

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Financial Statements for the year then
ended on 31 December 2015 and Directors'
Report, together with Independent Auditor's
Report

*Translation of a report originally issued in Spanish based on
our work performed in accordance with the audit regulations in
force in Spain and of financial statements originally issued in
Spanish and prepared in accordance with the regulatory
financial reporting framework applicable to the Company (see
Notes 2.b and 22). In the event of a discrepancy, the Spanish-
language version prevails.*

Translation of a report originally issued in Spanish based on our work performed in accordance with the audit regulations in force in Spain and of financial statements originally issued in Spanish and prepared in accordance with the regulatory financial reporting framework applicable to the Company (see Notes 2.b and 22). In the event of a discrepancy, the Spanish-language version prevails.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

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

Report on the Financial Statements

We have audited the accompanying financial statements of LAR ESPAÑA REAL ESTATE SOCIMI, S.A., which comprise the balance sheet as at 31 December 2015 and the income statement, statement of changes in equity, statement of cash flows and notes to the financial statements for the year then ended.

Directors' Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the equity and financial position of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. as at 31 December 2015, and its results and its cash flows for the year then ended in accordance with the regulatory financial reporting framework applicable to the Company and, in particular, with the accounting principles and rules contained therein.

Report on Other Legal and Regulatory Requirements

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

DELOITTE, S.L.

Registered in ROAC under no. S0692



Antonio Sánchez-Covisa Martín-González

26 February 2016



LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Annual Accounts and Management Report
at 31 December 2015

Prepared under Royal Decree 1514/2007, of 16 November, which approved
the General Chart of Accounts, taking into consideration the amendments effected by
Royal Decree 1159/2010, of 17 September

INDEX

(1)	NATURE, ACTIVITIES OF THE COMPANY AND COMPOSITION OF THE GROUP	11
(2)	BASIS OF PRESENTATION	14
(a)	Fair image	14
(b)	Financial information reporting framework applicable to the Company	14
(c)	Non-mandatory account principles applied	14
(d)	Comparative information	14
(e)	Functional and presentation currency	15
(f)	Critical aspects of the valuation and estimation of uncertainty and judgements used when applying accounting principles	15
(g)	Grouping items	15
(h)	Changes in accounting criteria	16
(i)	Correction of errors	16
(3)	DISTRIBUTION OF PROFIT	16
(4)	RECORD AND VALUATION STANDARDS	16
(a)	Investment properties	16
(b)	Leases	18
(c)	Financial instruments	19
(d)	Own equity instruments held by the Company	23
(e)	Distributions to shareholders	23
(f)	Inventories	24
(g)	Cash and other cash equivalent assets	24
(h)	Short-term employee benefits	24
(i)	Shared-based payments	25
(j)	Provisions	25
(k)	Revenue recognition	26
(l)	Income tax	26
(m)	Classification of assets and liabilities as current and non-current	27
(n)	Insurance contracts	28
(o)	Environmental information	28
(p)	Transactions between group companies	28
(q)	Statement of cash flows	28
(5)	INVESTMENT PROPERTIES	29
(6)	OPERATING LEASES - LESSOR	32
(7)	RISK MANAGEMENT POLICY	34
(a)	Financial risk factors	34
(8)	INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES	38
(9)	FINANCIAL ASSETS BY CATEGORY	46
(a)	Classification of financial assets by category	46
(b)	Classification of financial assets by maturity	47
(c)	Net losses and gains by category of financial asset	47
(10)	TRADE AND OTHER RECEIVABLES	48
(11)	EQUITY	49
(a)	Share capital	49
(b)	Share premium	50
(c)	Reserves	51
(d)	Treasury shares	51
(e)	Shared-based payments	52
(f)	Capital management	53
(12)	FINANCIAL LIABILITIES BY CATEGORIES	54
(a)	Classification of financial liabilities by category	54
(b)	Classification of financial liabilities by maturity	55
(c)	Financial liabilities from borrowings	55
(13)	OTHER NON-CURRENT FINANCIAL LIABILITIES	57
(14)	TRADE AND OTHER PAYABLES	57
(15)	INFORMATION ON THE AVERAGE NUMBER OF DAYS PAYABLE OUTSTANDING	57
(16)	PUBLIC ENTITIES AND TAXATION	58

LAR ESPAÑA REAL ESTATE SOCIMI, S.A

(17)	RELATED PARTY BALANCES AND TRANSACTIONS	63
(a)	The Company's balances and transactions with related parties	63
(b)	Information on the Board of Directors and Senior Management personnel of the Parent Company	65
(c)	Transactions other than ordinary business or under terms differing from market conditions carried out by the directors of the Company and members of its supervisory board	65
(18)	INCOME AND EXPENSES	67
(19)	EMPLOYEE INFORMATION	68
(20)	AUDIT FEES	69
(21)	EVENTS AFTER THE REPORTING PERIOD	70
(22)	EXPLANATION ADDED FOR TRANSLATION TO ENGLISH	70

LAR ESPAÑA REAL ESTATE SOCIMI, S.A

Balance Sheet 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>
Investment properties		176,691	202,310
Land	5	67,736	80,456
Buildings	5	108,955	121,854
Non-current investments in group companies and associates		471,693	134,525
Equity instruments	8.a	260,267	134,525
Loans to companies	8.b,9,17	211,426	-
Non-current financial investments		1,909	2,409
Other financial assets	9	1,909	2,409
Total non-current assets		650,293	339,244
Inventories		-	3,102
Trade		-	2,843
Advances		-	259
Trade and other receivables		2,974	1,870
Clients receivables for sales and rendering of services	9	522	1,170
Clients, group companies and associates	9,17	55	-
Other credits with Public Administrations	9,10,16	2,397	700
Current investments in group companies and associates		37,332	-
Loans to companies	8.b,9,17	25,319	-
Other financial assets	9,17	12,013	-
Current financial investments		6	32,066
Other financial assets	9	6	32,066
Prepayment for current assets		387	95
Cash and cash equivalents		17,482	17,467
Cash	7	17,482	17,467
Total current assets		58,181	54,600
Total assets		708,474	393,844

The accompanying notes 1 to 22 and Appendix I form an integral part of the balance sheet at 31 December 2015.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A

Balance Sheet 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				
Share capital			119,996	80,060
Issued capital		11.a	119,996	80,060
Share premium		11.b	415,047	320,000
Reserves			(7,799)	(9,425)
Legal and statutory			166	-
Other reserves		11.c,11.e	(7,965)	(9,425)
(Treasury shares)		11.d	(709)	(4,838)
Other shareholder contributions			240	240
Profit for the Period			5,006	1,664
Total equity			531,781	387,701
Non-current payables			161,079	3,603
Bonds and other marketable securities		12	138,233	-
Loans and borrowings		12	19,839	-
Other financial liabilities		12,13	3,007	3,603
Total non-current liabilities			161,079	3,603
Current payables			11,274	-
Bonds and other marketable securities		12	3,504	-
Loans and borrowings		12	5,119	-
Other financial liabilities with third parties		12	1,000	-
Other financial liabilities with the group		12,17	1,651	-
Trade and other payables			4,340	2,540
Current suppliers, associates		14,17	2,516	866
Other payables		14	1,635	1,578
Personnel (<i>salaries payable</i>)		14	115	18
Other debts with Public Administrations		14,16	74	78
Total current liabilities			15,614	2,540
Total equity and liabilities			708,474	393,844

The accompanying notes 1 to 22 and Appendix I form an integral part of the balance sheet at 31 December 2015.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Income Statement for 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	2015	2014
Continuing operations			
Revenues		13,259	7,207
Sales	18.a	13,259	7,207
Other operating income		807	217
Non-trading and other operating income		807	217
Personnel expenses		(396)	(108)
Salaries and wages	17.b,18.b	(355)	(93)
Benefits	18.b	(41)	(15)
Other operating expenses		(17,214)	(6,824)
External services	18.c	(16,591)	(6,441)
Taxes	18.c	(549)	(221)
Losses, impairment and changes in trade provisions	18.c	(74)	(162)
Amortisation of fixed assets	5	(2,466)	(1,219)
Impairment and results from disposal of fixed asset transfers	5	(328)	-
Impairment and losses		(328)	-
Operating profit		(6,338)	(727)
Financial income		16,274	2,391
From stakes in equity instruments		11,990	-
In group companies and associates	9,17.a	11,990	-
From marketable securities and other financial instruments		4,284	2,391
From group companies and associates	9,17.a	3,771	-
From third parties		513	2,391
Financial expenses		(4,474)	-
From debts with third parties		(4,474)	-
Impairment and gains/(losses) on disposal of financial instruments		(456)	-
Impairment and losses	8	(456)	-
Financial profit		11,344	2,391
Profit before income tax		5,006	1,664
Income tax expense	16	-	-
Profit from continuing operations		5,006	1,664
Profit for the Period		5,006	1,664

Notes 1 to 22 and Appendix I form an integral part of the income statement at 31 Decembre 2015

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Statement of Changes in Equity for 2015

A) Statement of recognised income and expenses for 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)

	2015	2014
Income statement result	5,006	1,664
Total income and expense recognised directly in equity	-	-
Total transfers to the income statement	-	-
Total recognised income and expenses	5,006	1,664

The accompanying notes 1 to 22 and Appendix I form an integral part of the statement of changes in equity at 31 December 2015.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Statement of Changes in Equity for 2015

B) Statement of Total 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	Reserves	Treasury shares	Other shareholder contributions	Profit for the Period	Total
Incorporation of the Company on 17 January 2014	60	-	(2)	-	-	-	58
Recognised income and expenses	-	-	-	-	-	1,664	1,664
Transactions with equity holders or owners							
Capital increases	80,000	320,000	(9,419)	-	240	-	390,821
Treasury shares	-	-	(4)	(4,838)	-	-	(4,842)
Balance at 31 December 2014	80,060	320,000	(9,425)	(4,838)	240	1,664	387,701
Recognised income and expenses	-	-	-	-	-	5,006	5,006
Transactions with equity holders or owners	-	-	-	-	-	-	-
Capital increases (Note 11a)	39,936	95,047	(4,764)	-	-	-	130,219
Recognition of shared-based payments (Note 11e)	-	-	5,298	-	-	-	5,298
Distribution of profit	-	-	-	-	-	-	-
Reserves	-	-	333	-	-	(333)	-
Dividends	-	-	-	-	-	(1,331)	(1,331)
Treasury shares	-	-	759	4,129	-	-	4,888
Balance at 31 December 2015	119,996	415,047	(7,799)	(709)	240	5,006	531,781

The accompanying notes 1 to 22 and Appendix I form an integral part of the statement of changes in equity at 31 December 2015.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Statement of Cash Flows 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)

	Note	2015	2014
Cash flows from operating activities			
Profit/(loss) before tax		5,006	1,664
Adjustments to the result		(3,178)	(1,010)
Amortisation of fixed assets (+)	5	2,466	1,219
Impairment (+/-)	5,8,10	858	162
Financial income (-)	9.c	(16,274)	(2,391)
Financial expenses		4,474	
Expenses from payment based on shares	11.e	5,298	-
Changes in operating assets and liabilities		(483)	914
Inventories (+/-)		3,102	(3,102)
Receivables (+/-)		(1,178)	(2,032)
Payables (+/-)		(2,115)	2,540
Other current assets (+/-)		(292)	(95)
Other non-current assets and liabilities (+/-)		-	3,603
Other cash flows from operating activities		2,355	2,094
Interest payments (-)		(534)	-
Receipt of dividends (+)		678	-
Receipt of interest (+)		2,211	2,094
Cash flows from operating activities		3,700	3,662
Cash flows from investing activities			
Payments for investments (-)		(416,109)	(372,232)
Group companies and associates		(405,366)	(134,525)
Investment properties		(10,743)	(203,529)
Other financial assets		-	(34,178)
Proceeds from sales on investments		109,919	-
Group companies and associates	8	77,359	-
Other financial assets		32,560	-
Cash flows from investing activities		(306,190)	(372,232)
Cash flows from financing activities			
Payments made and received for equity instruments		141,081	386,037
Issue of equity instruments		134,134	390,879
Disposal of equity instruments		4,888	(4,842)
Other financial liabilities		2,059	-
Receivables and payments for financial liability instruments		162,755	-
a) Issue of:			
Bonds and other marketable securities (+)		138,005	-
Loans and borrowings		24,750	-

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Statement of Cash Flows at 31 December 2015

(Expressed in thousands of Euros)

	Note	2015	2014
Payments for dividends and remuneration from other equity instruments		<u>(1,331)</u>	<u>-</u>
Dividends (-)		(1,331)	-
Cash flows from financing activities		302,505	386,037
Net increase / decrease in cash or cash equivalents		<u>15</u>	<u>17,467</u>
Cash or cash equivalents at the beginning of the year		<u>17,467</u>	<u>-</u>
Cash or cash equivalents at the end of the year		<u>17,482</u>	<u>17,467</u>

Notes 1 to 22 and Appendix I form an integral part of the statement of cash flows at 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 OF THE COMPANY AND COMPOSITION OF THE GROUP

Lar España Real Estate SOCIMI, S.A. (hereinafter the Company or Lar España) was incorporated with limited liability under Spanish law on 17 January 2014 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 Company's statutory activity consists of the following:

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

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

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

Lar España Real Estate SOCIMI, S.A., as Parent Company of its group, 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:

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

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

Asset value will be based on the average of the asset values reflected in the 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.

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.

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

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.
- Reduced 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.

As mentioned in Note 8, the Company owns shares in subsidiaries and associates. Consequently, the Company is the parent of a Group of companies in accordance with current legislation. Presenting the consolidated annual accounts is necessary, in accordance with generally accepted accounting principles and regulations, to fairly present the Group's financial condition, results from operating activities, changes in equity and cash flows. The information on stakes in group companies and associates is presented in Appendix I.

On 25 February 2016 the Company's Directors prepared the consolidated annual accounts of Lar España Real Estate SOCIMI, S.A. and subsidiaries for 2015, which show consolidated profits of EUR 43,559 thousand and consolidated equity of EUR 570,566 thousand and net assets of EUR 914,038 thousand. The consolidated figures obtained from the consolidated annual accounts prepared by the Company based on International Financial Reporting Standards, adopted by the European Union, and other provisions of the framework regulations on financial information to which the Group is subject in Spain,

(2) BASIS OF PRESENTATION

(a) Fair image

The annual accounts for 2015 have been prepared from the accounting records of Lar España Real Estate SOCIMI, S.A. The annual accounts for 2015 have been prepared according to current business legislation and with the standards established in the General Accounting Plan, with the purpose of showing the true and fair image of the equity and the financial situation at 31 December 2015 and of the gains and losses from its operations, the changes in the equity and the corresponding cash flows for the year ended on said date.

The Board of Directors expect the annual accounts for 2015, which were prepared on 25 February 2016, will be approved by the General Shareholders' Meeting without any amendments thereto.

(b) Financial information reporting framework applicable to the Company

These annual accounts were prepared by the Directors in accordance with the framework regulations on financial information to which the Company is subject, which is that established in:

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

(c) Non-mandatory account principles applied

No non-mandatory accounting principles have been applied. Additionally, in preparing these annual accounts, the Directors have taken into consideration all those mandatory accounting principles that have a significant effect on these annual accounts. There is no mandatory accounting principle that has not been applied.

(d) Comparative information

In accordance with the international financial reporting standards adopted by the European Union, the information contained in this report corresponding to the period of 11 months and 14 days ended 31 December 2014 is presented for comparative purposes together with the information related to the 2015 period.

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

(e) Functional and presentation currency

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

(f) Critical aspects of the valuation and estimation of uncertainty and judgements used when applying accounting principles

The information included in these annual accounts is the responsibility of the Company's Directors. The preparation thereof requires that relevant accounting estimates and judgements, and other estimates and assumptions be made when applying the Company's accounting principles. A summary of the items requiring a greater degree of judgement or which are more complex, or where the assumptions and estimates made are significant to the preparation of the annual accounts, are as follows:

(i) *Relevant accounting estimates and assumptions*

1. Valuation allowances for bad debts and the review of individual balances based on customers' credit ratings, market trends and the historical analysis of bad debts at an aggregated level all require a high degree of judgement by the management (note 10.a).
2. Assessment of provisions and contingencies.
3. Financial risk management.
4. The assessment of possible losses due to the impairment of certain assets (notes 4.c and 4.d).
5. The market value of certain financial instruments.
6. The useful life of investment properties (note 4.a)
7. Calculation of fair value of shared-based payments or equity instruments.
8. Compliance with the requirements that regulate SOCIMIs.

(ii) *Changes in accounting estimates*

Although estimates are calculated by the 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 annual accounts of any changes that, where appropriate, arise from the adjustments to be made in subsequent periods would be recognised prospectively.

(g) Grouping items

In order to facilitate the comprehension of the balance sheet, certain items of the balance sheet, the income statement and the statement of changes in equity and the statement of cash flows are presented as a group, though the disaggregated information is included in the corresponding notes of the report, insofar as it is significant.

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

(h) Changes in accounting criteria

During the annual period ended on 31 December 2015 there were no changes in accounting criteria with respect to those applied when preparing the annual accounts of 2014.

(i) Correction of errors

In preparing the attached annual accounts, no significant error has been detected that has required that the amounts included in the annual account for 2014 be re-stated.

(3) DISTRIBUTION OF PROFIT

The proposal for allocating the result for the year ended 31 December 2015 and other reserves of the Company to be presented to the General Shareholder's Meeting is the following:

	Thousands of Euros
<u>Basis of allocation</u>	
Profit for the year	5,006
Share premium	7,538
	<u>12,544</u>
<u>Distribution</u>	
Legal reserve	501
Dividends	12,037
Voluntary reserve	6
	<u>12,544</u>

(4) RECORD AND VALUATION STANDARDS

These annual accounts corresponding to 2015 were prepared in accordance with the recognition and valuation criteria established in the General Chart of Accounts approved by the Royal Decree 1514/2007 of 16 November, amended by Royal Decree 1159/2010 of 17 September.

(a) Investment properties

The Company considers Investment properties to be properties, including that which is under construction or being developed, which is earmarked totally or partially to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services, for administrative purposes 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 Management of the Company does not plan to dispose of these assets in the foreseeable future and have therefore decided to maintain these assets in the balance sheet as investment properties.

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

These assets are initially valued at their purchase price or cost of production. Said figure is subsequently reduced by the corresponding accumulated amortisation and impairment losses, where applicable.

Expenses from maintaining and conserving the various elements comprising the tangible fixed assets item are recognised in the income statement for the year in which they are incurred. On the other hand, any amounts invested in improvements that contribute to increasing the capacity or efficiency or extending the useful life of said assets are recorded as increased expenses of said assets.

For those fixed assets that require longer than a year to be in a condition to be used, the capitalised expenses include any financial expenses that might have been issued by the supplier or correspond to loans or some other type of external financing that is specific and directly attributable to the purchase or manufacture of same.

The Company reclassifies investment properties as a tangible fixed asset when it begins to use the properties in the production or supply of goods or services or for administrative purposes.

The amortisation of investment properties is determined by applying the criteria presented below:

	Amortisation method	Estimated years of useful life
Properties	Straight-line	50
Improvements in commercial premises	Straight-line	The duration of the contract with tenant

Assets under construction intended for rental or for other purposes still to be determined are recorded at their cost less any recognised impairment losses, where applicable. Amortisation of these assets begins when assets are ready for the use for which they were intended, as does that of other fixed assets.

(i) Impairment of investment properties

The Company applies the criterion of evaluating whether there are signs of possible impairment of non-financial assets subject to amortisation or depreciation, in order to confirm whether the accounting values of said assets exceeds their recoverable amounts.

The recoverable amount is calculated as the greater of either the fair value less sales costs or the value in use, where the latter is understood to be the current value of future expected cash flows, through the use thereof in the normal course of business and, where appropriate, the transfer or other means of disposal thereof, taking into consideration the current status updated at a market risk-free interest rate, adjusted for the specific risks of the asset that are unaffected by the future cash flow estimates.

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

To calculate the fair value of the investment properties, the Company commissions independent valuation companies with no ties to the Company with the valuation of the property assets recorded as investment properties. Said valuations are carried out every 30 June and every 31 December (note 5). 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.

To calculate the value in use of an investment property, consideration is taken of the amount that the company expects to recover through the lease thereof. To that end, projections are made regarding cash flows derived from the lease instalments based on the best estimate, based on the discount rate, and any uncertainty that may imply a decrease thereof. The value in use is not necessarily identical to the fair value, as the first considers factors specific to the entity, namely, the capacity of imposing prices above or below market price, due to the assumption of various risks, or the incurring of expenses (construction expenses or commercialization expenses if dealing with investments under construction, renovation expenses, maintenance, etc.) other than those generally applicable to companies in the same sector.

The carrying amount of the Company's investment properties is corrected at the reporting date of each semester, through the relevant impairment provision, to adjust said carrying amount to the recoverable carrying amount when this latter amount is less than the carrying amount.

When an impairment loss is subsequently reversed, the carrying amount of the asset is increased in the reviewed estimate of its recoverable amount, but in such a manner that the increased carrying amount does not exceed the carrying amount that would have been calculated if no impairment loss had been recognised in previous years. Said reversal of an impairment loss is recognised as income.

(b) Leases

(i) Classification of leases

The Company 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 Company has not engaged in any finance lease transactions.

(ii) Lessee accounting records

- Operating leases

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

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

The Company recognises initial direct expenses of operating leases as an expense when incurred.

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

(iii) Lessor accounting records

- Operating leases

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

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

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

(c) Financial instruments

(i) Classification of financial instruments

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

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

(ii) Offsetting principles

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

(iii) Financial assets and liabilities held for trading

Financial assets and liabilities held for trading are assets and liabilities classified as held for trading since the moment of their initial recognition.

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

- It is acquired or incurred mainly for the sale thereof or to be purchased back in the immediate future;
- In its initial recognition it is part of a portfolio of identified financial instruments that are jointly managed and for which there is a recent pattern of obtaining profits in the short term; or

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

- It is a derivative, except for derivatives that have been designated as hedging instruments and meet the conditions for being effective and derivatives that are financial guarantee contracts.

Financial assets and liabilities at fair value with changes in profits and losses are initially recognised at fair value. The transaction expenses directly attributable to the purchase or issue are recognised as an expense to the extent in which they are incurred.

After their initial recognition they are recognised at fair value recording the changes in results. The fair value is not reduced by the transaction expenses that may have been incurred for the eventual sale or other means of disposal thereof.

The Company does not reclassify any financial asset or liability from or to this category while it is recognized in the balance sheet, unless there is a change in the classification of the financial instruments derived from hedging.

(iv) 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 entities, bank deposits and accrued interest receivable on the deposits. They are included in current assets, except for maturities greater than 12 months as of the date of the balance sheet which are classified as non-current assets. Loans and receivables generated in exchange for cash deliveries or current transactions are included under “Loans to companies” and “Trade and other receivables” in the balance sheet, and security deposits and guarantees carried out 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 expenses, and subsequently carried at amortised expense, 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.

(v) Equity Instruments in Group companies, associates and jointly-controlled companies

Those companies related to the Company through a relationship of control are considered to be Group companies, and companies over which the Company holds significant influence are considered to be associated companies. Furthermore, the jointly-controlled category includes those companies over which control is held, by virtue of an agreement, together with one or more partners.

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

Investments in Group companies are generally recorded initially at the fair value of the consideration.

In the case of investments in equity in Group companies that hold control over the subsidiary, the fees paid to legal consultants and other professionals associated with the acquisition of the investment are directly reported in the income statement.

After the initial valuation, investments in Group companies, associates and jointly-controlled companies are valued at their cost, less, where appropriate, the accumulated amount of impairment adjustments. Said adjustments are calculated as the difference between the carrying amount and the recoverable amount, which is either the fair value less sales expenses or the current value of the future cash flows derived from the investments, whichever is greater. Unless there is better evidence of the recoverable amount, consideration is taken of the net equity of the investee entity, with the adjustment of the implicit capital gains as of the date of measurement.

(vi) Impairment of financial assets

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

- Impairment of financial assets carried at amortised expense.

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

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

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

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

(vii) Financial liabilities

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

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

(viii) Derecognition of financial assets

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

The derecognition of a financial asset in its entirety implies the recognition of results as the difference between the carrying amount and the total consideration received, less transaction expenses, including assets obtained or liabilities assumed and any deferred profit or loss in income and expenses recognised in equity.

(ix) Derecognition and modifications of financial liabilities

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

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

The Company 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 expenses or fees incurred are recognised in the income statement as part of the result of the extinguishment. If the exchange is not accounted for as an extinguishment, any expenses or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability. In the latter case, a new effective interest rate is calculated on the modification date which is that which makes the current value of the flows to be paid according to the new conditions equal to the carrying amount of the financial liability on said date.

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

The difference between the carrying amount of a financial liability, or part of a financial liability, extinguished or transferred to a third party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised by the Company in the income statement. If the Company delivers non-monetary assets as payment of debt, it recognises the difference between the fair value thereof and their carrying amount as operating profit and the difference between the value of the debt that is extinguished and the fair value of the assets as a financial result. If the company delivers inventories, the relevant sales transaction for same is recognised at the fair value and the change in inventories at the carrying amount.

(d) Own equity instruments held by the Company

The Company's acquisition of equity instruments is presented separately at the cost of acquisition in the balance sheet as a reduction in its own capital. For transactions carried out with own equity instruments no result is recognised in the income statement, rather it is directly recorded as reserve.

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

Transaction expenses related to own equity instruments, including issue expenses associated with a business combination, are accounted for as a reduction in reserves, net of any tax effect.

Dividends associated with equity instruments are recognised as a reduction in equity when approved by the shareholders.

(e) Distributions to shareholders

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

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

Pursuant to Law 11/2009 of 26 October 2009, amended by Law 16/2012 of 27 December 2012, the 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.

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

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

(f) Inventories

Inventories are initially valued at the acquisition or production expense.

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

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 Company held inventories comprising the acquisition of 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 Company does not hold inventories.

(g) Cash and other cash equivalent assets

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

(h) Short-term employee benefits

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

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

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

(i) Shared-based payments

The Company recognises, on one hand, goods and services received as an asset or an expense, according to the nature thereof, when same is received, and on the other, 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, provided services and the increase in equity are measured at the fair value of the received services.

At 31 December 2015 the Company has agreed to grant an additional annual floating fee, the Performance Fee, pursuant to the terms agreed in the Investment Management Group with Grupo Lar Inversiones Inmobiliarias, S.A., which is paid to Grupo Lar Inversiones Inmobiliarias, S.A. depending on the profitability obtained by the shareholders of the Company (see note 11).

(j) Provisions

Provisions are recognised when the Company has a present obligation (legal, contractual, implicit or tacit) as a result of a past event; it is probable that an outflow of resources that incorporate future economic profits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The amounts recognised in the balance sheet are 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 financial expense in the income statement.

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.

(k) 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.

(i) Lease of investment properties to third parties

The principal activity of the Company 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). Company 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 Company 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 4,595 thousand for communal charges (shared utility expenses, services, etc.) passed on to them in 2015 (EUR 2,626 thousand in 2014). This amount is presented, according to its nature, net of the corresponding expenses under external services in the accompanying income statement at 31 December 2015.

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

(l) Income tax

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

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

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

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

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

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

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

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

- Financial liabilities are classified as current when they must be settled within twelve months of the reporting date, even if the original period is for greater than twelve months and there is a refinancing agreement or a long-term agreement to restructure payments that has been concluded after the reporting date and before the preparation of the annual accounts.

(n) Insurance contracts

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

(o) Environmental information

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

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

(p) Transactions between group companies

Transactions between group companies, except those associated with mergers, divisions and non-monetary contributions of businesses, are recognised at the fair value of the delivered or received compensation. The difference between said value and the agreed amount is recorded according to the underlying economic substance.

(q) Statement of cash flows

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

- Cash flows: inflows and outflows of cash and cash equivalents, the latter being short-term, highly liquid investments not subject to significant risk of changes in value.
- Operating activities: the usual activity of the Company and other activities that cannot be classified as investing or financing activities.
- Investing activities: the acquisition, sale or 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.

(5) INVESTMENT PROPERTIES

The composition and movements that had occurred in the accounts included under Investment Properties were as follows:

	Thousands of Euros		
	2015		
	Land	Buildings	Total
Cost at 1 January 2015	80,456	123,073	203,529
Additions	7,200	3,543	10,743
Disposals through subsidiarisation (note 8)	(19,868)	(14,022)	(33,890)
Cost at 31 December 2015	67,788	112,594	180,382
Accumulated amortisation at 1 January 2015	-	(1,219)	(1,219)
Allocations	-	(2,466)	(2,466)
Disposals through subsidiarisation (note 8)	-	322	322
Accumulated amortisation at 31 December 2015	-	(3,363)	(3,363)
Impairment at 1 January 2015	-	-	-
Allocations	(52)	(276)	(328)
Accumulated impairment at 31 December 2015	(52)	(276)	(328)
Carrying amount at 31 December 2015	67,736	108,955	176,691

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

At 31 December 2015 the investment properties owned by the Company comprises 4 shopping centres, 1 office building, and the land on which these are located, which are held to obtain rental income and are not occupied by the Company (5 shopping centres and 2 office buildings at 31 December 2014).

The additions for 2015 correspond mainly to an advance delivered for the purchase of a site for the amount of EUR 7,200 thousand. Furthermore, during the 2015 period expenses were capitalised for the amount of EUR 3,543 thousands, associated with improvements in the centres and the remodelling of the Marcelo Spínola office building.

The derecognitions for the period correspond to the subsidiarisation of the Villaverde shopping centre and the Arturo Soria office building.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

As mentioned in note 8.a, on 21 September 2015, the Company incorporated Lar España Offices Arturo Soria, S.L.U., with a share capital of EUR 3 thousand and a business establishment bonus of EUR 8 thousand per share, which resulted in a total business establishment bonus of EUR 24,334 thousand, through a non-monetary contribution. The Company contributed the Arturo Soria office building, which at the date of the transaction had the carrying value of EUR 24,337 thousand.

As mentioned in note 8.a, on 21 September 2015, the Company incorporated Lar España Parque de Medianas Villaverde, S.L.U., with a share capital of EUR 3 thousand and a business establishment bonus of EUR 3 thousand per share, which resulted in a total business establishment bonus of EUR 9,228 thousand, through a non-monetary contribution. The Company contributed the Villaverde shopping centre, which at the date of the transaction had the carrying value of EUR 9,231 thousand.

At 31 December 2015, the investment properties that has been pledged as collateral for bonds has a fair value of EUR 244,699 thousand and corresponds to the Txingudi, Huertas, Anec Blau, Albacenter and Marcelo Spínola centres owned by the Company and the Hiper Albacenter shopping centre, and the Alovera I and Alovera II bays, all of which is investment property that belongs 100% to the Company. In addition, the Company has a loan for the amount of EUR 25 million guaranteed with investment property of the associates Inmobiliaria Juan Bravo 3, S.L, and Lavernia Investments, S.L. (see note 12).

The outstanding amount of said bonds and loans at 31 December 2015 amounts to EUR 141,737 thousand and EUR 24,958 thousand (see note 12). The Company has no agreements for the use of investment properties, attachment orders thereon or analogous situations.

Details by business lines of the carrying amount of the investment properties that the Company holds in operating lease at 31 December 2015 and 2014 are as follows:

	Thousands of Euros
	2015
Shopping centres and single-tenant commercial property	155,251
Office buildings	21,440
	<u>176,691</u>
	Thousands of Euros
	2014
Shopping centres and single-tenant commercial property	158,404
Office buildings	43,906
	<u>202,310</u>

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

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

	Gross lettable area (m ²)	% occupancy rates (m ²)
Shopping centres and single-tenant commercial property	60,118	89.4%
Office buildings	8,586	4.2% (*)

(*) This corresponds solely with the Marcelo Spínola building, which is currently being renovated.

Impairment

Pursuant to accounting principles, fair value of the investment properties was determined by a professionally accredited external independent appraisal company with recent experience in the locations and categories of the properties being appraised. Independent appraisal companies determine the fair value of the Company'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.

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 Company'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 companies that performed the valuations of the Company's investment properties at 31 December 2015 are listed below:

	Appraisal Company
Txingudi shopping centre	Cushman & Wakefield
Las Huertas shopping centre	Cushman & Wakefield
Anec Blau shopping centre	Jones Lang Lasalle España, S.A.
Albacenter shopping centre	Jones Lang Lasalle España, S.A.
Marcelo Spínola office building	Cushman & Wakefield

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

The market value of the investment properties at 31 December 2015 and 2014, distributed by category, is as follows:

	Thousands of Euros 31 December 2015	Thousands of Euros 31 December 2014
Txingudi shopping centre	30,700	28,500
Las Huertas shopping centre	11,700	12,000
Arturo Soria office building	-	24,690
Mediana Comercial Villaverde	-	9,345
Anec Blau shopping centre	84,890	81,310
Albacenter shopping centre	32,332	29,103
Marcelo Spínola office building	21,500	19,300
Others – advance payments	7,380	-
	<u>188,502</u>	<u>204,248</u>

Fees paid by the Company to the appraisal companies for valuations at 31 December 2015 are as follows:

	Thousands of Euros 2015
Appraisal services	49
	<u>49</u>

Insurance policies and other information

The Company holds insurance policies to cover the risks to which the investment properties is subject. These policies are considered to be sufficiently covered.

At 31 December 2015 the Company has binding commitments to purchase investment properties for the amount of EUR 28,800 thousand.

(6) OPERATING LEASES - LESSOR

At 31 December 2015 the Company has leased the shopping centres and office building to third parties under operating leases.

Properties for rental at 31 December 2015 and 31 December 2014, the occupation rate of which is 89.4% (87.1% at 31 December 2014) in shopping centres and 4.2% (60.5% at 31 December 2014) in the office building, generated the revenues that are described in the table below:

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

2015

Element	Thousands of Euros							
	Cost	Disposals through subsidiarisation	Improvements	Accumulated amortisation at 31/12/2015	Accumulated impairment at 31/12/2015	Provision for amortisation	Carrying amount	Accrued revenues
Txingudi business park (Irún, País Vasco, Spain)	27,811	-	140	(608)	-	(351)	27,343	2,303
Las Huertas shopping centre (Palencia, Castila y León, Spain)	12,031	-	713	(423)	(328)	(267)	11,993	935
Mediana Comercial Villaverde (Madrid, Spain)	9,327	(9,327)	-	-	-	(61)	-	563
Anec Blau shopping centre (Barcelona, Spain)	81,290	-	226	(1,620)	-	(1,143)	79,896	5,792
Albacenter shopping centre (Albacete, Spain)	28,968	-	-	(329)	-	(232)	28,639	2,471
Arturo Soria office building (Madrid, Spain)	24,563	(24,563)	-	-	-	(142)	-	1,002
Marcelo Spínola office building (Madrid, Spain)	19,539	-	2,284	(383)	-	(270)	21,440	193
Others	7,380	-	-	-	-	-	7,380	-
Total	210,909	(33,890)	3,363	(3,363)	(328)	(2,466)	176,691	13,259

2014

Element	Thousands of Euros				
	Cost	Accumulated amortisation at 31/12/2014	Provision for amortisation	Carrying amount	Accrued revenues
Txingudi business park (Irún, País Vasco, Spain)	27,811	(257)	(257)	27,554	1,887
Las Huertas shopping centre (Palencia, Castilla y León, Spain)	12,031	(155)	(155)	11,876	776
Mediana Comercial Villaverde (Madrid, Spain)	9,327	(36)	(36)	9,291	331
Anec Blau shopping centre (Barcelona, Spain)	81,290	(477)	(477)	80,813	2,377
Albacenter shopping centre (Albacete, Spain)	28,968	(98)	(98)	28,870	877
Arturo Soria office building (Madrid, Spain)	24,563	(83)	(83)	24,480	638
Marcelo Spínola office building (Madrid, Spain)	19,539	(113)	(113)	19,426	321
Total	203,529	(1,219)	(1,219)	202,310	7,207

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

The accrued revenues shown in the preceding table refer to the rental income from shopping centres and offices accrued from 1 January 2015 to 31 December 2015.

Future minimum payments, at nominal value, receivable under non-cancellable operating leases are as follows:

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

	Thousands of Euros	
	2015	2014
Less than one year	9,020	12,671
One to five years	18,489	25,171
Over five years	12,336	19,212
	<u>39,845</u>	<u>57,054</u>

The most significant operating lease contracts during 2015 and the main details thereof are as follows:

Ranking	Trade name	Project	% of total rental income	% accumulated	Maturity *	Sector
1	MEDIA MARKT	Villaverde	4.41%	4.41%	2022	Technology
2	PRIMARK TIENDAS, S.L.U.	Albacenter	3.16%	7.57%	2027	RM Modas
3	C&A	Txingudi/Anec Blau	3.15%	10.72%	2020/2025	RM Modas
4	MERCADONA	Anec Blau	3.13%	13.85%	2030	Distribution
5	SEGURCAIXA ADESLAS, S.A.	Arturo Soria	2.85%	16.70%	2020	Offices
6	ZARA	Anec Blau	2.46%	19.16%	2025	RM Modas
7	HENNES & MAURITZ, S.L.	Albacenter/Anec Blau	2.32%	21.48%	2033/2036	RM Modas
8	BERSHKA	Albacenter/Anec Blau	2.24%	23.72%	2033/2025	RM Modas
9	LIWE ESPAÑOLA, S.A.	Albacenter/Anec Blau	2.24%	25.96%	2019/2020	RM Modas
10	YELMO FILMS, S.L.	Anec Blau	2.15%	28.11%	2038	Cinema

* The information refers to contracts that were in force in 2015. Likewise, contract maturity dates refer to the end date of the contract, although the contract may provide for the possibility of early termination.

(7) RISK MANAGEMENT POLICY

(a) Financial risk factors

The Company's activities are exposed to various financial risks: market risk, credit risk, liquidity risk and interest rate risk in cash flows. The Company's global risk management plan focuses on the uncertainty of the financial markets and tries to minimise the possible adverse effects on the Company's financial profitability.

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

(i) Market risk

In light of current conditions in the property sector, the Company has established specific measures 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 Company 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 Company (interest rates, share price, occupancy rates of investment properties, etc.). The identification of variables that are interconnected and their degree of connection.
- Time frame within which the assessment is made: The time frame for the analysis and the potential deviations should be taken into account.

(ii) Credit risk

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

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

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

The maximum exposure to credit risk for loans and other receivables at the reporting date of the balance sheet is as follows:

	In thousands of Euros	
	Note	2015
Loans to Group companies and associates	8.b	236,745
Security deposits and guarantees	9	1,909
Other financial assets	9	12,019
Trade and other receivables	10	2,974
Cash and cash equivalents		17,482
		<u>271,129</u>
	In thousands of Euros	
	2014	
Security deposits and guarantees		34,178
Other financial assets		297
Trade and other receivables		1,870
Cash and cash equivalents		17,467
		<u>53,812</u>

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

The Company's exposure to trade and other receivables at 31 December 2015 and 2014 is detailed below.

Company 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. At 31 December 2015 trade debt showed impairment of EUR 499 thousand (EUR 524 thousand at 31 December 2014).

		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	291	2,210	351	122	2,974
Total assets	291	2,210	351	122	2,974

		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	636	135	700	1,870
Total assets	399	636	135	700	1,870

The following table shows the details of the impaired balances by geographic region representing the activity of the Company at 31 December 2015 and 2014.

		Thousands of Euros
		2015
País Vasco		239
Castilla y León		133
Cataluña		89
Castilla La Mancha		38
		499
		Thousands of Euros
		2014
País Vasco		341
Castilla y León		99
Cataluña		64
Castilla La Mancha		20
		524

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

Cash and cash equivalents

At 31 December 2015 the Company has cash and cash equivalents totalling EUR 17,482 thousand, which represents its maximum exposure to risk associated with these assets (EUR 17,467 thousand at 31 December 2014).

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

(iii) Liquidity risk

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

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

The Company'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					
	Less than 1 month	1 to 3 months	3 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		5,119		19,839	-	24,958
Other non-current liabilities - security deposits and guarantees	-	-	2,651	-	3,007	5,658
Trade and other payables	3,602	738	-		-	4,340
Total	3,602	9,361	2,651	158,072	3,007	176,693

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

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

(iv) Cash flow and fair value interest rate risks

At 31 December 2015 the Company held no current fixed-rate deposits. At 31 December 2014 the Company holds current 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 Company's operating activities are not significantly affected by fluctuations in market interest rates.

At 31 December 2015, the Company does not hold loans or credits received by the group, related companies or associates.

At 31 December 2015 the Company holds a loan granted by Banco Santander for the nominal amount of EUR 25,000 thousand (note 12). Furthermore the Company holds a financial liability for simple, fixed-rate bonds issued for a nominal amount of EUR 140,000 thousand (note 12).

(v) Tax risk

As mentioned in Note 1, the Company 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 4.e).

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

INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

(b) Investments in equity instruments

Details of investments in equity instruments in group companies and associates at 31 December 2015 and 2014 are as follows:

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

Stakes in Group
Companies

Company	Thousands of Euros					
	2015					
	Opening balance	Additions	Voluntary contributions	Transfers	Returns	Closing balance
Cost						
LE Logistic Alovera I y II, S.A.U.	45,209	-	1,400	-	(2,300)	44,309
LE Retail Hiper Albacenter, S.L.U.	12,060	-	100	-	(500)	11,660
LE Offices Egeo, S.A.U.	35,260	-	2,800	-	(3,500)	34,560
LE Retail Alisal, S.A.U.	10,560	-	150	-	(1,300)	9,410
LE Offices Eloy Gonzalo 27, S.A.U.	13,003	-	50	-	(500)	12,553
LE Retail As Termas, S.L.U.	4	-	69,400	-	(38,065)	31,339
LE Offices Joan Miró, S.L.U.	-	4	20,000	-	(9,490)	10,514
LE Logistic Alovera III y IV, S.L.U.	-	4	10,490	-	-	10,494
LE Logistic Almussafes, S.L.U.	-	4	8,530	-	-	8,534
LE Retail Hiper Ondara, S.L.U.	-	4	7,250	-	-	7,254
LE Retail Sagunto, S.L.U.	-	4	3,617	-	-	3,621
LE Retail Megapark, S.L.U.	-	2,532	1,950	-	-	4,482
LE Retail Galaria, S.L.U.	-	4	8,640	-	(4,171)	4,473
LE Retail El Rosal, S.L.U.	-	4,054	4,766	-	(1,100)	7,720
Lar España Shopping Centres VIII, S.L.U.	-	3	-	-	-	3
Lar España Parque de Medianas III, S.L.U.	-	3	-	-	-	3
Lar España Offices VI, S.L.U.	-	3	-	-	-	3
Lar España Inversión Logística IV, S.L.U.	-	3	-	-	-	3
LE Retail Villaverde, S.L.U.	-	-	150	9,231	(4,433)	4,948
LE Offices Arturo Soria, S.L.U.	-	-	-	24,337	(12,000)	12,337
	116,096	6,622	139,293	33,568	(77,359)	218,220

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

Stakes in Associates

Company	Thousands of Euros					
	2015					
	Opening balance	Additions	Voluntary contributions	Capitalisation of credits	Returns	Closing balance
Cost						
Puerta Marítima Ondara, S.L.	18,425		2,264	-		20,689
Lavernia Investments, S.L.	4	-		10,200		10,204
Inmobiliaria Juan Bravo 3, S.L.	-	1,707	3,750	6,153		11,610
	18,429	1,707	6,014	16,353	-	42,503
Impairment	-	(456)	-	-	-	(456)
Lavernia Investments, S.L.						
Total	134,525	7,873	145,307	49,921	77,359	260,267

	Thousands of Euros		
	2014		
	Acquisition value	Voluntary contributions	Total stakes
Stakes in Group Companies			
LE Logistic Alovera I y II, S.A.U.	60	45,149	45,209
LE Retail Hiper Albacenter, S.L.U.	60	12,000	12,060
LE Offices Egeo, S.A.U.	60	35,200	35,260
LE Retail Alisal, S.A.U.	60	10,500	10,560
LE Offices Eloy Gonzalo 27, S.A.U.	3	13,000	13,003
LE Retail As Termas, S.L.U.	4	-	4
	247	115,849	116,096
Stakes in Associates			
Puerta Marítima Ondara, S.L.	17,543	882	18,425
Lavernia Investments, S.L.	4	-	4
	17,547	882	18,429
Total	17,794	116,731	134,525

LE Logistic Alovera I y II, S.A.U. (formerly called Lar España Inversión Logística, S.A.U.), a Spanish company incorporated on 23 July 2014 with a share capital of EUR 60 thousand consisting in 30,000 shares with a nominal value of EUR 2 each. The principal activity of the Company is the rental of properties (logistics bays) on their own behalf. Subsidiary of the Group, the capital of which belongs 100% to Lar España Real Estate SOCIMI, S.A. Throughout the 2014 period the Company made voluntary contributions to LE Logistic Alovera I y II, S.A.U. for the amount of EUR 45,149 thousand for the acquisition of the Alovera I and Alovera II logistics bays. In the 2015 period, contributions for the amount of EUR 1,400 thousand and refunds for the amount of EUR 2,300 thousand have been approved.

On 4 November, the Company incorporated the subsidiary LE Retail Hiper Albacenter, S.A.U. (formerly called Lar España Shopping Centres, S.A.U.), a Spanish company whose shares are 100% owned by the Company with a share capital of EUR 60 thousand divided among 30,000 registered shares with a nominal value of EUR 2 each. In December 2014, the Company made two voluntary contributions to LE Retail Hiper Albacenter, S.A.U. for a total amount of EUR 12,000 thousand among others, to effect the acquisition of the hypermarket and two adjacent commercial premises located in the Albacenter shopping centre. In the 2015 period, contributions for the amount of EUR 100 thousand and refunds for the amount of EUR 500 thousand have been approved.

On 4 November, the Company incorporated the subsidiary LE Retail Offices Egeo, S.A.U. (formerly called Lar España Offices, S.A.U.), a Spanish company whose shares are 100% owned by the company with a share capital of EUR 60 thousand divided among 30,000 registered shares with a nominal value of EUR 2 each. On 16 December 2014, the Company made a voluntary contribution to LE Retail Offices Egeo, S.A.U. for the amount of EUR 35,200 thousand to, among others, effect the acquisition of the Egeo office building (Madrid). In the 2015 period, contributions for the amount of EUR 2,800 thousand and refunds for the amount of EUR 3,500 thousand have been approved.

On 4 November, the Company incorporated the subsidiary LE Retail Alisal, S.A.U. (formerly called Lar España Parque de Medianas, S.A.U.), a Spanish company whose shares are 100% owned by the company with a share capital of EUR 60 thousand divided among 30,000 registered shares with a nominal value of EUR 2 each. On 16 December 2014, the Company made a voluntary contribution to LE Retail Alisal, S.A.U. for the amount of EUR 10,500 thousand to, among others, effect the acquisition of Nuevo Alisal (two single-tenant commercial properties located in Santander). In the 2015 period, contributions for the amount of EUR 150 thousand and refunds for the amount of EUR 1,300 thousand have been approved.

On 18 December 2014, the Company acquired 100% of the stakes in LE Offices Eloy Gonzalo 27, S.A.U. (formerly called Riverton Gestión, S.A.U.), a Spanish company incorporated on 17 November 2014 with a share capital of EUR 3 thousand consisting in 3,000 shares with nominal value of EUR 1 each. On 23 December 2014, the Company made a voluntary contribution to LE Offices Eloy Gonzalo 27, S.A.U. for the amount of EUR 13,000 thousand to, among others, effect the acquisition of the office building on Calle Eloy Gonzalo in Madrid. In the 2015 period, contributions for the amount of EUR 50 thousand and refunds for the amount of EUR 500 thousand have been approved.

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

On 18 December 2014, the Company acquired 100% of the stakes in LE Retail As Termas, S.L.U. (formerly called Global Noctua, S.L.U.), a Spanish company incorporated on 13 November 2014 with a share capital of EUR 4 thousand consisting in 3,600 shares with a nominal value of EUR 1 each. In the 2015 period, contributions for the amount of EUR 69,400 thousand and refunds for the amount of EUR 38,065 thousand have been approved.

On 4 March 2015, the Company acquired 100% of the stakes in LE Offices Joan Miro 21, S.L.U. (formerly called Global Meiji, S.L.U.), a Spanish company incorporated on 11 February 2015 with a share capital consisting in 3,600 shares with a nominal value of EUR 1 each. On 11 June 2015, the company made a voluntary contribution to LE Offices Joan Miro 21, S.L.U. for the amount of EUR 20.000 thousand to, among others, effect the purchase of the Joan Miro office building. On 30 December LE Offices Joan Miro 21, S.L.U. effected a return of the voluntary contribution for the amount of EUR 9,490 thousand.

On 10 October 2014, the Company formalised with Cecosa Hipermercados, S.A. an agreement to acquire shares representing 58.78% of the share capital of Puerta Marítima Ondara, S.L., owner of the Portal de la Marina shopping centre in Ondara (Alicante). The acquisition was carried out for a total amount of EUR 17,543 thousand, which was paid in full with the Company's share capital. The remaining percentage of stakes in Puerta Marítima Ondara, S.L. is owned by a subsidiary of Grupo Lar Inversiones Inmobiliarias, S.A., the Company's manager. In 2014, the shareholders resolved to make a voluntary contribution to the company for a total value of EUR 1,500 thousand to enable it to meet its payment commitments until year end 2014. Of this amount, EUR 882 thousand correspond to Lar España Real Estate SOCIMI, S.A. Contributions for the amount of EUR 1,382 thousands have been approved in 2015.

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.

On 17 December 2014, the Company acquired 50% of the stakes in Lavernia Investments, S.L. a Spanish company incorporated on 15 November 2013 with a total share capital of EUR 8 thousand consisting in 3,000 shares with a nominal value of EUR 2,586 each.

On 30 January 2015 the Company acquired 50% of the share capital of Inmobiliaria Juan Bravo 3, S.L. for the amount of EUR 1,707 thousand. The statutory activity of this associate is property development and promotion. Contributions for the amount of EUR 3,750 thousands have been approved in 2015.

On 4 March 2015, the Company acquired 100% of the stakes in LE Logistic Alovera III y IV, S.L.U. (formerly called Global Tannenberg, S.L.U.), a Spanish company incorporated on 3 February 2015 with a share capital consisting in 3,600 shares with a nominal value of EUR 1 each. On 30 April 2015, the Company made a voluntary contribution to LE Logistic Alovera III y IV, S.L.U. for the amount of EUR 10,490 thousand to, among other things, effect the purchase of the Alovera III (C2) and Alovera IV (C5-C6) bays.

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

On 4 March 2015, the Company acquired 100% of the stakes in LE Logistic Almussafes, S.L.U. (formerly called Global Zohar, S.L.U.), a Spanish company incorporated on 3 February 2015 with a share capital consisting in 3,600 shares with a nominal value of EUR 1 each. On 30 April 2015, the Company effected a voluntary contribution to LE Logistic Almussafes, S.L.U. for the amount of EUR 8,530 thousand to, among others, effect the purchase of the Almufasses bay.

On 4 March 2015, the Company acquired 100% of the stakes in LE Retail Hiper Ondara, S.L.U. (formerly called Global Brisulia, S.L.U.), a Spanish company incorporated on 11 February 2015 with a share capital consisting in 3,600 shares with a nominal value of EUR 1 each. On 9 June 2015, the Company made a voluntary contribution to LE Retail Hiper Ondara, S.L.U. for the amount of EUR 7,250 thousand to, among others, effect the purchase of the hypermarket located in the Portal de la Marina shopping centre.

On 29 May 2015, the Company acquired 100% of the stakes in LE Retail Sagunto, S.L.U. (formerly called Global Regimonte, S.L.U.), a Spanish company incorporated on 26 March 2015 with a share capital consisting in 3,600 shares with a nominal value of EUR 1 each. On 9 June 2015, the Company made a voluntary contribution to LE Retail Sagunto, S.L.U. for the amount of EUR 1.300 thousand to effect the purchase of the land on which the development, a shopping centre, is to be built. Contributions for the amount of EUR 2,317 thousands have been approved in 2015.

On 29 May 2015, the Company acquired 100% of the stakes in LE Retail Megapark, S.L.U. (formerly called Global Morello, S.L.U.), a Spanish company incorporated on 26 March 2015 with a share capital consisting in 3,600 shares with a nominal value of EUR 1 each. On 28 July 2015, the Company made a voluntary contribution to LE Retail Megapark, S.L.U. for the amount of EUR 1,950 thousand to, among others, effect the purchase of the petrol station located at the As Termas shopping centre. On 12 November 2015, the sole shareholder of LE Retail Megapark, S.L. (formerly called Global Morello, S.L.), also the sole shareholder of Elisandra Spain VIII, S.L., approved the agreement to merge the two companies, with Elisandra Spain VIII, S.L. being absorbed by LE Retail Megapark, S.L. The retroactive accounting date was 16 October 2015.

Lastly, on 16 October 2015, the Company acquired 100% of the stakes in LE Retail Megapark, S.L.U. (formerly called Elisandra Spain VIII, S.L.U.) a Spanish company incorporated on 9 June 2015 with a share capital consisting in 3,000 shares with a nominal value of EUR 1 each. The acquisition was carried out for a total amount of EUR 3,149, which was paid in full with the Company's share capital. Also in 2015, a dividend for the amount of EUR 621 thousand has been distributed with a charge to profit prior to the acquisition of the company.

On 20 July 2015, the Company acquired 100% of the stakes in LE Retail Galaria, S.L.U. (formerly called Global Misner, S.L.U.), a Spanish company incorporated on 9 June 2015 with a share capital consisting in 3,600 shares with a nominal value of EUR 1 each. On 28 July 2015, the Company made a voluntary contribution to LE Retail Galaria, S.L.U. for the amount of EUR 8,640 thousand to, among others, effect the purchase of Parque Galaria (three single-tenant commercial properties). In addition, on 14 December 2014, approval was granted for the return of the amount of EUR 4,171 thousand.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

On 7 July 2015, the Company acquired 100% of the stakes in El Rosal Retail, S.L.U., a Spanish company incorporated on 15 October 2010 with a share capital consisting in 3,015 shares with a nominal value of EUR 1 each for the amount of EUR 4,054 thousand. The acquisition was carried out for a total amount of EUR 4,054 thousands, which was paid in full with the Company's share capital. In addition, in the period 2015, contributions for the amount of EUR 4,766 thousands and refunds for the amount of EUR 1,100 thousand have been approved in 2015.

On 4 August 2015, the Company incorporated the subsidiaries Lar España Parque de Medianas III, S.L.U., Lar España Shopping Centres VIII, S.L.U., subsidiary Lar España Offices VI, S.L.U. and Lar España Inversión Logística IV, S.L.U., all of which are Spanish companies whose shares are 100% owned by the company with a share capital of EUR 3 thousand divided among 3,000 registered shares with a nominal value of EUR 1 each.

On 21 September 2015, the Company incorporated Lar España Parque de Medianas Villaverde, S.L.U., with a share capital of EUR 3 thousand and a business establishment bonus of EUR 3 thousand per share, which resulted in a total business establishment bonus of EUR 9,228 thousand, through a non-monetary contribution. The Company contributed the Villaverde shopping centre, which at the date of the transaction had the carrying value of EUR 9,231 thousand (see note 5). In the 2015 period, contributions for the amount of EUR 150 thousand and a refund of the share premium for the amount of EUR 4,433 thousand have been approved.

On 21 September 2015, the Company incorporated Lar España Offices Arturo Soria, S.L.U., with a share capital of EUR 3 thousand and a business establishment bonus of EUR 8 thousand per share, which resulted in a total business establishment bonus of EUR 24,334 thousand, through a non-monetary contribution. The Company contributed the Arturo Soria office building, which at the date of the transaction had the carrying value of EUR 24,337 thousand (see note 5). In addition in the 2015 period approval was granted for the return of the share premium for the amount of EUR 12,000 thousand.

(c) Loans to Group companies and associates

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

	Thousands of Euros	
	Current	Non-current
Loans to Group companies and associates	25,319	211,426
Other financial assets	12,013	-
Total financial assets with associates	37,332	211,426

At 31 December 2015 the Company had formalised the following loans with group companies and associates:

Company	Date granted	Loan principal	Capitalised accrued interest	Thousands of Euros		
				Loan total at 31 December 2015	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	-
LE Retail El Rosal, S.L.U. (c)	07/07/2015	28,335	217	28,552	217	28,335
LE Retail Megapark, S.L.U. (d)	16/10/2015	166,317	-	166,317	-	166,317
		234,752	1,993	236,745	25,319	211,426

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

- (a) As indicated in note 8.a, on 30 January 2015 the Company acquired 50% of the share capital of Inmobiliaria Juan Bravo 3, S.L. Furthermore, on this date, the Company 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 amortisation of the principal.

The maturity of the loan granted to Inmobiliaria Juan Bravo 3, S.L. is as follows:

Company	Thousands of Euros					Total
	Interest rate	2016	2017	2018	Discount	
Inmobiliaria Juan Bravo 3, S.L.	5.5% + floating rate	25,000	41,500	5,197	(19,529)	41,774
		25,000	41,500	5,197	(19,529)	41,774

The “Discount” column includes the discount in respect of the acquisition of the mortgage loan of Inmobiliaria Juan Bravo 3, S.L., in an amount of EUR 80,000 thousand, the nominal amount of which is EUR 122,605 thousand. The Company recognises income on a linear basis over the life of the loan.

As this participating loan establishes, accrued, 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 Lar España Real Estate SOCIMI, S.A. granted a loan for the amount of EUR 100 thousand to Lavernia Investments, S.L. The loan accrues interest at rate of 4%, calculated on a quarterly basis. The final maturity of the loan is 9 July 2016.

As this loan establishes, accrued, 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, that were capitalised on 25 June 2015.

- (c) On 7 July 2015 Lar España Real Estate SOCIMI, S.A. acquired 100% of the stakes in LE Retail El Rosal, S.L. from DHRE II Netherlands II B.V. Along with the transfer of the stakes, Lar España Real Estate SOCIMI, S.A. took on the loan LE Retail El Rosal, S.L.U. had received from its former sole shareholder for the amount of EUR 28,335 thousand. The loan accrues interest at rate of 3%, calculated on a quarterly basis. The maturity of the loan is 7 July 2020.

- (d) On 16 October 2015, Lar España Real Estate SOCIMI, S.A. acquired 100% of the shares of Elisandra Spain VIII, S.L.U. from the Dutch company OCM Gaudí Master Holdco BV. At the time of the sale, along with the transfer of the stakes, Lar España Real Estate SOCIMI, S.A. took on the loan the former sole shareholder of Elisandra Spain VIII, S.L.U. had granted same for the amount of EUR 166,317 thousand. The loan accrues interest at rate of 3%, calculated on a quarterly basis. The final maturity of the loan is 3 June 2022.

At 31 December 2014, the Company had no receivables from group companies and associates.

(8) FINANCIAL ASSETS BY CATEGORY

(a) Classification of financial assets by category

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

		Thousands of Euros	
		2015	
		Non-current	Current
		Carrying amount	Carrying amount
Loans and receivables			
Financial assets with group companies and associates	211,426		25,319
Security deposits and guarantees	1,909		-
Other financial assets	-		12,019
Trade and other receivables			
Clients receivables for sales and rendering of services	-		577
Other credit with Public Administrations	-		2,397
Total financial assets	213,335		40,312

		Thousands of Euros	
		2014	
		Non-current	Current
		Carrying amount	Carrying amount
Loans and receivables			
Security deposits and guarantees	2,409		31,769
Other financial assets	-		297
Trade and other receivables			
Clients receivables for sales and rendering of services	-		1,170
Other credit with Public Administrations	-		700
Total	2,409		33,936
Total financial assets	2,409		33,936

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

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

At 31 December 2015, security deposits and guarantees mainly comprise the security deposits and guarantees received from the tenants of the shopping centres mentioned in note 7, which the Company has deposited with the corresponding public entities (Security deposits and guarantees - non-current).

Other financial assets (current) mainly reflect interim dividends of the group companies and associates, approved by the respective directors thereof.

(b) Classification of financial assets by maturity

The classification of financial assets by maturity at December 2015 and 2014 is as follows:

	Thousands of Euros				
	2015				
	Less than 1 year	1 to 5 years	More than 5 years	Indefinite	Total
Financial assets with group companies and associates	25,319	45,109	166,317	-	236,745
Security deposits and guarantees	-	-	-	1,909	1,909
Other financial assets	12,019	-	-	-	12,019
Trade and other receivables	2,974			-	2,974
	40,312	45,109	166,317	1,909	253,647

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

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

	Thousands of Euros	
	2015	
	Loans and receivables	Total
Financial income	16,274	16,274
From stakes in equity instruments	11,990	11,990
In group companies and associates	11,990	11,990
From marketable securities and other financial instruments	4,284	4,284
From group companies and associates	3,771	3,771
From third parties	513	513
Net gains in profit and loss	16,274	16,274
Total	<u>16,274</u>	<u>16,274</u>

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

The amount of net losses and gains corresponds to the income obtained by the Company with respect to the credits delivered to Inmobiliaria Juan Bravo 3, S.L., Lavernia Investments, S.L., LE Retail El Rosal, S.L.U. and LE Retail Megapark, S.L.U. (note 8), and to the income obtained through security deposits effected in financial institutions that amounted to EUR 3,771 thousand and EUR 513 thousand, respectively (EUR 2,391 thousand in the 2014 period).

Furthermore, during the 2015 period the Company received dividends for the amount of EUR 11,990 thousand. The details of the dividends by company are as follows:

Company	Thousands of Euros
LE Logistic Alovera I y II, S.A.U.	3,564
LE Retail Hiper Albacenter, S.A.U.	700
LE Retail Alisal, S.A.U.	487
LE Offices Egeo, S.A.U.	1,552
LE Offices Eloy Gonzalo 27, S.A.U.	477
LE Retail As Termas, S.L.U.	1,366
LE Logistic Alovera III y IV, S.L.U.	342
LE Offices Joan Miró 21, S.L.U.	419
LE Retail Hiper Ondara, S.L.U.	161
LE Logistic Almussafes, S.L.U.	278
LE Retail Megapark, S.L.U. (*)	616
LE Retail Galaria, S.L.U.	193
LE Offices Arturo Soria, S.L.U.	175
LE Retail Villaverde, S.L.U.	121
Puerta Marítima Ondara, S.L.	1,539
Total	11,990

(*) The dividend received from LE Retail Megapark, S.L.U. was for the total amount of EUR 1,237 thousand, EUR 621 thousand of which were recorded as fewer stakes in the Company as they were considered to be results generated prior to the purchase thereof.

(9) TRADE AND OTHER RECEIVABLES

Details of loans and other receivables that the Company holds at 31 December 2015 and 2014 are as follows:

	Thousands of Euros	
	2015	
	Non-current	Current
Receivables from operating leases	-	1,076
Other credit with Public Administrations (note 16)	-	2,397
Less, valuation allowance for uncollectibility	-	(499)
Total	-	2,974

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

	Thousands of Euros	
	2014	
	Non-current	Current
Receivables from operating leases	-	1,694
Other credit with Public Administrations	-	700
Less, valuation allowance for uncollectibility	-	(524)
Total	-	1,870

(a) Impairment

Movement in impairment and uncollectibility valuation allowances for amounts payable to the Company by the tenants during 2015 is as follows:

	Thousands of Euros
	2015
Balance at 31 December 2014	524
Impairment losses	35
Reversals of impairment losses	(60)
Balance at 31 December 2015	499

	Thousands of Euros
	2014
Balance at 17 January 2014	-
Impairment recognised	362
Impairment losses	217
Reversals of impairment losses	(55)
Saldo al 31 de diciembre	524

In addition the Company recorded losses for irrecoverable credits for the amount of EUR 99 thousand during the annual period ended on 31 December 2015.

(10) EQUITY

The composition and movements in equity are presented in the statement of changes in equity.

(a) Share capital

At 31 December 2015 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.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

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 effective amount of the share capital increase 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 share listing value at 31 December 2015 was 9.46.

At 31 December 2015 and 2014 the 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%

Likewise, in the 2015 period, the Company distributed dividends in an amount of EUR 1,331 thousand to shareholders, with a charge to the profit for 2014.

(b) Share premium

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

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

At 31 December 2015, after the capital increase carried out on 7 August 2015, the Group's share premium amounted to EUR 415,047 thousand (EUR 320,000 thousand at 31 December 2014).

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

(c) Reserves

Reserve movements that took place during the 2015 and 2014 periods were as follows:

	Thousands of Euros	
	2015	2014
Opening balance	(9,425)	-
Profit for 2014	333	-
Capital increase expenses	(4,764)	(9,421)
Result from treasury shares	759	(4)
Shared-based payments	5,298	-
Closing balance	(7,799)	(9,425)

(i) Legal reserve

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

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

At 31 December 2015 the Company has not fully provided for the legal reserve.

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

(ii) Other reserves

This reserve mainly comprises expenses related to the incorporation and capital increases through share issues carried out on 5 March 2014, 7 August 2015, and other non-distributed profits. Additionally, the impact on reserves of received services that will be liquidated in shares of the Company is also included (see article (e) of this note).

(d) Treasury shares

At 31 December 2015 the 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:

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

	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	<u>74,250</u>	<u>709</u>

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

The average selling price of treasury shares was EUR 9.87 per share in 2015 (EUR 9.14 in 2014). The result at 31 December 2015 amounted to EUR 759 thousand (EUR 4 thousand at 31 December 2014) was recorded under "Other reserves" on the balance sheet.

(e) Shared-based payments

On 12 February 2014, the 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 Company and its Group 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 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 Group during the period, less net funds obtained from the issue of shares during the period, plus the dividends distributed during said period.

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

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 Group 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 10%, in addition to 20% of any excess over 12% up to 22% in the event the return exceeds 12%.

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 Company may issue, or by choice of the Company, to acquire same's treasury shares.

At 31 December 2015, the return of the shareholder calculated by the 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 recording standards mentioned in note 4.i, 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 statement. At 31 December 2015, the Company has a balance payable for this item totalling EUR 2,379 thousand (EUR 771 thousand at 31 December 2014).

(f) Capital management

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

The Company 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.

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

To maintain and adjust the capital structure, the Company 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.

(11) 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 2014 is as follows:

		Thousands of Euros	
		2015	
		Non-current	Current
		Carrying amount	Carrying amount
Debts and payables			
Financial liabilities from issue of bonds		138,233	3,504
Loans and borrowings		19,839	5,119
Other financial liabilities with third parties		3,007	1,000
Other financial liabilities with the group		-	1,651
Trade and other payables			
Creditors and Suppliers		-	4,151
Personnel		-	115
Other credit with Public Administrations		-	74
Total financial liabilities		<u>161,079</u>	<u>15,614</u>

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

At 31 December 2015 and 2014, the book value of financial liabilities recognised at amortised expense did not differ significantly from their fair value.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

(b) Classification of financial liabilities by maturity

Details by maturity of other non-current financial liabilities and trade and other payables at 31 December 2015 and 2014 are as follows:

	2015						
	Thousands of Euros						
	2016	2017	2018	2019	2020 and remainig years	Indefinite	Total
Debt from issue of bonds (a)	3,504	-	-	-	138,233	-	141,737
Debt with credit institutions (a)	5,119	2,500	17,339	-	-	-	24,958
Other financial liabilities - security deposits	2,651	-	-	-	-	3,007	5,659
Trade and other payables	4,340	-	-	-	-	-	4,340
Total	15,614	2,500	17,339	-	138,233	3,007	176,693

(a) The effect of valuing financial liabilities from bonds and borrowings at amortised expense amounts to EUR 1,767 thousand and EUR 161 thousand respectively.

	Thousands of Euros		
	2014		
	2015	Indefinite	Total
Other financial liabilities - security deposits	-	3,603	3,603
Trade and other payables	2,540	-	2,540
Total	<u>2,540</u>	<u>3,603</u>	<u>6,143</u>

(c) Financial liabilities from borrowings

i) Main characteristics of debt from bonds

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

In this respect, on 19 February 2015 the 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 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. In addition an ordinary pledge has been established on the shares of Lar España Inversión Logística, S.A.U., Lar España Shopping Centres S.A.U. and Riverton Gestión S.A.U.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

- 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.

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 Financial expenses on the 2015 income statement. 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 financial expenses for the period.
- A Loan-to-Value Ratio equal or lower to 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 Board of 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.

ii) Main characteristics of loans and debt with credit institutions

The terms and conditions of the loan are as follows:

Institution	Currency	Effective rate	Maturity	Amount granted	Thousands of Euros	
					Amortised cost and interest pending payment at 31 December 2015	Guarantee
Lar España Real Estate SOCIMI, S.A.	Euros	EURIBOR 3M + 2.83% spread	30 January 2018	25,000	24,958	(a)

This loan has mortgage guarantees on the assets owned by the associates Lavernia Investments, S.L. and Inmobiliaria Juan Bravo 3, S.L (see note 5).

On 30 January 2015, Banco Santander granted a loan of EUR 25 million to Lar España Real Estate SOCIMI, S.A. with a maturity of 3 years. The interest on the loan is accrued and paid quarterly at 3-month Euribor plus a spread of 2.83%. The purpose of this loan is to finance the real estate development of the associates Lavernia Investments, S.L. and Inmobiliaria Juan Bravo 3, S.L.

(12) OTHER NON-CURRENT FINANCIAL LIABILITIES

The Company's Other non-current financial liabilities reflect EUR 3,007 thousand at 31 December 2015 that comprise security deposits and guarantees delivered to the Company 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.

(13) TRADE AND OTHER PAYABLES

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

	Thousands of Euros
	2015
Trade payables	1,635
Suppliers, associates (note 17)	2,516
Personnel	115
Other credit with Public Administrations (note 16)	74
Total	4,340
	Thousands of Euros
	2014
Trade payables	1,578
Suppliers, associates	866
Personnel	18
Other credit with Public Administrations	78
Total	2,540

(14) 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	25
Ratio of paid operations	25
Ratio of operations pending payment	41
	Thousands of Euros
Total effected payments	21,376
Total pending payments	712

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

Pursuant to the Resolution by Spain's Accounting and Audit Institute on the calculation of the average number of days payable outstanding to suppliers, 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.

Trade payables as they relate to goods and services included in "Current suppliers, associates", "Suppliers, group and associated companies" and "Other payables" of the current liability of the balance sheet are considered suppliers, for the exclusive purpose of providing the information established in this Resolution.

"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).

(15) PUBLIC ENTITIES AND TAXATION

(a) Current balances with public entities

Details on balances with public entities at 31 December 2015 and 2014 are as follows:

Receivables

	2015	2014
	Thousands of Euros	Thousands of Euros
Taxation authorities, VAT recoverable	1,532	241
Taxation authorities, other withholdings	865	459
	<u>2,397</u>	<u>700</u>

Payables

	2015	2014
	Thousands of Euros	Thousands of Euros
Taxation authorities, VAT payable	-	2
Taxation authorities, personal income tax withholdings payable	70	72
Social Security contributions payable	4	4
	<u>74</u>	<u>78</u>

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

(b) Reconciliation of accounting profit and income

At 31 December 2015 and 2014, the tax base comprised the following:

	Thousands of Euros	
	2015	2014
Profit before taxes	5,006	1,664
Permanent differences	(4,754)	(9,158)
Temporary differences	(566)	366
Taxable income (tax loss)	(818)	(7,128)
Tax payable (0%)	-	-
Income tax expense/(tax income)	-	-

The Company has been registered for the Spanish REIT regime since 2014. Per the provisions of such regime, the applicable tax rate is 0%, and no expense has therefore been recognised in respect of corporate income tax.

At 31 December 2015 and 2014, the permanent differences heading principally comprised expenses for the issue and increase of share capital not recognised in the Consolidated Income Statement, amounting to EUR 4,764 thousand in 2015 (EUR 9,419 thousand in 2014).

Deferred tax assets and liabilities

The Company has not recognised any deferred tax assets for temporary differences on the understanding that the applicable rate is 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 (10 years for tax bases pending of compensation). The Company's directors consider that the aforementioned taxes have been adequately settled, and consequently, even if discrepancies were to arise in the interpretation of prevailing standards with respect to the tax treatment of operations, the accompanying annual accounts would not be significantly affected by any resulting liabilities.

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

	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.	-

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

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	-
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 Mediana Comercial 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: 7 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: 9 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 Mediana Comercial Galaria: 23 July 2015</p>

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

<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"> • LE Logistic Alovera I y II, S.A.U (formerly called LAR España Inversión Logística, S.A.U.): 23 July 2014 • LE Retail Hiper Albacenter, S.A.U. (formerly called LAR España Shopping Centres, S.A.U): 4 November 2014 • LE Offices Egeo, S.A.U. (formerly called LAR España Offices, S.A.U): 4 November 2014 • LE Retail Alisal, S.A.U. (formerly called Lar España Parque de Medianas, S.A.U.): 4 November 2014 • LE Offices Eloy Gonzalo 27, S.A.U. (formerly called Riverton Gestión, S.L.U.): 18 December 2014 <hr/> <ul style="list-style-type: none"> • LE Retail As Termas, S.L.U. (formerly called Global Noctua, S.L.U.): 18 December 2014 • LE Logistic Almussafes, S.L.U. (formerly called Global Zohar S.L.U.): 4 March 2015 • LE Logistic Alovera III y IV, S.L.U. (formerly called Global Tannenberg, S.L.U.): 4 March 2015 • LE Retail Hiper Ondara, S.L.U. (formerly called Global Brisulia, S.L.U.): 9 June 2015 • LE Offices Joan Miró 21, S.L.U. (formerly called Global Meiji, S.L.U.): 4 March 2015 • LE Retail El Rosal, S.L.U. (formerly called El Rosal S.L.U.): 7 July 2015 • LE Retail Sagunto, S.L.U. (formerly called Global Regimonte, S.L.U.): 26 March 2015 • LE Retail Megapark, S.L.U. (formerly called Global Morello, S.L.U.): 29 May 2015 • LE Retail Galaria, S.L.U. (formerly called Global Misner, S.L.U.): 20 July 2015 • Lar España Shopping Centres VIII, S.L.: 4 August 2015 • Lar España Parque de Medianas III, S.L.: 4 August 2015 • Lar España Offices VI, S.L.: 4 August 2015 • LE Offices Arturo Soria, S.L.U. (formerly called LAR España Offices Arturo Soria, S.L.U.): 21 September 2015 <hr/> <ul style="list-style-type: none"> • LE Retail Villaverde, S.L.U. (formerly called LAR España Parque de Medianas Villaverde, S.L.U.): 21 September 2015 <hr/> <p>- Investment properties: Txingudi shopping centre Las Huertas shopping centre Arturo Soria office building Mediana Comercial Villaverde Albacenter shopping centre</p>
<p>h) Identification of the asset included in the 80% mentioned in article 3.1 of this Law</p>	<p>Anec Blau shopping centre Marcelo Spínola office building Hiper Albacenter shopping centre Egeo office building Mediana Comercial 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:</p>

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

	<p>Hiper Ondara shopping centre Joan Miró office building El Rosal shopping centre Portal de la Marina shopping centre As Termas Petrol Station Mediana Comercial Galaria</p> <p>- Capital investments:</p> <ul style="list-style-type: none"> • 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) • 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.L.U.) • LE Retail As Termas, S.L.U. (formerly called Global Noctua, S.L.U.) • LE Logistic Almussafes, S.L.U. (formerly called Global Zohar S.L.U.) • LE Logistic Alovera III y IV, S.L.U. (formerly called Global Tannenberg, S.L.U.) • LE Retail Hiper Ondara, S.L.U. (formerly called Global Brisulia, S.L.U.) • LE Offices Joan Miró 21, S.L.U. (formerly called Global Meiji, S.L.U.) • LE Retail El Rosal, S.L.U. (formerly called El Rosal S.L.U.) • LE Retail Sagunto, S.L.U. (formerly called Global Regimonte, S.L.U.) • LE Retail Megapark, S.L.U. (formerly called Global Morello, S.L.U.) • LE Retail Galaria, S.L.U. (formerly called Global Misner, S.L.U.) • Lar España Shopping Centres VIII, S.L. • Lar España Parque de Medianas III, S.L. • Lar España Offices VI, S.L. • LE Offices Arturo Soria, S.L.U. (formerly called LAR España Offices Arturo Soria, S.L.U.) • LE Retail Villaverde, S.L.U. (formerly called LAR España Parque de Medianas Villaverde, S.L.U.)
<p>i) Reserves from years in which the special tax regime provided in this Law is applicable that have been applied in the tax period other than for the distribution thereof or to offset losses. The year from which these reserves have been taken should be specified.</p>	

(16) RELATED PARTY BALANCES AND TRANSACTIONS

(a) The Company's balances and transactions with related parties

As stated in note 11, 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 this last, 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.

The Group has also signed a contract with a related company, Gentalia 2006, S.L., (an investee of Grupo Lar Inversiones Inmobiliarias, S.A.) for the provision of services related to the administration of the properties. At 31 December 2015 the related expense amounts to EUR 729 thousand (of which EUR 137 thousand is outstanding at 31 December 2015). At 31 December 2014 the related expense amounts to EUR 288 thousand (of which EUR 95 thousand is outstanding).

Transactions and balances with related parties in the 2015 and 2014 periods are as follows:

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

	2015					
	Thousands of euros					
	Balances				Transactions	
	Loans and receivables		Payables	Current account	Income	Expense
	Non-current	Current	Current	Current		
Balances with group companies and associates						
<i>Balances with group companies</i>						
LE El Rosal Retail, S.L.U.	28,335	217	-	-	418	-
LE Megapark Retail, S.L.U.	166,317		-	-	1,052	-
LE Retail As Termas, S.L.U.	-	-	-	3	-	-
LE Retail Villaverde, S.L.U.	-	14	-	-	-	-
LE Offices Arturo Soria, S.L.U.	-	41	-	-	-	-
Inmobiliaria Juan Bravo 3, S.L.	16,774	25,000	-	(93)	2,212	-
Lavernia Investments, S.L.	-	102	-	77	89	-
Puerta Marítima Ondara, S.L.	-	-	-	(1,558)	-	-
Receivables dividends (a)	-	-	-	11,933	11,990	-
<i>Balances with associates</i>						
Grupo Lar Inversiones Inmobiliarias, S.A.	-	-	(2,379)	-	-	(11,241)
Gentalia 2006, S.L.	-	-	(137)	-	-	(729)
	211,426	25,374	(2,516)	10,362	15,761	(11,970)
 <u>(a) Receivable dividends</u>						
LE Logistic Alovera I y II, S.A.U.		2,887			3,564	
LE Retail Hiper Albacenter, S.A.U.		700			700	
LE Retail Alisal, S.A.U.		487			487	
LE Offices Egeo, S.A.U.		1,552			1,552	
LE Offices Eloy Gonzalo 27, S.A.U.		477			477	
LE Retail As Termas, S.L.U.		1,366			1,366	
LE Logistic Alovera III y IV, S.L.U.		342			342	
LE Offices Joan Miró 21, S.L.U.		419			419	
LE Retail Hiper Ondara, S.L.U.		161			161	
LE Logistic Almussafes, S.L.U.		278			278	
LE Retail Megapark, S.L.U. (*)		1,236			616	
LE Retail Galaria, S.L.U.		193			193	
LE Offices Arturo Soria, S.L.U.		175			175	
LE Retail Villaverde, S.L.U.		121			121	
Puerta Marítima Ondara, S.L.		1,539			1,539	
		11,933			11,990	

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

	2014			
	Thousands of Euros			
	Balances		Transactions	
	Debtors	Payables	Income	Expense
<u>Balances with associates suppliers</u>				
Grupo Lar Inversiones Inmobiliarias, S.A.	-	771	-	2,213
Gentalia 2006, S.L.	-	95	-	288
	-	866	-	2,501

(b) Information on the Board of Directors and Senior Management personnel of the Parent Company

The remuneration received at 31 December 2015 and 2014 by the members of the Board of Directors and Senior Management personnel of the Company, 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).

The Board of Directors is formed by five members, all of them men.

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

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

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

Apart from the transactions with related parties listed above, in 2015 the directors of the 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.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

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:

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

(17) INCOME AND EXPENSES

a) Revenue

The Company's revenues at 31 December 2015 amount to EUR 13,259 thousand and corresponds to income that stem from its principal statutory activity, namely the lease of properties owned by the Company.

The distribution and details of the company's revenue by geographic area at 31 December 2015 and 2014 appear in the following table:

	Thousands of Euros	
	2015	
	Revenue	% of total income
País Vasco	2,303	17%
Cataluña	5,792	44%
Castilla La Mancha	2,470	19%
Castilla y León	935	7%
Comunidad de Madrid	1,759	13%
	<u>13,259</u>	<u>100%</u>

	Thousands of Euros	
	2014	
	Revenue	% of total income
País Vasco	1,887	26%
Cataluña	2,376	33%
Castilla La Mancha	877	12%
Castilla y León	776	11%
Comunidad de Madrid	1,291	18%
	<u>7,207</u>	<u>100%</u>

The Group carries out its activity entirely in Spain.

b) Personnel expenses

Details of employee benefits expense at 31 December 2015 and 2014 are as follows:

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

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

c) Other operating expenses

	Thousands of Euros
	2015
Repairs and maintenance	464
Independent professional services	13,698
Insurance premiums	181
Bank fees and commissions	17
PR and advertising	75
Supplies	206
Other expenses	1,950
Taxes	549
Impairment losses and uncollectibility of trade and other receivables	74
	<u>17,214</u>

	Thousands of Euros
	2014
Operating lease expenses	32
Repairs and maintenance	45
Independent professional services	5,565
Insurance premiums	127
Bank fees and commissions	6
PR and advertising	241
Supplies	349
Other expenses	76
Taxes	221
Impairment losses and uncollectibility of trade and other receivables	162
	<u>6,824</u>

(18) EMPLOYEE INFORMATION

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

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

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

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

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

The gender distribution in the Company at 2015 and 2014 year ends is as follows:

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

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

During the period from 1 January 2015 to 31 December 2015 the Company has not contracted any employee for a Senior Management position. The expense associated with these employees at 31 December 2015 is EUR 396 thousand (EUR 108 thousand at 31 December 2014).

(19) AUDIT FEES

During 2015 and 2014, fees for audit and other related services charged to the Group by the auditor of the Company, Deloitte, S.L., and by a company related to the auditor 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	136
Other verification services	235
Professional services	
Other services	28
Total	399

	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

(20) EVENTS AFTER THE REPORTING PERIOD

On 19 January 2016 Lavernia Investments, S.L., 50% investee of Lar España Real Estate SOCIMI, S.A., formalised an agreement with Real Added Value, SCS to sell the 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. The sales expenses associated with this transaction amount to EUR 1.7 million. The Company does not expect this transaction to result in a significant result.

Lastly, on the same date, 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.

(21) EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

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

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Information on group companies
31 December 2015

a) Subsidiaries

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
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	342	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

LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

Information on group companies
31 December 2015

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
LE Retail Megapark, S.L.U.	Rosario Pino 14-16; Madrid	The acquisition and development of properties for lease	-	Subsidiary	100%	100%	4	1,771	720	1,237	4,476	4,482
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.

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 (a)
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 (b)

(a) The Company has recognised impairment for the amount of EUR 456 thousand, charged to the 2015 income statement.

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

Lar España Real Estate SOCIMI, S.A.

Management Report corresponding to the annual period ended on 31 December 2015

1 Position of the Company

1.1 Property market situation

Office Market

- **Madrid**

At 31 December 2015 the market of renting offices in the centre of Madrid shows favourable development in the level of income in the CBD area, having increased 4% compared to the same period in the previous year.

Gross take-up this year improved compared to 2014, closing in 2015 at 577,000 m², which is a 40% increase.

Office space in Madrid continues the decline started in the last quarter of 2014 and is currently slightly below 2,000,000 m². At 31 December 2015, the vacancy rate is 12.01%.

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

- **Barcelona**

Office renting rates in Barcelona have increased 11% on average throughout 2015.

Gross take-up this year was 398,000 m², which is a 41% increase compared to the previous year.

At 31 December 2015, the vacancy rate is 11%.

Prime rent in Barcelona is €20.0/m²/month.

Logistics market

The investment volume is around EUR 602 million at the close of 2015, as a result of the entrance of important institutional investors and SOCIMIs.

The level of profitability has stayed around 7% in the prime area.

Take-up has increased with respect to 2014 but not with as much force as has the investment volume.

Shopping centres

According to the last report published by the Spanish Statistical Office (INE) on 30 December 2015, the national occupancy rate has increased compared to 2014 by 1.1%.

This change was facilitated by a 4.1% increase in shopping centre sales in 2015.

The general retail trade index increased by 1.8% in 2015, with personal accessories (3.7%) and home decor (5.0%) being the most favoured sectors.

Consumption in Spain is experiencing moment, having improved compared to 2014.

Residential market

According to the statistical information published by INE, residential market prices have grown 4.5%.

Within this increase we should highlight a 4.3% increase in prices in new homes and a 4.5% increase in second-hand homes.

New property promotions have taken places, especially in Madrid and Barcelona, cities where the built residential property market is limited.

Investment market

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

- In 2015, all sectors (retail, offices, logistics) reached investment volumes similar to those before the recession.
- SOCIMIs consolidate themselves as key players in the market.
- International investors seeking opportunities continue to enter the Spanish market.
- Funding is improving in terms of the Loan-to-value ratio (LTV) and cost.

Asset management capacities and market access will be key in the upcoming months.

These trends have not changed the original plans in terms of the investment schedule or the profitability expected from said investments.

1.2 Organisational and functional structure

The Company is a recent establishment with an externalised management structure. It has designated Grupo Lar Inversiones Inmobiliarias, S.A. as exclusive manager, a company that has more than forty years of experience in the property market and a long history of generating value through various property cycles in the last decades, and that has alliances with some of the most internationally renowned investors.

Strategic management, allocation of resources, risk management and corporate control, as well as accounting and financial reports are among the main responsibilities of the Company's Board of Directors.

The Company carries out its activity with the following types of assets:

- Shopping centres: the rental of shopping centre and single-tenant commercial premises.

The Company focuses its strategy on searching for shopping centres with great potential for growth and with shortcomings in asset management, mainly those where there is the possibility to replace or expand.

Furthermore the Company has the intention to continue investing in single-tenant commercial premises that are well located and communicated.

In order to make these investments, the Company shall evaluate the possibility of signing joint venture agreements in order to limit asset concentration risk and to be able to access larger shopping centres.

- Offices: the rental of offices.

The Company mainly focuses on the markets in Madrid and Barcelona, where greater interest in institutional investors is concentrated and where there is more liquidity. The Company's strategy is to invest in property that has already been constructed, in the refurbishment thereof and in the improvement of the facilities and occupancy.

- Logistics: the rental of logistics bays.

The Company seeks to invest in large bays located in logistical platforms with good land connections and important tenants. It also seeks to invest in assets and locations where income is expected to increase.

- Residential.

The Company invests in the residential market focusing mainly on first homes located in the most consolidated areas of the major Spanish cities, Madrid and Barcelona.

The Company's investment policy focuses mainly on the following:

- Investment opportunities in mid-sized assets that offer great management possibilities, avoiding those segments where competition may be greater.
- Risk diversification, expanding throughout Spain mainly in shopping centre investments, while focusing, with respect to offices and logistics bays, on the areas of Madrid, Barcelona, and to a lesser extent, some important cities like Valencia. And in terms of the residential market (first homes), in key communities and areas of the market with limited supply. This allows the Company to have a diversified portfolio both in type of assets and in locations.

The Company has a robust pipeline that allows it to be confident that the investment plans will be achieved as expected.

2 Development and business results

2.1 Introduction

At the 2015 reporting date, the Company's revenue amounted to EUR 13,259 thousand, corresponding to the rental business the Company carries out.

In 2015, the Company has incurred Other expenses for the amount of EUR 17,213 thousand that mainly correspond to fees for management provided to the Company by Grupo Lar Inversiones Inmobiliarias, S.A. (EUR 11,241 thousand).

The operating result before amortisations, provisions and interest (EBITDA) presents a negative result of EUR 3,543 thousand.

The financial result was EUR 11,344 thousand.

The Company's profit for the period amounts to EUR 5,006 thousand.

At the reporting date of the year, the Company's rental business was valued by the following independent experts: Cushman & Wakefield and Jones Lang LaSalle.

By area of activity, we must point out:

- A significant percentage of the Company's income derives from the profits from shopping centres, representing 91% of the total income. In comparison income from offices represents the remaining 9%.
- More than 80% of the income from shopping centre rentals derives from the Anecblau, Albacenter and Txingudi centres.

At 31 December 2015, the Company has an occupancy rate of 89.4% of the gross lettable area (GLA) throughout its business. This percentage does not take into consideration the Marcelo Spínola offices as they are being remodelled.

At the 2015 reporting date, the Company has a portfolio of property projects to rent that includes four commercial centres and an office building.

2.2 Other financial indicators

At 31 December 2015, the Company presents the following financial indicators:

- Working capital balance of EUR 42,567 thousand
- Liquidity ratio of 3.73.
- Capital adequacy ratio of 1.07.

These ratios are considerably high figures, which indicates that the Company has a sufficient level of liquidity and a high margin of security to face its payments.

The ROE (Return on Equity), which measures profitability obtained by the Company on its own shares, totals 1.10%; and the ROA (Return on Assets), which measures efficiency of the Company's total assets, regardless of the source of funding used, i.e. the capacity of a company's assets to generate profit, is 0.79%.

2.3 Matters regarding the environment and personnel

Environment

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

Personnel

At 31 December 2015 the Company has 3 employees.

3 Liquidity and capital resources

3.1 Liquidity and capital resources

In this second year of activity, the Company obtained liquidity mainly through:

- The issue of 19,967,756 shares with a nominal value of EUR 2 plus an issue premium of EUR 4.76 per share.

- The issue of bonds for a total amount of EUR 140,000 thousand, with a maturity in 2022 and an annual remuneration of 2.90%.

3.2 Analysis of contractual obligations and off-balance-sheet transactions

The Company does not have any contractual obligations that imply an outflow of liquid resources at 31 December 2015 beyond those mentioned in point 3.1.

At 31 December 2015, the Company does not present off-balance-sheet transactions that have had, or are expected to have, a significant effect on the financial position of the Company, the expenditure structure, the operating result, liquidity, capital expenses or on own resources.

4 Principal risks and uncertainties

The Company is exposed to a variety of risk factors, derived from the nature of its activity. The Company's Board of Directors is responsible for approving the risk management and control policy, and it assumes responsibility for identifying the Company's main risks and supervising the internal control systems, and it is informed through the Audit and Control Committee.

5 Important developments occurred after the reporting date

On 19 January 2016 Lavernia Investments, S.L., 50% investee of Lar España Real Estate SOCIMI, S.A., formalised an agreement with Real Added Value, SCS to sell the 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. The sales expenses associated with this transaction amount to EUR 1.7 million. The Company does not expect this transaction to result in a significant result.

Lastly, on the same date, 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 foreseeable Company development

After the investment volume carried out since March 2014, active property management capacity will be key in upcoming years.

This active management strategy will lead to an increase in current income and in the profitability with respect to the purchase price. All of this will be reflected in the greater value of the assets in our portfolio.

However, the Company shall continue to analyse any investment opportunities that may be attractive and in this way continue generating value for its shareholders.

With the own reserves from the current situation, we believe that the Company will be in a position to continue making progress in 2016 and in subsequent years.

7 R&D&I activities

Because of the Company's characteristics, as well as those of its activities and its structure, the Company does not normally perform research, development or innovation activities.

8 Acquisition and transfer of treasury shares

The acquisitions were carried out within the framework of a discretionary treasury share management contract that was notified to the Spanish Securities Market Commission, in

fulfilment of the recommendations published by said body on 18 July 2013.

The average selling price of treasury shares was EUR 9.87 per share in 2015 (EUR 9.14 in 2014). The result at 31 December 2015 amounted to EUR 759 thousand (EUR 4 thousand at 31 December 2014) was recorded under Other reserves on the balance sheet.

At 31 December 2015 the share price was EUR 9.46.

At 31 December 2015, the Company holds a total of 74,250 shares, representing 0.12% of total issued shares.

9 Other relevant information

9.1 Stock information

The initial price of the share was EUR 10 and the nominal value at the reporting date was EUR 9.46. In 2015, the average price per share was EUR 9.62.

It is important to take into consideration that in August 2015 a capital increase was carried out through the issue and circulation of 19,967,756 new shares at a subscription price of EUR 6.76 each.

Currently the Company does not have a credit rating from the principal international rating agencies.

9.2 Dividend policy

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

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

Pursuant to Law 11/2009 of 26 October 2009, amended by Law 16/2012 of 27 December 2012, the 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 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.

9.3 Average number of days payable outstanding to suppliers

The average number of days payable outstanding to suppliers is 25.

10 Annual Corporate Governance Report

To the effects of Article 538 of the Spanish Companies Act, it is stated for the record that the 2015 Annual Corporate Governance Report forms part of this Management 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
TOTAL	

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:

Estimated free float	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 ☒

Description of the restrictions

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

Yes ☐ No ☒

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

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

Yes ☐ No ☒

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

B

GENERAL MEETING

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

Yes ☐ No ☒

	% 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

Maximum number of directors	15
Minimum number of directors	5

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

Name or Organization name of director	Representative	Position on the board	Date of first appointment	Date of last appointment	Election procedure
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

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

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

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

EXECUTIVE DIRECTORS

Name or company name of director	Position at the company

Total number of executive directors	
% of total board members	

EXTERNAL PROPRIETARY DIRECTORS

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

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

EXTERNAL INDEPENDENT DIRECTORS

Name or company name of director	Background
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 & 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 & Wakefield in 1980 in London where he had a role in drafting valuation standards (Red Book). Since 1995 until the end of 2013, he served as General Director of Cushman & Wakefield Spain, leading the 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 & Young.</p>

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

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

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

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

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
Executive	0	0	NA	NA	0	0	NA	NA
Proprietary	0	0	NA	NA	0	0	NA	NA
Independent	0	0	NA	NA	0	0	NA	NA
Other external	0	0	NA	NA	0	0	NA	NA
Total:	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:

Board remuneration (thousands of euros)	354
Amount accrued by serving directors in respect of pension entitlements (thousands of euros)	0
Amount accrued by former directors in respect of pension entitlements (thousands of euros)	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:

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

Total senior management remuneration (in thousands of euros)	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:

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

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

Name or company name of related director:	Name or company name of related significant shareholder:	Description of relationship:

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

Yes ☒ No ☐

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:

Number of executive committee meetings	NA
Number of audit and control committee meetings	8
Number of nomination and remuneration committee meetings	2
Number of nomination committee meetings	NA
Number of remuneration committee meetings	NA
Number of sustainability committee meetings	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:

Fully-attended meetings	12
% attendance over total votes cast in the year	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:

Name	Position

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:

Name or company name of the secretary	Representative
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
Fees for non-audit work (thousands of euros)	263	263	263
Fees for non-audit work / total amount invoiced by the audit firm (%)	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

Name	Position	Class of director
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

Name	Position	Class of director
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....

Name	Position	Class of director

% 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

	Number of female directors			
	2015 Number %	2014 Number %	2013 Number %	2012 Number %
Executive committee	NA	NA	NA	NA
Audit committee	0	0	NA	NA
Nomination and remuneration committee	0	0	NA	NA
Nomination committee	NA	NA	NA	NA
Remuneration committee	NA	NA	NA	NA
Committee of...	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
- 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 ☒ 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 ☒ 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 ☒ 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 ☒ 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 ☒ 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 ☒ 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.

Preparation of accounts and management report
of the 2015 period 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 253.2 of the Revised Spanish Companies Act and article 37 of the Spanish Code of Commerce, the Directors of Lar España Real Estate SOCIMI, S.A. (hereinafter the Company or Lar España) authorised for issue the annual accounts and management report for the period ended 31 December 2015. The 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, hereby declare that:

To the best of their knowledge, the 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 Company and the management report accompanying the annual accounts includes a reliable analysis of the development and business results and position of Lar España together with a description of the principal risks and uncertainties that they face.

Signatories:

Mr. José Luis del Valle Doblado (Chairman)

Mr. Alec Emmott

Mr. Roger Maxwell Cooke

Mr. José Luis del Valle Doblado (on behalf
of Mr. Pedro Luis Uriarte Santamarina)

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.