, which are obtained from long-term swap rate curves. Implicit volatility is used for the calculation through formulas for option pricing and for valuation of cap and floor fair values.

Furthermore, in the valuation of the derivative financial instruments, the risk incidental to the hedged element or position must be effectively eliminated throughout the expected term of the hedge and the fact that the financial derivative was contracted specifically to hedge certain balances or transactions and the manner in which that effective hedge was expected to be achieved and measured must be documented. In addition, with the adoption of IFRS 13, the incidental risk requires that the credit risk of the parties involved in the contract, both one's own risk and that of the counterparty, be included in the valuation of derivatives. The Group applied

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the discounted cash flow methodology, using a discount rate affected by the Group's own risk.

The financial instruments measured subsequent to their initial recognition at fair value are classified under levels 1-3, based on the degree to which the fair value is observable.

- Level 1: listed price (unadjusted) on active markets for identical assets or liabilities.
- Level 2: observable inputs other than the listed prices used in Level 1 for assets or liabilities, directly (i.e., such as prices) or indirectly (i.e., derived from prices).
- Level 3: assets referencing valuation techniques, including inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

The Group's financial assets and liabilities measured at fair value at 31 December 2015 are as follows:

	Thousands of Euros			
	Level 1	Level 2	Level 3	Total
Derivative financial liabilities (see note 17.c)	-	1,560	-	1,560
	-	<b>1,560</b>	-	<b>1,560</b>

Additionally, note 7 includes information regarding the determination of the fair value of investment properties, pursuant to valuation techniques described in said note.

(f) Treasury shares of the Parent Company

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

The subsequent redemption of the equity instruments of the Parent Company entails a capital reduction equivalent to the par value of the shares. Any positive or negative difference between the purchase price and the par value of the shares is debited or credited to reserves.

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

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(g) Distributions to shareholders

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

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

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

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

(h) Inventories

Inventories are measured at cost of purchase.

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



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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.

At 31 December 2014 the Group held inventories comprising several parking spaces linked to a property development transaction intended for sale. On 7 July 2015 Inmobiliaria Juan Bravo 3, S.L., held 50% by Lar España Real Estate SOCIMI, S.A., acquired the parking spaces, which had no significant result. At 31 December 2015 the Group did not hold inventories.

(i) 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.

(j) Employee benefits

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

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

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

(k) Share-based payments

The Group recognises, on one hand, goods and services received as an asset or as an expense, according to the nature thereof, when same is received, and on the other hand, the corresponding increase under Equity, if the transaction is settled with equity instruments or the corresponding liability if the transaction is settled with an amount that is based on the value of the equity instruments.

For transactions that are settled with equity instruments, both the services and the increase in equity are measured at the fair value of the received services.

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At 31 December 2015 the Parent Company, pursuant to the terms agreed in the Investment Management Group with Grupo Lar Inversiones Inmobiliarias, S.A., will grant Grupo Lar Inversiones Inmobiliarias, S.A. this Performance Fee, which is paid thereto annually depending on the profitability obtained by the shareholders of the Parent Company (see note 14.g and 27.a).

(l) Provisions

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

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

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

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

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

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

(m) Revenue recognition

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

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

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(i) Lease of investment properties to third parties

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

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

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

Invoices issued to tenants include EUR 10,016 thousand for communal charges (shared utility costs, services, etc.) passed on to them (EUR 2,713 thousand in the period of eleven months and fourteen days ended on 31 December 2014). This amount is presented, according to its nature, net of the corresponding expenses under other expenses in the accompanying consolidated statement of comprehensive income for the period ended 31 December 2015.

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

(n) Income tax

(i) General regime

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

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

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

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as well as tax loss carryforwards 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.

(ii) Tax regime for SOCIMIs

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

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

(o) Segment reporting

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

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

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

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

(q) Insurance contracts

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

(r) Environmental information

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

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

(s) Cash flows

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

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

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(6) SEGMENT REPORTING

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

At 31 December 2015 the Group comprises the operating segments listed below, with the following revenues and principal services:

- Shopping centres: Txingudi, Las Huertas, Albacenter hypermarket, Anec Blau, Villaverde, Stakes in the affiliated company Puerta Marítima Ondara, S.L. (the owner of the Portal de la Marina shopping centre), Albacenter, Nuevo Alisal, As Termas, Portal de la Marina hypermarket, El Rosal, Cruce de Caminos, As Termas petrol station, Parque Galaria and Parque Comercial Megapark Barakaldo.
- Office buildings: Arturo Soria, Marcelo Spínola, Egeo, Eloy Gonzalo and Joan Miró.
- Logistics: Alovera I, Alovera II, Alovera III (C2), Alovera IV (C5-C6) and Almussafes.
- Residential: Stakes in the affiliated companies Lavernia Investments, S.L. and Inmobiliaria Juan Bravo 3, S.L., owners at 31 December 2015 of a building in Calle Claudio Coello (see note 30) and a plot in Calle Juan Bravo in Madrid, respectively.

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

Details of these activities by segment at 31 December 2015 and 31 December 2014 are shown below:

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	Thousands of Euros					
	2015					
	Shopping centres	Office buildings	Logistics	Residential (Stakes in affiliated companies)	Head Office and Central Services*	Total
Revenue from external customers:						
Revenue from leases	23,588	6,771	5,375	-	-	35,734
Total revenues	23,588	6,771	5,375	-	-	35,734
Other income	3,084	218	23	49	-	3,374
Changes to the fair value of investment properties	16,023	4,536	5,419	-	-	25,978
Personnel expenses	-	-	-	-	(396)	(396)
Operating expenses	(3,937)	(1,101)	(416)	(10)	(14,549)	(20,013)
Operating profit	38,758	10,424	10,401	39	(14,945)	44,677
Net finance cost	(1,370)	(660)	6	1,559	(3,218)	(3,683)
Impairment and gains/(losses) on disposal of financial instruments	(29)	-	-	-	-	(29)
Profit /(loss) for the year of joint ventures, accounted for using the equity method	5,515	-	-	(2,921)	-	2,594
	42,874	9,764	10,407	(1,323)	(18,163)	43,559

\* The line item Head Office and Central Services and other essentially comprises the income and expense that cannot be attributed to any specific asset.

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	Thousands of Euros				
	2014				
	Shopping centres	Office buildings	Logistics	Head Office and Central Services*	Total
Revenue from external customers:					
Revenue from leases	6,298	1,115	1,193	-	8,606
Total revenues	6,298	1,115	1,193	-	8,606
Other income	217	-	-	-	217
Changes to the fair value of investment properties	462	(27)	7	-	442
Personnel expenses	-	-	-	(108)	(108)
Operating expenses	(2,772)	(374)	(125)	(3,960)	(7,231)
Operating profit (Operating loss)	4,205	714	1,075	(4,068)	1,926
Net finance cost	(195)	(324)	-	2,391	1,872
Profit /(loss) for the year of joint ventures, accounted for using the equity method	(342)	-	-	-	(342)
	3,668	390	1,075	(1,677)	3,456

\* The line item Head Office and Central Services and other essentially comprises the income and expense that cannot be attributed to any specific asset.



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	Thousands of Euros					
	31 December 2015					
	Shopping centres	Office buildings	Logistics	Residential (Stakes in affiliated companies)	Head Office and other Central Services	Total
Intangible assets	1	-	-	-	-	1
Investment properties	556,235	149,750	70,390	-	-	776,375
Financial assets with associates	-	-	-	16,774	-	16,774
Equity-accounted investees	24,324	-	-	18,893	-	43,217
Non-current financial assets	6,162	1,230	1,083	-	-	8,475
Total non-current assets	586,722	150,980	71,473	35,667	-	844,842
Trade and other receivables	4,429	195	23	-	-	4,647
Financial assets with associates	-	-	-	25,179	1,538	26,717
Other current financial assets	1,670	-	-	-	6	1,676
Other current assets	529	-	72	-	-	601
Cash and cash equivalents	-	-	-	-	35,555	35,555
Total current assets	6,628	195	95	25,179	37,099	69,196
Total assets	593,350	151,175	71,568	60,846	37,099	914,038

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	Thousands of Euros					
	31 December 2015					
	Shopping centres	Office buildings	Logistics	Residential (Stakes in affiliated companies)	Head Office and other Central Services	Total
Financial liabilities from issue of bonds and other marketable securities	-	-	-	-	141,737	141,737
Loans and Borrowings	101,666	52,323	-	24,958	-	178,947
Derivatives	1,560	-	-	-	-	1,560
Other non-current liabilities	8,089	1,575	1,110	-	-	10,774
Trade and other payables	3,255	1,579	471	-	2,498	7,803
Other financial liabilities	1,558	-	-	1,093	-	2,651
Total liabilities	116,128	55,477	1,581	26,051	144,235	343,472

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

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

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(a) Geographical segments

Revenues and assets per geographical segment are presented on the basis of the location of the assets.

The table below summarises revenues and investment properties for each of the assets owned by the Group in each geographical region:

Thousands of Euros				
31 December 2015				
	Revenue	%	Investment properties	%
País Vasco	4,400	12.31	202,100	26.03
Cataluña	6,457	18.07	105,330	13.57
Castilla-La Mancha	8,439	23.62	106,659	13.74
Castilla y León	3,789	10.60	101,300	13.05
Comunidad de Madrid	6,886	19.27	139,161	17.92
Cantabria	1,277	3.57	17,202	2.22
Galicia	3,441	9.63	70,345	9.06
Navarra	300	0.84	9,500	1.22
Comunidad de Valencia	745	2.09	17,398	2.24
Others	-	-	7,380	0.95
	<u>35,734</u>	<u>100.00</u>	<u>776,375</u>	<u>100.00</u>

Thousands of Euros				
31 December 2014				
	Revenue	%	Investment properties	%
País Vasco	1,887	21.93	28,500	7.96
Cataluña	2,377	27.62	81,310	22.71
Castilla-La Mancha	2,070	24.05	86,962	24.29
Castilla y León	776	9.02	12,000	3.35
Comunidad de Madrid	1,446	16.80	132,215	36.94
Cantabria	50	0.58	17,007	4.75
	<u>8,606</u>	<u>100.00</u>	<u>357,994</u>	<u>100.00</u>

The Group carries out its activity entirely in Spain.

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(b) Main customers

This item presents details of the tenants that contributed the most rental revenues during 2015, as well as the main characteristics of each one:

Ranking	Trade name	Project	% of total rental income	% Accumulated	Expiry *	Sector
1	Centros Comerciales Carrefour, S.A.	Alovera II/El Rosal	11.45%	11.45%	2017-2028	Distribution
2	Ingeniería y Economía del Transporte, S.A.	Egeo	7.66%	19.11%	2021	Transport
3	Media Markt	Villaverde/As Termas/Nuevo Alisal/Megapark	5.16%	24.27%	2022-2036	Technology
4	Tech Data España, S.L.U	Alovera I	2.57%	26.84%	2019	Technology
5	Cecosa Hipermercados, S.L.	Hiper Albacenter/As Termas Petrol Station/Hiper Ondara El Rosal/As	2.24%	29.08%	2024-2060	Distribution
6	C&A Modas, S.L.	Termas/Megapark/Anec Blau/Txingudi	2.02%	31.10%	2015-2025	Textile/Fashion
7	Toys R Us Iberia, S.A.	Nuevo Alisal/Megapark	1.78%	32.88%	2036	Distribution
8	Zara España S.A.	El Rosal/As Termas/Anec Blau	1.71%	34.59%	2025-2030	Textile/Fashion
9	Cortefiel, S.A.	El Rosal/Megapark/As Termas/Anec Blau/Albacenter/Las Huertas/Txingudi	1.54%	36.13%	2017-2025	Textile/Fashion
10	Segurcaixa Adeslas, S.A.	Arturo Soria	1.45%	37.58%	2020	Insurance

*\* The information above references the contracts that were in force during the 2015 financial year, with there being contracts that expired at 31 December 2015. Furthermore, the expiry of contracts refers to the final date of the contract, although the contract may have the option for early termination.*

(7) INVESTMENT PROPERTIES

At 31 December 2015 the investment properties owned by the Group comprises 9 shopping centres, 5 office buildings, 18 single-tenant commercial properties (14 corresponding to Megapark Barakaldo) and 5 logistics bays, and the land on which these are located, which are held to obtain rental income and are not occupied by the Group.

The composition and movements that had occurred in the accounts included under the heading “Investment properties” in the condensed consolidated financial statements at 31 December 2015 and 2014 were as follows:

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	Thousands of Euros	
	31 December 2015	31 December 2014
Balance at the beginning of the period	357,994	-
Additions for the period	136,851	357,552
Change to the scope of the consolidation (see note 2.g and 4.c)	255,552	-
Changes in fair value	25,978	442
Balance at the end of the period	<u>776,375</u>	<u>357,994</u>
Fair value	<u>776,375</u>	<u>357,994</u>

Investment properties are presented at fair value.

The Group has recognised the following investment properties at its fair value at 31 December 2015 and 31 December 2014:

	Thousands of Euros	
	Investment properties held	
	31 December 2015	31 December 2014
Shopping centres and single-tenant commercial properties	556,235	189,053
Office buildings	149,750	122,870
Logistics bays	70,390	46,071
	<u>776,375</u>	<u>357,994</u>

Registrations and additions from business combinations in 2015 and 2014 are as follows:

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Type of asset	Company	Thousands of Euros	
		Cost of purchase	Fair value at 31 December 2015
Office building	Joan Miró	20,011	20,440
Logistics bay	Alovera III (C2)	3,060	3,250
Logistics bay	Alovera IV (C5-C6)	7,324	7,500
Logistics bay	Almussafes	8,517	8,500
Shopping centre	As Termas	68,339	68,500
Petrol station	As Termas	1,836	1,845
Single-tenant commercial premises	Galaria	8,485	9,500
Shopping centre	Portal de la Marina hypermarket	7,140	7,750
Shopping centre	El Rosal	87,500	89,600
Shopping centre	Megapark	168,052	171,400
Shopping centre	Cruce de Caminos (*)	1,000	1,148
Shopping centre	Others (*)	7,380	7,380
		<u>388,644</u>	<u>396,813</u>

(\*) *Advances given for the binding purchase of investment properties*

The effect of valuing Investment Properties at fair value at 31 December 2015 amounted to EUR 25,978 thousand, of which EUR 17,089 thousand correspond to Investment Properties owned by the Company at the 2014 reporting date.

Type of asset	Company	Thousands of Euros	
		Cost of purchase	Fair value at 31 December 2014
Shopping centre	Txingudi	27,811	28,500
Shopping centre	Las Huertas	11,941	12,000
Office building	Arturo Soria	24,563	24,690
Single-tenant commercial premises	Villaverde	9,328	9,345
Shopping centre	Anec Blau	81,290	81,310
Shopping centre	Albacenter	28,968	29,103
Office building	Cardenal Marcelo Spínola	19,285	19,300
Shopping centre	Albacenter hypermarket	11,742	11,788
Single-tenant commercial premises	Nuevo Alisal	17,340	17,007
Office building	Egeo building	65,874	65,980
Office building	Eloy Gonzalo building	12,921	12,900
Shopping centre	As Termas	68,339	68,500
Logistics bay	Alovera I	12,929	12,900
Logistics bay	Alovera II	33,135	33,171
		<u>357,127</u>	<u>357,994</u>

Furthermore, during the 2015 period expenses were capitalised for the amount of EUR 3,759 thousand (EUR 424 thousand in 2014). At 31 December 2015, investment properties that has



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been pledged as collateral for bonds and various loans had a fair value of EUR 554,602 thousand (EUR 82,987 thousand at 31 December 2014). The outstanding amount of said loans at 31 December 2015 totalled EUR 395,246 thousand (EUR 37,822 thousand at 31 December 2014). The Group has no agreements for the use of investment properties, attachment orders thereon or analogous situations.

At 31 December 2015 all buildings comprising investment properties are insured. These policies are considered to be sufficiently covered.

At 31 December 2015, the Group had binding commitments to purchase investment properties to acquire land for the amount of EUR 39,414 thousand.

(i) Disclosures on the fair value of investment properties

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

Thousands of Euros				
2015				
	Total	Level 1	Level 2	Level 3
Recurrent fair value measurements				
<i>Investment properties</i>				
Shopping centres				
- Land	187,333	-	-	187,333
- Buildings	368,902	-	-	368,902
Office buildings				
- Land	72,412	-	-	72,412
- Buildings	77,338	-	-	77,338
Logistics bays				
- Land	11,995	-	-	11,995
- Buildings	58,395	-	-	58,395
Total assets measured recurrently at fair value	776,375	-	-	776,375

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

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

At 31 December 2015 and 2014, details of the gross lettable area and occupancy rate by line of business are as follows:

	2015	
	Square metres	
	Gross lettable area	Occupancy rate
Shopping centres and single-tenant commercial property	248,762	92.4%
Office buildings (*)	41,758	92.9%
Logistics bays	161,840	100.0%

(\*) *The Marcelo Spínola Building is not included as it is being renovated.*

	2014	
	Square metres	
	Gross lettable area	Occupancy rate
Shopping centres and single-tenant commercial property	84,904	90.2%
Office buildings (*)	41,732	83.1%
Logistics bays	119,147	91.7%

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

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

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

The appraisal company that performed the valuations of the Group's investment properties at 31 December 2015 is listed below:

	Appraisal Company
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 Spínola office building:	Cushman & Wakefield
Albacenter hypermarket	Jones Lang Lasalle España, S.A.
Single-tenant commercial premises Nuevo Alisal	Jones Lang Lasalle España, S.A.
Egeo building	Jones Lang Lasalle España, S.A.
Eloy Gonzalo building	Cushman & Wakefield
Alovera I logistics bay	Cushman & Wakefield
Alovera II logistics bay	Jones Lang Lasalle España, S.A.
As Termas shopping centre	Cushman & Wakefield
As Termas Petrol Station	Cushman & Wakefield
Megapark shopping centre	Cushman & Wakefield
Single-tenant commercial property Galaria	Cushman & Wakefield
Alovera III (C2) logistics bay	Cushman & Wakefield
Alovera IV (C5-C6) logistics bay	Cushman & Wakefield
Almussafes logistics bay	Cushman & Wakefield
Portal de la Marina hypermarket	Cushman & Wakefield
El Rosal shopping centre	Jones Lang Lasalle España, S.A.
Cruce de Caminos shopping centre	Jones Lang Lasalle España, S.A.
Joan Miró building	Jones Lang Lasalle España, S.A.

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Fees paid by the Group to the appraisal companies for valuations in the 2015 and 2014 years are as follows:

	Thousands of Euros	
	2015 Period	2014 Period
Appraisal services	129	39
	129	39

The main assumptions used to calculate the fair value of the real estate assets at 31 December 2015 and 2014 are as follows:

	31 December 2015	
	Net Initial Yield	Discount rate
Shopping centres and single-tenant commercial properties	5.97% - 6.88%	8.25% - 12.12%
Office buildings (*)	4.63% - 5.19%	8.48% - 8.91%
Logistics bays	7.85% - 9.52%	9.68% - 12.00%

(\*) The Marcelo Spínola Building is not included as it is being renovated.

	31 December 2014	
	Net Initial Yield	Discount rate
Shopping centres and single-tenant commercial properties	6.12% - 7.59%	9.2% - 12.18%
Office buildings	5.4%-5.62%	7.89%
Logistics bays	7.97%-9.55%	9.29%

The effect of the required quarter-point change in the rates of return, calculated as income over the market value of assets, on the consolidated asset and the consolidated income statement, with respect to the investment properties, would be as follows:

	Thousands of Euros	
	Assets	Consolidated profit
Increase in rate of return by a quarter point	(25,663)	(25,663)
Decrease in rate of return by a quarter point	27,336	27,336

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Details of changes in fair value of investment properties in the income statement at 31 December 2015 are as follows:

	Thousands of Euros
Shopping centres and single-tenant commercial property	16,023
Office buildings	4,536
Logistics bays	5,419
	<u>25,978</u>

(8) OPERATING LEASES – LESSOR

At 31 December 2015 the Group has leased the shopping centres, office buildings and single-tenant commercial properties and logistics bays to third parties under operating leases.

The occupancy rates of the buildings for lease at 31 December 2015 and 2014 are as follows:

	Occupancy rate	
	31 December 2015	31 December 2014
Shopping centres and single-tenant commercial property	92.4%	90.2%
Office buildings (*)	92.9%	83.1%
Logistics bays	100.0%	91.7%

(\*) *The Marcelo Spínola Building is not included as it is being renovated.*

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

		2015	
		Thousands of Euros	
		Revenue	Fair value
Shopping centres	Txingudi	2,303	30,700
	Huertas	935	11,700
	Albacenter	2,471	32,332
	Hiper Albacenter	1,042	12,437
	Anec Blau	5,792	84,890
	Villaverde	780	9,851
	Nuevo Alisal	1,277	17,202
	As Termas	3,393	68,500
	As Termas Petrol station	48	1,845
	Portal de la Marina hypermarket	296	7,750
	Cruce de Caminos	-	1,148
	El Rosal	2,854	89,600
	Galaria	300	9,500
	Megapark	2,097	171,400
	Others	-	7,380
Offices	Egeo	3,608	69,210
	Cardenal Marcelo Spínola	193	21,500
	Arturo Soria	1,401	25,600
	Eloy Gonzalo	904	13,000
	Joan Miró	665	20,440
Logistics bays	Alovera I	917	14,300
	Alovera II	3,401	36,840
	Alovera III (C2)	161	3,250
	Alovera IV (C5-C6)	447	7,500
	Almussafes	449	8,500
<b>TOTAL</b>		<b>35,734</b>	<b>776,375</b>

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2014														
Thousands of Euros														
	Shopping centres							Offices				Logistics bays		Total
	Txingudi	Huertas	Albacenter	Hiper Albacenter	Anec Blau	Villaverde	Nuevo Alisal	Egeo	Cardenal Marcelo Spinola	Arturo Soria	Eloy Gonzalo	Alovera I	Alovera II	
Revenue	1,888	776	862	15	2,377	331	50	155	321	638	-	449	744	8,606
Fair value	28,500	12,000	29,103	11,788	81,310	9,345	17,007	65,980	19,300	24,690	12,900	12,900	33,171	357,994

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

The accrued revenues shown in the preceding table refer to the rental income from shopping centres, single-tenant commercial properties, office buildings and bays accrued in the 2015 period.

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

	Thousands of Euros	
	31 December 2015	31 December 2014
Less than one year	47,276	23,581
One to five years	101,192	34,126
Over five years	79,579	19,801
	<u>228,047</u>	<u>77,508</u>

(9) EQUITY-ACCOUNTED INVESTEEES

Movement in the 2015 and 2014 periods in equity-accounted investees was as follows:

	Thousands of Euros	
	31 December 2015	31 December 2014
Balance at the beginning of the period	18,087	-
Additions in the period	22,367	882
Change to the scope of the consolidation (see note 2.g)	1,707	17,547
Dividends approved in the year	(1,538)	-
Profit for the Period	<u>2,594</u>	<u>(342)</u>
Balance at the end of the period	<u>43,217</u>	<u>18,087</u>

The breakdown by company at 31 December 2015 of equity-accounted companies as well as the result attributable to the Group is as follows:

	Thousands of Euros			
	31 December 2015		31 December 2014	
	Investments	Result attributable to the Group	Investments	Result attributable to the Group
Puerta Marítima Ondara, S.L.	24,324	5,515	18,083	(342)
Lavernia Investments, S.L.	9,748	(456)	4	-
Inmobiliaria Juan Bravo 3, S.L.	9,145	(2,465)	-	-
Total	<u>43,217</u>	<u>2,594</u>	<u>18,087</u>	<u>(342)</u>



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As described in Note 2.g in January 2015 the Parent Company acquired 50% of the shares of Inmobiliaria Juan Bravo 3, S.L., for the amount of EUR 1,707 thousand. Throughout 2015, the Parent Company made additional shareholder contributions to Puerta Marítima Ondara, S.L., Inmobiliaria Juan Bravo 3, S.L. and Lavernia Investments, S.L. for the amount of EUR 2,264 thousand, EUR 9,903 thousand and EUR 10,200 thousand respectively.

The amount contributed to Lavernia Investments, S.L. corresponds to a share capital increase for a credit compensation effected in June 2015.

The main indicators for joint ventures (standardized to the regulatory framework applicable to the Group) at 31 December 2015 and 2014 are as follows:

Thousands of Euros					
31 December 2015			31 December 2014		
Puerta Marítima Ondara, S.L. (a)	Lavernia Investments, S.L. (c)	Inmobiliaria Juan Bravo 3, S.L. (b)	Puerta Marítima Ondara, S.L.	Lavernia Investments, S.L.	
Non-current assets	81,960	-	72	82,576	-
Current assets	3,625	20,003	109,918	2,718	4
Non-current liabilities	41,372	-	76,153	46,571	-
Current liabilities	8,647	509	51,713	7,959	-
Revenues	6,103	1	-	5,249	-
Profit for the Period	9,381	(913)	(4,930)	158	(3)

(a) Owner of a shopping centre.

(b) Owner of a site for real estate development. Contracted liabilities are mainly with its partners.

(c) Owner of a leased asset that was disposed of subsequent to the 2015 reporting date (note 30).

(10) FINANCIAL ASSETS WITH ASSOCIATES

The detail of this category at 31 December 2015 is as follows:

Thousands of Euros		
	Short-term	Long-term
Loans with associates	25,102	16,774
Other financial assets	1,615	-
Total financial assets with associates	26,717	16,774

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At 31 December 2015 the Group had formalised the following loans with associates:

	Date granted	Loan principal	Thousands of Euros			
			Capitalised accrued interest	Loan total	Current	Non-current
Inmobiliaria Juan Bravo 3, S.L. (a)	29/05/2015	40,000	1,774	41,774	25,000	16,774
Lavernia Investments, S.L. (b)	10/07/2015	100	2	102	102	-
		40,100	1,776	41,876	25,102	16,774

- (a) As indicated in note 2.g, on 30 January 2015 the Company Parent acquired 50% of the share capital of Inmobiliaria Juan Bravo 3, S.L. Furthermore, on said date, the Company Parent and the other partner acquired, for the amount of EUR 80,000 thousand, a mortgage loan that was mature, granted by a financial institution to Inmobiliaria Juan Bravo 3, S.L., the nominal value of which amounted to approximately EUR 122,605 thousand.

Subsequently, on 29 May 2015, Lar España Real Estate SOCIMI, S.A. agreed with Inmobiliaria Juan Bravo 3, S.L. to convert the loan they held into a participating loan, under the terms of article 20 of Royal Decree Law 7/1996 of 7 June. According to the terms agreed in the contract, on 30 June 2016 Inmobiliaria Juan Bravo 3, S.L. will pay Lar España Real Estate SOCIMI, S.A. the amount of EUR 25,000 thousand as the first repayment of the principal.

As this participating loan establishes, accrued and unpaid interest will be capitalised on a quarterly basis and will become part of the principal of the loans. This increase in the principal will accrue interest at the rate set in the contract. At 31 December 2015 the amount of accrued and capitalised interest since the date on which the loan was granted for the amount of EUR 1,774 thousand.

- (b) On 10 July 2015 the Parent Company granted Lavernia Investments, S.L. a loan for the amount of EUR 100 thousand.

As this loan establishes, accrued and unpaid interest will be capitalised on a quarterly basis and will become part of the principal of the loan. This increase in the principal will accrue interest at the rate set in the contract. At 31 December 2015 the amount of accrued and capitalised interest since the date on which the loan was granted for the amount of EUR 2 thousand.

Furthermore, in January 2015 the Parent Company granted Lavernia Investments, S.L. loans for the amount of EUR 10 million and EUR 100 thousand, respectively. On 25 June 2015, the Parent Company capitalised said loan (see note 9).

The financing detailed in the previous table will be used to develop residential property projects owned by associates and other treasury needs. These loans accrue interest rate that ranges between 4% and 5.95%, the maturities of which are expected from 2016 to 2018.

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(11) FINANCIAL ASSETS BY CATEGORY

(a) Classification of financial assets by category

The Group's financial assets at 31 December 2015 are security deposits placed with public bodies, loans granted to associates, trade receivables, receivables from public entities and fixed-term cash deposits. The following table shows a breakdown of these assets at 31 December 2015 and 2014:

	Thousands of Euros			
	2015		2014	
	Non-current	Current	Non-current	Current
	Carrying	Carrying	Carrying	Carrying
	amount	amount	amount	amount
Loans to third-parties	63	-	-	-
Security deposits and guarantees	8,412	-	3,841	31,735
Financial assets with associates				
(note 10)	16,774	26,717	-	-
Other financial assets	-	1,676	-	297
Clients receivables for sales and rendering of services	-	1,894	-	1,260
Advances to suppliers	-	30	-	-
Public entities, other	-	2,723	-	710
Total	25,249	33,040	3,841	34,002

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

At 31 December 2015, security deposits and guarantees mainly comprise the security deposits and guarantees received from the tenants of the investment properties mentioned in note 7, which the Group has deposited with the corresponding public bodies (Security deposits and guarantees - non-current). In addition, at 31 December 2014, security deposits and guarantees included amount of the security deposits effected in financial institutes for the amount of EUR 31,735 thousand, which were cancelled during 2015.

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(b) Classification of financial assets by maturity

The classification of financial assets by maturity is as follows:

	2015			
	Thousands of Euros			
	Less than 1 year	1 to 5 years	Indefinite	Total
Financial assets with associates	26,717	16,774	-	43,491
Loans to third-parties	-	63	-	63
Security deposits and guarantees	-	-	8,412	8,412
Other financial assets	1,676	-	-	1,676
Trade and other receivables	4,647	-	-	4,647
	<u>33,040</u>	<u>16,837</u>	<u>8,412</u>	<u>58,289</u>

  

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

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

The amount of net losses and gains corresponds to the income obtained by the Group with respect to the credits delivered to Inmobiliaria Juan Bravo 3, S.L. and Lavernia Investments, S.L. (note 10), and to the income obtained through security deposits effected in financial institutions that amounted to EUR 1,776 thousand and EUR 668 thousand, respectively (EUR 2,391 thousand in 2014 from security deposits).

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(12) TRADE AND OTHER RECEIVABLES

Details of “trade and other receivables” at 31 December 2015 and 2014 are as follows:

	Thousands of Euros
	2015
	Current
Operating lease receivables	1,387
Operating lease receivables - pending invoices	1,164
Advances to suppliers	30
Public entities, other (note 21)	2,723
Less impairment allowances	(657)
	<hr/>
Total	4,647

	Thousands of Euros
	2014
	Current
Operating lease receivables	1,385
Operating lease receivables - pending invoices	399
Public entities, other	710
Less impairment allowances	(524)
	<hr/>
Total	1,970

(a) Impairment

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

	Thousands of Euros
	2015
Balance at 31 December 2014	524
Change to the scope	67
Impairment losses	126
Reversals of impairment losses	(60)
	<hr/>
Balance at 31 December 2015	657

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	Thousands of Euros <u>2014</u>
Balance at 17 January	-
Impairment during the year in the value of the Txingudi and Huertas shopping centres	362
Impairment losses (note 24)	217
Reversals of impairment losses (note 24)	<u>(55)</u>
Total	<u><u>524</u></u>

Changes to the scope of 2015 during the year correspond to the value impairment in the acquisition of the investment property the El Rosal shopping centre.

In addition, during 2014 receivables associated with the acquisition of the Txingudi and Huertas shopping centres were acquired for the amount of EUR 362 thousand, with said centres being totally impaired.

(13) CASH AND CASH EQUIVALENTS

Details of cash and cash equivalents at 31 December 2015 and 2014 are as follows:

	Thousands of Euros <u>2015</u>	Thousands of Euros <u>2014</u>
Banks	35,555	20,252
Total	<u><u>35,555</u></u>	<u><u>20,252</u></u>

At 31 December 2015 and 31 December 2014 the cash at banks is in demand deposits that are available for use.

(14) EQUITY

(a) Share capital

At 31 December 2014 the share capital of Lar España Real Estate SOCIMI, S.A. amounts to EUR 119,996 thousand (EUR 80,060 thousand at 31 December 2014) represented by 59,997,756 registered shares (40,030,000 registered shares at 31 December 2014), represented through book entries, with a par value of EUR 2 each, subscribed and fully paid, all granting the same rights.

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On 15 July 2015, as authorised by the shareholders at their Annual General Meeting held on 28 April 2015, the board of directors of the Parent Company agreed to increase the share capital of the Parent Company through the issue of 19,967,756 new ordinary shares, with a par value of EUR 2 each plus a share premium of EUR 4.76 per share, for a total issue price of EUR 6.76 per new share. Said capital increase was carried out on 7 August 2015. As a result, the total effective amount of the share capital increase and share premium will total EUR 134,983 thousand.

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

The listing value at 31 December 2015 is Euros 9.46 per share.

At 31 December 2015 and 2014 the Parent Company's main shareholders are as follows:

	2015	2014
Franklin Templeton Institutional, LLC	15.1%	16.9%
PIMCO Bravo II Fund, L.P.	12.5%	12.5%
Cohen & Steers, Inc.	3%	6.5%
Ameriprise Financial Inc.	5.1%	-
Other shareholders with an interest of less than 5%	64.3%	64.1%
Total	100%	100%

(b) Share premium

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

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

At 31 December 2015, after the capital increase carried out on 15 July 2015, the Group's share premium amounted to EUR 415,047 thousand (EUR 320,000 thousand at 31 December 2014).

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(c) Other reserves

The breakdown of this category as at 31 December 2015 and 2014 is the following:

	Thousands of Euros	
	31 December 2015	31 December 2014
Legal reserve	166	-
Parent Company Reserves	(5,349)	(9,425)
Consolidated reserves	(824)	-
Other shareholder contributions	240	240
Total	(5,767)	(9,185)

Reserve movements that took place during the 2015 financial year were as follows:

	Thousands of Euros		
	Parent Company Reserves	Consolidated Reserves	Total Reserves
Opening balance	(9,185)	-	(9,185)
Profit for 2014	3,602	(146)	3,456
Distribution of Dividends for the 2014 year	(653)	(678)	(1,331)
Capital increase expenses	(4,764)	-	(4,764)
Result from treasury shares	759	-	759
Share-based payments (note 14.g)	5,298	-	5,298
Closing balance	(4,943)	(824)	(5,767)

(i) Legal reserve

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

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



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At 31 December 2015 the legal reserve of the Parent Company amounts to EUR 166 thousand.

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) Parent Company Reserves

Other reserves mainly include expenses related to the incorporation of the Parent Company and to the capital increases through share issues carried out on 5 March 2014 and 7 August 2015 and other non-distributed profits. Additionally, the impact on reserves of received services that will be liquidated in shares of the Parent Company is also included. (See notes 27.a and 14.g).

(d) Valuation adjustments

This entry in the consolidated statement of financial position includes the amount of changes to the value of financial derivatives designated as cash flow hedging instruments. The movement of the balance of this entry during 2015 is presented below:

	Thousands of Euros
Changes in fair value of hedges in the period (see note 17.c)	(1,560)
Closing balance	(1,560)

(e) Treasury shares

At 31 December 2015 the Parent Company holds treasury shares amounting to EUR 709 thousand (EUR 4,838 thousand at 31 December 2014).

Movement during the 2015 and 2014 periods was as follows:

	Number of shares	Thousands of Euros
31 December 2014	531,367	4,838
Additions	959,433	9,098
Disposals	(1,416,550)	(13,227)
31 December 2015	74,250	709

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

On 5 February 2014, the Sole Shareholder of the Parent Company authorised the Board of Directors to purchase shares of the Parent Company, up to a maximum of 10% of the share capital. This authorisation was approved by the Shareholders' General Meeting of the Parent Company held on the 28 April 2015.

The average selling price of treasury shares was EUR 9.87 per share (EUR 9.14 in 2014). The proceeds for the year ended 31 December 2015 amounted to EUR 759 thousand (EUR 4 thousand in the period of eleven months and fourteen days ended 31 December 2014) have been recognised under "Other Reserves" epigraph in the consolidated statement of financial position.

(f) Dividends paid

On 28 April 2015 the Shareholders' General Meeting approved the distribution of the Parent Company's results in 2014 in accordance with the proposal formulated by the Parent Company's Directors in their meeting held on 24 February 2015. The distribution is as follows:

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

The payment of the dividend approved by the Shareholders' General Meeting amounts to EUR 0.033 per share, charged to the results for the financial year 2014, and has been paid in total on the 28 May and 19 June 2015.

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(g) Share-based payments

On 12 February 2014, the Parent Company signed an Investment Management Agreement with Grupo Lar Inversiones Inmobiliarias, S.A. (hereinafter “the manager”) for the rendering of management services by Grupo Lar Inversiones Inmobiliarias, S.A., including, among others, the acquisition and management of property assets on behalf of the Parent Company and financial management. For said services the manager will accrue fixed fees based on a percentage of the fair value (EPRA NAV) of the investments made. The amount accrued by the set fee at 31 December 2015 amounted to EUR 3,883 thousand (EUR 2,083 million thousand in 2014).

Additionally, pursuant to clause 7.2 of the Investment Management Contract, Grupo Lar Inversiones Inmobiliarias, S.A. will have the right to a Performance Fee that is paid to the manager depending on the profitability obtained by the Parent Company shareholders.

In this respect, the annual profitability of shareholders is defined in the contract as the sum of the change to EPRA NAV of the Parent Company during the period, less net funds obtained from the issue of shares during the period, plus the dividends distributed during said period.

Pursuant to the contract, in the event the following thresholds are exceeded:

- Total annual return for the shareholders greater than 10%, and
- The sum of (i) the EPRA NAV of the Parent Company at 31 December of said period and (ii) the total figure of dividends that have been distributed in that period or in any period previous since the last that qualified the payment of the “Performance fee”, exceeds:
  - (a) The initial EPRA NAV (where net funds obtained by the Company as a result of the request and admission of its shares to be listed are considered as EPRA NAV), and
  - (b) The EPRA NAV at 31 December (with the allowances resulting from the inclusion of paid dividends and the exclusion of net funds from any effected issue of ordinary shares) of the last period that qualified the Performance Fee. Said excess will be called the High Watermark Outperformance and represents the excess over the last EPRA NAV that qualified the Performance fee.

Grupo Lar Inversiones Inmobiliarias, S.A. will have the right to a fee equal to 20% of the return of the shareholders when same exceeds 12%, in addition to 20% of any excess over 12% up to 22% in the event the return exceeds 12%.

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Pursuant to clause 7.2.2 of the contract, Grupo Lar Inversiones Inmobiliarias, S.A. must use the amount earned as the Performance Fee (after deducting the applicable corporate income tax amount) to subscribe any shares that the Parent Company may issue, or by choice of the Parent Company, to acquire same's treasury shares.

At 31 December 2015, the return of the shareholder calculated by the Parent Company amounted to 15.72 % having earned a Performance Fee for the amount of EUR 7,359 thousand. The net amount of corporation income tax applicable to the recipient (28%), which totals EUR 5,298 thousand, was recorded pursuant to IRFS 2 "Share-based payments" with payment in the reserves. The remaining amount, which totals EUR 2,061 thousand, was recorded as a liability.

The services received from the manager are recognised as other operating expenses in the consolidated statement of comprehensive income. At 31 December 2015, the Group has a balance payable for this item totalling EUR 2,379 thousand (EUR 771 thousand at 31 December 2014).

(h) Capital management

The Group is essentially financed with its own capital and financial debt. The Group resorted to market financing through mortgage-backed loans to fund the acquisition of new investments. In addition, the Group issued bonds in 2015.

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

To maintain and adjust the capital structure, the Group can adjust the amount of dividends payable to shareholders (within the limits established by the SOCIMI regime), reimburse capital, issue shares or dispose of assets to reduce debt.

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

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	Thousands of Euros	
	31 December 2015	31 December 2014
Total financial debt (see note 16)	322,244	37,822
Less, Cash and cash equivalents (see note 13)	(35,555)	(20,252)
Net debt	286,689	17,570
Total capital (capital + premium)	535,043	400,060
Total capital	821,732	417,630
Total financial debt	34.89%	1.04%

(15) EARNINGS PER SHARE

(i) Basic

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

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

	31 December 2015	31 December 2014
Profit for the year attributable to equity instrument holders of the Parent Company (in thousands of Euros)	43,559	3,456
Weighted average number of ordinary shares in circulation (number of shares)	47,790,562	38,276,618
Basic earnings per share (in Euros)	0.91	0.09

The average number of ordinary shares in circulation is determined as follows:

	31 December 2015	31 December 2014
Ordinary shares	40,030,000	30,000
Share capital increase (weighted effect)	7,987,102	38,390,805
Average effect of treasury shares	(226,540)	(144,187)
Weighted average number of ordinary shares in circulation at 31 December (number of shares)	47,790,562	38,276,618

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(ii) Diluted

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

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

(16) FINANCIAL LIABILITIES BY CATEGORIES

(a) Classification of financial liabilities by category

The classification of financial liabilities by category and class at 31 December 2015 and at 31 December 2014 is as follows:

	2015	
	Non-current Carrying amount	Current Carrying amount
Carried at amortised cost:		
Financial liabilities from issue of bonds and other marketable securities	138,233	3,504
Loans and borrowings	173,354	5,593
Carried at fair value:		
Derivatives	1,560	-
Other financial liabilities - security deposits	10,774	2,651
Trade and other payables		
Trade payables	-	5,761
Public entities, other	-	2,042
Total financial liabilities	323,921	19,551

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	2014	
	Non-current	Current
	Carrying amount	Carrying amount
Carried at amortised cost:		
Financial liabilities from issue of bonds and other marketable securities	37,666	156
Debts and payables		
Other financial liabilities - security deposits	5,143	-
Trade and other payables		
Trade payables	-	4,410
Personnel	-	18
Public entities, other	-	269
Total financial liabilities	42,809	4,853

At 31 December 2015 and 2014 the carrying amounts of the financial liabilities recorded at amortised cost do not differ from the fair value.

(b) Classification of financial liabilities by maturity

Details by maturity of financial liabilities at 31 December 2015 and 31 December 2014 are as follows:

	2015						
	Thousands of Euros						
	2016	2017	2018	2019	2020 and remaining years	Indefinite	Total
Financial liabilities from issue of bonds (a)	3,504	-	-	-	138,233	-	141,737
Loans and borrowings (a)	5,593	2,657	17,656	30,156	122,885	-	178,947
Derivatives	-	-	-	-	1,560	-	1,560
Other financial liabilities - security deposits	2,651	-	-	-	-	10,774	13,425
Trade and other payables	7,803	-	-	-	-	-	7,803
Total	19,551	2,657	17,656	30,156	262,678	10,774	343,472

(a) The effect of valuing financial liabilities from bonds and borrowings at amortised cost amounts to EUR 1,767 thousand and EUR 3,049 thousand.

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	2014						Total
	Thousands of Euros						
	2015	2016	2017	2018	2019 and remaining years	Indefinite	
Loans and borrowings	156	156	156	156	37,198	-	37,822
Other financial liabilities - security deposits	-	-	-	-	-	5,143	5,143
Trade and other payables	4,697	-	-	-	-	-	4,697
Total	4,853	468	156	156	37,198	5,143	47,662

(17) FINANCIAL LIABILITIES FROM BORROWINGS

(a) Main characteristics of debt from bonds

On 21 January 2015 the Parent Company's Board of Directors approved the issue of simple bonds up to a maximum amount of EUR 200 million, following the approval by the then-sole shareholder of the Parent Company on 5 February 2014.

In this respect, on 19 February 2015 the Parent Company carried out a placement of bonds amounting to a total of EUR 140 million, each with a nominal value of EUR 100 thousand. The main characteristics of the issue are as follows:

- Issuer: Lar España Real Estate SOCIMI, S.A.
- Guarantees: Guarantee on the assets of the Parent Company and mortgages and ordinary first tier pledges up to a maximum amount of 20% of the placement. The assets mortgaged were: L'Anec Blau, Albacenter, Txingudi, Las Huertas, Albacenter Hipermercado, Alovera and Marcelo Spínola. An ordinary pledge has also been established on the shares of LE Logistic Alovera I y II, S.A.U. (formerly called Lar España Inversión Logística, S.A.U.), LE Retail Hiper Albacenter, S.A.U. (formerly called Lar España Shopping Centres S.A.U.) and Le Offices Eloy Gonzalo 27, S.A.U. (formerly called Riverton Gestión S.A.U.).
- Amount of the issue: EUR 140,000 thousand.
- Nominal amount: EUR 100 thousand.
- Maturity: 7 years. In certain circumstances the early amortisation of this instrument is possible.
- Interest rate: 2.9%
- Nature of the issue: Simple bonds.



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The issuance expenses associated with this issue amounted to EUR 1,995 thousand, which were recorded by reducing the debt. In 2015, EUR 228 thousand of these expenses have been charged to the entry “Financial costs” on the consolidated comprehensive income statements for the period. The interest accrued at 31 December 2015 and payable at that date totalled EUR 3,504 thousand.

Covenants

Bonds are issued with an undertaking by the Group to comply with certain ratios.

- An Interest Coverage Ratio equal to or exceeding 1.25, calculated as the ratio between EBITDA net of tax and finance costs for the period.
- A Loan-to-Value Ratio equal to or exceeding 65%, calculated as the ratio between debt and the value of assets.

Moreover, the Group has undertaken to arrange new guarantees in cases where the Interest Coverage ratio is lower than 1.75 and the Loan-to-Value ratio exceeds 60%.

The Directors consider the ratios met at 31 December 2015, so that no further guarantees are required, and they expect them to be met in 2016.

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(b) Main characteristics of loans and debt with credit institutions

The terms and conditions of the loans and debts with credit institutions are as follows:

Institution	Currency	Effective rate	Maturity	Thousands of Euros		Guarantee
				Amount granted	Amortised cost and interest pending payment at 31 December 2015	
LE Offices Egeo, S.A.U.	Euros	EURIBOR 3M + 2% spread	15 December 19	30,000	30,000	Egeo office building
LE Retail Alisal, S.A.U.	Euros	3.02% (until 16 December 2015). Subsequently EURIBOR 3M + 2.90%	16 June 2025	7,822	7,674	Single-tenant commercial premises Nuevo Alisal (c)
Lar España Real Estate SOCIMI, S.A.	Euros	EURIBOR 3M + 2.83% spread	30 January 2018	25,000	24,958	(a)
LE Retail As Termas, S.L.U.	Euros	EURIBOR 3M + 1.80% spread	25 June 2020	37,345	36,445	As Termas Shopping centre (c)
LE Retail El Rosal, S.L.U.	Euros	EURIBOR 3M + 1.75%	7 July 2030	50,000	48,912	El Rosal shopping centre (c)
LE Retail Villaverde, S.L.U.	Euros	1.75% (until 30 September 2018) Subsequently EURIBOR 12M + 1.75%	13 October 2020	4,550	4,465	Single-tenant commercial premises Villaverde (c)
LE Offices Arturo Soria, S.L.U.	Euros	1.80% (until 30 September 2018) Subsequently EURIBOR 12M + 1.80%	9 November 2020	13,000	12,778	Arturo Soria office building (c)
LE Retail Galaria, S.L.U.	Euros	1.5% (until 14 March 2016) Subsequently EURIBOR 3M + 1.75%	14 December 2029	4,200	4,170	Single-tenant commercial premises Galaria (b)(c)
LE Offices Joan Miró 21, S.L.U.	Euros	1.62% (first quarter) Subsequently EURIBOR 3M + 1.75%	23 December 2020	9,800	9,545	Joan Miró office building (b)(c)
				181.717	178,947	

(a) *This loan has mortgage guarantees on the assets owned by the associates Lavernia Investments, S.L. and Inmobiliaria Juan Bravo 3, S.L.*

(b) *In addition to the mortgage security of the loan, the Company has pledged current accounts and credit accounts derived from the lease contract of the property on shares.*

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- (c) *With respect to said mortgage loans, there are certain clauses linked to the keeping of the LTV “Loan To Value” ratio below 50%-70%. If the LTV is not kept below 50%-70%, additional guarantees will be necessary.*

(c) Derivatives

Details of derivative financial instruments are as follows:

	Thousands of Euros
<b>Non-current</b>	
Interest rate	1,560
	1,560

To determine the fair value of interest rate derivatives, the Parent Company uses the cash flow discount on the basis of the implicit amounts determined by the Euro interest rate curve according to the market conditions on the date of measurement.

These financial instruments were classified as level 2 according to the calculation categories established in IFRS 7

Derivatives contracted by the Group at 31 December 2015 and their fair values at said date are as follows (in thousands of Euros):

			Thousands of Euros	
	Contracted interest rate	Fair value at 31 December 2015	Notional	Maturity
LE Retail El Rosal, S.L.U.	0.44%	768	50,000	2,020
LE Retail As Termas, S.L.U.	0.53%	686	37,345	2,020
LE Offices Joan Miró 21, S.L.U.	0.41%	106	9,800	2,020
		1,560	97,145	

On 7 July 2015 the Group Company LE Retail El Rosal, S.L.U. (formerly called “El Rosal Retail, S.L.”) signed an IRS hedging instrument contract for a nominal amount of EUR 50,000 thousand with Caixa Bank S.A. with a maximum maturity of 5 years. This IRS hedging instrument contract will accrue interest on a quarterly basis, which shall be paid on the last day of each Interest Period. The interest rate applied is made up of a fixed component of 0.4435% and a variable component

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based on the three month Euribor. The fair value of the financial instrument has been recognised under liabilities for an amount of EUR 768 thousand at 31 December 2015.

On 25 June 2015 the Group Company LE Retail As Termas, S.L.U. (formerly called “Global Noctua, S.L.U.”) signed an IRS hedging instrument contract for a nominal amount of EUR 37,345 thousand with ING Bank N.V. (Spanish Branch) with a maximum maturity of 5 years. This IRS hedging instrument contract will accrue interest on a quarterly basis, which shall be paid on the last day of each Interest Period. The interest rate applied is made up of a fixed component of 0.5315% and a variable component based on the three month Euribor. The fair value of the financial instrument has been recognised under liabilities for an amount of EUR 686 thousand at 31 December 2015.

On 23 December 2015, the Group Company LE Offices Joan Miró 21, S.L. (formerly called Global Meiji, S.L.) signed an IRS hedging instrument contract for a nominal amount of EUR 9,800 thousand with Banco Bilbao Vizcaya Argentaria, S.A., with a maximum maturity of 5 years. This IRS hedging instrument contract will accrue interest on a quarterly basis, which shall be paid on the last day of each Interest Period. The interest rate applied is made up of a fixed component of 0.413% and a variable component based on the three month Euribor. The fair value of the financial instrument has been recognised under liabilities for an amount of EUR 106 thousand at 31 December 2015.

The Group opted for accounting hedges, appropriately designating the Hedging Relationships in which these derivative instruments are the hedging instruments of the financing used by the Group, neutralising the changes to interest payment flows by setting the fixed rate to be paid by same. Said Hedging Relationships are highly effective prospectively, retrospectively and cumulatively, since the designation date. In this respect, the Group recognised the amount of the change to the fair value that occurred in 2015 under equity.

During 2015 financial expenses associated with settlements of new derivative financial instruments contracted in the period were recorded for the amount of EUR 227 thousand.

The effect of the 50-basis-point change in the estimated interest rate on liabilities and on the income statement before taxes would be as follows:

Scenario	Thousands of Euros		
	Liabilities	Equity	Consolidated profit before tax
5% Interest rate increase	2,174	2,174	-
5% Interest rate decrease	(2,220)	(2,220)	-

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(18) OTHER NON-CURRENT FINANCIAL LIABILITIES

Other non-current financial liabilities at 31 December 2015 reflect EUR 10,774 thousand (EUR 5,143 thousand at 31 December 2014) that comprise security deposits delivered to the Group by the various tenants of the commercial premises located in its properties. This amount generally represents two months' rent, which is reimbursed at the end of the contract term.

(19) TRADE AND OTHER PAYABLES

Details of trade and other payables at 31 December 2015 and 2014 are as follows:

	Thousands of Euros	
	2015	2014
Trade payables	3,184	3,544
Trade payables, related parties (see note 27)	2,462	866
Salaries payable	115	18
Public entities, other (see note 21)	2,042	269
	7,803	4,697

(20) INFORMATION ON THE AVERAGE NUMBER OF DAYS PAYABLE OUTSTANDING

Below appears the information required by the third additional Provision of Law 15/2010, of 5 July (amended by the second final Provision of Law 31/2014, of 3 December), which has been prepared pursuant to the Resolution of 29 January 2016 by Spain's Accounting and Audit Institute on the information to be included in the report on the consolidated annual accounts in terms of the average number of days payable outstanding to suppliers in commercial transactions:

Pursuant to what is allowed by the sole additional Provision of the abovementioned Resolution, as this is the first this first period under the application of the Resolution, comparative information is not presented.

	2015
	Days
Average number of days payable outstanding to suppliers*	29
Ratio of paid operations	27
Ratio of operations pending payment*	35
	Thousands of Euros
Total effected payments	30,419
Total pending payments	1,068

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Pursuant to the Resolution by Spain's Accounting and Audit Institute on the calculation of the average number of days payable outstanding to suppliers in these consolidated annual accounts, commercial transactions corresponding to the delivery of goods or rendering of services accrued since the date Law 31/2014 of 3 December entered into force were taken into consideration, although this has been exclusively regarding companies based in Spain that have been fully or proportionally integrated.

Trade payables as they relate to goods and services included in "Trade and other payables" of the current liability of the consolidated statement of financial position are considered suppliers, for the exclusive purpose of providing the information established in this Resolution. These refer exclusively to the Spanish institutions included in the consolidable group.

"Average number of days payable outstanding to suppliers" is understood to mean the time passed between the delivery of goods or the rendering of services by the supplier and the material payment of the transaction.

The maximum legal payment period applicable to the Company in the 2014/15 period according to Law 3/2004, of 29 December containing measures to combat late payments in commercial transactions and in accordance with the transitory provisions established in Law 15/2010, of 5 July, is 60 days until the publication of Law 11/2013 of 26 July and 30 days as of the publication of said Law and as of today's date (unless the conditions established in same are met, which would allow said maximum payment period to be extended to 60 days).

(21) PUBLIC ENTITIES AND TAXATION

(a) Current balances with public entities

Receivables

	Thousands of Euros	
	31 December 2015	31 December 2014
Taxation authorities, VAT recoverable	1,843	251
Taxation authorities, other withholdings	880	459
	<u>2,723</u>	<u>710</u>

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Payables

	Thousands of Euros	
	31 December 2015	31 December 2014
Taxation authorities, VAT payable	1,746	193
Taxation authorities, personal income tax withholdings payable	292	72
Social Security contributions payable	4	4
	<u>2,042</u>	<u>269</u>

(b) Reconciliation of accounting profit and taxable income

At December 31, 2015 and 2014, the taxable income is as follows:

	Thousands of Euros	
	31 December 2015	31 December 2014
Profit before tax from continuing operations	43,559	3,456
Permanent differences:		
- Of individual companies	(4,634)	(9,372)
- Of consolidation adjustments	(3,449)	53
Temporary differences - Measurement of investment properties	(25,978)	(442)
Temporary difference - Others	1,758	868
Taxable income (tax loss)	<u>11,256</u>	<u>(6,624)</u>
Tax payable (28%)	-	-
Tax payable (0%)	-	-
Income tax expense/(tax income)	<u>-</u>	<u>-</u>

At 31 December 2015 the Parent Company and the subsidiaries are included under the SOCIMI tax regime, except the companies Inmobiliaria Juan Bravo 3, S.L. and Lavernia Investments, S.L. Pursuant to what is established therein, the tax rate applicable to the tax base is 0%, such that no expense has been recorded for Corporate Income Tax, as well as the corresponding eliminations and recognition in the consolidated income adjustment.

At December 31, 2015 and 2014, the heading of permanent differences mainly consists of issuance expenses and capital increase not allocated to the consolidated income statement amounting EUR 4,764 thousand in 2015 (EUR 9,419 thousand in 2014).

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*Deferred tax assets and liabilities*

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

Likewise, the Group has not recorded deferred tax assets for the temporary differences that increase the tax base because the applicable rate is calculated at 0%.

(c) Financial years pending verification and 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 2015 reporting date, the Company has open to inspection by the taxation authorities all the main applicable taxes since its incorporation. The Parent Company's directors consider that the aforementioned taxes have been adequately settled, and consequently, even if discrepancies were to arise in the interpretation of prevailing standards with respect to the tax treatment of operations, the accompanying 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

	2015 Period
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.	-
b) Reserves for each year in which the special tax regime provided by that Law is applicable	Proposed 2015 profits distribution to reserve: EUR 501 thousand to legal reserve and EUR 6 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 2015 profits distribution to reserve: EUR 501 thousand to legal reserve and EUR 6 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 2015: EUR 12,037 thousands
a. Dividends from income subject to the general income tax rate	-



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b. Dividends from income subject to a tax rate of 18% (2009) and 19% (2010 to 2012)	-
c. Dividends from income subject to a tax rate of 0%	Proposed dividend distribution for 2015: EUR 12,037 thousands
d) Dividends distributed charged to reserves,	-
a. Distribution charged to reserves subject to the general income tax rate	-
b. Distribution charged to reserves subject to a tax rate of 19%	-
c. Distribution charged to reserves subject to a tax rate of 0%	-
e) Date on which distribution was agreed of dividends referred to in c) and d) above	2015 dividends: Pending AGM
f) Date of acquisition of properties for lease that generate income subject to this special regime	<p> Txingudi shopping centre: 24 March 2014  Las Huertas shopping centre: 24 March 2014  Arturo Soria office building: 29 July 2014  Single-tenant commercial premises Villaverde: 29 July 2014  Albacenter shopping centre: 30 July 2014  Anec Blau shopping centre: 31 July 2014  Marcelo Spínola office building: 31 July 2014  Hiper Albacenter shopping centre: 19 December 2014  Egeo office building: 16 December 2014  Single-tenant commercial premises Alisal: 17 December 2014  Alovera I industrial bay: 07 August 2014  Alovera II industrial bay: 13 October 2014  Eloy Gonzalo 27 office building: 23 December 2014  As Termas shopping centre: 15 April 2015  Almussafes industrial bay: 26 May 2015  Alovera III industrial bay (C2): 26 May 2015  Alovera IV (C5-C6) industrial bay: 26 May 2015  Hiper Ondara shopping centre: 09 June 2015  Joan Miró office building: 11 June 2015  El Rosal shopping centre: 7 July 2015  Portal de la Marina shopping centre: 10 October 2014  As Termas Petrol station: 15 April 2015  Single-tenant commercial premises Galaria: 23 July 2015 </p>

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<p>g) Date of acquisition of shares in the capital of the entities referred to by article 2.1 of the above Law.</p>	<ul style="list-style-type: none"> <li>• LE Logistic Alovera I y II, S.A.U (formerly called Lar España Inversión Logística, S.A.U.): 23 July 2014</li> <li>• LE Retail Hiper Albacenter, S.A.U. (formerly called Lar España Shopping Centres, S.A.U): 04 November 2014</li> <li>• LE Offices Egeo, S.A.U. (formerly called Lar España Offices, S.A.U): 04 November 2014</li> <li>• LE Retail Alisal, S.A.U. (formerly called Lar España Parque de Medianas, S.A.U.): 04 November 2014</li> <li>• LE Offices Eloy Gonzalo 27, S.A.U. (formerly called Riverton Gestión, S.L.U.): 18 December 2014</li> <li>• LE Retail As Termas, S.L.U. (formerly called Global Noctua, S.L.U.): 18 December 2014</li> <li>• LE Logistic Almussafes, S.L.U. (formerly called Global Zohar S.L.U.): 04 March 2015</li> <li>• LE Logistic Alovera III y IV, S.L.U. (formerly called Global Tannenberg, S.L.U.): 04 March 2015</li> <li>• LE Retail Hiper Ondara, S.L.U. (formerly called Global Brisulia, S.L.U.): 09 June 2015</li> <li>• LE Offices Joan Miró 21, S.L.U. (formerly called Global Meiji, S.L.U.): 04 March 2015</li> <li>• LE Retail El Rosal, S.L.U. (formerly called El Rosal S.L.U.): 07 July 2015</li> <li>• LE Retail Sagunto, S.L.U. (formerly called Global Regimonte, S.L.U.): 26 March 2015</li> <li>• LE Retail Megapark, S.L.U. (formerly called Global Morello, S.L.U.): 29 May 2015</li> <li>• LE Retail Galaria, S.L.U. (formerly called Global Misner, S.L.U.): 20 July 2015</li> <li>• Lar España Shopping Centres VIII, S.L.: 04 August 2015</li> <li>• Lar España Parque de Medianas III, S.L.: 04 August 2015</li> <li>• Lar España Offices VI, S.L.: 04 August 2015</li> <li>• LE Offices Arturo Soria, S.L.U. (formerly called Lar España Offices Arturo Soria, S.L.U.): 21 September 2015</li> <li>• LE Retail Villaverde, S.L.U. (formerly called Lar España Parque de Medianas Villaverde, S.L.U.): 21 September 2015</li> </ul>
<p>h) Identification of the asset included in the 80% mentioned in article 3.1 of this Law</p>	<p>- Investment properties:</p> <ul style="list-style-type: none"> <li>Txingudi shopping centre</li> <li>Las Huertas shopping centre</li> <li>Arturo Soria office building</li> <li>Single-tenant commercial premises Villaverde</li> <li>Albacenter shopping centre</li> <li>Anec Blau shopping centre</li> </ul>

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	<p> Marcelo Spínola office building  Hiper Albacenter shopping centre  Egeo office building  Single-tenant commercial premises Alisal  Alovera I industrial bay  Alovera II industrial bay  Eloy Gonzalo 27 office building  As Termas shopping centre  Almussafes industrial bay  Alovera III industrial bay (C2):  Alovera IV (C5-C6) industrial bay:  Hiper Ondara shopping centre  Joan Miró office building  El Rosal shopping centre  Portal de la Marina shopping centre  As Termas Petrol Station  Single-tenant commercial premises Galaria  - Capital investments: <ul style="list-style-type: none"> <li>• LE Logistic Alovera I y II, S.A.U. (formerly called Lar España Inversión Logística, S.A.U.)</li> <li>• LE Retail Hiper Albacenter, S.A.U. (formerly called Lar España Shopping Centres, S.A.U.)</li> <li>• LE Offices Egeo, S.A.U. (formerly called Lar España Offices, S.A.U.)</li> <li>• LE Retail Alisal, S.A.U. (formerly called Lar España Parque de Medianas, S.A.U.)</li> <li>• LE Offices Eloy Gonzalo 27, S.A.U. (formerly called Riverton Gestión, S.L.U.)</li> <li>• LE Retail As Termas, S.L.U. (formerly called Global Noctua, S.L.U.)</li> <li>• LE Logistic Almussafes, S.L.U. (formerly called Global Zohar S.L.U.)</li> <li>• LE Logistic Alovera III y IV, S.L.U. (formerly called Global Tannenberg, S.L.U.)</li> <li>• LE Retail Hiper Ondara, S.L.U. (formerly called Global Brisulia, S.L.U.)</li> <li>• LE Offices Joan Miró 21, S.L.U. (formerly called Global Meiji, S.L.U.)</li> <li>• LE Retail El Rosal, S.L.U. (formerly called El Rosal S.L.U.)</li> <li>• LE Retail Sagunto, S.L.U. (formerly called Global Regimonte, S.L.U.)</li> <li>• LE Retail Megapark, S.L.U. (formerly called Global Morello, S.L.U.)</li> <li>• LE Retail Galaria, S.L.U. (formerly called Global Misner, S.L.U.)</li> <li>• Lar España Shopping Centres VIII, S.L.</li> <li>• Lar España Parque de Medianas III, S.L.</li> <li>• Lar España Offices VI, S.L.</li> <li>• LE Offices Arturo Soria, S.L.U. (formerly called Lar España Offices Arturo Soria, S.L.U.)</li> <li>• LE Retail Villaverde, S.L.U. (formerly called Lar España Parque de Medianas Villaverde, S.L.U.)</li> </ul> </p>
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i) Reserves from years in which the special tax regime provided in this Law is applicable that have been applied in the tax period other than for the distribution thereof or to offset losses. The year from which these reserves have been taken should be specified.	-
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(22) RISK MANAGEMENT POLICY

(a) Financial risk factors

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

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

(i) Market risk

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

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

- The economic environment in which the Group performs its activity: The design of various economic scenarios with different key variables that can affect the Group (interest rates, share price, occupancy rates of investment properties, etc.). The identification of variables that are interconnected and their degree of connection.
- The effect on the Consolidated Statement of Comprehensive Income of the variation of 5 basic points in the variable interest rate in respect of the financial debt with credit institutions would amount to Euros 137 thousand.
- Time frame within which the assessment is made: The time frame for the analysis and the potential deviations should be taken into account.

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(ii) Credit risk

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

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

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

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

	Note	Thousands of Euros	
		2015	2014
Financial assets with associates	10	43,491	-
Security deposits and guarantees	11	10,151	35,873
Trade and other receivables	12	4,647	1,970
Cash and cash equivalents	13	35,555	20,252
		<u>93,844</u>	<u>58,095</u>

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

	Thousands of Euros				
	2015				
	Not past due	Less than 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Total
Trade and other receivables	1,164	589	105	2,789	4,647
Total assets	1,164	589	105	2,789	4,647

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	Thousands of Euros				
	2014				
	Not past due	Less than 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Total
Trade and other receivables	399	726	135	710	1,970
Total assets	399	726	135	710	1,970

At 31 December 2015 and 2014, the Group has recognised impairment on all trade receivables at risk of default covering the maximum exposure at risk. Impairment of receivables by geographical region representing the Group's activities is as follows:

	Thousands of Euros	
	2015	2014
Basque Country	269	342
Castile and Leon	133	99
Catalonia	89	64
Castile La Mancha	38	19
Castile and Leon	108	-
Galicia	21	-
	657	524

Cash and cash equivalents

At 31 December 2015 the Group has cash and cash equivalents totalling EUR 35,555 thousand (EUR 20,252 thousand at 31 December 2014), which represents its maximum exposure to risk associated with these assets.

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

(iii) Liquidity risk

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

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

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The Group's exposure to liquidity risk at 31 December 2015 and 2014 is detailed below. The following tables show the analysis of financial liabilities by remaining contractual maturity dates.

	2015					
	Thousands of Euros					
			3			
	Less than 1 month	1 to 3 months	months to 1 year	More than 1 year	Indefinite	Total
Financial liabilities from issue of bonds	-	3,504	-	138,233	-	141,737
Loans and borrowings	-	5,593	-	173,354	-	178,947
Derivatives	-	-	-	1,560	-	1,560
Other non-current liabilities - security deposits	-	-	2,651	-	10,774	13,425
Trade and other payables (excluding balances payable to public entities)	1,584	-	4,177	-	-	5,761
Total	1,584	9,097	6,828	313,147	10,774	341,430
	2014					
	Thousands of Euros					
			3			
	Less than 1 month	1 to 3 months	months to 1 year	More than 1 year	Indefinite	Total
Loans and borrowings	-	39	117	37,666	-	37,822
Other non-current liabilities - security deposits	-	-	-	-	5,143	5,143
Trade and other payables (excluding balances payable to public entities)	701	3,727	-	-	-	4,428
Total	701	3,766	117	37,666	5,143	47,393

(iv) Cash flow and fair value interest rate risks

At 31 December 2015 the Group holds short-term fixed-rate financial assets (deposits) to generate a return on cash surpluses not invested in investment properties. Fixed-rate financial assets are for the most part independent of market interest rate fluctuations.

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

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(v) Tax risk

As mentioned in note 1, the Parent Company and subsidiaries have availed of the special tax regime for SOCIMIs. Pursuant to article 6 of Law 11/2009 of 26 October 2009, amended by Law 16/2012 of 27 December 2012, SOCIMIs adopting the special tax regime are required to distribute profit for the period as dividends to shareholders, after settling all corresponding trading obligations. The dividend distribution must be agreed within six months after each period end and the dividend paid within one month from the date of the agreement (see note 21.b).

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

(23) REVENUES

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

(24) OTHER EXPENSES

Details of other expenses are as follows:

	Thousands of Euros	
	2015	2014
Operating lease expenses	-	32
Independent professional services	15,183	5,357
Insurance premiums	301	139
Bank fees and commissions	31	6
PR and advertising	237	241
Taxes	2,234	582
Impairment losses and uncollectibility of trade and other receivables (see note 12.a)	66	162
Remuneration of the Board of Directors (see note 27.b)	423	260
Other expenses	1,538	452
	<u>20,013</u>	<u>7,231</u>

(25) PERSONNEL EXPENSES

Details of personnel expenses at 31 December 2015 and 2014 are as follows:



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	Thousands of Euros	
	2015	2014
Salaries and wages	355	93
Other benefits and taxes	41	15
	<u>396</u>	<u>108</u>

(26) PROFIT FOR THE PERIOD

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

	Thousands of Euros	
	2015	2014
Lar España Real Estate SOCIMI, S.A.	3,813	3,602
LE Logistic Alovera I y II, S.A.U.	9,130	1,071
LE Retail Hiper Albacenter, S.A.U.	1,628	(111)
LE Offices Egeo, S.A.U.	6,114	(171)
LE Retail Alisal, S.A.U.	1,151	(530)
LE Offices Eloy Gonzalo 27, S.A.U.	769	(60)
LE Retail As Termas, S.L.U.	2,550	(3)
Puerta Marítima Ondara, S.L.	5,515	(342)
Lavernia Investments, S.L.	(456)	-
Inmobiliaria Juan Bravo 3, S.L.	(2,465)	-
LE Logistic Alovera III y IV, S.L.U.	905	-
LE Logistic Almussafes, S.L.U.	369	-
LE Retail Hiper Ondara, S.L.U.	845	-
LE Offices Joan Miró 21, S.L.U.	1,022	-
LE Retail Megapark, S.L.U.	4,541	-
LE Retail Sagunto, S.L.U.	(323)	-
LE Retail El Rosal, S.L.U.	5,424	-
LE Retail Galaria, S.L.U.	1,262	-
Lar Shopping Centres VIII, S.L.U.	(1)	-
Lar Parque de Medianas III, S.L.U.	(1)	-
Lar Offices VI, S.L.U.	(1)	-
Lar España Inversión Logística IV, S.L.U.	(1)	-
LE Retail Villaverde, S.L.U.	664	-
LE Offices Arturo Soria, S.L.U.	1,105	-
Profit before income tax	<u>43,559</u>	<u>3,456</u>
Income tax	-	-
Profit after income tax	43,559	3,456

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(27) RELATED PARTY BALANCES AND TRANSACTIONS

(a) Related party transactions and balances

As stated in note 14, on 12 February 2014, the Parent Company signed an Investment Management Agreement with Grupo Lar Inversiones Inmobiliarias, S.A. (hereinafter “the manager”) for the rendering of management services by Grupo Lar Inversiones Inmobiliarias, S.A., including, among others, the acquisition and management of property assets on behalf of the Parent Company and financial management and accrues a fixed amount and an additional amount depending on EPRA NAV of the Company (note 14.g).

Moreover, the Group has executed an agreement with the related Company Gentalia 2006, S.L. (an investee of Grupo Lar Inversiones Inmobiliarias, S.A.) for the provision of real estate asset management services. At 31 December 2015, the expense incurred for this concept amounts to Euros 906 thousand (of which Euros 137 thousand is payable at 31 December 2015). At 31 December 2014 the expense incurred for this item amounted to Euros 288 thousand (of which Euros 95 thousand are payable).

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

The remuneration received by the members of the board of directors and senior management personnel of the Group during 2015 and 2014, classified by item, is as follows:

	Thousands of Euros	
	2015	
	Salaries	Allowances
Board of directors	-	423(*)
Senior management personnel	355	-

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

\* Allowances for the board of directors include EUR 75 thousand for the non-executive secretary of the board of directors (EUR 50 thousand at 31 December 2014).

At 31 December 2015 the Company had 5 Directors, all of them men (at 31 December 2014 the Company had 5 Directors, all of them men).

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At 31 December 2015 and 2014 the Group has no pension or life insurance obligations with former or current members of the board of directors or senior management personnel of the Parent Company.

At 31 December 2015 and 2014 no advances or loans have been extended to members of the board or senior management.

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

Apart from the transactions with related parties listed above, in 2015 the directors of the Parent Company and members of its steering committee have not carried out any transactions other than ordinary business or applying terms that differ from market conditions with the Parent Company or any other Group company.

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

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

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

- (i) Board member of Grupo Lar Inversiones Inmobiliarias S.A. (managing company of the Company). This situation of potential conflict of interest was saved by the then 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) Sole Administrator of Fomento del Entorno Natural, S.A. in which he is also a shareholder (holding property of 13.85% of the shares).
- (iv) Positions in affiliated companies of Grupo Lar Inversiones Inmobiliarias S.A. as indicated below:

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Company	Position/Role	Number of Shares	% 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
Proactivo Servicios Generales, S.L.	Sole Administrator	N/A	N/A
Desarrollos Residenciales España, S.L.	Sole Administrator	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.	President and Member of the Board of Directors	N/A	N/A
Grupo Lar Real Management, S.L.	Sole Administrator	N/A	N/A
Global Byzas, S.L.	Sole Administrator	N/A	N/A
Grupo Lar Viviendas en Renta, S.L.	Individual representing the Sole Administrator of Grupo Lar Terciario, 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 Sole Administrator of Desarrollos Comerciales y de Ocio 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 of 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

(28) EMPLOYEE INFORMATION

The average headcount of the Group at 31 December 2015 and 2014, distributed by category, is as follows:

	2015	2014
Professional category		
Senior management personnel	3	2
Total	<u>3</u>	<u>2</u>

The distribution of Group personnel by gender at 31 December 2015 and 2014 is as follows:

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Notes to the Consolidated Annual Accounts for the annual period ended 31 December 2015

	Number	
	2015	
	Female	Male
Senior management personnel	1	2
Total	1	2

	Number	
	2014	
	Female	Male
Senior management personnel	1	2
Total	1	2

(29) AUDIT FEES

During 2015 and 2014, fees for audit and other related services charged to the Group by the auditor of the consolidated annual accounts, Deloitte, S.L., and by companies belonging to the Deloitte network, as well as fees for services charged by the auditors of the individual annual accounts of the companies included in the consolidation and for the entities related thereto through control, shared property or management were as follows (in thousands of Euros):

	Thousands of Euros
	31 December 2015
Audit and related services	
Audit services 2015	165
Other verification services	235
Professional services	
Other services	28
Total	428
	Thousands of Euros
	31 December 2014
Audit-related services	
Audit at 24 January 2014	4
Audit at 31 December 2014	90
Other audit-related services	458
Other services	12
Total	564

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

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES  
Notes to the Consolidated Annual Accounts for the annual period ended 31 December 2015

(30) EVENTS AFTER THE REPORTING PERIOD

After 31 December 2015, the following significant events related to the Group have occurred:

- On 29 January 2016 Lavernia Investments, S.L., 50% investee of the Parent Company, sold to Global Mauzac, S.L.U. a building located at Calle Claudio Coello, 108 with a total built area of 5,318 square meters for a total of EUR 21.7 million without taking sales costs estimated at EUR 1.7 million into consideration. The Parent Company does not expect this transaction to result in a significant result.
- On 29 January 2016, the Partners of Lavernia Investments, S.L. approved the distribution of the share premium of the Company for the amount of EUR 19.3 million.

(31) EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

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

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

Information on Group Companies  
31 December 2015

## a) Subsidiaries

Company	Registered office	Activity	Auditor	Type of entity	% of Participation		Share capital	Operating profit	Thousands of Euros			
					Direct	Total			Profit/(loss)	Dividends	Other equity	Carrying amount of investment
LE Logistic Alovera I y II, S.A.U.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	60	3,232	3,238	2,887	44,419	44,309
LE Retail Hiper Albacenter, S.A.U.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	60	885	885	700	11,521	11,660
LE Retail Alisal, S.A.U.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	60	968	731	487	9,145	9,410
LE Offices Egeo, S.A.U.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	60	2,745	2,226	1,552	34,196	34,560
LE Offices Eloy Gonzalo 27, S.A.U.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	60	602	602	477	12,453	12,553
LE Retail As Termas, S.L.U.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	4	2,175	1,615	1,366	30,647	31,339
LE Logistic Alovera III y IV, S.L.U.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	4	449	449	341	10,489	10,494
LE Logistic Almussafes, S.L.U.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	4	337	337	278	8,528	8,534
LE Retail Hiper Ondara, S.L.U.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	4	185	185	161	7,248	7,254
LE Offices Joan Miró 21, S.L.U.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	4	487	482	419	10,509	10,514
LE Retail Megapark,	Rosario	The acquisition and	-	Subsidiary	100%	100%	4	1,771	720	1,236	4,476	4,482

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

Information on Group Companies  
31 December 2015

					% of Participation		Thousands of Euros						
Company	Registered office	Activity	Auditor	Type of entity	Direct	Total	Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Carrying amount of investment	
S.L.U.	Pino 14-16; Madrid	development of properties for lease											
LE Retail Sagunto, S.L.U.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	4	(322)	(322)	-	3,616	3,621 (a)	
LE Retail El Rosal, S.L.U.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	3	1,685	(3,923)	-	5,821	7,720	
LE Retail Galaria, S.L.U.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	4	223	219	193	4,467	4,473	
Lar España Shopping Centres VIII, S.L.U.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	3	-	-	-	(1)	3	
Lar España Offices VI, S.L.U.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	3	-	-	-	(1)	3	
Lar España Parque de Medianas III, S.L.U.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	3	-	-	-	(1)	3	
Lar España Inversión Logística IV, S.L.U.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	3	-	-	-	(1)	3	
LE Retail Villaverde, S.L.U.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	3	156	135	121	4,945	4,948	
LE Offices Arturo Soria, S.L.U.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	3	230	191	175	12,334	12,337	



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

Information on Group Companies  
31 December 2015

**b) Joint venture**

Company	Registered office	Activity	Auditor	Type of entity	% of Participation		Share capital	Operating profit	Profit/(loss)	Thousands of Euros		
					Direct	Total				Dividends	Other equity	Carrying amount of investment
Puerta Marítima Ondara, S.L.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	Deloitte	Associate	58.78%	58.78%	27,240	5,453	3,719	1,539	7,691	20,689
Lavernia Investments, S.L.	Rosario Pino 14-16; Madrid	Property leasing and development	Deloitte	Associate	50%	50%	6	-	(913)	-	20,402	9,748
Inmobiliaria Juan Bravo 3, S.L.	Rosario Pino 14-16; Madrid	Property leasing and development	Deloitte	Associate	50%	50%	3,483	11,232	10,828	-	(32,294)	11,610 (a)

(a) The share value exceeds the theoretic carrying amount due to the existence of implicit capital gains.

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

Management report for the period ended 31 December 2015

## **Lar España Real Estate SOCIMI, S.A. and Subsidiaries**

### **Consolidated Directors' Report on the financial year ended at 31 December 2015**

#### **1 Situation of the Group**

##### **1.1 Situation of the real estate market**

###### **Office Market**

- **Madrid**

On 31 December 2015 the office rental market in the centre of Madrid revealed favourable evolution in terms of levels of rent in the CBD area, bearing in mind an increase of 4% compared with the same period the previous financial year.

The gross take-up this year was an improvement on the figure for 2014, standing at the close of 2015 at 577,000 m2, an increase of 40%.

Office space in Madrid continues the downward trend which began in the last quarter of 2015, currently amounting to slightly less than 2,000,000 m2. As at 31 December 2015, the vacancy rate was 12.01%.

Prime rent in Madrid is €26.50/m2/month.

- **Barcelona**

Office rents in Barcelona rose 11% on average over the course of 2015.

The gross take-up for the financial year was 398,000 m2, representing an increase of 41% compared with the previous year.

As at 31 December 2015, the vacancy rate was 11%.

Prime rent in Barcelona is €20.00/m2/month.

###### **Logistics market**

The investment volume stood at around 602 million euros at the close of 2015, as a result of the entry of major institutional investors and REITs.

Levels of return remained at around 7% in the prime zone.

Take-up once again increased in comparison with 2014, but not as substantially as the volume of

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

### Management report for the period ended 31 December 2015

investment.

#### **Retail complexes**

According to the most recent report published by the Spanish statistical agency, INE, for 30 December 2015, the national occupancy rate increased compared with the 2014 financial year by 1.1%.

This evolution was supported by an increase in sales at retail centres of 4.1% during 2015.

The general retail trade index rose by 1.8% during 2015, with the most notable and strongly performing sectors being personal accessories (3.7%) and household accessories (5.0%).

Consumption in Spain is experiencing a period of momentum, registering an improvement compared with 2014.

#### **Residential market**

Prices in the residential market rose by 4.5% during the financial year, according to the statistical information published by the INE.

Within this increase, particular mention should be made of a rise of 4.3% in the price of new residential property, and 4.5% in the case of previously owned homes.

There have been new real estate developments, in particular in Madrid and Barcelona, cities where the market supply of residential real estate already constructed is limited.

#### **Investment market**

The market became more competitive, essentially as a result of the following factors:

- During 2015 all sectors (retail, offices and logistics) achieved the levels of investment volume registered before the economic crisis.
- REITs have consolidated their position as key players in the market.
- The entry into the Spanish market of international investors in pursuit of opportunities continues.
- Financing is improving in terms of the loan-to-value or LTV ratio and cost.

Asset management capacities and market access will be key factors over the coming months.

These trends have not altered the initial plans in terms of the investment calendar or the return expected on the investments.

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

Management report for the period ended 31 December 2015

### 1.2 Organisational structure and operations

The Group is a recently created a group of companies with an outsourced management structure. It has appointed Grupo Lar Inversiones Inmobiliarias, S.A. as its sole manager, said company having more than 40 years of experience in the real estate market and a lengthy track record of generating value through different real estate cycles over past decades, with alliances with some of the most distinguished international investors.

The core responsibilities of the Board of Directors of the Group include the management of strategy, the assignment of resources, risk management and corporate oversight, as well as accounting and financial reports.

The Group undertakes its operations with the following types of asset:

- Retail centres: premises and retail block rental business.

The Group focuses its strategy on the search for retail centres with considerable growth potential and with shortcomings in terms of asset management, mainly those where there is an opportunity for replacement or expansion.

The Group also intends to continue investing in retail blocks with a good location and connections.

In order to embark on these investments, the Group will consider the possibility of signing joint-venture agreements, so as to limit the asset concentration risk and gain access to larger-sized retail complexes.

- Offices: office rental business.

The Group focuses mainly on the Madrid and Barcelona markets, which account for the main interest on the part of institutional investors, and where liquidity is greater. The Group strategy is to invest in properties that have already been built, refurbishing them and improving their facilities and occupancy.

- Logistics: logistical warehouse rental business.

The Group aims to invest in large warehouses located on logistical platforms with good land-based connections and major tenants. Also, assets and locations where rents are expected to rise.

- Residential.

The Group invests in the residential market by focusing above all on primary residences located in the most established districts of Spain's main cities, Madrid and Barcelona.

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

### Management report for the period ended 31 December 2015

The Group investment policy focuses essentially on:

- Opportunities for investment in medium-scale assets that offer substantial management possibilities, avoiding those segments where competition could be greater.
- Risk diversification, expanding in Spain mainly through investments in commercial complexes, while with regard to offices and logistical warehouses, the focus is on the Madrid and Barcelona areas, and to a lesser extent a number of major cities such as Valencia. Meanwhile, as regards the residential market (primary residence), the focus is on the main towns and market segments with a limited supply. This will serve to build up a diversified portfolio in terms both of asset type and location.

The company maintains a robust pipeline that offers it security as regards the achievement of its investment plans as forecast.

### **2 Evolution and result of the businesses**

#### **2.1 Introduction**

At the close of the 2015 financial year, the Group's ordinary revenue amounted to 35,734 thousand euros, corresponding to the business in which the Group is engaged: the rental business.

During the 2015 financial year the Group incurred "Other expenses" amounting to 20,013 thousand euros, corresponding essentially to the fees for management provided by Grupo Lar Inversiones Inmobiliarias, S.A. to the Group (11,241 thousand euros) and professional services (accounting and legal advice, audit and property valuations) (3,939 thousand euros).

Earnings before interest, taxes, depreciation and amortisation (EBITDA) stood at 18,699 thousand euros.

The appreciation in value during 2015 of the real estate investments held by the Group at 31 December 2015, according to the independent valuation conducted by Cushman & Wakefield and Jones Lang Lasalle at the close of the financial year is 25,978 thousand euros.

The Group's rental business at the close of the 2015 financial year was valued by the same independent valuation agents referred to in the above paragraph at 776,375 thousand euros. The valuation figures are updated twice-yearly, in accordance with best market practice.

The financial result was a negative amount of 3,683 thousand euros.

The Group's profit for the financial year amounted to 43,559 thousand euros.

By area of activity, the following should be emphasised:

- A significant percentage of the Group's revenue is the result of rent from retail centres, accounting for 66% of total revenue, as opposed to 19% from offices and 15% from logistics.

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

### Management report for the period ended 31 December 2015

- Around 50% of rental revenue is generated by the Aneclubau, As Termas and El Rosal retail centres.

As at 31 December 2015 the Group occupied across its whole business 95.2% the gross leasable area (GLA), the occupancy rate at retail centres being 92.4%, 92.9% for offices and 100% for logistics.

At the close of 2015, the Group had a portfolio of real estate rental projects covering thirteen retail centres (248,762 m<sup>2</sup>), five office buildings (41,758 m<sup>2</sup>) and five logistical warehouses (161,840 m<sup>2</sup>). The overall total gross leasable area is 452,360 m<sup>2</sup>.

The figures provided in the two above paragraphs do not take into account the Marcelo Spínola office building, currently in the process of refurbishment.

### **2.2 Other financial indicators**

As at 31 December 2015, the Group revealed the following financial indicators:

- Operating capital of 49,645 thousand euros.
- Liquidity ratio equal to 3.54.
- Solvency ratio equal to 1.06.

These ratios represent particularly high values, indicating that the Group enjoys a sufficient level of liquidity and a high degree of safety margin in order to meet its payments.

The ROE (Return on Equity), measuring the return generated by the Company on its shareholder equity, amounts to 9.05%, while the ROA (Return on Assets), measuring the efficiency of the Company's overall assets, irrespective of the sources of finance employed, in other words the capacity of the company's assets to generate revenue, is 5.72%.

### **2.3 Environmental and staff issues**

#### **Environment**

The Group undertakes operations the main aim of which is to prevent, reduce or rectify any damage which it could cause to the environment as a result of its activities. However, given its nature, the Group's operations have no significant environmental impact.

#### **Staff**

At 31 December 2015 the Group had 3 employees.

### **3 Liquidity and capital resources**

#### **3.1 Liquidity and capital resources**

In this second year of operations, the Group obtained liquidity essentially through:

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

### Management report for the period ended 31 December 2015

- Issue of 19,967,756 shares of a par value of 2 euros each, plus a share issue premium of 4.76 euros per share.
- Issue of bonds for a total amount of 140,000 euros, maturing in 2022, with an annual coupon of 2.90%.

As at 31 December, the Group's financial debt amounted to 178,947 thousand euros. The level of debt is connected with the acquisition of the Egeo, Arturo Soria and Joan Miró office buildings, the stake in Inmobiliaria Juan Bravo 3 S.L., the Nuevo Alisal, As Termas, Galaria and El Rosal retail centres and the Villaverde retail block.

The Group's aim is for the maturity profile of its debt to be aligned with its capacity to generate cash flows in order to meet its obligations.

Please refer to subsection 1.2 of this report as to the intention for the financing of the Group's future investments.

### **3.2 Analysis of contractual obligations and off-balance-sheet operations**

The Group had no contractual obligations at 31 December 2015 representing a future outgoing of liquid resources, beyond those discussed under item 3.1.

As at 31 December 2015, the Group did not reveal any off-balance sheet operations that had, or foreseeably would have, any effect on the financial situation of the Group, on the structure of revenue and expenditure, the results of operations, liquidity, capital expenses or shareholder equity that would be of a significant volume.

## **4 Main risks and uncertainties**

The Group is exposed to a range of risk factors derived from the inherent nature of its operations. The Group's Board of Directors is responsible for approving the risk management and oversight policy, and assumes responsibility as to the identification of the Company's main risks and supervision of the internal oversight systems, receiving information via the Audit and Oversight Committee. The Group Risk Management and Oversight System groups together those risks that could potentially affect the Group in the following spheres, comprising the Group's corporate risk map.

### *i. Market risk*

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

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

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

### Management report for the period ended 31 December 2015

- The economic environment in which the Group performs its activity: The design of various economic scenarios with different key variables that can affect the Group (interest rates, share price, occupancy rates of investment properties, etc.). The identification of variables that are interconnected and their degree of connection.
- The effect on the Consolidated Statement of Comprehensive Income of the variation of 5 basic points in the variable interest rate in respect of the financial debt with credit institutions would amount to Euros 137 thousand.
- Time frame within which the assessment is made: The time frame for the analysis and the potential deviations should be taken into account.

#### *ii. Credit risk*

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

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

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

#### *iii. Liquidity risk*

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

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

#### *iv. Tax risk*

As mentioned in note 1, the Parent Company and subsidiaries have availed of the special tax regime for SOCIMIs. Pursuant to article 6 of Law 11/2009 of 26 October 2009, amended by Law 16/2012 of 27 December 2012, SOCIMIs adopting the special tax regime are required to distribute profit for the period as dividends to shareholders, after settling all corresponding trading obligations. The dividend distribution must be agreed within six months after each period end and the dividend paid within one month from the date of the agreement.



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

### Management report for the period ended 31 December 2015

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

The Group's exposure to liquidity risk at 31 December 2015 and 2014 is detailed below. The following tables show the analysis of financial liabilities by remaining contractual maturity dates.

#### **5 Significant circumstances occurring after the close**

After 31 December 2015, the following significant events related to the Group have occurred:

- On 29 January 2016 Lavernia Investments, S.L., 50% investee of the Parent Company, sold to Global Mauzac, S.L.U. a building located at Calle Claudio Coello, 108 with a total built area of 5,318 square meters for a total of EUR 21.7 million without taking sales costs estimated at EUR 1.7 million into consideration. The Parent Company does not expect this transaction to result in a significant result.
- On 29 January 2016, the Partners of Lavernia Investments, S.L. approved the distribution of the share premium of the Company for the amount of EUR 19.3 million.

#### **6 Information on the foreseeable evolution of the Group**

The properties' active management strategy will be the key over the coming years following the volume of investment undertaken since March 2014.

This active management strategy will entail an increase in current rent levels and the return as regards the purchase price, all of which will be reflected in an increase in the value of the assets in our portfolio.

The Group will nonetheless continue to analyse any investment opportunities that could prove attractive, and so continue to generate value for its shareholders.

With the reservations inherent in the current economic cycle, we trust that the Group should be in a position to continue achieving positive progress in the 2016 financial year and beyond.

#### **7 R&D+i activities**

Due to the inherent characteristics of the companies that make up the Group, and their activities and structure, the Group does not usually conduct any research, development and innovation initiatives.

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

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### **8 Acquisition and disposal of treasury stock**

The acquisitions were performed within the context of a discretionary treasury stock management contract of which the Spanish Securities Market Commission (CNMV) was informed in accordance with the recommendations published by said body on 18 July 2013.

As at 31 December 2015, the share price stood at 9.46 euros.

As at 31 December 2015, the parent Company held a total of 74,250 shares, representing 0.12% of all shares issued.

### **9 Other relevant information**

#### **9.1 Stock exchange information**

The initial share price was 10 euros, and the par value at the close of the financial year was 9.46 euros. During 2015 the average listed share price was 9.62 euros.

It is important to bear in mind that a capital increase was performed in August 2015, through the issuance and release of 19,967,756 new shares, at a subscription price of 6.76 euros each.

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

#### **9.2 Dividend policy**

On 28 April 2015 the Shareholders' General Meeting approved the distribution of the Parent Company's results in 2014 in accordance with the proposal formulated by the Parent Company's Directors in their meeting held on 24 February 2015.

The payment of the dividend approved by the Shareholders' General Meeting amounts to EUR 0.033 per share, charged to the results for the financial year 2014, and has been paid in total on the 28 May and 19 June 2015.

#### **9.3 Mean supplier payment period**

The mean supplier payment period is 29 days.

### **10 Annual Corporate Governance report**

For the purposes of Article 538 of the Capital Companies Act, it is placed on record that the Annual Corporate Governance report for the 2015 financial year forms a part of this Directors' Report.

## EXHIBIT I

### **ANNUAL CORPORATE GOVERNANCE REPORT FOR PUBLICLY-LISTED COMPANIES**

#### DATA IDENTIFYING THE ISSUER

**FINANCIAL YEAR END:**

31/12/2015

**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
07/08/2015	199,995,512 euros	59,997,756	59,997,756

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	Indirect voting rights		% of total voting rights
		Name of direct shareholder	Number of voting rights	
AMERPRISE FINANCIAL INC	0	THREADNEEDLE ASSET MANAGEMENT LIMITED	3,031,013	5.052%
BESTINVER GESTION SA	0		1,674,681	4.184%
BLACKROCK INC.	0		2,048,923	3.415%
PIMCO BRAVO II FUND, L.P.	0	LVS II LUX XII S.A.R.L	5,000,000	12.491%
FRANKLIN TEMPLETON INSTITUTIONAL, LLC	0	FTIF - FRANKLIN EUROPEAN SMALL MID CAP GROWTH FUND	3,154,456	7.880%
FRANKLIN TEMPLETON INSTITUTIONAL, LLC	0	FGT - FRANKLIN INTERNATIONAL SMALL CAP GROWTH FUND	2,503,950	6.255%
FRANKLIN TEMPLETON INSTITUTIONAL, LLC	0	JNL / FRANKLIN TEMPLETON INTERNATIONAL SMALL CAP GROWTH FUND	375,092	0.937%

**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

**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	Indirect voting rights		% of total voting rights
		Name of direct shareholder	Number of voting rights	
José Luis Del Valle	0		7,500	0.013%
Alec Emmott	750		0	0.001%
Roger Cooke.	0		0	0.000%
Miguel Pereda	0		0	0.000%
Pedro Luis Uriarte	36,750		0	0.061%

% of total voting shares held by the board of directors	0.075
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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 direct voting rights	Indirect voting rights		Number of equivalent shares	% of total voting rights
		Name of direct shareholder	Number of 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 articles 530 y 531 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
74,250	0	0.124

(\*) Held through:

Name or Company name of the direct shareholder	Number of shares held directly
Not applicable	Not applicable
<b>TOTAL</b>	

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

- 27/02/2015: Acquisition of a 1.004% shareholding
- 27/08/2015: Sale of a 1.244% shareholding

## 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.n of the General Meeting Regulations, it is up to the shareholders in general meeting to authorize the derivative acquisition of own shares.

At the General Meeting held on December 18, 2015, the Company's shareholders resolved to delegate in the Board of Directors, or any of its members, for a five-year term:

- The widest powers possible under prevailing law to, under the scope of the terms of article 297.1.b) of the Corporate Enterprises Act, issue equity on one or more occasion and at any time, within the five-year term beginning on the date of ratification of this resolution, by an amount of up to half of current share capital, at most.
- These equity issues may be carried out with or without a share premium, by increasing the par value of existing shares in keeping with the legally-stipulated requirements or by issuing new shares - ordinary, preferred - with or without voting rights - or redeemable shares, or any other form permitted by law, or more than one form at the same time; consideration for any such new shares or an increase in the par value of existing shares shall take the form of cash contributions.
- On the occasion of each issue it shall be up to the Board of Directors to decide whether the new shares to be issued are ordinary, preferred or redeemable, voting or non-voting or of any other form permitted by law. Moreover, the Board of Directors is empowered to set, insofar as not already established, the terms and conditions of the equity issues and the characteristics of the shares and to freely market any new shares not subscribed for within the allocated period(s) for exercising pre-emptive subscription rights. In the event of incomplete subscription, the Board of Directors may also determine that the equity issue shall be capped at the amount of shares effectively subscribed and

shall duly re-word the article of the Articles of Association addressing share capital and the number of shares.

- In addition, in relation to equity issues carried out under the scope of this authorisation, the Board of Directors is empowered to waive, in full or in part, shareholders' pre-emptive subscription rights pursuant to the terms of article 506 of the Corporate Enterprises Act, although this power shall be limited to equity issues carried out under the scope of this authorisation up to a maximum amount, on aggregate, equivalent to 20% of the Company's current share capital.
- Nevertheless, if the Board were to decide to waive pre-emptive subscription rights in respect of one or more of the above-mentioned equity issues, it shall issue, on the occasion of authorising the corresponding equity issue, a report substantiating the specific reasons of corporate interest justifying such measure, a report in turn the subject of an opinion issued by an auditor other than the Company's auditor, as referred to in article 506 of the Corporate Enterprises Act. Such director and auditor reports shall be published immediately on the Company's website and made available to its shareholders and reported on at the next General Meeting held after the issue resolution is taken.
- By virtue of this authorisation, the Board of Directors is also duly empowered to apply for admission to trading on secondary exchanges - official or otherwise, organised or otherwise, Spanish or international - of any shares issued thereunder and to take any steps and complete any formalities needed before the various securities market regulators to secure such admission to trading.
- The Board of Directors is similarly empowered to delegate the powers vested in it by virtue of this resolution in one or more of its members.
- In addition, it is resolved to empower the Board of Directors with the widest powers possible under prevailing law, including the power to delegate such powers in any of the directors of Lar España Real Estate SOCIMI, S.A., such that any of them can perform as many acts and raise to public deed or execute as many documents and contracts - whether public or private - as may be necessary or advisable to ensure full effectiveness of the above resolutions in respect of any of their aspects or contents and, particularly, to remedy, clarify, interpret, complete or specify the resolutions ratified; similarly they may remedy any defects, omissions or errors detected in their verbal or written rendering in the Companies Register, all of which on the broadest possible terms.

**A.9 bis Estimated free float:**

<b>Estimated free float</b>	97.5%
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**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 ☒

<b>Description of the restrictions</b>



- 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 ☒

	% quorum different to art. 193 of the Spanish Corporate Enterprises Act for voting on general resolutions	% quorum different to art. 194 of the Spanish Corporate Enterprises Act for voting on special matters included in art. 194
Quorum required at first call		
Quorum required at second call		

- 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

	Qualified majority other than that stipulated in article 201.2 of the Spanish Corporate Enterprises Act for the matters provided for in article 194.1 thereof	Other situations requiring qualified majority
% stipulated for resolution ratification		
Describe the differences		

- 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	
28/04/2015	0.799%	55.030%	0.009%	10.241%	66.079%
18/12/2015	2.874%	53.209%	0.001%	8.084%	64.168%

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

Yes ☐ No **X**

**B.6**      **Paragraph repealed**

**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/Gobierno corporativo/Junta General Ordinaria 2015](http://larespana.com/Gobierno%20corporativo/Junta%20General%20Ordinaria%202015)

[http://larespana.com/Gobierno corporativo/Junta General Extraordinaria 2015](http://larespana.com/Gobierno%20corporativo/Junta%20General%20Extraordinaria%202015)

## **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**

<b>Maximum number of directors</b>	15
<b>Minimum number of directors</b>	5

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

<b>Name or Organization name of director</b>	<b>Representative</b>	<b>Position on the board</b>	<b>Date of first appointment</b>	<b>Date of last appointment</b>	<b>Election procedure</b>
Mr. José Luis Del Valle		Independent Chairman	05/02/2014		Not applicable
Mr. Alec Emmott		Independent director	05/02/2014		Not applicable
Mr. Roger Cooke		Independent director	05/02/2014		Not applicable
Mr. Miguel Pereda		Proprietary director	05/02/2014		Not applicable
Mr. Pedro Luis Uriarte		Independent director	05/02/2014		Not applicable

<b>Total number of directors</b>	5
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#### **Indicate any members who stepped down during the reporting period:**

<b>Name or company name of director</b>	<b>Status of director at the time of departure</b>	<b>Date of departure</b>

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

##### **EXECUTIVE DIRECTORS**

<b>Name or company name of director</b>	<b>Position at the company</b>

<b>Total number of executive directors</b>	
<b>% of total board members</b>	

### **EXTERNAL PROPRIETARY DIRECTORS**

<b>Name or company name of director</b>	<b>Name or company name of the significant shareholder represented or proposing the appointment</b>
Miguel Pereda Espeso	Grupo Lar Inversiones Inmobiliarias, S.A.

<b>Total number of proprietary directors</b>	1
<b>% of total board members</b>	20

### **EXTERNAL INDEPENDENT DIRECTORS**

<b>Name or company name of director</b>	<b>Background</b>
Mr. José Luis del Valle	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 (2008-2010), 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; a Director of the insurance group Ocaso; 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).
Mr. Pedro Luis Uriarte	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 Organization in the Spanish market. Mr. Uriarte was appointed Regional Minister of Economy and Finance of the Basque Government in 1980. In 2007 he founded and headed Innobasque, the Basque Innovation Agency. He is currently Executive Chairman of “Economía, Empresa, Estrategia”, a strategic consultancy firm, and sits on several different companies’ boards of directors or advisory boards. He is also Deputy Chairman of Bilbao Civil Council and was a member of the board of UNICEF Spain. Mr. Uriarte holds a Business and Law degree from Deusto University (Bilbao, Spain) and is a member of the Board and Executive Committee of Deusto Business School and has been honoured with many relevant professional

	<p>accolades such as the “Gran Cruz al Mérito Civil” (Spanish Government) in 2002 or “Manager of the Year” (Spanish Confederation of Managers &amp; Executives – CEDE) in 2011.</p>
Mr. Alec Emmot	<p>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).</p>
Mr. Roger Cooke	<p>Mr. Cooke is an experienced professional with more than 30 years of experience in the real estate sector. Mr. Cooke joined Cushman &amp; 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 &amp; Wakefield Spain, leading the Organization 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 (RICS). Since May 2014, Mr. Cooke is a Senior Advisor at Ernst &amp; Young.</p>

<b>Total number of independent directors</b>	4
<b>% of total board members</b>	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**

<b>Name or company name of director</b>	<b>Description of the relationship</b>	<b>Substantiated statement</b>

### **OTHER EXTERNAL DIRECTORS**

Identify the other external directors and list the reasons why they cannot be considered proprietary or independent and the links they maintain with the company, its senior officers or its shareholders:

Name or company name of director	Reasons	Related company, officer or shareholder

Total number of external directors	
% of total board members	

List any changes in director classification during the reporting period:

Name or Organization name of director	Date of change	Previous category	Current category

**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			
	2015	2014	2013	2012	2015	2014	2013	2012
<b>Executive</b>	0	0	NA	NA	0	0	NA	NA
<b>Proprietary</b>	0	0	NA	NA	0	0	NA	NA
<b>Independent</b>	0	0	NA	NA	0	0	NA	NA
<b>Other external</b>	0	0	NA	NA	0	0	NA	NA
<b>Total:</b>	0	0	NA	NA	0	0	NA	NA

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

Article 34.4 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.

In addition, in 2015, Lar España drew up a director selection and appointment policy (which was approved by the Board of Directors on January 20, 2016). It is designed to foster boardroom diversity in terms of knowledge and skills, experience and gender. The policy pursues the target of having at least 30% of all Board members be female by 2020.

**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:**

Lar España drew up a director selection and appointment policy (which was approved by the Appointments and Remuneration Committee and the Board of Directors on January 20, 2016). This policy is designed to foster boardroom diversity in terms of knowledge and skills, experience and gender. The policy pursues the target of having at least 30% of all Board members be female by 2020.

The Appointments and Remuneration Committee will verify compliance with this policy annually and report on its findings in the Annual Corporate Governance Report. Moreover, it will strive to make sure the candidates put forward are sufficiently honourable, suitable, solvent, competent, experienced, qualified, trained, available and committed to their duties, that the candidate selection process results in adequate balance in the boardroom as a whole, enriches the decision-making process and helps prevent conflicts of interest such that the common interest always prevails over individual interests.

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

Despite the fact that Lar España was incorporated recently, the Company is already working on achieving the target stipulated in its director selection policy in relation to having 30% of its members be female, albeit without neglecting other policy stipulations with regard to required solvency, competence, experience, qualifications, training, availability and job commitment on the part of its candidates.

**C.1.6.bis Explain the results of the nomination committee's annual check on compliance with the director selection policy. In particular, describe how the policy pursues the goal of having at least 30% of total board places occupied by women directors before the year 2020:**

Due to the fact that the director selection policy was drawn up in 2015 and approved by the Appointments and Remuneration Committee and the Board of Directors on January 20, 2016, it is too soon to carry out the first annual check.

**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.

In addition, article 8.4 of the Regulations stipulates that the Board must prevent discrimination among shareholders in terms of boardroom access via proprietary directorships.



**C.1.8 Explain any reasons why proprietary directors have been appointed at the urging of shareholders controlling less than 3% of capital:**

Name or company name of shareholder	Reasons
Grupo Lar Inversiones Inmobiliarias, S.A.	<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 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>

**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 of director	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	Do they have executive duties?
D. Miguel Pereda Espeso	LE LOGISTIC ALOVERA I Y II, S.A.U.	Director and Chairman of the Board	
D. Miguel Pereda Espeso	LE RETAIL ALISAL, S.A.U.	Director and Chairman of the Board	
D. Miguel Pereda Espeso	LE RETAIL HIPER ALBACENTER, S.A.U.	Director and Chairman of the Board	
D. Miguel Pereda Espeso	LE OFFICES EGEO, S.A.U.	Director and Chairman of the Board	
D. Miguel Pereda Espeso	LE OFFICES ELOY GONZALO 27, S.A.U.	Director and Chairman of the Board	
D. Miguel Pereda Espeso	LE RETAIL AS TERMAS, S.L.U.	Director and Chairman of the Board	
D. Miguel Pereda Espeso	LE LOGISTIC ALOVERA III Y IV, S.L.U.	Director and Chairman of the Board	
D. Miguel Pereda Espeso	LE LOGISTIC ALMUSSAFES, S.L.U.	Director and Chairman of the Board	
D. Miguel Pereda Espeso	LE RETAIL HIPER ONDARA, S.L.U.	Director and Chairman of the Board	
D. Miguel Pereda Espeso	LE OFFICES JOAN MIRÓ 21, S.L.U.	Director and Chairman of the Board	
D. Miguel Pereda Espeso	LE RETAIL SAGUNTO, S.L.U.	Director and Chairman of the Board	

D. Miguel Pereda Espeso	LE RETAIL MEGAPARK, S.L.U.	Director and Chairman of the Board	
D. Miguel Pereda Espeso	LE RETAIL EL ROSAL, S.L.U.	Director and Chairman of the Board	
D. Miguel Pereda Espeso	LE RETAIL GALARIA, S.L.U.	Director and Chairman of the Board	
D. Miguel Pereda Espeso	LAR ESPAÑA INVERSIÓN LOGÍSTICA IV, S.L.U.	Director (acting joint and severally)	
D. Miguel Pereda Espeso	LAR ESPAÑA PARQUE DE MEDIANAS III, S.L.U.	Director (acting joint and severally)	
D. Miguel Pereda Espeso	LAR ESPAÑA SHOPPING CENTRES VIII, S.L.U.	Director (acting joint and severally)	
D. Miguel Pereda Espeso	LAR ESPAÑA OFFICES VI, S.L.U.	Director (acting joint and severally)	
D. Miguel Pereda Espeso	LE OFFICES ARTURO SORIA, S.L.U.	Director and Chairman of the Board	
D. Miguel Pereda Espeso	LE RETAIL VILLAVERDE, S.L.U.	Director and Chairman of the Board	
D. Roger Cooke	PUERTA MARÍTIMA ONDARA, S.L.	Director and Chairman of the Board	
D. Roger Cooke	INMOBILIARIA JUAN BRAVO 3, S.L.	Director and Chairman of the Board	
D. Roger Cooke	LAVERNIA INVESTMENTS, S.L.	Director and Chairman of the Board	

**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
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

**C.1.14 Paragraph repealed**

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

<b>Board remuneration (thousands of euros)</b>	354
<b>Amount accrued by serving directors in respect of pension entitlements (thousands of euros)</b>	0
<b>Amount accrued by former directors in respect of pension entitlements (thousands of euros)</b>	0

**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:**

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

  

<b>Total senior management remuneration (in thousands of euros)</b>	355
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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:**

<b>Name or company name of director</b>	<b>Company name of significant shareholder</b>	<b>Position</b>

**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:**

<b>Name or company name of related director:</b>	<b>Name or company name of related significant shareholder:</b>	<b>Description of relationship:</b>

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

Yes ☒ No ☐

### **Description of the amendments**

To incorporate into the Board Regulations the amendments to the Articles of Association approved at the Annual General Meeting held on April 28, 2015 in order to guarantee the overall consistency of the Company's body of internal rules:

- a. To adapt the regulations to reflect the latest developments in corporate law and, more specifically, Law 31/2014 (of December 3, 2014) amending the Corporate Enterprises Act in order to strengthen corporate governance ("Law 31/2014").
- b. To adapt the regulations to reflect the new recommendations in the Good Governance Code of Listed Companies (the "Corporate Governance Code") approved by Spain's securities market regulator, the "CNMV" for its acronym in Spanish, on February 18, 2015.
- c. To incorporate into the Board Regulations the amendments made to the Articles of Association approved at the Annual General Meeting held on April 28, 2015 in order to guarantee the overall consistency of the Company's body of internal rules; and
- d. To review the Regulations in order to simplify their content, fix certain errors and make certain technical improvements.

The amendments made to the Board Regulations were affected the following sections:

- a. Amendments to Title II of the Board Regulations (Board Functions)
- b. Amendments to Title IV of the Board Regulations (Board Structure)
- c. Amendments to Title V of the Board Regulations (Board Organization)
- d. Amendments to Title VIII of the Board Regulations (Remuneration of the members of the Board of Directors)
- e. Amendments to Title IX of the Board Regulations (Director Duties)
- f. Elimination of the Sole Transitional Provision

### **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.**

In 2015, Lar España drew up a policy for selecting, appointing, re-electing, evaluating and removing directors, which was approved by the Appointments and Remuneration Committee and the Board of Directors, on January 20, 2016. The purpose of this policy is to pursue the following objectives:

- a. Provision of tangible and verifiable guidance.
- b. Assurance that resolutions to appoint or re-elect directors are underpinned by prior analysis of the Board's needs.
- c. Due fostering of diversity in terms of skills, backgrounds and gender.
- d. A concerted effort to ensure that by 2020 at least 30% of all members of the Board of Directors are female.

#### **1. Director aptitudes**

*(i) Be persons of good repute and professional standing*

A candidate shall be understood to lack these attributes when:

- i. They have been declared bankrupt or are party to an insolvency agreement, whether in Spain or abroad, without have been discharged or the terms of the agreement fully complied with;
- ii. They are being prosecuted or, in the case of the proceedings referred to in titles II and III of book IV of Spain's Criminal Prosecution Act, have been indicted;
- iii. They have a criminal record for any of the following crimes: fraud, tax evasion, criminal bankruptcy, disloyal custody of documents, theft of trade secrets, money laundering, embezzlement of public funds, the discovery and disclosure of trade secrets, property-related crime; or
- iv. They have been banned or suspended, under criminal or administrative law, from holding public office or from administering or managing financial institutions.

In the case of legal-person directors, the above requirements must be met by both the natural person representing the latter and the legal-person director itself.

*(ii) Have adequate expertise and experience to carry out their duties*

The Board of Directors of Lar España must comprise professionals with adequate expertise and experience. However, it is not necessary for all directors to possess the same level of expertise and experience so long as the Board of Directors as a whole has the right combination of both.

*(iii) Be in a position to govern the Organization well*

The directors must be in a position to discharge their duties and comply with their legally-imposed and bylaw-stipulated duties with due diligence, bearing in mind the nature of the position and the duties associated with each. To this end:

- i. Directors must devote sufficient time to the company and adopt appropriate measures for ensuring the company's correct management and control.
- ii. In carrying out their duties, the directors are duty-bound to demand and are entitled to get from the company the level of information they need to correctly fulfil their obligations.
- iii. Directors must devote sufficient time to becoming informed, to familiarizing themselves with the company's paradigm and business performance and to participating in the meetings of the Board of Directors and any of the committees on which they sit.
- iv. The directors must inform the other members of the Board of Directors of any direct or indirect conflicts they or their related parties may have vis-à-vis the company's interests.

## **2. Selection and appointment procedure**

The Appointments and Remuneration Committee will analyze the Board of Director's needs to which end:

- i. It will evaluate the universe of skills, knowledge and experience needed on the Board of Directors.
- ii. It will establish a targeted level of representation for the gender in minority on the Board of Directors and will establish guidelines for how to achieve this target.

Having verified the documentation received by the candidates, the Appointments and Remuneration Committee will issue its explanatory report and follow the procedure described next:

- i. In the event that the Appointments and Remuneration Committee believes that the candidate presents the required aptitudes, it will submit a proposal for his/her appointment/re-election accompanied by a copy of the information received to the Board of Directors.
- ii. If the Appointments and Remuneration Committee: (a) has reasonable doubts about whether the proposed candidate meets all of the requirements envisaged in this policy or in applicable legislation; (b) feels that the appointment of the proposed candidate could imply substantial impairment of the expertise and experience of the members of the Board of Directors appraised as a whole; or (c) believes that the proposed candidate does not meet one or more of the requirements established in this policy or applicable legislation for qualification as apt for the post, it shall send the Board of Directors a report substantiating the circumstances which in its opinion cast doubt over the candidate's suitability or give rise to its negative assessment, accompanied by a copy of the information received.

The Board of Directors then has 30 working days to analyze the director appointment proposals made by the Appointments and Remuneration Committee after which it must submit the corresponding resolutions to the shareholders for approval in general meeting.

In the event of a new director's appointment by means of co-option, the procedure to be followed is the one described in the previous sections. The appointment will have to be ratified subsequently at the Annual General Meeting, which motion must similarly be accompanied by an explanatory report issued by the Appointments and Remuneration Committee when the General Meeting is called.

### **3. Ongoing assessment**

Whenever the Appointments and Remuneration Committee is notified of circumstances which adversely affect a director's suitability assessment or it learns of their existence as part of an annual review, it will decide whether or not it is necessary to temporarily or permanently suspend the affected party.

#### **C.1.20 Explain the extent to which the annual review of the board's performance has led to important changes in terms of its internal organization and the procedures applicable to its activities:**

In 2015, Lar España defined a procedure for evaluating the Board of Directors, its members and its committees, which was approved by both the Appointments and Remuneration Committee and the Board of Directors on January 20, 2016.

Lar España is currently performing the corresponding evaluation for 2015, with the assistance of Ernst & Young, S.L. Following completion of this process, Ernst & Young will issue a final report outlining the main conclusions drawn from the evaluation exercise.

Once in possession of the results of the self-evaluation process, the Board members will meet to debate and analyse the results of the evaluation exercise. The Board of Directors will then define an action plan with measures specifically designed to address any shortcomings detected. Preparation and execution of this action plan will enable Lar España to further develop and fine-tune its Corporate Governance model.

As part of its transparency pledge, the Board of Directors will disclose the main conclusions drawn from the evaluation process and the action plans put in place by the company as a result.

**C.1.20. bis Describe the evaluation process and the areas evaluated by the board, with the assistance of an external facilitator as the case may be, with respect to the diversity of its membership and competences, the performance and membership of its committees, the performance of the chairman of the board of directors and the company's chief executive and the performance and contribution of each individual director.**

The Chairman of the Board of Directors has been tasked with spearheading the process of evaluating the board, its members and its committees; however, in order to guarantee the objectivity and confidentiality of the individual responses provided by the various directors, the process has been carried out by an external consultant. This process has evaluated specific aspects on the following areas:

- The quality and efficiency of the work performed by the Board of Directors of Lar España.
- Diversity in the backgrounds and skills represented on the Board of Directors of Lar España.
- The performance of the Chairman of the Board of Directors of Lar España.
- The performance and contribution of each director, paying special attention to the persons responsible for the Board's various committees.
- The operations and composition of the Board committees.

The detail of the process carried out is outlined below:

**Phase 1: Evaluation questionnaires**

- The external consultant has sent the evaluation questionnaires approved by the Board, to both directors and the board secretary, as it corresponds in each case.
- The directors and the board secretary have had 15 calendar days to fill the questionnaires in (starting from the day on which they were sent).
- The external consultant took charge of resolving any questions the directors and/or secretary of the board had in the course of filling out their questionnaires.

**Phase 2: Interviews**

- The external consultant or facilitator has interviewed each of the directors with the goal of ensuring that the performance criteria employed were homogeneous, gathering the evidence needed to back this up.
- The external consultant also interviewed the Board secretary in order to gather enough evidence to substantiate the answers provided in his questionnaire and to evaluate in greater detail any aspect deemed significant.

**Phase 3: Conclusions report**

- A final report will be elaborated by the external consultant, which will contain the consolidated data by section and a summary of the most important conclusions drawn from the evaluation exercise.



#### **Phase 4: Action plan**

- Once in possession of the results of the self-evaluation process, the Board members will meet to debate and analyse the results of the evaluation exercise.
- The Board of Directors will then define an action plan with measures specifically designed to address any shortcomings detected. Preparation and execution of this action plan will enable Lar España to further develop and fine-tune its Corporate Governance model.

#### **Phase 5: Report**

- As part of its transparency pledge, the Board of Directors will disclose the main conclusions drawn from the evaluation process and the action plans put in place by the company as a result.

#### **C.1.20.ter Give a breakdown, as the case may be, of the business dealings that the facilitator or any company in its corporate group maintains with the company or any company in its corporate group.**

In 2015, Ernst & Young, S.L. assisted Lar España with the following activities:

- Definition of the Corporate Governance Policy.
- Definition of the Director selection Policy.
- Definition of the Remuneration Policy of the Board of Directors.
- Definition of the procedure for evaluating the Board of Directors, its members and its committees.
- Definition of the senior officer performance evaluation system.
- Definition of the Social Corporate Responsibility Policy.
- Preparation of the Corporate Governance Annual Report.
- Preparation of the Remuneration Annual Report.
- Preparation of the corporate governance training content for the directors of Lar España.
- Preparation of an accounting policy manual.
- Preparation of an anti-money laundering manual.
- Definition of a crime prevention model.
- Review of the financial ratios published in its financial statements in keeping with the recommendations issued by the European Public Real Estate Association (EPRA).
- Valuation of both the assets of (as per the RICS) and the shares held by HRE Investments BV in the Puerta Marítima Ondara Shopping Centre.

#### **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 jeopardizes 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 itemized 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 Paragraph repealed**

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

Yes ☐ No ☒

**Describe the differences, if any:**

**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 ☒

Age limit for chairman

Age limit for CEO

Age limit for directors

**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 ☒

Maximum term of office (years)	
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**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; state whether any limit has been imposed on the matters which can be delegated beyond the limits laid down in legislation. If so, describe such 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	16
Number of board meetings held without the chairman in attendance	0

If the chairman is an executive director, indicate the number of meetings held without the attendance of any executive director in person or by proxy and chaired by the lead independent director.

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

<b>Number of executive committee meetings</b>	NA
<b>Number of audit and control committee meetings</b>	8
<b>Number of nomination and remuneration committee meetings</b>	2
<b>Number of nomination committee meetings</b>	NA
<b>Number of remuneration committee meetings</b>	NA
<b>Number of sustainability committee meetings</b>	NA

**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:**

<b>Fully-attended meetings</b>	12
<b>% attendance over total votes cast in the year</b>	87%

**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:**

<b>Name</b>	<b>Position</b>

**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 states that: The Board of Directors shall endeavour to authorize 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 ☒

**If the secretary is not a director, please fill out the following table:**

<b>Name or company name of the secretary</b>	<b>Representative</b>
Juan Gómez-Acebo	

**C.1.34 Paragraph repealed**

**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.**

Article 14.2 of the Board Regulations stipulates, notwithstanding any other duties that may be vested in it from time to time by the Board of Directors, that the Audit and Control Committee shall have the following basic duties:

- f. Proposing to the Board of Directors, for submission at the Annual General Meeting, the appointment, re-election or replacement of the auditor, in keeping with applicable legislation, and the terms and conditions of its engagement; obtaining from the auditor regular feedback on execution of the audit plan; and ensuring that the auditor acts independently in carrying out its duties.
- h. Establishing the opportune relationship with the auditor in order to receive feedback on any issues that could jeopardize its independence, for the purpose of analysis by the Audit and Control Committee, and on any other matters related to the auditing process, and to channel the other communications provided for in prevailing audit legislation and other audit standards. Regardless, at least once a year, the auditor must provide the Committee with written confirmation of its independence vis-à-vis the Company and its direct and indirect related parties, including disclosures regarding non-audit services of any kind provided to these entities by the auditor or any parties related thereto, as stipulated in prevailing audit legislation.
- i. Issuing annually, prior to issuance of the audit report, a report expressing an opinion on the independence of the auditor. This report and opinion must extend to the provision of the additional services referred to above, considered individually and as a whole, other than the legally-stipulated financial statement audit service, in relation to the independence regime and/or audit regulations.

Moreover, article 14.3.b of the Board Regulations, establishes that 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 Organization 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.

**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

**C.1.37 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
<b>Fees for non-audit work (thousands of euros)</b>	263	263	263
<b>Fees for non-audit work / total amount invoiced by the audit firm (%)</b>	57,4%	57,4%	57,4%

**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	2	

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

**C.1.40 Indicate whether there are procedures in place for directors to receive external advice:**

Yes ☒ No ☐

**Details of the procedure:**

Article 26 of the Board Regulations stipulates:

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.

Any such engagement must necessarily relate to specific problems of a certain scale and complexity arising in the performance of their duties.

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:

- 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 authorized 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 summarized 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 itemized 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.

Yes ☐ No ☐

Decision/action taken	Substantiated explanation

**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	

**Describe the organisational and operational rules governing and the responsibilities attributed the committee, and summarize its main actions during the year.**

#### **Duties**

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.

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

#### **Operation**

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 Organization 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.

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.

#### **Activities**

Lar España did not avail of this power to set up an Executive Committee in 2015.

**Indicate whether the composition of the executive or steering committee reflects the representation on the board of the different classes of directors:**

Yes ☐ No ☐

**If not, describe the composition of the executive or steering committee**

### **AUDIT AND CONTROL COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Class of director</b>
José Luis del Valle	Chairman	Independent
Pedro Luis Uriarte	Member	Independent
Miguel Pereda	Member	Proprietary
Juan Gómez-Acebo	Secretary	Non director

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

**Describe the organisational and operational rules governing and the responsibilities attributed the committee, and summarize its main actions during the year.**

#### **Duties**

As outlined in article 42.2 of Lar España's Articles of Association and article 14.2 of its Board Regulations, and notwithstanding any other duties vested in it by law or entrusted to it by the Board of Directors, the Audit and Control Committee shall have, at least, the following responsibilities: a) supervising calculation of the fees received by the Management Company in the course of performing its duties; b) reporting at the General Meeting on those matters raised by shareholders concerning the areas falling under its remit; c) supervising effectiveness of the internal controls of the Company and its group and of its enterprise risk management systems; d) analysing, in conjunction with the external auditor, any material internal control system weaknesses uncovered during the audit process; e) monitoring the process of drawing up and disclosing regulated financial information; f) 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; g) supervising the work of the Company's internal audit service; h) establishing the opportune relationship with the auditor in order to receive feedback on any issues that could jeopardise its independence and on any other matters related to the auditing process. Regardless, at least once a year, the auditor must provide the Committee with written confirmation of its independence vis-à-vis the company and its direct and indirect related parties, including disclosures regarding non-audit services of any kind provided to these entities by the auditor or any parties related thereto, as stipulated in prevailing audit legislation; i) 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; j) naming and supervising the external asset appraisers commissioned to value the Company's assets; and k) reporting, before resolutions have to be taken, to the Board of Directors on all matters contemplated in prevailing law, the Articles of Association and the Board Regulations, particularly with respect to: (i) the financial information the Company must disclose periodically; (ii) the creation or acquisition of interests in special purpose vehicles or companies domiciled in tax havens; and (iii) related-party transactions.

#### **Organisation and operation**

The Audit and Control Committee shall comprise at least three and at most five directors appointed by the Board of Directors from amongst its external or non-executive members. The Board shall determine who shall serve as Committee chair, an appointment made with regard to the members' knowledge and experience in accounting, auditing and risk management matters; a majority of committee places shall be held by independent directors. The Chairman of the

Committee must be replaced every three years, although he or she may be reappointed one year after stepping down from the post. The Secretary of the Board shall also serve as the Secretary of the Audit and Control Committee.

The Audit and Control Committee shall meet ordinarily on a quarterly basis and, at any rate, whenever deemed necessary to ensure due performance of 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. Resolutions shall be ratified by means of the majority of votes of attending members, present or duly represented.

The Committee may oblige any member of the Company's management team or staff to attend its meetings and to collaborate with it and provide with any information requested. The Committee may also require the auditor to attend its meetings.

### **Activities**

The Audit and Control Committee has issued a report summarising its activities in 2015 and this report has been presented to the Board by its Chairman. This report will be uploaded onto the Company's website sufficiently in advance of the Annual General Meeting.

In 2015, the Committee met on eight occasions and performed the following tasks: a) it reviewed the quarterly and half-yearly financial information; b) it reviewed the annual financial statements for the year ended 31 December 2014; c) it supervised the work of the external auditor; d) it carried out a number of internal duties such as appointment of the internal auditor, promotion of the Company's corporate governance strategy, review of compliance with legal requirements, verification that the consolidation perimeter had been properly demarcated and the accounting principles properly applied, supervision of calculation of the fees received by Grupo Lar Inversiones Inmobiliarias, S.A. in its capacity as management company, update of the business plan, etc.; e) it confirmed the Company's asset appraisers and approved their appraisals; f) it checked compliance with corporate governance regulations; g) it supervised and approved a related-party transaction with the Management Company (the vote was taken in the absence of the conflicted proprietary director); and g) it reviewed and controlled trading in the Company's own shares.

**Identify the member of the audit committee who has been appointed with regard to his or her knowledge and experience in accounting and/or auditing and state how many years the chair of this committee has held this post.**

Name of the director with specialist expertise	José Luis del Valle
No. of years the committee chair has held the post	2

## **APPOINTMENTS AND REMUNERATION COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Class of director</b>
Roger Cooke	Chairman	Independent
Alec Emmott	Member	Independent
Miguel Pereda	Member	Proprietary
Juan Gómez-Acebo	Secretary	Non director

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

**Describe the organisational and operational rules governing and the responsibilities attributed the committee, and summarize its main actions during the year.**

### **Duties**

Pursuant to article 43.2 of the Articles of Association and article 15.4 of the Board Regulations, and notwithstanding any other duties vested in it by law or assigned to it by the Board of Directors, the Appointments and Remuneration Committee shall have, at least, the following basic duties: a) evaluating the universe of skills, knowledge and experience needed on the Board of Directors. To this end, it shall define the duties and aptitudes required of the candidates to fill each vacancy and assess the time and dedication needed so that they can duly perform their remit; b) establishing a targeted level of representation for the gender in minority on the Board of Directors and establishing guidelines for how to achieve this target; c) raising to the Board of Directors: (i) proposals for the appointment of independent directors for designation by means of co-option or for submission to the shareholders in general meeting; and (ii) proposals for the re-election or removal of such directors for submission to the shareholders in general meeting; d) reporting on: (i) proposals for the appointment of all other classes of directors for designation by means of co-option or for submission to the shareholders in general meeting; and (ii) proposals for their re-election or removal for submission to the shareholders in general meeting; e) reporting on proposals to appoint or remove senior officers and the basic terms and conditions of their contracts; f) analysing and organising the succession of the chairman of the Board of Directors and the Company's chief executive officer and making recommendations, as warranted, to the Board of Directors so that succession planning is executed in a planned and orderly manner; and g) making proposals to the Board of Directors with respect to remuneration policy applicable to the Company's directors and its senior officers or those who carry out senior management duties and report directly to the Board or its executive or delegated committees and the individual remuneration and other contractual terms of any executive directors, overseeing observance with such policies.

### **Organisation and operation**

The Board Regulations stipulate the Committee's remit and its rules of organisation and operation. The Appointments and Remuneration Committee shall comprise at least three and at most five directors appointed by the Board from amongst its external members, at the proposal of the Chairman of the Board.

The Board shall appoint a Committee chair from among the independent directors comprising the Committee. The Secretary of the Board shall also serve as the Secretary of the Appointments and Remuneration Committee.

The directors sitting on the Committee, who must be mostly independent and possess the right balance of knowledge, skills and experience for the functions they are called on to discharge,

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

The Appointments and Remuneration Committee shall meet, ordinarily, at least once a year. Similarly, the Committee shall meet when called on to do so by any of 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 Appointments and Remuneration 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 event of a draw, the Committee Chairman shall have the casting vote. Committee meetings shall be minuted and a copy sent to all Board members.

The Committee shall consult with the Chairman, especially on matters relating to executive directors and senior officers. In addition, in order to do its job better, the Appointments and Remuneration Committee may also seek external expert counsel when it considers so doing necessary to the correct fulfilment of its duties.

### **Activities**

The Appointments and Remuneration Committee met twice in 2015 and performed the following activities:

- With respect to director remuneration policy, the Committee analysed the main aspects of the performance-based aspects of the policy and director remuneration in connection with their membership, at the appointment of Lar España, of the boards of certain investees. In the course of carrying out the duties vested in it, the Appointments and Remuneration Committee approved a report on director remuneration policy and proposed the director remuneration policy that was subsequently approved by the Board of Directors and ratified at the 2015 Annual General Meeting.
- In relation to the remuneration of the non-member Secretary of the Board of Directors, the Committee, having analysed the main aspects of his remuneration, agreed the quantitative amount thereof.
- In relation to the addition of an Investor Relations Manager, the Appointments and Remuneration Committee resolved to recommend that the Board create this position and to propose the candidate for the newly-created post (also proposing the terms of his pay). It also recommended to have this person report directly to the Board of Directors hierarchically and to both the Board and the Company's Finance Department functionally.

### **COMMITTEE OF....**

<b>Name</b>	<b>Position</b>	<b>Class of director</b>

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

**Describe the organisational and operational rules governing and the responsibilities attributed the committee, and summarize its main actions during the year.**

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

	<b>Number of female directors</b>			
	<b>2015 Number %</b>	<b>2014 Number %</b>	<b>2013 Number %</b>	<b>2012 Number %</b>
<b>Executive committee</b>	NA	NA	NA	NA
<b>Audit committee</b>	0	0	NA	NA
<b>Nomination and remuneration committee</b>	0	0	NA	NA
<b>Nomination committee</b>	NA	NA	NA	NA
<b>Remuneration committee</b>	NA	NA	NA	NA
<b>Committee of...</b>	NA	NA	NA	NA

**C.2.3 Paragraph repealed**

**C.2.4 Paragraph repealed**

**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 Paragraph repealed**

**D**

## **RELATED PARTY AND INTRA-GROUP TRANSACTIONS**

### **D.1. Explain the 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 regarding any of the following:

- (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 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 is in excess of €30 million;
- (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;
- (vi) any co-investment or joint venture in Residential Property with an investment by the company of above €10 million;
- (vii) any hedging or use of derivatives, including related to debt facilities, interest, or property investments, 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 any company, undertaking or person which is from time to time (1) a subsidiary undertaking of the Investment Manager; (2) a direct or indirect 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), 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 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;
- (xi) the appointment by the Investment Manager of one or more managing agents 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, 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:

- (i) as a matter of law; or
- (ii) in order to respond to a bona fide emergency where time is of the essence.

Where the company's approval is required for a transaction under the terms of this Agreement, the Investment Manager shall 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.

**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:**

Name or company name of significant shareholder	Name or company name of the company or its group company	Nature of the relationship	Nature of the transaction	Amount (thousands of euros)

**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:**

Name or company name of the directors and/or officers	Name or company name of the related party	Relationship	Nature of the transaction	Amount (thousands of euros)

**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:**

**Regardless of their materiality, report any intragroup transactions performed with entities domiciled in countries or territories considered tax havens:**

Name of the group company	Brief description of the transaction	Amount (thousands of euros)

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

Grupo Lar Inversiones Inmobiliarias, S.A. – 11,241 thousand euros

Gentalia 2006, S.L. – 906 thousand 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.**

Article 31 of the Board Regulations

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

Definitions:

a. Persons related to natural person directors:

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

b. Persons related to legal person directors:

- i. The shareholders of these legal entities that fulfil any of the circumstances contemplated in article 42 of Spain's Code of Commerce.
- ii. The companies in the same group, as defined in article 42 of Spain's Code of Commerce, and their owners.
- iii. These legal entities' natural person representatives, directors, de facto or by law, liquidators and legal representatives with general power of attorney.

- iv. The persons who are considered related parties of the representative of the legal person director in keeping with the above provisions with respect to natural person directors.

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 in stock markets

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.

#### Code of Conduct

A conflict of interest is understood to arise whenever any of the Bound Parties who must decide, perform or omit an action, in the course of his or her job duties, faces the option of choosing between the interests of the company and his/her own interests or those of a third party, such that choosing those of either of the latter two would benefit a third party, giving rise to a gain that would otherwise not accrue.

In order to prevent these situations, the Bound Parties must act honestly and confidentially, without letting themselves be manipulated or influenced by third parties. They must abstain from voting or issuing an opinion on matters on which they are

conflicted that could harm the Company's interests and must always act independently, exercising freedom of judgment and loyalty to the Company.

Employees, officers and directors who suspect the existence of a conflict of interest should contact 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

**Indicate whether the type of activity they engage in, and any business dealings between them, as well as between the subsidiary and other group companies, have been publicly and accurately defined;**

Yes ☐ No ☐

**Define any business dealings between the parent company and the listed subsidiary, as well as between the listed subsidiary and other group companies:**

**E**

## **SISTEMAS DE CONTROL Y GESTIÓN DEL RIESGO**

### **E.1. Explain the scope of the company's risk management system, including the fiscal risk management system**

Lar España Real State SOCIMI, S.A. and its subsidiaries (hereafter Lar España) enterprise risk management (ERM) system has been implemented at the corporate level and designed to mitigate the risks, including the fiscal ones, 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, Lar España 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 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, including the fiscal risk management function**

The enterprise risk management (ERM) system affects and involves all of the organisation's staff. Due to the specific characteristics of Lar España, certain risk management activities are performed by specialist service providers who assist with significant processes such as:

- Investment and asset management, performed primarily by Grupo Lar
- Preparation of the company's financial, accounting and tax information
- Half-yearly asset appraisals

However, Lar España follows detailed processes for supervising the third parties responsible for these outsourced services to ensure that these suppliers perform the activities contemplated in the ERM model.

The main participants in the ERM model are:

### **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 gradually 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. Once the priority risk factors have been identified, the 'risk files' are allocated to the parties responsible for their management and control.

### **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. This Policy includes the various classes of risk to which the organisation is exposed (strategic, operational, compliance and financial), including fiscal risks (paying close attention to oversight of the requirements associated with the REIT regime). Lastly, the Audit and Control Committee 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.**

Lar España 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 has an updated 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 annual risk mapping exercise; in 2015 it began to manage and monitor these risks, a process that will be ongoing in the years to come:

- Management of REIT regime related requirements
- Investment planning
- Accounting and financial reporting
- Investment project monitoring
- Real estate asset sale-purchases
- Dependence on the Investment/Asset Manager
- Financing (including financial planning)
- Investor and media relations
- Board organisation
- Impact of socio-political changes

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 Lar España and its group.

**E.4. State whether the company has a defined risk tolerance threshold, including with respect to fiscal risk**

The risk map is the tool used by Lar España to identify and assess its risks. All the risks, including those of a fiscal nature, 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, including fiscal risks, which materialised during the reporting period.**

To the best of the organization's knowledge, no significant risks materialised in 2015 of any kind, including tax-related.

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

The specific characteristics of Lar España, coupled with those of the business sector in which it operates, make it of crucial importance to correctly monitor and update the various risks to which the organisation is exposed, including fiscal risks.

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., and may imply 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 deemed appropriate to the activity performed and the targets established.

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.



**F**

**INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)**

**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 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”.*
- *“Verifying, at least annually, the comprehensiveness and suitability of ICFR documentation and performance”.*
- *“Reporting on developments in terms of ICFR documentation to the Audit and Control Committee and to the Internal Audit Service so they are familiar with and can appraise such developments”.*

### **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”.*

### **Processes owners involved in the financial reporting process**

The duties of the parties, both internal and external, responsible for the various processes related to the generation of financial information must perform specific activities, as dictated by Corporate Management guidelines, with a view to:

- *“Defining, documenting, and updating the internal processes and procedures”.*
- *“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.”*

Lar España has outsourced the performance of certain material activities to specialist third parties (including investment and asset management, preparation of its financial, accounting and tax information and periodic appraisal of its assets). In respect of the ICFR function, Corporate Management ensures that these service providers perform the controls that, despite being executed by the latter, have been identified as key controls for the ICFR system. As part of this model, supervision of the Internal Audit Service is tasked to the Audit and Control Committee.

#### **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.

The Corporate Director can call on the resources, whether internal or external, he or she needs to manage the Company for assistance and advice. Against this backdrop, Lar España has entered into a Management Agreement with Grupo Lar under which the Manager undertakes to devote the staff and resources needed to fulfil its functions, including its financial reporting related duties.

Lar España's ICFR Manual provides that whenever the services provided by a “service organisation” are part of the Company's IT system, they must be encompassed by the ICFR evaluation process either by means of specific and direct assessment of the controls applied by the service organisation or by obtaining an internationally recognised SSAE certificate (Statement on Standards for Attestation Engagements No. 16, Reporting on Controls at a Service Organization) or by carrying out alternative procedures.

- **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. This Code's scope of application extends to the members of the management team of Grupo Lar, in its capacity as Lar España's management company.

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 economic, financial and patrimonial, 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 14.3.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 other professionals bound by the Code of Conduct and may be used by the Company's internal or external stakeholders.

Lar España has the following channels for lodging complaints/claims:

- Corporate website: <http://larespana.com>
- Dedicated e-mail inbox: [canaldenuncia@larespana.com](mailto:canaldenuncia@larespana.com)
- A confidential explanatory letter.

All of these channels for presenting complaints are available 24/7 in order to ensure optimal effectiveness and round-the-clock availability for Lar España's employees and stakeholders.

In order to ensure effective management of the Whistle-blowing Channel, Lar España has set up an Ethics Committee whose main duties are the following:

- Receipt and classification of the complaints received

- Coordination of the investigative effort required to follow up on each complaint
- Imposition of the corresponding disciplinary measures
- Preparation of periodic reports on the channel's activities and workings

The Ethics Committee is made up of the person who heads up the company's internal audit function, the Secretary of the Board of Directors of Lar España and the Chairman of the Audit and Control Committee of Lar España.

The Code of Conduct and the Operating Rules Governing the Whistle-blowing Channel are available on Lar España's corporate website. These documents outline the procedures to be followed in handling any incidents reported.

- **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. Corporate Management directly checks with the accounting expert engaged to prepare the organisation's financial and accounting information that the teams assigned to these activities have the required ICFR-related skills and knowledge.

The Corporate Director, who is responsible for ICFR, boasts an extensive background in accounting and financial reporting acquired during his years in auditing and financial management work. He is in frequent contact with the financial statement auditor and the firm tasked with the accounting function during the year, addressing any issues that may arise and receiving updates from them on any developments with an impact on ICFR.

Lar España has a relatively small staff which is, however, bolstered by the assistance provided by external advisers in certain areas, specifically, as indicated above, the activities related to the financial statement preparation process and the implementation and launch of the Organization'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”.

Lar España has assessed the risk associated with its financial accounts using quantitative and qualitative criteria. Having 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.

Lar España has documented the most significant processes. In 2015, it revised and enhanced the documentation prepared the year before. 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 most significant processes during 2014 and 2015, the idea is to continue to flesh out and fine-tune this information 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, each year, 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 consolidated financial information 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: operational, technological, financial, legal, reputational, environmental and tax-related, insofar as they could affect the quality and reliability of the Company's financial information.

The Company has a Risk Control and Management Policy which:

- Describes and analyses the components and activities of the risk management process per se.

- Defines the organisational approach and the roles and duties needed from an enterprise risk management (ERM) standpoint.
  - Defines the model for monitoring (information and reporting) ERM activities.
  - Outlines the criteria for updating the ERM system.
- **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, including its fiscal risk management controls, 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 article 40.3 of 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 as are 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.

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”*.

The Company's ICFR principles, definitions and management criteria are documented in its ICFR Manual.

Lar España has documented the organisation's General Controls and its most significant processes (including the period-end closing - specifically providing for a specific review of critical judgements, estimates, valuations and projections -; revenue recognition; asset appraisals and property acquisitions). Last year, it also reviewed and updated the documentation detailing some of the processes related with the generation of financial information.

In addition to the ICFR oversight process (tasked to the Audit and Control Committee with the assistance of 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. In 2015, Corporate Management continued the process of gradually implementing the policies and procedures itemised in the ICFR Manual.

**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 to the preparation and publication of its financial information. However, Corporate Management does continually monitor and supervise both the outsourcing agreement and 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 to a third party that is not part of Grupo Lar, 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.

All of the information prepared by independent experts deemed material in respect of the financial statements is reviewed and validated by Lar España's Corporate Management.

As stipulated in article 26 of the Board Regulations, 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.



#### **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, internally and externally, the main accounting policies applied and for resolving any queries about their application.

Lar España has an effective and duly-approved Accounting Policy Manual encompassing, in a structured manner, the accounting rules, policies and criteria being applied in general at all of the organization's 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 is assisted by the Internal Audit Service in overseeing the ICFR system, 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.

The Internal Audit Plan is approved annually by the Audit and Control Committee at the end of each year or in the early months of the following year. This Plan defines a work and process schedule which customarily includes supervision of implementation of the ICFR function. The Internal Audit Service periodically reports to the Audit and Control Committee on progress on executing the Plan and its results.

The gradual rollout of the ICFR system continued in 2015, identifying the most critical accounts and processes and working to document 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, Corporate Management and the Audit and Control Committee reviewed the financial information submitted to the securities market regulator (and its timeliness) quarterly.

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, Lar España is implementing its ICFR system and documenting the most critical processes gradually. It is worth noting in this respect that Corporate Management meets 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, all required 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 and adopting the opportune measures for addressing them, as required.
- Establishing the opportune relationship with the auditor in order to receive feedback on any issues that could jeopardise its independence, for the purpose of analysis by the Audit and Control Committee or for any other purpose related to the auditing process, and to channel the other communications provided for in prevailing audit legislation and other audit standards.

#### **F.6. Other relevant disclosures**

N/A

#### **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 external auditor's report on the ICFR information supplied by Lar España to the market is attached to this document as an appendix.

**G**

**DEGREE OF COMPLIANCE WITH CORPORATE GOVERNANCE  
RECOMMENDATIONS**

**Indicate the degree to which the company is in compliance with the recommendations of the Good Governance Code of Listed Companies. 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.**

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.**

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

**3. During the annual general meeting the chairman of the board should verbally inform shareholders in sufficient detail of the most relevant aspects of the company's corporate governance, supplementing the written information circulated in the annual corporate governance report. In particular:**

- a) Changes taking place since the previous annual general meeting.**
- b) The specific reasons for the company not following a given Good Governance Code recommendation, and any alternative procedures followed in its stead.**

Compliant ☒ Partially compliant ☐ Explain ☐

**4. The company should draw up and implement a policy of communication and contacts with shareholders, institutional investors and proxy advisors that complies in full with market abuse regulations and accords equitable treatment to shareholders in the same position.**

**This policy should be disclosed on the company's website, complete with details of how it has been put into practice and the identities of the relevant interlocutors or those charged with its implementation.**

Compliant ☐ Partially compliant ☒ Explain ☐

Lar España has yet to approve a formal policy of communication and contacts with shareholders, institutional investors and proxy advisors; however, it is working towards approving one in 2016. Although it does not have a formal policy, Lar España does inform its shareholders of all significant developments of concern to the Company.

**5. The board of directors should not make a proposal to the general meeting for the delegation of powers to issue shares or convertible securities without pre-emptive subscription rights for an amount exceeding 20% of capital at the time of such delegation.**

**When a board approves the issuance of shares or convertible securities without pre-emptive subscription rights, the company should immediately post a report on its website explaining the exclusion as envisaged in company legislation.**

Compliant ☒ Partially compliant ☐ Explain ☐

**6. Listed companies drawing up the following reports on a voluntary or compulsory basis should publish them on their website well in advance of the annual general meeting, even if their distribution is not obligatory:**

- a) Report on auditor independence.**
- b) Reviews of the operation of the audit committee and the nomination and remuneration committee.**
- c) Audit committee report on third-party transactions.**
- d) Report on corporate social responsibility policy.**

Compliant ☒ Partially compliant ☐ Explain ☐

**7. The company should broadcast its general meetings live on the corporate website.**

Compliant ☐ Explain ☒

In 2015, Lar España was unable to broadcast its general meetings live for technical reasons. Lar España is working to make this possible in 2016.

**8. The audit committee should strive to ensure that the board of directors can present the company's accounts to the general meeting without limitations or qualifications in the auditor's report. In the exceptional case that qualifications exist, both the chairman of the audit committee and the auditors should give a clear account to shareholders of their scope and content.**

Compliant ☒ Partially compliant ☐ Explain ☐

**9. The company should disclose its conditions and procedures for admitting share ownership, the right to attend general meetings and the exercise or delegation of voting rights, and display them permanently on its website.**

**Such conditions and procedures should encourage shareholders to attend and exercise their rights and be applied in a non-discriminatory manner.**

Compliant ☒ Partially compliant ☐ Explain ☐

**10. When an accredited shareholder exercises the right to supplement the agenda or submit new proposals prior to the general meeting, the company should:**

- a) Immediately circulate the supplementary items and new proposals.**
- b) Disclose the model of attendance card or proxy appointment or remote voting form duly modified so that new agenda items and alternative proposals can be voted on in the same terms as those submitted by the board of directors.**
- c) Put all these items or alternative proposals to the vote applying the same voting rules as for those submitted by the board of directors, with particular regard to presumptions or deductions about the direction of votes.**
- d) After the general meeting, disclose the breakdown of votes on such supplementary items or alternative proposals.**

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

**11. In the event that a company plans to pay for attendance at the general meeting, it should first establish a general, long-term policy in this respect.**

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

**12. The Board of Directors should perform its duties with unity of purpose and independent judgement, according the same treatment to all shareholders in the same position. It should be guided at all times by the company's best interest, understood as the creation of a profitable business that promotes its sustainable success over time, while maximising its economic value.**

**In pursuing the corporate interest, it should not only abide by laws and regulations and conduct itself according to principles of good faith, ethics and respect for commonly accepted customs and good practices, but also strive to reconcile its own interests with the legitimate interests of its employees, suppliers, clients and other stakeholders, as well as with the impact of its activities on the broader community and the natural environment.**

Compliant ☒ Partially compliant ☐ Explain ☐

**13. The board of directors should have an optimal size to promote its efficient functioning and maximise participation. The recommended range is accordingly between five and fifteen members.**

Compliant ☒ Explain ☐

**14. The board of directors should approve a director selection policy that:**

- a) Is concrete and verifiable;**

**b) Ensures that appointment or re-election proposals are based on a prior analysis of the board's needs; and**

**c) Favours a diversity of knowledge, experience and gender.**

**The results of the prior analysis of board needs should be written up in the nomination committee's explanatory report, to be published when the general meeting is convened that will ratify the appointment and re-election of each director.**

**The director selection policy should pursue the goal of having at least 30% of total board places occupied by women directors before the year 2020.**

**The nomination committee should run an annual check on compliance with the director selection policy and set out its findings in the annual corporate governance report.**

Compliant ☒ Partially compliant ☐ Explain ☐

**15. Proprietary and independent directors should constitute an ample majority on the board of directors, 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.**

Compliant ☒ Partially compliant ☐ Explain ☐

**16. The percentage of proprietary directors out of all non-executive directors should be no greater than the proportion between the ownership stake of the shareholders they represent and the remainder of the company's capital.**

**This criterion can be relaxed:**

**a) In large cap companies where few or no equity stakes attain the legal threshold for significant shareholdings.**

**b) In companies with a plurality of shareholders represented on the board but not otherwise related.**

Compliant ☐ Explain ☒

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:

(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

(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.

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 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.

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.

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.

**17. Independent directors should be at least half of all board members. However, when the company does not have a large market capitalisation, or when a large cap company has shareholders individually or concertedly controlling over 30 percent of capital, independent directors should occupy, at least, a third of board places.**

Compliant X Explain ☐

**18. Companies should post the following director particulars on their websites, and keep them permanently updated:**

- a) **Background and professional experience.**
- b) **Directorships held in other companies, listed or otherwise, and other paid activities they engage in, of whatever nature.**
- c) **Statement of the director class to which they belong, in the case of proprietary directors indicating the shareholder they represent or have links with.**
- d) **Dates of their first appointment as a board member and subsequent re-elections.**
- e) **Shares held in the company, and any options on the same.**

Compliant X Partially compliant ☐ Explain ☐

**19. Following verification by the nomination committee, the annual corporate governance report should disclose the reasons for the appointment of proprietary directors at the urging of shareholders controlling less than 3 percent 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.**

Compliant X Partially compliant ☐ Explain ☐ Not applicable

**20. 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.**

Compliant X Partially compliant ☐ Explain Not applicable



**21. 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 they find just cause, based on a proposal from the nomination committee. In particular, just cause will be presumed when directors take up new posts or responsibilities that prevent them allocating sufficient time to the work of a board member, or are in breach of their fiduciary duties or come under one of the disqualifying grounds for classification as independent enumerated in applicable legislation.**

**The removal of independent directors may also be proposed when a takeover bid, merger or similar corporate transaction alters the company's capital structure, provided the changes in board membership ensue from the proportionality criterion set out in recommendation 16.**

Compliant X Explain ☐

**22. Companies should establish rules obliging directors to disclose any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, and, in particular, to inform the board 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 offences stated in company legislation, the board of directors should open an investigation and, in light of the particular circumstances, decide whether or not he or she should be called on to resign. The board should give a reasoned account of all such determinations in the annual corporate governance report.**

Compliant X Partially compliant ☐ Explain ☐

**23. Directors should express their clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm 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 also apply to the secretary of the board, even if he or she is not a director**

Compliant X Partially compliant ☐ Explain ☐ Not applicable ☐

**24. 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. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.**

Compliant X Partially compliant ☐ Explain ☐ Not applicable ☐

**25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.**

**The board of directors regulations should lay down the maximum number of company boards on which directors can serve.**

Compliant **X** Partially compliant ☐ Explain ☐

**26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.**

Compliant **X** Partially compliant ☐ Explain ☐

**27. Director absences should be kept to a strict minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.**

Compliant **X** Partially compliant ☐ Explain ☐

**28. 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, they should be recorded in the minute book if the person expressing them so requests.**

Compliant **X** Partially compliant ☐ Explain ☐ Not applicable ☐

**29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.**

Compliant **X** Partially compliant ☐ Explain ☐

**30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.**

Compliant **X** Partially compliant ☐ Explain ☐

**31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.**

**For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances,**

**their inclusion will require the express prior consent, duly minuted, of the majority of directors present.**

Compliant **X** Partially compliant ☐ Explain ☐

**32. Directors should be regularly informed of movements in share ownership and of the views of major shareholders, investors and rating agencies on the company and its group.**

Compliant **X** Partially compliant ☐ Explain ☐

**33. The chairman, as the person charged with the efficient functioning of the board of directors, in addition to the functions assigned by law and the company's bylaws, should prepare and submit to the board a schedule of meeting dates and agendas; organise and coordinate regular evaluations of the board and, where appropriate, the company's chief executive officer; exercise leadership of the board and be accountable for its proper functioning; ensure that sufficient time is given to the discussion of strategic issues, and approve and review refresher courses for each director, when circumstances so advise.**

Compliant **X** Partially compliant ☐ Explain ☐

**34. When a lead independent director has been appointed, the bylaws or board of directors regulations should grant him or her the following powers over and above those conferred by law: chair the board of directors in the absence of the chairman or vice chairmen; give voice to the concerns of non-executive directors; maintain contacts with investors and shareholders to hear their views and develop a balanced understanding of their concerns, especially those to do with the company's corporate governance; and coordinate the chairman's succession plan.**

Compliant **X** Partially compliant ☐ Explain ☐ Not applicable ☐

**35. The board secretary should strive to ensure that the board's actions and decisions are informed by the governance recommendations of the Good Governance Code of relevance to the company.**

Compliant **X** Explain ☐

**36. The board in full should conduct an annual evaluation, adopting, where necessary, an action plan to correct weakness detected in:**

- a) The quality and efficiency of the board's operation;**
- b) The performance and membership of its committees.**
- c) The diversity of board membership and competences.**

**d) The performance of the chairman of the board of directors and the company's chief executive.**

**e) The performance and contribution of individual directors, with particular attention to the chairmen of board committees.**

**The evaluation of board committees should start from the reports they send the board of directors, while that of the board itself should start from the report of the nomination committee.**

**Every three years, the board of directors should engage an external facilitator to aid in the evaluation process. This facilitator's independence should be verified by the nomination committee.**

**Any business dealings that the facilitator or members of its corporate group maintain with the company or members of its corporate group should be detailed in the annual corporate governance report.**

**The process followed and areas evaluated should be detailed in the annual corporate governance report.**

Compliant ☒ Partially compliant ☐ Explain ☐

**37. When an executive committee exists, its membership mix by director class should resemble that of the board. The secretary of the board should also act as secretary to the executive committee.**

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 ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

**39. All members of the audit committee, particularly its chairman, should be appointed with regard to their knowledge and experience in accounting, auditing and risk management matters. A majority of committee places should be held by independent directors.**

Compliant ☒ Partially compliant ☐ Explain ☐

**40. Listed companies should have a unit in charge of the internal audit function, under the supervision of the audit committee, to monitor the effectiveness of reporting and control systems. This unit should report functionally to the board's non-executive chairman or the chairman of the audit committee.**

Compliant ☒ Partially compliant ☐ Explain ☐

**41. The head of the unit handling the internal audit function should present an annual work programme to the audit committee, inform it directly of any incidents arising during its implementation and submit an activities report at the end of each year.**

Compliant ☒ Partially compliant ☐ Explain ☐ Not applicable ☐

**42. The audit committee should have the following functions over and above those legally assigned.**

**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) Monitor the independence of the unit handling the internal audit function; propose the selection, appointment, re-election and removal of the head of the internal audit service; propose the service's budget; approve its priorities and work programmes, ensuring that it focuses primarily on the main risks the company is exposed to; receive regular report-backs on its activities; and verify that senior management are acting on the findings and recommendations of its reports.

c) Establish and supervise a mechanism whereby staff can report, confidentially and, if appropriate and feasible, anonymously, any significant irregularities that they detect in the course of their duties, in particular financial or accounting irregularities.

**2. With respect to the external auditor:**

a) Investigate the issues giving rise to the resignation of the external auditor, should this come about.

b) Ensure that the remuneration of the external auditor does not compromise its quality or independence.

c) Ensure that the company notifies any change of external auditor to the CNMV as a material event, accompanied by a statement of any disagreements arising with the outgoing auditor and the reasons for the same.

d) Ensure that the external auditor has a yearly meeting with the board in full to inform it of the work undertaken and developments in the company's risk and accounting positions.

e) Ensure that the company and the external auditor adhere to current regulations on the provision of non-audit services, limits on the concentration of the auditor's business and other requirements concerning auditor independence.

Compliant ☒ Partially compliant ☐ Explain ☐

**43. 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 ☒ Partially compliant ☐ Explain ☐

**44. The audit committee should be informed of any fundamental changes or corporate transactions the company is planning, so the committee can analyse the operation and report to the board beforehand on its economic conditions and accounting impact and, when applicable, the exchange ratio proposed.**

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable ☒

**45. Risk control and management policy should specify at least:**

- a) The different types of financial and non-financial risk the company is exposed to (including operational, technological, financial, legal, social, environmental, political and reputational risks), 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 identified 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.**

Compliant ☒ Partially compliant ☐ Explain ☐

**46. Companies should establish a risk control and management function in the charge of one of the company's internal department or units and under the direct supervision of the audit committee or some other dedicated board committee. This function should be expressly charged with the following responsibilities:**

- a) Ensure that risk control and management systems are functioning correctly and, specifically, that major risks the company is exposed to are correctly identified, managed and quantified.**
- b) Participate actively in the preparation of risk strategies and in key decisions about their management.**
- c) Ensure that risk control and management systems are mitigating risks effectively in the frame of the policy drawn up by the board of directors.**

Compliant ☒ Partially compliant ☐ Explain ☐

**47. Appointees to the nomination and remuneration committee – or of the nomination committee and remuneration committee, if separately constituted – should have the right balance of knowledge, skills and experience for the functions they are called on to discharge. The majority of their members should be independent directors.**

Compliant ☒ Partially compliant ☐ Explain ☐

**48. Large cap companies should operate separately constituted nomination and remuneration committees.**

Compliant ☐ Explain ☐ Not applicable ☒

**49. The nomination committee should consult with the company's chairman and chief executive, especially on matters relating to executive directors.**

**When there are vacancies on the board, any director may approach the nomination committee to propose candidates that it might consider suitable.**

Compliant ☒ Partially compliant ☐ Explain ☐

**50. The remuneration committee should operate independently and have the following functions in addition to those assigned by law:**

- a) Propose to the board the standard conditions for senior officer contracts.**
- b) Monitor compliance with the remuneration policy set by the company.**
- c) Periodically review the remuneration policy for directors and senior officers, including share-based remuneration systems and their application, and ensure that their individual compensation is proportionate to the amounts paid to other directors and senior officers in the company.**
- d) Ensure that conflicts of interest do not undermine the independence of any external advice the committee engages.**
- e) Verify the information on director and senior officers' pay contained in corporate documents, including the annual directors' remuneration statement.**

Compliant ☒ Partially compliant ☐ Explain ☐

**51. The remuneration committee should consult with the chairman and chief executive, especially on matters relating to executive directors and senior officers.**

Compliant ☒ Partially compliant ☐ Explain ☐

**52. The terms of reference of supervision and control committees should be set out in the board of directors regulations and aligned with those governing legally mandatory board committees as specified in the preceding sets of recommendations. They should include at least the following terms:**

- a) Committees should be formed exclusively by non-executive directors, with a majority of independents.**
- b) They should be chaired by independent directors.**
- c) The board should appoint the members of such committees with regard to the knowledge, skills and experience of its directors and each committee's terms of reference; discuss their proposals and reports; and provide report-backs on their activities and work at the first board plenary following each committee meeting.**

- d) They may engage external advice, when they feel it necessary for the discharge of their functions.**
- e) Meeting proceedings should be minuted and a copy made available to all board members.**

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable **X**

**53. The task of supervising compliance with corporate governance rules, internal codes of conduct and corporate social responsibility policy should be assigned to one board committee or split between several, which could be the audit committee, the nomination committee, the corporate social responsibility committee, where one exists, or a dedicated committee established ad hoc by the board under its powers of self-organisation, with at the least the following functions:**

- a) Monitor compliance with the company's internal codes of conduct and corporate governance rules.**
- b) Oversee the communication and relations strategy with shareholders and investors, including small and medium-sized shareholders.**
- c) Periodically evaluate the effectiveness of the company's corporate governance system, to confirm that it is fulfilling its mission to promote the corporate interest and catering, as appropriate, to the legitimate interests of remaining stakeholders.**
- d) Review the company's corporate social responsibility policy, ensuring that it is geared to value creation.**
- e) Monitor corporate social responsibility strategy and practices and assess compliance in their respect.**
- f) Monitor and evaluate the company's interaction with its stakeholder groups.**
- g) Evaluate all aspects of the non-financial risks the company is exposed to, including operational, technological, legal, social, environmental, political and reputational risks.**
- h) Coordinate non-financial and diversity reporting processes in accordance with applicable legislation and international benchmarks.**

Compliant **X** Partially compliant ☐ Explain ☐

**54. The corporate social responsibility policy should state the principles or commitments the company will voluntarily adhere to in its dealings with stakeholder groups, specifying at least:**

- a) The goals of its corporate social responsibility policy and the support instruments to be deployed.**
- b) The corporate strategy with regard to sustainability, the environment and social issues.**
- c) Concrete practices in matters relative to: shareholders, employees, clients, suppliers, social welfare issues, the environment, diversity, fiscal responsibility, respect for human rights and the prevention of illegal conduct.**
- d) The methods or systems for monitoring the results of the practices referred to above, and identifying and managing related risks.**



- e) The mechanisms for supervising non-financial risk, ethics and business conduct.**
- f) Channels for stakeholder communication, participation and dialogue.**
- g) Responsible communication practices that prevent the manipulation of information and protect the company's honour and integrity.**

Compliant ☒ Partially compliant ☐ Explain ☐

**55. The company should report on corporate social responsibility developments in its directors' report or in a separate document, using an internationally accepted methodology.**

Compliant ☒ Partially compliant ☐ Explain ☐

**56. Director remuneration should be sufficient to attract individuals with the desired profile and compensate the commitment, abilities and responsibility that the post demands, but not so high as to compromise the independent judgement of non-executive directors.**

Compliant ☒ Explain ☐

**57. Variable remuneration linked to the company and the director's performance, the award of shares, options or any other right to acquire shares or to be remunerated on the basis of share price movements, and membership of long-term savings schemes such as pension plans should be confined to executive directors.**

**The company may consider the share-based remuneration of non-executive directors provided they retain such shares until the end of their mandate. This condition, however, will not apply to shares that the director must dispose of to defray costs related to their acquisition.**

Compliant ☒ Partially compliant ☐ Explain ☐

**58. In the case of variable awards, remuneration policies should include limits and 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, or circumstances of that kind.**

**In particular, variable remuneration items should meet the following conditions:**

- a) Be subject to predetermined and measurable performance criteria that factor the risk assumed to obtain a given outcome.**
- b) Promote the long-term sustainability of the company and include non-financial criteria that are relevant for the company's long-term value, such as compliance with its internal rules and procedures and its risk control and management policies.**
- c) Be focused on achieving a balance between the delivery of short, medium and long-term objectives, such that performance-related pay rewards ongoing achievement, maintained over sufficient time to appreciate its contribution to long-term value**

**creation. This will ensure that performance measurement is not based solely on one-off, occasional or extraordinary events.**

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable X

**59. A major part of variable remuneration components should be deferred for a long enough period to ensure that predetermined performance criteria have effectively been met.**

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable X

**60. Remuneration linked to company earnings should bear in mind any qualifications stated in the external auditor's report that reduce their amount.**

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable X

**61. A major part of executive directors' variable remuneration should be linked to the award of shares or financial instruments whose value is linked to the share price.**

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable X

**62. Following the award of shares, share options or other rights on shares derived from the remuneration system, directors should not be allowed to transfer a number of shares equivalent to twice their annual fixed remuneration, or to exercise the share options or other rights on shares for at least three years after their award.**

**The above condition will not apply to any shares that the director must dispose of to defray costs related to their acquisition.**

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable X

**63. Contractual arrangements should include provisions that permit the company to reclaim variable components of remuneration when payment was out of step with the director's actual performance or based on data subsequently found to be misstated.**

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable X

**64. Termination payments should not exceed a fixed amount equivalent to two years of the director's total annual remuneration and should not be paid until the company confirms that he or she has met the predetermined performance criteria.**

Compliant ☐ Partially compliant ☐ Explain ☐ Not applicable X

**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.**

The breakdown of the indirect and direct holders of significant interests in Lar España reported in section A.2 corresponds with the breakdown gleaned from the CNMV's shareholder records as of year-end.

**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. State specifically whether the company subscribes to the Good Tax Practice Code (of July 20, 2010).**

This annual corporate governance report was approved by the company's Board of Directors on 25 February 2016

**Indicate whether any directors voted against or abstained from voting on the approval of this report:**

Yes ☐ No **X**

Name or company name of the any directors not to have voted to approve this report.	Reason (vote cast against   abstention   non-attendance)	Explanation for the reason given

*Translation of a report originally issued in Spanish. In the event of a discrepancy, the Spanish-language version prevails.*

ASSURANCE' REPORT ON THE 2015 "INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)" OF LAR ESPAÑA REAL ESTATE SOCIMI, S.A. FOR 2015

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

As requested by the Board of Directors of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. ("the Entity") and in accordance with our engagement letter of 5 January 2016, we have applied certain procedures to the accompanying "Information relating to the ICFR" of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. for 2015, which summarises the internal control procedures of the Entity in relation to its annual financial reporting.

The Board of Directors is responsible for adopting the appropriate measures in order to reasonably guarantee the implementation, maintenance and supervision of an adequate internal control system and for making improvements to that system and for preparing and establishing the content of the accompanying information relating to the ICFR system included in section F) of the accompanying Annual Corporate Governance Report (ACGR).

In this regard it should be noted, irrespective of the quality of the design and operational effectiveness of the internal control system adopted by Lar España in relation to its annual financial reporting, that the system can only permit reasonable, but not absolute, assurance in connection with the objectives pursued, due to the limitations inherent to any internal control system.

In the course of our audit work on the financial statements and pursuant to Technical Auditing Standards, the sole purpose of our assessment of the internal control of Lar España was to enable us to establish the scope, nature and timing of the audit procedures to be applied to the Entity's financial statements. Therefore, our assessment of internal control performed for the purposes of the aforementioned audit of financial statements was not sufficiently extensive to enable us to express a specific opinion on the effectiveness of the internal control over the regulated annual financial reporting.

For the purpose of issuing this report, we applied exclusively the specific procedures described below and indicated in the Guidelines on the Auditors' Report on the Information relating to the System of Internal Control over Financial Reporting of Listed Companies, published by the Spanish National Securities Market Commission on its website, which establishes the work to be performed, the minimum scope thereof and the content of this report. Since the work resulting from such procedures has, in any case, a reduced scope that is significantly less extensive than that of an audit or a review of the internal control system, we do not express an opinion on the effectiveness thereof, or on its design or operating effectiveness, in relation to the Entity's annual financial reporting for 2015 described in the accompanying information on the ICFR system. Therefore, had we applied procedures additional to

those established in the aforementioned Guidelines or performed an audit or a review of the internal control over the regulated annual financial reporting, other matters or aspects might have been disclosed which would have been reported to you.

Also, since this special engagement does not constitute an audit of financial statements and is not subject to the current Spanish Audit Law, we do not express an audit opinion in the terms provided in that Law.

The procedures applied were as follows:

1. Perusal and understanding of the information prepared by the Entity in relation to the ICFR system - disclosure information included in the directors' report - and assessment of whether this information addresses all the information required considering the minimum content described in section F, of the ACGR form, relating to the description of the ICFR system as established in CNMV Circular 7/2015 of 22 December 2015.
2. Inquiries of personnel in charge of preparing the information detailed in point 1 above for the purpose of achieving: (i) familiarisation with the preparation process; (ii) obtainment of the information required in order to assess whether the terminology used is adapted to the definitions provided in the reference framework; (iii) obtainment of information on whether the aforementioned control procedures have been implemented and are in use at the Entity.
3. Review of the explanatory documents supporting the information detailed in point 1 above, including documents directly made available to those responsible for describing the ICFR systems. In this respect, the aforementioned documentation includes reports prepared by the Internal Audit Department, senior executives or other internal or external experts providing support functions to the Audit Committee.
4. Comparison of the information detailed in point 1 above with the knowledge on the Entity's ICFR obtained through the procedures applied during the financial statement audit work.
5. Reading of the meetings minutes of the Board of Directors, Audit and Control Committee and other committees of the Entity to evaluate the consistency between the ICFR business transacted and the information detailed in point 1 above.
6. Obtainment of the representation letter in connection with the work performed, signed by those responsible for preparing and formulating the information detailed in point 1 above.

The procedures applied to the information relating to the ICFR system did not disclose any inconsistencies or incidents that might affect the information.

This report has been prepared exclusively in the context of the requirements of article 540 of Corporate Enterprises Act and by CNMV Circular 7/2015 of 22 December, published by the Spanish National Securities Market Commission for the purposes of the description of the ICFR system in Annual Corporate Governance Reports.

DELOITTE, S.L.



Antonio Sánchez-Covisa Martín-González

February 26, 2016



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

Authorisation of the consolidated annual accounts for the period ended 31 December 2015 and  
statement of compliance  
LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

At their meeting held on 25 February 2016, pursuant to the requirements of article 253 of the Revised Spanish Companies Act and article 37 of the Spanish Code of Commerce, the Directors of Lar España Real Estate SOCIMI, S.A. (hereinafter the Company or Lar España) authorised for issue the consolidated annual accounts for the period ended 31 December 2015. The consolidated annual accounts are made up of the attached documents preceding this document and drawn up on the attached pages of ordinary paper, all approved by the Secretary of the Board of Directors, all of the members of the Board of Directors signing this last page.

According to the provisions of Royal Decree 1362/2007, of 19 October, (article 8.1 b) the undersigning Directors of Lar España and Subsidiaries (the “Group”), hereby declare that:

To the best of their knowledge, the consolidated annual accounts for the annual period ended 31 December 2015, prepared in accordance with applicable accounting principles, present fairly the equity, financial position and results of the Group and that the consolidated management report accompanying the consolidated annual accounts includes a reliable analysis of the development and business results and position of Lar España and Subsidiaries together with a description of the principal risks and uncertainties that they face.

Signatories:

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Mr. Jose Luis del Valle Doblado (Chairman)

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Mr. Alec Emmott

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Mr. Roger Maxwell Cooke

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Mr. Jose Luis del Valle Doblado (on behalf  
of Mr. Pedro Luis Uriarte Santamarina)

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Mr. Miguel Pereda Espeso

Madrid, 25 February 2016

\*The Director Mr. Pedro Luis Uriarte was unable to attend in person, having stated his approval in such connection, expressly authorising Mr. Jose Luis del Valle to sign the accounts on his behalf.