

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

Consolidated Financial Statements for year then ended on 31 December 2016, prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and Directors' Report, together with Independent Auditor's Report

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

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

## **INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL STATEMENTS**

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

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

We have audited the accompanying consolidated financial statements of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. ("the Parent") and Subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in net equity, consolidated cash flow statement and report on the consolidated annual accounts for the year then ended.

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

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

#### *Auditor's Responsibility*

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

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

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

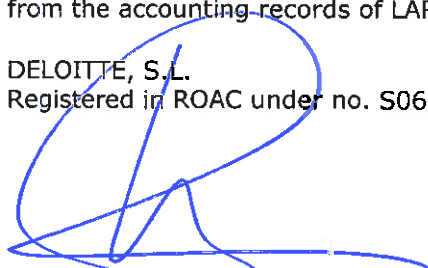
#### *Opinion*

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated equity and consolidated financial position of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. and Subsidiaries as at 31 December 2016, and their consolidated results and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the other provisions of the regulatory financial reporting framework applicable to the Group in Spain.

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

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

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



Antonio Sánchez-Covisa Martín-González  
24 February 2017



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

**Consolidated Annual Accounts for the 2016 period**

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

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

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LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES  
Consolidated Statement of Financial Position  
31 December 2016

(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>31.12.2016</u>	<u>31.12.2015</u>
Intangible assets		2	1
Investment properties	7	1,191,089	776,375
Financial assets with associates	10	2,270	16,774
Equity-accounted investees	9	7,645	43,217
Non-current financial assets	11	<u>11,205</u>	<u>8,475</u>
Total non-current assets		1,212,211	844,842
Trade and other receivables	12	18,067	4,647
Financial assets with associates	10	45,288	26,717
Other current financial assets	11	5,393	1,676
Other current assets		617	601
Cash and cash equivalents	13	<u>31,591</u>	<u>35,555</u>
Total current assets		100,956	69,196
Total assets		<u><u>1,313,167</u></u>	<u><u>914,038</u></u>

The accompanying Notes 1 to 31 and Appendix I form an integral part of the consolidated statement of financial position at 31 December 2016.



LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES  
Consolidated Statement of Financial Position  
31 December 2016

(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>31.12.2016</u>	<u>31.12.2015</u>
Share capital	14	181,081	119,996
Share premium	14	498,914	415,047
Other reserves	14, 24	42,898	(5,767)
Retained earnings	14, 15, 26	91,430	43,559
Treasury shares	14	(823)	(709)
Valuation adjustments	14	<u>(1,365)</u>	<u>(1,560)</u>
 Total equity		 812,135	 570,566
 Financial liabilities from issue of bonds and other marketable securities	 16	 138,506	 138,233
Loans and borrowings	16	301,738	173,354
Deferred tax liabilities		8,536	-
Derivatives	16	1,890	1,560
Other non-current liabilities	16, 18	<u>14,918</u>	<u>10,774</u>
 Total non-current liabilities		 465,588	 323,921
 Financial liabilities from issue of bonds and other marketable securities	 16	 3,482	 3,504
Loans and borrowings	16	7,877	5,593
Derivatives	16	1,384	-
Other financial liabilities		193	2,651
Trade and other payables	19	<u>22,508</u>	<u>7,803</u>
 Total current liabilities		 35,444	 19,551
 Total equity and liabilities		 <u>1,313,167</u>	 <u>914,038</u>

The accompanying Notes 1 to 31 and Appendix I form an integral part of the consolidated statement of financial position at 31 December 2016.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES  
Consolidated Statement of Comprehensive Income for the period ended  
31 December 2016

(Expressed in thousands of Euros)

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

<u>Consolidated Income Statement</u>	<u>Note</u>	<u>2016</u>	<u>2015</u>
Revenue	6	60,234	35,734
Other income		1,792	3,374
Other results	2	2,914	-
Personnel expenses	25	(446)	(396)
Other expenses	24	(46,401)	(20,013)
Changes in the fair value of investment properties	7	87,815	25,978
Results from operating activities		<u>105,908</u>	<u>44,677</u>
Financial income	10	4,009	2,444
Financial expenses	17	(17,746)	(6,127)
Impairment and gains/(losses) on disposal of financial instruments		13	(29)
Share in profit (loss) for the period of equity-accounted companies	9	(754)	2,594
Profit before tax from continuing operations		<u>91,430</u>	<u>43,559</u>
Profit from continuing operations		<u>91,430</u>	<u>43,559</u>
Income tax		-	-
Profit for the period		<u><u>91,430</u></u>	<u><u>43,559</u></u>
Basic earnings per share (in Euros)		1.26	0.91
Diluted earnings per share (in Euros)		1.26	0.91

<u>Consolidated Statement of Comprehensive Income</u>		<u>2016</u>	<u>2015</u>
Profit for the year (I)	26	91,430	43,559
Other Comprehensive Income Directly Recognised in Equity (II)	14	(119)	(1,560)
Other Amounts Transferred to the Income Statement (III)	14	314	-
Total Comprehensive Income (I+II+III)		<u><u>91,625</u></u>	<u><u>41,999</u></u>

The accompanying Notes 1 to 31 and Appendix I form an integral part of the consolidated statement of comprehensive income for the period ended 31 December 2016.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES  
Consolidated Statement of Changes in Net Equity  
31 December 2016

(Expressed in thousands of Euros)

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

	Share capital	Share premium	Other reserves	Other contributions	Retained earnings	Treasury shares	Valuation adjustments	Total equity
Balance at 31 December 2014	80,060	320,000	(9,425)	240	3,456	(4,838)	-	389,493
Total income and expenses recognised in the period	-	-	-	-	43,559	-	(1,560)	41,999
Transactions with equity holders or owners								
Capital increases (Note 14a)	39,936	95,047	(4,764)	-	-	-	-	130,219
Distribution of profit:								
Reserves	-	-	2,125	-	(2,125)	-	-	-
Dividends	-	-	-	-	(1,331)	-	-	(1,331)
Recognition of share-based payments (Note 14g)	-	-	5,298	-	-	-	-	5,298
Treasury shares (Note 14e)	-	-	759	-	-	4,129	-	4,888
Balance at 31 December 2015	119,996	415,047	(6,007)	240	43,559	(709)	(1,560)	570,566
Total income and expenses recognised in the period	-	-	-	-	91,430	-	195	91,625
Transactions with equity holders or owners								
Capital increases (Note 14a)	61,085	91,388	(9,435)	-	-	-	-	143,038
Distribution of profit:								
Reserves	-	-	39,060	-	(39,060)	-	-	-
Dividends	-	(7,521)	11	-	(4,499)	-	-	(12,009)
Recognition of share-based payments (Note 14g)	-	-	19,169	-	-	-	-	19,169
Treasury shares (Note 14e)	-	-	(464)	-	-	(114)	-	(578)
Other operations	-	-	324	-	-	-	-	324
Balance at 31 December 2016	181,081	498,914	42,658	240	91,430	(823)	(1,365)	812,135

The accompanying Notes 1 to 31 and Appendix I form an integral part of the consolidated statement of changes in equity for the period ended 31 December 2016.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES  
Consolidated Cash Flow Statement  
31 December 2016

(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)*

	Notes	31 December 2016	31 December 2015
A) Cash flows from operating activities		<u>19,132</u>	<u>22,674</u>
<i>Profit/(loss) for the period before tax</i>		<i>91,430</i>	<i>43,559</i>
<i>Adjustments for:</i>		<i>(56,720)</i>	<i>(21,237)</i>
Profit/(loss) from adjustments to fair value of investment properties	7	(87,815)	(25,978)
Impairment		349	95
Financial income		(4,009)	(2,444)
Financial expenses		17,746	6,127
Expenses from shared-based payments	14	19,169	5,298
Share in profit for the period of equity-accounted companies	9	754	(2,594)
Adjustments to the consideration given against profit and loss from business combinations	2	(2,914)	(1,741)
<i>Changes in operating assets and liabilities</i>		<i>(5,863)</i>	<i>1,885</i>
Inventories		-	2,843
Trade and other receivables		(12,750)	(987)
Other current and non-current assets		(1,015)	(465)
Trade and other payables		7,902	494
<i>Other cash flows from operating activities</i>		<i>(9,715)</i>	<i>(1,533)</i>
Interest paid		(9,758)	(1,676)
Interest received		43	143
B) Cash flows from investing activities		<u>(237,915)</u>	<u>(370,221)</u>
<i>Payments for investments</i>		<i>(249,477)</i>	<i>(400,577)</i>
Outflow of liquid in business acquisitions	2	(152,042)	(198,382)
Group Companies		(2,000)	(64,175)
Intangible assets		(1)	(1)
Investment properties		(93,699)	(136,851)
Other financial assets		(1,735)	(1,168)
<i>Proceeds from sales on divestments</i>		<i>11,562</i>	<i>30,356</i>
Other financial assets		9,663	30,356
Other assets		361	-
Receipt of dividends		1,538	-
C) Cash flows from financing activities		<u>214,819</u>	<u>362,850</u>
<i>Payments made and received for equity instruments</i>		<i>142,460</i>	<i>135,107</i>
Proceeds from the issuance of share capital	14	143,038	130,219
Acquisition / disposal of equity instruments	14	(578)	4,888
<i>Proceeds from financial liability instruments</i>		<i>84,368</i>	<i>229,074</i>
Issue of:			
Bonds and other marketable securities		-	138,005
Loans and borrowings	17	85,724	86,149
Other financial liabilities		(1,356)	4,920
<i>Dividends paid and remuneration on other equity instruments</i>			
Dividends paid	14	(12,009)	(1,331)
E) Net increase in cash and cash equivalents		(3,964)	15,303
F) Cash and cash equivalents at the beginning of the period		35,555	20,252
G) Cash and cash equivalents at the end of the period		<u>31,591</u>	<u>35,555</u>

Notes 1 to 31 and Appendix I form an integral part of the consolidated statement of cash flows for the period ended 31 December 2016.

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES  
Report on the consolidated annual accounts  
Annual period ended 31 December 2016

(1) NATURE, ACTIVITIES AND COMPOSITION OF THE GROUP

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

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

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

- The acquisition and development of urban properties for lease.

The holding of investments in the capital of other SOCIMIs (listed corporations for investment in the real estate market - Spanish "REITs") or in other entities not resident in Spain that have an identical statutory activity and are subject to a regime similar to that applicable to SOCIMIs, insofar as they have a legal or statutory obligation to distribute profits.

- The holding of investments in the capital of other resident or non-resident entities in Spain, the main activity of which is the acquisition of urban properties for lease. These entities must be subject to the same regime established for SOCIMIs insofar as they have a legal or statutory obligation to distribute profits and must also comply with the investment requirements stipulated in Article 3 of Law 11/2009 of 26 October 2009, amended by Law 16/2012 of 27 December 2012 which governs SOCIMIs.
- The holding of shares or investments in property collective investment undertakings governed by Law 35/2003 of 4 November on collective investment undertakings, amended by Royal Decree 83/2015 of 13 February 2015 on property collective investment undertakings.
- In addition to the economic activity derived from the principal statutory activity, SOCIMIs may carry out complementary activities. These are understood to be activities that do not

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

Report on the consolidated annual accounts

Annual period ended 31 December 2016

amount to more than 20% of the total earnings of the Group in each tax period or those which can be considered complementary pursuant to prevailing legislation.

Lar España Real Estate SOCIMI, S.A. and its subsidiaries and associates, LE Logistic Alovera I y II, S.A.U., LE Retail Hiper Albacenter, S.A.U., LE Retail Alisal, S.A.U., LE Offices Egeo, S.A.U., LE Offices Eloy Gonzalo 27, S.A.U., LE Retail As Termas, S.L.U., LE Retail Portal de la Marina, S.L.U. (formerly called Puerta Marítima Ondara, S.L.U.), LE Logistic Alovera III and IV, S.L.U., LE Offices Joan Miró, S.L.U., LE Retail Hiper Ondara, S.L.U., LE Logistic Almussafes, S.L.U., LE Retail Sagunto S.L.U., LE Retail Megapark, S.L.U., LE Retail El Rosal, S.L.U., LE Retail Galaria, S.L.U., Lar España Shopping Centres VIII, S.L.U., LE Retail Vistahermosa, S.L.U. (formerly called Lar España Parque de Medianas III, S.L.U.), Lar España Offices VI, S.L.U., Lar España Inversión Logística IV, S.L.U., LE Offices Arturo Soria, S.L.U., LE Retail Villaverde, S.L.U., LE Retail Anec Blau, S.L.U., LE Retail Albacenter, S.L.U., LE Retail Txingudi, S.L.U., LE Retail Las Huertas, S.L.U., LE Offices Marcelo Spínola 42, S.L.U., LE Retail Gran Vía de Vigo, S.A.U. (formerly called Gran Vía Centrum Holding, S.A.U.) and Inmobiliaria Juan Bravo 3, S.L. and Lavernia Investments, S.L.U. (until 21 September 2016, when same was liquidated), (hereinafter the "Group") which are listed in detail below, have as their principal activity the acquisition and management of shopping centres and offices. However, they may invest on a smaller scale in other assets for rent or for direct sale (commercial premises, industrial bays, logistics centres or residential products).

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

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

1. SOCIMIs must invest at least 80% of their assets in urban properties for lease, in land for the development of urban properties for lease, provided that development commences within three years after the acquisition, or in the 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 period. 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 period. For these purposes, cash or receivables derived from transfers of these properties or investments, if any, carried out in the current period or previous periods shall not be included provided, in the latter case, that the period for reinvestment stipulated in Article 6 of the aforementioned Law has not expired.

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

LAR ESPAÑA REAL ESTATE SOCIMI, S.A. AND SUBSIDIARIES  
Report on the consolidated annual accounts  
Annual period ended 31 December 2016

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.

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

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

## Report on the consolidated annual accounts

Annual period ended 31 December 2016

- 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.

As detailed in Article 3 of the Law on SOCIMIs, the entity/entities of the Group shall no longer be included in the special tax regime established in said Law, and shall begin paying taxes under the general Income Tax regime, in the same tax period in which any of the following circumstances arise:

- The exclusion from trading on regulated markets or in a multi-lateral trading system.
- The substantial breach of the information obligations referenced in Article 11 of said Law, unless the following report corrects such breach.
- The failure to agree to the total or partial distribution or payment of the dividends under the terms and within the periods referenced in Article 6 of said Law. In this case, taxation under the general regime shall take place in the tax period referencing the reporting period in which the profits giving rise to said dividends were made.
- The renouncement of the application of this special tax regime.

The failure to fulfil any other requirements stipulated in said Law in order for the entity/entities to apply the special tax regime, except where the failure to fulfil said requirement is corrected within the following period. Nevertheless, the breach of the period referenced in Article 3.3 of said Law shall not lead to exclusion from the special tax regime.

The exclusion from the special tax regime will prevent the entity from choosing to apply the special tax regime established in said Law again, until at least three years since the end of the last tax period in which the entity was included under the special tax regime.

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



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The composition of the Group at 31 December 2016 and its method of integrating the Subsidiaries in the consolidated financial statements are as follows:

Corporate Name	Company Address	Activity	Company holding the stake	% stakes	Method of integration
LE Logistic Alovera I y II, S.A.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Hiper Albacenter, S.A.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Alisal, S.A.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Offices Egeo, S.A.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Offices Eloy Gonzalo 27, S.A.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail As Termas, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Portal de la Marina, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
Inmobiliaria Juan Bravo 3, S.L.	Calle Rosario Pino, 14-16 28020 Madrid	Property leasing and development	Lar España Real Estate SOCIMI, S.A.	50	Shareholding
LE Logistic Alovera III y IV, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Offices Joan Miró 21, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Hiper Ondara, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Logistic Almussafes, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Sagunto, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	The acquisition and development of properties for lease	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Megapark, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Galaria, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Offices Arturo Soria, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global

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LE Retail Villaverde, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
Lar España Shopping Centres VIII, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Albacenter, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Anec Blau, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Txingudi, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Las Huertas, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Offices Marcelo Spínola 42, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Vistahermosa, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
Lar España Offices VI, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
Lar España Inversión Logística IV, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail El Rosal, S.L.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global
LE Retail Gran Via de Vigo, S.A.U.	Calle Rosario Pino, 14-16 28020 Madrid	Leasing of property	Lar España Real Estate SOCIMI, S.A.	100	Global

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(2) BASIS OF PRESENTATION

(a) Regulatory framework

The accompanying consolidated annual accounts for the period ended 31 December 2016 have been prepared on the basis of the accounting records of Lar España Real Estate SOCIMI, S.A. and subsidiaries, and in accordance with:

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

To present fairly the consolidated equity and consolidated financial position of Lar España Real Estate SOCIMI, S.A. and subsidiaries at 31 December 2016 and the consolidated results of operations, changes in consolidated equity and consolidated cash flows for the 2016 period, these consolidated annual accounts have been prepared applying the regulations in force at 31 December 2016.

(b) Functional and presentation currency

The figures disclosed in the consolidated annual accounts for the period ended 31 December 2016 are expressed in thousands of Euros, which is the functional and presentation currency of the Parent Company.

(c) Comparative information

In accordance with the international financial reporting standards adopted by the European Union, the information contained in these consolidated financial statements corresponding to the annual period ended 31 December 2015 is presented for comparative purposes together with the information related to the 2016 period.

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

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

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

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

(i) Relevant accounting estimates and assumptions

- Calculation of fair value of investment properties (see Note 7).
- Valuation allowances for bad debts and the review of individual balances based on customers' credit ratings, market trends and the historical analysis of bad debts at an aggregated level all require a high degree of judgement by the management (see note 12).
- Determination of the fair value of certain financial instruments (see Note 9).
- Assessment of provisions and contingencies.
- Financial risk management (see Note 22).
- Calculation of fair value of shared-based payments or equity instruments (Note 14).
- Compliance with the requirements that regulate SOCIMIs (Note 1).
- Determination of the fair value and nature of derivative financial instruments (see Note 17).
- Definition of the transactions carried out by the Group as a business combination in accordance with IFRS 3 or as an asset acquisition (see Note 2).

(ii) Changes in accounting estimates

Although estimates are calculated by the Parent Company's directors based on the best information available at 31 December 2016, future events may require changes to these estimates in subsequent years. The effect on the consolidated financial statements of any changes arising from the adjustments to be made in subsequent periods would be recognised prospectively, in accordance with the provisions of IAS 8.

(e) Standards and interpretations adopted since 1 January 2016

The following mandatory standards and interpretations already adopted by the European Union entered into force in 2016 and, where applicable, have been used by the Group to prepare the accompanying consolidated annual accounts at 31 December 2016:

- Amendment to IAS 19 Defined Benefit Plans: Employee Contributions (published in November 2013). The amendments are issued to clarify the requirements on how to allocate employee or third-party contributions linked to service periods. Effective for annual periods beginning on or after 1 February 2015. This standard entered into force on 1 July 2014.

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- Improvements to IFRS Cycle 2010-2012 (published in December 2013). Minor changes in a series of standards, notably: IFRS 2 Share-based Payment, IFRS 3 Business Combinations (and parallel changes to IFRS 9, IAS 39, IAS 37), IFRS 8 Operating Segments, IFRS 13 Fair Value Measurement (bases of the conclusion), IAS 16 Property, Plant and Equipment, and IAS 38 Intangible Assets and IAS 24 Related Party Disclosures. Effective for annual periods beginning on or after 1 February 2015. These improvements started entering into force on 1 July 2014, depending on the improvement.
- Amendment of IAS 16 and IAS 38 - Acceptable methods of depreciation and amortisation methods (published in May 2014). It clarifies the acceptable methods of tangible and intangible assets, not including those based on income. Effective for annual periods beginning on or after 1 January 2016.
- Amendment to IFRS 11 Accounting for acquisitions of interests in joint operations (published in May 2014). The amendment specifies how to account for the acquisition of an interest in a joint operation in which the activity of the joint operation constitutes a business. Effective for annual periods beginning on or after 1 January 2016.
- Amendment to IAS 16 and IAS 41 Production plants (published in June 2014). Production plants will be carried at cost instead of fair value. Effective for annual periods beginning on or after 1 January 2016.
- Improvements to IFRS Cycle 2012-2014 (published in September 2014). Minor changes in a series of standards, notably: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting. Effective for annual periods beginning on or after 1 January 2016, depending on the improvement.
- Amendment to IAS 27 Application of the equity method in Separate Financial Statements (published in August 2014). The equity method will be allowed in the individual financial statements of an investor. Effective for annual periods beginning on or after 1 January 2016.
- Amendments to IAS 1 Disclosure initiative (published in December 2014). Various clarifications on breakdowns (materiality, bundling, order of notes, etc.) Effective for annual periods beginning on or after 1 January 2016.
- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Companies (published in December 2014). Clarifications on the exclusion from consolidation of investment companies.

(f) Standards and interpretations issued but not effective at 1 January 2016

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

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(i) Approved for use in the European Union

- IFRS 15 Revenue from Contracts with Customers (published in May 2014). New revenue recognition standard (replaces IAS 11, IAS 18, IFRIC 13, IFRIC 15, IFRIC 18 and SIC-31). Effective for annual periods beginning on or after 1 January 2018. (Improvements to IFRS 15 are pending adoption).
- IFRS 9 Financial instruments (published in July 2014). This replaces the requirements for classification, measurement and derecognition of financial assets and financial liabilities and hedge accounting under IAS 39. Effective for annual periods beginning on or after 1 January 2018.

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

- Improvements to IFRS 15 (published in April 2016). These improvements concentrate on identifying performance obligations, principal versus agent considerations, licensing, whether the licences are transferred at a point in time or over time, as well as some clarifications on transition requirements. Effective for annual periods beginning on or after 1 January 2018.
- IFRS 16 Leases (Published in January 2016). New leasing regulation that substitutes IAS 17 and the associated interpretations. The main change is that the new regulation proposes a single accounting model for tenants that will include all leases on the balance sheet (with few exceptions) that have an impact similar to that of current financial leases. Effective for annual periods beginning on or after 1 January 2019.

(iii) Amendments and/or interpretations

- Amendment to IAS 7 Disclosure initiative (published in January 2016). This amendment introduces requirements for additional disclosures in order to improve information provided to users. Effective for annual periods beginning on or after 1 January 2017.
- Amendment to IAS 12 Recognition of deferred tax assets for unrealised losses (published in January 2016). This amendment clarifies the principles established regarding the recognition of deferred tax losses for unrealised losses. Effective for annual periods beginning on or after 1 January 2017.
- Amendment to IFRS 2 Classification and Measurement of Share-based Payments (published in June 2016). These are restricted amendments that clarify specific questions such as the effects of the accrual conditions on share-based payments to be settled in cash, the classification of share-based payments when there are settlement clauses regarding the net amount, and some aspects of the amendments on the rate of payment based on shares (cash or shares). Effective for annual periods beginning on or after 1 January 2018.

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- Amendment to IFRS 4 Insurance Contracts (published in September 2016). This amendment provides entities falling under the scope of IFRS 4 with the option of applying IFRS 9 (Overlay approach) or a temporary exemption therefrom. Effective for annual periods beginning on or after 1 January 2018.
- Amendment to IAS 40 Reclassification of Investment Properties (published in December 2016). This amendment clarifies that a reclassification of an investment from or to property investment is only allowed when there is evidence of a change in the use thereof. Effective for annual periods beginning on or after 1 January 2018.
- Improvements to IFRS Cycle 2014-2016 (published in December 2016). Minor changes in a series of standards, notably: IFRS 1 First-time Adoption of IFRS, IFRS 12 Disclosure of Interests in Other Entities, and IAS 28 Investments in Associates and Joint Ventures. Effective for annual periods beginning on or after 1 January 2018, depending on the improvement.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration (published in December 2016). This interpretation establishes the "date of the transaction" for the purposes of determining the applicable exchange rate in transactions with advance consideration in foreign currency. Effective for annual periods beginning on or after 1 January 2018.
- Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (published in September 2014). This amendment makes clarifications regarding the result of these transactions when dealing with businesses or assets. There is no effective date; the adoption thereof by the European Union and the application thereof according to the IASB has been postponed indefinitely.

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

(g) Changes to the composition of the group

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

*Business combinations*

Below appear the details of the business combinations that took place in the 2016 period with the purpose of developing the Group's investment plan.

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2016 Period

- On 30 March 2016, the Parent Company has acquired 41.22% of the stakes in LE Retail Portal de la Marina, S.L.U. (formerly called Puerta Marítima Ondara, S.L.U.) from the company Grupo Lar Actividad de Arrendamiento, S.A.U., a company wholly-owned by Grupo Lar Inversiones Inmobiliarias, S.A. (as of 31 December 2015, the Parent Company already owned the remaining 58.78% of the share capital and consolidated it by the equity method).

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

Company	Principal Activity	Date of acquisition	Percentage of shareholding (voting rights) acquired	Transferred consideration (thousands of Euros)
LE Retail Portal de la Marina, S.L.U.	The acquisition and development of properties	30/03/2016	41.22%	14,588

	Thousands of Euros		
	Carrying amount	Value adjustment	Fair value
Investment properties	80,602	6,198	86,800
Non-current financial investments	982	-	982
Suppliers' advances	57	-	57
Trade and other receivables	707	-	707
Other assets	616	-	616
Cash and other cash equivalent assets	478	-	478
Non-current financial debt with credit institutions	(39,183)	-	(39,183)
Other non-current loans and borrowings	(1,350)	-	(1,350)
Non-current derivatives	(321)	-	(321)
Current financial debt with credit institutions	(4,292)	-	(4,292)
Trade and other payables	(2,126)	-	(2,126)
<b>Total net assets</b>	<b>36,170</b>	<b>6,198</b>	<b>42,368</b>
<b>Transferred consideration for the 41.22%</b>			<b>14,588</b>
58.78% of the fair value of shares prior to acquisition			24,904
58.78% of the fair value of shares at 30/03/2016			20,799
<b>Losses from decreases in equity-accounted investments</b>			<b>(4,105)</b>
100% of the fair value of shares prior to acquisition			42,368
100% of the fair value of shares at 30/03/2016			35,390
<b>Profit from the business combination</b>			<b>6,978</b>
Net profit from the business combination			2,873



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As stated in IFRS 3, on business combinations carried out in steps, each exchange transaction will be processed separately by the acquiring entity, using the information on the cost of the transaction and the fair value, on the date of each exchange.

On 30 March 2016, the Group recorded a decrease in the investment prior to the take-over (58.78%), calculating the fair value thereof to be equal to the price paid for 41.22% of the shares of the company at said date, i.e. EUR 20,799 thousand. Said decrease led to the registry of a result of EUR (4,105) thousand which was recorded under Financial Expenses on the attached Consolidated Statement of Comprehensive Income. The amount of consideration transferred for the acquired shares was established on the date of the sale contract, i.e. 30 September 2015, according to the appraisals of the property investment held by LE Retail Portal de la Marina, S.L.U. that were available on said date. Said appraisals were carried out by independent third parties not belonging to the Group.

In turn, and simultaneously, after taking control of the subsidiary on 30 March 2016, the Group fully consolidated the Company's assets. The fair value of the assets of LE Retail Portal de la Marina, S.L.U. at 31 March 2016 was calculated to total EUR 42,368 thousand, which was calculated using the last available appraisal for the property investment held by the company (on 31 December 2015) which was carried out by third parties not belonging to the Group. As a result, the first consolidation in the business combination resulted in a negative difference of EUR 6,978 thousand, which was recorded under "Other income" in the attached Consolidated Statement of Comprehensive Income.

The assets attributed with the fair value are investment properties. The main asset of the acquired company is the Portal de la Marina shopping centre located in Alicante, Valencia. Said asset is leased to several tenants, through lease contracts for the commercial premises that constitute the asset. Said rentals make up the sole source of income.

The fair value of acquired receivables, mainly of a commercial nature, totalled EUR 707 thousand and do not differ from their gross contractual amounts. At the acquisition date the Parent Company's directors do not find any signs that these receivables will not be collected in their totality.

The income obtained by the Parent Company from stakes in equity instruments due to the 58.78% of the share capital of the acquired company held in the first three months of 2016 has amounted to EUR 580 thousand.

If the acquisition had taken place on 1 January 2016, the income contributed to the Group would have increased by EUR 1,631 thousand. The Directors have used the income received from 1 January 2016 when determining said amount.

The net cash flow in the acquisition would be:

	Thousands of Euros
Cash paid	14,588
Less: Cash and cash equivalents	(478)
Total	<u>14,110</u>

- On 15 September 2016, the Parent Company acquired 100% of the shares of formerly called Gran Via Centrum Holdings, S.A. (LE Retail Gran Vía de Vigo, S.A.U. ), from Quercus Opportunitas Iberia Holdings SOCIMI, S.A.U.

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

Company	Principal Activity	Date of acquisition	Percentage of shareholding (voting rights) acquired	Transferred consideration (thousands of Euros)
LE Retail Gran Vía de Vigo, S.A.U.	The acquisition and development of properties	15/09/2016	100%	142,371

Thousands of Euros			
	Carrying amount	Value adjustment	Fair value
Investment properties	110,355	34,145	144,500
Trade and other receivables	268	-	268
Other assets	2,102	-	2,102
Cash and other cash equivalent assets	4,439	-	4,439
Deferred tax liabilities	-	(8,536)	(8,536)
Financial debt with credit institutions	(76,498)	(2,983)	(79,481)
Other non-current loans and borrowings	(1,692)	-	(1,692)
Trade and other payables	(2,777)	-	(2,777)
<b>Total net assets</b>	<b>36,197</b>	<b>22,626</b>	<b>58,823</b>
<b>Transferred consideration for the 100%</b>			<b>62,890</b>
<b>Loss from the business combination</b>			<b>(4,067)</b>
<b>Net loss from the business combination</b>			<b>(4,067)</b>

The total amount paid by the Parent Company was EUR 142,371 thousand, of which EUR 79,481 thousand was used to cancel the loan held by Gran Vía de Vigo, S.A.U. at the date of acquisition.

The loss of EUR 4,067 thousand obtained from the business combination was registered under "Other income" on the Consolidated Statement of Income.

On 29 June 2016 a private sales contract was signed, for the initial rate of EUR 63,002 thousand. Subsequently, on 15 September 2016, said contract was placed on public record and the price was subsequently decreased by EUR 112 thousand.

The assets attributed with the fair value are investment properties. The main asset of the acquired company is the Gran Vía shopping centre located in Vigo, Galicia, the fair value of which when purchased was EUR 144,500 thousand. Said asset is leased to several tenants, through lease contracts for the commercial premises that constitute the asset. Said rentals make up the sole source of income.

On 30 June 2016, the sole shareholder at said date informed the State Agency for Tax Administration that the company waived its application of the regime established in Law 11/2009 of 26 October regulating SOCIMIs, due to the fact that the sole shareholder of the company was not expected to

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meet the listings requirement during the two-year transition period established in the first transitional provision of Law 11/2009, of which the company availed itself on 11 February 2015.

On the date of acquisition, based on IAS 12 on Income Tax, the line item "Deferred tax liabilities" includes 25% of the difference between the tax value and the fair value of the asset because of the capital gains that will be taxed in the future when the asset is sold.

The fair value of acquired receivables, mainly of a commercial nature, totalled EUR 268 thousand and do not differ from their gross contractual amounts. At the acquisition date the Parent Company's directors did not find any signs that these receivables will not be collected in their totality.

The profit (loss) and income from leasing activities (without considering valuation adjustments to investment properties, the adjustment to the deferred tax liabilities and financial expenses from recognising debt at its nominal value) incorporated in the 2016 period since the date of acquisition and included in the consolidated income statement for the 2016 period amounted to EUR 632 thousand and EUR 2,238 thousand respectively.

If the acquisition had taken place on 1 July 2016 (the beginning date of each accounting period of the acquired company), the income contributed to the Group would have increased by EUR 2,196 thousand. The Directors have used the income received from 1 July 2016 when determining said amount.

In addition, on 15 September 2016, the Company changed its name to LE Retail Gran Vía de Vigo, S.A.U.

On the same date the company changed its tax period from 30 June 2016 to 31 December 2016.

The net cash flow in the acquisition was:

	<u>Thousands of Euros</u>
Cash paid:	
- For stakes	62,890
- For the cancelled loan	79,481
Less: Cash and cash equivalents	<u>(4,439)</u>
Total	<u><u>137,932</u></u>

- On 29 April 2016, the Parent Company incorporated LE Retail Anec Blau, S.L.U. The share capital is divided among 3,000 shares of EUR 1 nominal value each, totalling EUR 3,000. The company shares were created with a business establishment bonus of EUR 26,527.95 per share. The company shares and the business establishment bonus were fully paid by the Parent Company through a non-monetary contribution.
- On 29 April 2016, the Parent Company incorporated LE Retail Albacenter, S.L.U. The share capital is divided among 3,000 shares of EUR 1 nominal value each, totalling EUR 3,000. The company shares were created with a business establishment bonus of EUR 9,542.23 per share. The company shares and the business establishment bonus were fully paid by the Parent Company through a non-monetary contribution.
- On 29 April 2016, the Parent Company incorporated LE Retail Txingudi, S.L.U. The share capital is divided among 3,000 shares of EUR 1 nominal value each, totalling EUR 3,000. The company

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shares were created with a business establishment bonus of EUR 9,074.29 per share. The company shares and the business establishment bonus were fully paid by the Parent Company through a non-monetary contribution.

- On 29 April 2016, the Parent Company incorporated LE Retail Las Huertas, S.L.U. The share capital is divided among 3,000 shares of EUR 1 nominal value each, totalling EUR 3,000. The company shares were created with a business establishment bonus of EUR 3,981.01 per share. The company shares and the business establishment bonus were fully paid by the Parent Company through a non-monetary contribution.
- On 29 April 2016, the Parent Company incorporated LE Offices Marcelo Spínola 42, S.L.U. The share capital is divided among 3,000 shares of EUR 1 nominal value each, totalling EUR 3,000. The company shares were created with a business establishment bonus of EUR 7,851.48 per share. The company shares and the business establishment bonus were fully paid by the Parent Company through a non-monetary contribution.

The incorporation of all these companies did not have an impact on said consolidated financial statements.

- On 21 September 2016, the company Lavernia Investments, S.L.U., a 50% investee of the Parent Company included using the equity method, was liquidated. The liquidation of these stakes has not significantly impacted the 2016 annual accounts.

During the 2015 period the following changes were made to the scope of consolidation:

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

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- f. In September 2015, the Parent Company incorporated the Company LE Retail Villaverde, S.L.U. (formerly called Lar España Parque de Medianas Villaverde, S.L.U.). The share capital totalled EUR 3 thousand. The company shares were created with a business establishment bonus of EUR 3 thousand per share. The company shares and the business establishment bonus were fully paid by the Parent Company through a non-monetary contribution.
- g. In September 2015, the Parent Company incorporated the Company LE Offices Arturo Soria, S.L.U. (formerly called Lar España Offices Arturo Soria, S.L.U.). The share capital totalled EUR 3 thousand. The company shares were created with a business establishment bonus of EUR 8 thousand per share. The company shares and the business establishment bonus were fully paid by the Parent Company through a non-monetary contribution.
- h. On 18 December 2015, the Extraordinary General Shareholders' Meeting approved the purchase of the remaining 41.22% of the Company Puerta Marítima Ondara, S.L. from the Company Gestora Grupo Lar España Inversiones Inmobiliarias, S.A., which was carried out in the first quarter of 2016.

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

None of the companies incorporated in the scope of consolidation in 2015, with the exception of Inmobiliaria Juan Bravo 3, had any significant activity, assets or liabilities at the acquisition date.

*Business combinations*

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

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

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

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	Thousands of Euros		
	Carrying amount	Value adjustment	Fair value
Investment properties	80,532	6,968	87,500
Other assets	3,996	(589)	3,407
Non-current liabilities	(83,591)	-	(83,591)
Current liabilities	(1,521)	-	(1,521)
 Total net assets	 (584)	 6.379	 5,795
Transferred consideration	-	-	(4,054)
Profit from business combinations	-	-	1,741

The profit of EUR 1,741 thousand obtained from the business combination is registered under "Other income" on the Consolidated Statement of Income.

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

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

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

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

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

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

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The net cash flow in the acquisition was:

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

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

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

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

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

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

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

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

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

The fair value of acquired receivables, mainly of a commercial nature, totalled EUR 77 thousand and do not differ from their gross contractual amounts. At the acquisition date the Parent Company’s directors did not find any signs that these receivables will not be collected in their totality.

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

If the acquisition thereof had taken place when the company began its activity (July 2015), the income contributed to the group would have increased by EUR 3,546 thousand and EUR 621 thousand, respectively, compared with these financial statements. The Directors have used the income received from 1 July 2015 when determining said amount.

The net cash flow in the acquisition would be:

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

(3) DISTRIBUTION OF PROFIT

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

	<u>Thousands of Euros</u>
<u>Basis of allocation</u>	
Profit for the year	3,800,047.55
Share premium	26,584,414.41
<u>Distribution</u>	
Legal reserve	380,004.76
Dividends	30,000,000.00
Voluntary reserve	<u>4,457.20</u>
	<u>30,384,461.96</u>



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(4) CONSOLIDATION PRINCIPLES

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

The Group companies have been consolidated using the financial statements at 31 December 2016.

(a) Subsidiaries

Subsidiaries are entities, including structured entities, over which the Parent Company, either directly or indirectly through subsidiaries, exercises control.

The Parent Company controls a subsidiary when it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. The Parent Company has power over a subsidiary when it has existing substantive rights that give it the ability to direct the relevant activities. The Parent is exposed, or has rights, to variable returns from its involvement with the subsidiary when its returns from its involvement have the potential to vary as a result of the subsidiary's performance.

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

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

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

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

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

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

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(b) Joint Ventures

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

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

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

(c) Business combinations

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

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

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

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

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(d) Harmonisation of account items

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

In 2016, the same date has been used for the accounting close of the annual accounts of all the companies included in the consolidated group, or the reporting dates have been temporarily standardised to match that of the Parent Company.

(e) Consolidated group

The companies included in the consolidated Group and the consolidation method used at 31 December 2016 and 31 December 2015 are as follows:

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2016 Period

Company	Inclusion	Activity	% Participation	Consolidation method
Inmobiliaria Juan Bravo 3, S.L. ( <i>i</i> )	On acquisition	Property leasing and development	50%	Shareholding
LE Logistic Alovera I y II, S.A.U.	On incorporation	Leasing of property	100%	Global
LE Logistic Alovera III y IV, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Logistic Almussafes, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Hiper Ondara, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Offices Joan Miró 21, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Megapark, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Sagunto, S.L.U.	On acquisition	The acquisition and development of properties for lease	100%	Global
LE Retail Galaria, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Villaverde, S.L.U.	On incorporation	Leasing of property	100%	Global
LE Offices Arturo Soria, S.L.U.	On incorporation	Leasing of property	100%	Global
LE Retail Alisal, S.A.U.	On incorporation	Leasing of property	100%	Global
LE Retail Portal de la Marina, S.L.	On acquisition	Leasing of property	100%	Global
LE Retail As Termas, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Offices Eloy Gonzalo 27, S.A.U.	On acquisition	Leasing of property	100%	Global
LE Offices Egeo, S.A.U.	On incorporation	Leasing of property	100%	Global
LE Retail Hiper Albacenter, S.A.U.	On incorporation	Leasing of property	100%	Global
LE Retail El Rosal, S.L.U.	On acquisition	Leasing of property	100%	Global
Lar España Shopping Centres VIII, S.L.U.	On incorporation	Leasing of property	100%	Global
Lar España Offices VI, S.L.U.	On incorporation	Leasing of property	100%	Global
LE Retail Vistahermosa, S.L.U.	On incorporation	Leasing of property	100%	Global
Lar España Inversión Logística IV, S.L.U.	On incorporation	Leasing of property	100%	Global
LE Retail Anec Blau, S.L.U.	On incorporation	Leasing of property	100%	Global

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LE Retail Albacenter, S.L.U.	On incorporation	Leasing of property	100%	Global
LE Retail Txingudi, S.L.U.	On incorporation	Leasing of property	100%	Global
LE Retail Las Huertas, S.L.U.	On incorporation	Leasing of property	100%	Global
LE Offices Marcelo Spínola 42, S.L.U.	On incorporation	Leasing of property	100%	Global
LE Retail Gran Via de Vigo, S.A.U.	On acquisition	Leasing of property	100%	Global

2015 Period

Company	Inclusion	Activity	% stakes	Consolidation method
Inmobiliaria Juan Bravo 3, S.L.	On acquisition	Property leasing and development	50%	Shareholding
LE Logistic Alovera I y II, S.A.U.	On incorporation	Leasing of property	100%	Global
LE Logistic Alovera III y IV, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Logistic Almussafes, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Hiper Ondara, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Offices Joan Miró 21, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Megapark, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Sagunto, S.L.U.	On acquisition	The acquisition and development of properties for lease	100%	Global
LE Retail Galaria, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Retail Villaverde, S.L.U.	On incorporation	Leasing of property	100%	Global
LE Offices Arturo Soria, S.L.U.	On incorporation	Leasing of property	100%	Global
LE Retail Alisal, S.A.U.	On incorporation	Leasing of property	100%	Global
Lavernia Investments, S.L.	On acquisition	Property leasing and development	50%	Shareholding
LE Retail Portal de la Marina, S.L.	On acquisition	Leasing of property	58.78%	Shareholding
LE Retail As Termas, S.L.U.	On acquisition	Leasing of property	100%	Global
LE Offices Eloy Gonzalo 27, S.A.U.	On acquisition	Leasing of property	100%	Global

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LE Offices Egeo, S.A.U.	On incorporation	Leasing of property	100%	Global
LE Retail Hiper Albacenter, S.A.U.	On incorporation	Leasing of property	100%	Global
LE Retail El Rosal, S.L.U.	On acquisition	Leasing of property	100%	Global
Lar España Shopping Centres VIII, S.L.U.	On incorporation	Leasing of property	100%	Global
Lar España Offices VI, S.L.U.	On incorporation	Leasing of property	100%	Global
Lar España Parque de Medianas III, S.L.U.	On incorporation	Leasing of property	100%	Global
Lar España Inversión Logística IV, S.L.U.	On incorporation	Leasing of property	100%	Global

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

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(5) ACCOUNTING PRINCIPLES

(a) Investment properties

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

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

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

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

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

(b) Leases

(i) Classification of leases

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

(ii) Operating leases

- Lessor accounting records

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

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

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

- Lessee accounting records

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

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

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

(c) Financial instruments

(i) Classification of financial instruments

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

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

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

(ii) Offsetting principles

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

(iii) Loans and receivables

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



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under financial assets with associates and trade and other receivables in the consolidated statement of financial position, and the security deposits and guarantees are shown under non-current financial assets or other current financial assets, according to when they mature.

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

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

(iv) Impairment and uncollectibility of financial assets

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

- Impairment of financial assets carried at amortised cost

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

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

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

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

(v) Financial liabilities

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

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

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

- Derecognition of financial assets

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

- Derecognition and modifications of financial liabilities

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

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

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

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

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

(d) Derivative financial instruments and accounting of hedging transactions

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

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

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

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

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accumulated profits or losses recognised in net equity are transferred to the net results of the period.

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

At 31 December 2016, after evaluating the hedging of the derivatives, some derivatives considered hedged until 31 December 2015 no longer meet the criteria to be accounted for as hedges. In the 2016 period, EUR 1,454 thousand in financial expenses from changes in value from 31 December 2015 to 31 December 2016 were recognised and charged against Financial expenses on the consolidated statement of comprehensive income.

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

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

The fair values of financial assets and liabilities with standard terms and conditions and that are traded on active markets and cash are determined by referencing the prices listed on the market.

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

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

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

- Level 1: listed price (unadjusted) on active markets for identical assets or liabilities.
- Level 2: observable inputs other than the listed prices used in Level 1 for assets or liabilities, directly (i.e., such as prices) or indirectly (i.e., derived from prices).

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- Level 3: assets referencing valuation techniques, including inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

The Group's financial assets and liabilities measured at fair value at 31 December 2016 are as follows:

	Thousands of Euros			Total
	Level 1	Level 2	Level 3	
Derivative financial liabilities (see Note 17.c)	-	3,274	-	3,274
	-	3,274	-	3,274

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

(f) Treasury shares of the Parent Company

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

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

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

(g) Distributions to shareholders

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

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

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

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- (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 against reserves deriving from profits for a period to which the special tax regime has been applied, the distribution must be carried out as described above.

(h) Cash and cash equivalents

Cash and cash equivalents include cash on hand and demand deposits in financial institutions. They also include other current, 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.

Additionally the group extended bank guarantees for an amount of EUR 6,304 thousand, mostly related to the investment properties under construction.

(i) Employee benefits

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

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

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

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(j) Shared-based payments

The Group 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.

(k) Provisions

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

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

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

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

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

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

(l) Revenue recognition

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

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Discounted and waived rent is 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.

(m) Lease of investment properties to third parties

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

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

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

Invoices issued to tenants include EUR 15,551 thousand for communal charges (shared utility costs, services, etc.) passed on to them (EUR 10,016 thousand at 31 December 2015). This amount is presented, according to its nature, net of the corresponding expenses under other expenses in the accompanying consolidated statement of comprehensive income for the period ended 31 December 2016.

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

(n) Income tax

(i) General regime

The income tax expense or tax income includes the part related to the current income tax expense or tax income and the part corresponding to the deferred tax expense or income.

The current tax is the amount that the Company satisfies as a consequence of the fiscal settlements of the income tax related to a period. Deductions and other tax relief applicable to payable taxes, excluding withholdings and payments on account, and tax loss carry-forwards applied in the current reporting period are accounted for as a reduction in current tax.



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Deferred tax income or expenses derived 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 temporary difference or deduction corresponding to the tax rate at which they are expected to be recovered or settled.

(ii) Tax regime for SOCIMIs

The Parent Company and subsidiaries (with the exception of LE Retail Gran Vía de Vigo, S.A.U. [Note 2] and Inmobiliaria Juan Bravo 3, S.L.) are included in the special SOCIMI tax regime. This tax regime, following the amendment introduced by Law 16/2012 of 27 December 2012, is based on paying a corporate income tax rate of 0%, provided certain requirements are met. Among these, it bears mentioning that at least 80% of their assets must comprise urban properties for rental under outright ownership or through shares in companies fulfilling these same investment and profit distribution criteria, whether Spanish or foreign and whether quoted in an organised securities market or not. Similarly, the main source of income for these companies must be the real estate market, whether through rentals, the subsequent sale of properties following a minimum rental period, or income from shareholdings in companies of a similar nature. Nevertheless, tax is accrued proportionately to the dividends distributed. Dividends received by shareholders are exempt from tax, unless the recipient is a legal entity subject to corporate income tax or a permanent establishment of a foreign entity, in which case a deduction is applied to the tax payable so that this income is taxed at the tax rate applicable to the shareholder. However, the remaining income is not subject to taxation provided it is not distributed among shareholders.

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

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(o) Segment reporting

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

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

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

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

(q) Insurance contracts

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

(r) Environmental information

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

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

(s) Cash flows

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

- Cash flows: inflows and outflows of cash and cash equivalents, the latter being current, highly liquid investments not subject to significant risk of changes in value.

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- Operating activities: the usual activity of the Group and other activities that cannot be classified as investing or financing activities.
- Investing activities: the acquisition, sale or other disposal of non-current assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of equity and of liabilities that do not form part of operating activities.

(6) SEGMENT REPORTING

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

At 31 December 2016 the Group comprises the operating segments listed below, with the following revenues and principal services:

- Shopping centres: Txingudi, Las Huertas, Albacenter hypermarket, Anec Blau, Villaverde, Portal de la Marina, Albacenter, Nuevo Alisal, As Termas, Portal de la Marina hypermarket, El Rosal, Vida Nova Park (formerly Cruce de Caminos), Palmas Altas, As Termas petrol station, Parque Galaria, Parque Comercial Megapark, Barakaldo, Parque Vistahermosa and Gran Vía de Vigo.
- Office buildings: Arturo Soria, Marcelo Spínola, Egeo, Eloy Gonzalo and Joan Miró.
- Logistics: Alovera I, Alovera II, Alovera III (C2), Alovera IV (C5-C6) and Almussafes.
- Residential: Stakes in the affiliated company Inmobiliaria Juan Bravo 3, S.L., owner at 31 December 2016 of a site on Calle Juan Bravo in Madrid to be used for a new, high-end housing development.

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

Details of these activities by segment at 31 December 2016 and 31 December 2015 are shown below:

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Consolidated Income Statement

	Thousands of Euros					
	2016					
	Shopping centres	Office buildings	Logistics	Residential (Stakes in affiliated companies)	Head Office and Central Services*	Total
Revenue from external customers:						
Revenue from leases	47,617	7,054	5,563	-	-	60,234
Total revenues	47,617	7,054	5,563	-	-	60,234
Other income	1,675	117	-	-	-	1,792
Changes in the fair value of investment properties	67,945	13,969	5,901	-	-	87,815
Other results	2,914	-	-	-	-	2,914
Personnel expenses	-	-	-	-	(446)	(446)
Operating expenses **	(8,972)	(683)	(319)	-	(36,427)	(46,401)
Operating profit	111,179	20,457	11,145	-	(36,873)	105,908
Net finance cost	(11,421)	(1,158)	-	3,174	(4,332)	(13,737)
Impairment and gains/(losses) on disposal of financial instruments	29	-	-	-	(16)	13
Profit / (loss) for the year of joint ventures, accounted for using the equity method	579	-	-	(1,333)	-	(754)
	100,366	19,299	11,145	1,841	(41,221)	91,430

\* The Group's line item Head Office and Central Services essentially comprises corporate income and expense that cannot be attributed to any asset.

\*\* In the 2016 period, the Parent Company re-invoiced the amount corresponding to Operating expenses to the subsidiaries. At 31 December 2016 shopping centres were attributed a total of EUR 26,664 thousand, office buildings EUR 5,748 thousand, logistics EUR 3,344 thousand, and EUR 1,705 thousand is held under the Head Office.

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Consolidated Income Statement

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

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

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Consolidated Statement of Financial Position

	Thousands of Euros					
	31 December 2016					
	Shopping centres	Office buildings	Logistics	Residential (Stakes in affiliated companies)	Head Office and other Central Services	Total
Intangible assets	2	-	-	-	-	2
Investment properties	943,604	171,010	76,475	-	-	1,191,089
Financial assets with associates	-	-	-	2,270	-	2,270
Equity-accounted investees	-	-	-	7,645	-	7,645
Non-current financial assets	9,030	1,093	1,082	-	-	11,205
Total non-current assets	952,636	172,103	77,557	9,915	-	1,212,211
Trade and other receivables	12,983	436	220	-	4,428	18,067
Financial assets with associates	-	-	-	45,288	-	45,288
Other current financial assets	3,348	2	-	-	2,043	5,393
Other current assets	258	2	54	-	303	617
Cash and cash equivalents	15,273	3,552	1,462	-	11,304	31,591
Total current assets	31,862	3,992	1,736	45,288	18,078	100,956
Total assets	984,498	176,095	79,293	55,203	18,078	1,313,167

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Consolidated Statement of Financial Position

	Thousands of Euros					
	31 December 2016					
	Shopping centres	Office buildings	Logistics	Residential (Stakes in affiliated companies)	Head Office and other Central Services	Total
Financial liabilities from issue of bonds and other marketable securities	-	-	-	-	141,988	141,988
Loans and Borrowings	237,268	52,427	-	19,920	-	309,615
Deferred tax liabilities	8,536	-	-	-	-	8,536
Derivatives	3,049	225	-	-	-	3,274
Other non-current liabilities	12,195	1,351	1,114	-	258	14,918
Trade and other payables	9,859	915	180	-	11,554	22,508
Other financial liabilities	-	-	-	-	193	193
Total liabilities	270,907	54,918	1,294	19,920	153,993	501,032

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Consolidated Statement of Financial Position

	Thousands of Euros					
	31 December 2015					
	Shopping centres	Office buildings	Logistics	Residential (Stakes in affiliated companies)	Head Office and other Central Services	Total
Intangible assets	1	-	-	-	-	1
Investment properties	556,235	149,750	70,390	-	-	776,375
Financial assets with associates	-	-	-	16,774	-	16,774
Equity-accounted investees	24,324	-	-	18,893	-	43,217
Non-current financial assets	6,162	1,230	1,083	-	-	8,475
Total non-current assets	586,722	150,980	71,473	35,667	-	844,842
Trade and other receivables	4,429	195	23	-	-	4,647
Financial assets with associates	-	-	-	25,179	1,538	26,717
Other current financial assets	1,670	-	-	-	6	1,676
Other current assets	529	-	72	-	-	601
Cash and cash equivalents	15,042	5,047	4,147	10	11,309	35,555
Total current assets	21,670	5,242	4,242	25,189	12,853	69,196
Total assets	608,392	156,222	75,715	60,856	12,853	914,038



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Consolidated Statement of Financial Position

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

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(a) Geographical segments

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

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

Thousands of Euros				
31 December 2016				
	Revenue	%	Investment properties	%
País Vasco	13,826	22.95	225,500	18.93
Cataluña	6,794	11.28	114,670	9.63
Castilla La Mancha	8,461	14.05	116,752	9.80
Castilla y León	7,415	12.31	113,090	9.49
Comunidad de Madrid	6,593	10.95	160,361	13.46
Cantabria	1,289	2.14	18,334	1.54
Galicia	7,533	12.51	224,500	18.85
Navarra	680	1.13	10,400	0.87
Comunidad Valenciana	7,643	12.69	168,370	14.14
Andalucía	-	-	39,112	3.28
	<u>60,234</u>	<u>100.00</u>	<u>1,191,089</u>	<u>100.00</u>

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

The Group carries out its activity entirely in Spain.

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(b) Main customers

This item presents details of the tenants that contributed the most rental revenues during 2016, as well as the main characteristics of each one:

Ranking	Trade name	Project	% of total rental income	% Accumulated	Expiry *	Sector
1	Centros Comerciales Carrefour, S.A.	Alovera II/El Rosal/Gran Vía de Vigo	8.08%	8.08%	2017-2046	Distribution
2	Grupo Inditex	Anec Blau/Albacenter/El Rosal/As Termas/Huertas/Portal de la Marina/Gran Vía de Vigo	6.17%	14.24%	2025-2033	Textile/Fashion
3	Media Markt	Villaverde/As Termas/Nuevo Alisal/Megapark/Vistahermosa	5.37%	19.62%	2023-2036	Technology
4	Ingeniería y Economía del Transporte, S.A.	Egeo	4.56%	24.18%	2021	Engineering
5	Decathlon España, S.A.	Megapark	3.13%	27.31%	2036	Distribution
6	El Corte Inglés, S.A.	Megapark/Galaria/Gran Vía de Vigo	2.72%	30.03%	2027-2036	Distribution
7	C&A Modas, S.L.	Anec Blau/El Rosal/AS Termas/Megapark/Portal de la Marina/Gran Vía de Vigo	2.68%	32.71%	2017-2026	Textile/Fashion
8	Hennes & Mauritz, S.L.	Anec Blau/Albacenter/El Rosal/As Termas/Portal de la Marina/Gran Vía de Vigo	1.95%	34.66%	2022-2040	Textile/Fashion
9	Cortefiel, S.A.	Anec Blau/Albacenter/El Rosal/As Termas/Portal de la Marina/Gran Vía de Vigo/Las Huertas/Megapark/Txingudi/Vistahermosa	1.92%	36.58%	2017-2031	Distribution
10	Toys R Us Iberia, S.A.U.	Megapark/Alisal	1.86%	38.44%	2024-2036	Distribution

*\*The information above references the contracts that were in force during the 2016 period. Furthermore, the expiry of contracts refers to the final date of the contract, although the contract may have the option for early termination.*

(7) INVESTMENT PROPERTIES

At 31 December 2016 the investment properties owned by the Group comprises 10 shopping centres, 2 hypermarkets (Ondara and Albacenter), the As Termas petrol station and 2 shopping centres pending construction, 5 office buildings, 22 single-tenant commercial properties (14 from Megapark Barakaldo, 3 from Vistahermosa business park, 1 from Alisal business park, 1 from Villaverde business park and 3 from Galaria business park) and 5 logistics bays, and the land on which these are located, which are held to obtain rental income and are therefore not occupied by the Group.

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The composition and movements that had occurred in the accounts included under the heading “Investment properties” in the condensed consolidated financial statements at 31 December 2016 and 2015 were as follows:

	Thousands of Euros	
	31 December 2016	31 December 2015
Balance at the beginning of the period	776,375	357,994
Additions for the period	95,599	136,851
Change to the scope of the consolidation (see Note 2.g and 4.c)	231,300	255,552
Changes in fair value	87,815	25,978
Balance at the end of the period	1,191,089	776,375
Fair value	1,191,089	776,375

Investment properties are presented at fair value.

The Group has recognised the following investment properties at its fair value at 31 December 2016 and 31 December 2015:

	Thousands of Euros	
	Investment properties held	
	31 December 2016	31 December 2015
Shopping centres and single-tenant commercial properties	943,604	556,235
Office buildings	171,010	149,750
Logistics bays	76,475	70,390
	1,191,089	776,375

Registrations and additions from business combinations in 2016 and 2015 are as follows:

<u>2016 Period</u>		<u>Thousands of Euros</u>
Type of asset	Company	Cost of purchase
Shopping centre	Portal de la Marina (Note 2)	86,800
Shopping centre	Gran Vía de Vigo (Note 2)	144,500
Office building	Marcelo Spínola (a)	7,065
Shopping centre	Palmas Altas (b)	31,732
Shopping centre	Sagunto (c)	5,041
Shopping centre	Parque Vistahermosa (d)	43,877
Shopping centre	Improvements	7,884
		326,899

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The additions for 2016 are as follows:

- (a) In the 2016 period, and in continuance of the works begun in 2015, the office located at Calle Cardenal Marcelo Spínola 42 was totally renovated.
- (b) This is in reference to the acquisition of a site in Palmas Altas, Seville, where construction of a Shopping Centre is planned. On 1 March 2016, the Company formalised the deed of purchase of the site for EUR 36,000 thousand, of which EUR 7,380 thousand were recognised under "Investment properties" at 31 December 2015 in reference to effected advanced payments. From the date of acquisition until 31 December 2016, additional costs totalling EUR 3,102 thousand were incurred, such that the total cost of the investment in Palmas Altas as at 31 December 2016 totalled EUR 39,112 thousand. In addition, on 27 March 2016, the Company signed a private contract to purchase an additional 12,000 m2 for the amount of EUR 4,500 thousand, contingent on the fulfilment of certain conditions that were not met as at 31 December 2016. The fair value of Palmas Altas, considering the additional 12,000 m2 totalled EUR 46 million.
- (c) On 23 March 2015 the Company, through its subsidiary Global Regimonte, S.L.U., (currently LE Retail Sagunto, S.L.U.), formalised a contract to purchase land and the subsequent construction of shopping centre in Valencia Autonomous Region, a project known as Vida Nova Park. As stated in the contract, the land will be notarised after certain hallmarks are met. In accordance with hallmark fulfilment and payment calendar at 31 December 2016, the Company made advanced payments in the amount of EUR 6,189 thousand.
- (d) On 16 June 2016, the Company, through its subsidiary LE Retail Vistahermosa, S.L.U. acquired the Parque Vistahermosa shopping complex in Alicante, with a gross leasable area of 33,550 square meters for the amount of EUR 43,349 thousand (taking the costs assumed in the purchase into account). In addition, in the 2016 period the amount of EUR 528 thousand was capitalised.

2015 Period

Registrations and additions from business combinations in 2015 were as follows:

Type of asset	Company	Cost of purchase
Office building	Joan Miró	20,011
Logistics bay	Alovera III (C2)	3,060
Logistics bay	Alovera IV (C5-C6)	7,324
Logistics bay	Almussafes	8,517
Shopping centre	As Termas	68,339
Petrol station	As Termas	1,836
Single-tenant commercial premises	Galaria	8,485
Shopping centre	Portal de la Marina hypermarket	7,140
Shopping centre	El Rosal	87,500
Shopping centre	Megapark	168,052
Shopping centre	Cruce de Caminos (*)	1,000
Shopping centre	Others (*)	7,380
		<u>388,644</u>

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

The recognitions in the 2015 period correspond to the acquisition of the Portal de la Marina hypermarket, Galaria and As Termas shopping centres and through the business combinations mentioned in Note 2, El Rosal and Megapark. In addition, the Almussafe, Alovera III and Alovera IV logistics bays and the Joan Miró office buildings were acquired in the 2015 period.

The effect of valuing Investment Properties at fair value at 31 December 2016 amounted to EUR 87,815 thousand, (EUR 25,978 thousand at 31 December 2015).

At 31 December 2016, assets pledged as collateral for bonds and various loans had a fair value of EUR 923,582 thousand (EUR 554,602 thousand at 31 December 2015). The amount of said loans pending return at amortised cost at 31 December 2016 amounted to EUR 451,603 thousand (EUR 395,246 thousand at 31 December 2015). The Group has no agreements for the use of investment properties, attachment orders thereon or analogous situations (see Note 11).

At 31 December 2016 all buildings comprising "Investment properties" are insured. These policies are considered to provide sufficient coverage.

The fair value of the assets totalled EUR 1,191,089 thousand (EUR 776,375 thousand at 31 December 2015) and are considered level 3 valuations, with there being no transfers between levels in the 2016 period.

(i) Disclosures on the fair value of investment properties

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

	Thousands of Euros			
	2016			
	Total	Level 1	Level 2	Level 3
Recurrent fair value measurements				
<i>Investment properties</i>				
Shopping centres				
- Land	297,012	-	-	297,012
- Buildings	646,592	-	-	646,592
Office buildings				
- Land	72,412	-	-	72,412
- Buildings	98,598	-	-	98,598
Logistics bays				
- Land	11,995	-	-	11,995
- Buildings	64,480	-	-	64,480
Total assets measured recurrently at fair value	1,191,089	-	-	1,191,089

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

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

At 31 December 2016 and 2015, details of the gross lettable area and occupancy rate by line of business are as follows:

	2016	
	Square metres	
		%
	Gross lettable area	Occupancy rate
Shopping centres and single-tenant commercial property (*)	353,925	91.93%
Office buildings (**)	41,759	89.89%
Logistics bays	161,841	100.00%

(\*) The square meters of the VidaNova Parc (formerly Cruce de Caminos) and Palmas Altas sites have not been taken into account, since they have not been built to date.

(\*\*) The Marcelo Spinola Building is not included as it was being renovated until 19 September 2016.

	2015	
	Square metres	
		%
	Gross lettable area	Occupancy rate
Shopping centres and single-tenant commercial property	248,762	92.4%
Office buildings (*)	41,758	92.9%
Logistics bays	161,840	100.00%

(\*) The information for Marcelo Spinola has not been taken into account as it was being renovated.

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

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

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

The appraisal company that performed the valuations of the Group’s investment properties at 31 December 2016 is listed below:

	<u>Appraisal Company</u>
Txingudi shopping centre	Cushman & Wakefield
Las Huertas shopping centre	Cushman & Wakefield
Arturo Soria office building	Jones Lang Lasalle España, S.A.
Single-tenant commercial premises Villaverde	Jones Lang Lasalle España, S.A.
Anec Blau shopping centre	Jones Lang Lasalle España, S.A.
Albacenter shopping centre	Jones Lang Lasalle España, S.A.
Cardenal Marcelo Spínola office building	Cushman & Wakefield
Albacenter hypermarket	Jones Lang Lasalle España, S.A.
Single-tenant commercial premises Nuevo Alisal	Jones Lang Lasalle España, S.A.
Egeo building	Jones Lang Lasalle España, S.A.
Eloy Gonzalo building	Cushman & Wakefield
Alovera I logistics bay	Cushman & Wakefield
Alovera II logistics bay	Jones Lang Lasalle España, S.A.
As Termas shopping centre	Cushman & Wakefield
As Termas Petrol Station	Cushman & Wakefield
Gran Vía de Vigo shopping centre	Cushman & Wakefield
Portal de la Marina shopping centre	Cushman & Wakefield
Megapark shopping centre	Cushman & Wakefield
Galaria single-tenant commercial property	Cushman & Wakefield
Alovera III (C2) logistics bay	Cushman & Wakefield
Alovera IV (C5-C6) logistics bay	Cushman & Wakefield
Almussafes logistics bay	Cushman & Wakefield
Portal de la Marina hypermarket	Cushman & Wakefield
Palmas Altas shopping centre	Cushman & Wakefield
El Rosal shopping centre	Jones Lang Lasalle España, S.A.
VidaNova Parc shopping centre (formerly Cruce de Caminos)	Jones Lang Lasalle España, S.A.
Joan Miró building	Jones Lang Lasalle España, S.A.
Vistahermosa shopping centre	Jones Lang Lasalle España, S.A.



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Fees paid by the Group to the appraisal companies for valuations in the 2016 and 2015 periods are as follows:

	Thousands of Euros	
	2016	2015
Appraisal services	154	129
	<u>154</u>	<u>129</u>

The main assumptions used to calculate the fair value of the real estate assets at 31 December 2016 and 2015 are as follows:

	31 December 2016	
	Net Initial Yield	Discount rate
Shopping centres and single-tenant commercial properties	5.40% - 6.35%	8.50% - 11.25%
Office buildings (*)	4.33% - 5.16%	7.00% - 8.23%
Logistics bays	6.27% - 8.35%	8.31% - 9.61%

(\*) *The Marcelo Spinola Building is not included as it has been under renovation until September 2016. Furthermore the Eloy Gonzalo building is also excluded as it is being renovated.*

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

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

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

	Thousands of Euros	
	Assets	Consolidated profit
Increase in rate of return by a quarter point	(42,237)	42,237
Decrease in rate of return by a quarter point	44,905	(44,905)

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Details of changes in fair value of investment properties in the income statement at 31 December 2016 are as follows:

	Thousands of Euros
Shopping centres and single-tenant commercial properties	67,945
Office buildings	13,969
Logistics bays	5,901
	<u>87,815</u>

(8) OPERATING LEASES – LESSOR

At 31 December 2016 the Group has leased the shopping centres, office buildings, single-tenant commercial properties and logistics bays to third parties under operating leases.

The occupancy rates of the buildings for lease at 31 December 2016 and 2015 are as follows:

	Occupancy rate (%)	
	31 December 2016	31 December 2015
Shopping centres and single-tenant commercial properties	91.93%	92.4%
Office buildings (*)	89.89%	92.9%
Logistics bays	100.00%	100.0%

(\*) *The Marcelo Spinola Building is not included as it has been under renovation until September 2016.*

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

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		2016	
		Thousands of Euros	
		Revenue	Fair value
Shopping centres	Txingudi	2,077	35,500
	Huertas	886	13,300
	Albacenter	2,659	35,464
	Hiper Albacenter	984	14,313
	Anec Blau	5,558	93,250
	Villaverde	775	10,771
	Nuevo Alisal	1,289	18,334
	As Termas	5,223	78,100
	As Termas Petrol station	114	1,900
	Portal de la Marina hypermarket	528	8,600
	VidaNova Parc (Cruce de Caminos)	-	6,190
	El Rosal	6,529	99,790
	Galaria	680	10,400
	Megapark	11,753	190,000
	Portal de Marina	4,799	98,500
	Vistahermosa	1,567	45,580
	Gran Vía de Vigo	2,196	144,500
	Palmas Altas	-	39,112
		<b>47,617</b>	<b>943,604</b>
Offices	Egeo	3,401	73,930
	Cardenal Marcelo Spinola	172	33,500
	Arturo Soria	1,451	27,160
	Eloy Gonzalo	794	15,000
	Joan Miró	1,236	21,420
		<b>7,054</b>	<b>171,010</b>
Logistics bays	Alovera I	1,147	17,400
	Alovera II	2,720	37,450
	Alovera III (C2)	201	3,625
	Alovera IV (C5-C6)	746	8,500
	Almussafes	749	9,500
		<b>5,563</b>	<b>76,475</b>
<b>TOTAL</b>		<b>60,234</b>	<b>1,191,089</b>

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		2015	
		Thousands of Euros	
		Revenue	Fair value
Shopping centres	Txingudi	2,303	30,700
	Huertas	935	11,700
	Albacenter	2,471	32,332
	Hiper Albacenter	1,042	12,437
	Anec Blau	5,792	84,890
	Villaverde	780	9,851
	Nuevo Alisal	1,277	17,202
	As Termas	3,393	68,500
	As Termas Petrol station	48	1,845
	Portal de la Marina hypermarket	296	7,750
	Cruce de Caminos	-	1,148
	El Rosal	2,854	89,600
	Galaria	300	9,500
	Megapark	2,097	171,400
	Other	-	7,380
		<b>23,588</b>	<b>556,235</b>
Offices	Egeo	3,608	69,210
	Cardenal Marcelo Spinola	193	21,500
	Arturo Soria	1,401	25,600
	Eloy Gonzalo	904	13,000
	Joan Miró	665	20,440
		<b>6,771</b>	<b>149,750</b>
Logistics bays	Alovera I	917	14,300
	Alovera II	3,401	36,840
	Alovera III (C2)	161	3,250
	Alovera IV (C5-C6)	447	7,500
	Almussafes	449	8,500
		<b>5,375</b>	<b>70,390</b>
<b>TOTAL</b>		<b>35,734</b>	<b>776,375</b>

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

The revenues shown in the preceding table refer to the accrued rental income from shopping centres, single-tenant commercial properties, office buildings and logistics bays in the 2016 period.

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

	Thousands of Euros	
	31 December 2016*	31 December 2015
Less than one year	59,043	47,276
One to five years	131,305	101,192
Over five years	79,315	79,579
	<u>269,663</u>	<u>228,047</u>

\*does not include the effect of rent discounts totalling EUR 2,722 thousand in the period of up to one year, EUR 275 thousand in the period between one and five years and EUR 20 thousand after five years.

(9) EQUITY-ACCOUNTED INVESTEEES

Movement in the 2016 and 2015 periods in equity-accounted investees was as follows:

	Thousands of Euros	
	31 December 2016	31 December 2015
Balance at the beginning of the period	43,217	18,087
Additions in the period	-	22,367
Reductions in the period	(9,914)	-
Change to the scope of the consolidation (Note 2)	(24,904)	1,707
Dividends approved in the year	-	(1,538)
Profit for the Period	<u>(754)</u>	<u>2,594</u>
Balance at the end of the period	<u>7,645</u>	<u>43,217</u>

The breakdown by company at 31 December 2016 and 31 December 2015 of equity-accounted companies as well as the result attributable to the Group is as follows:

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	Thousands of Euros			
	31 December 2016		31 December 2015	
	Investments	Result attributable to the Group	Investments	Result attributable to the Group
LE Retail Portal de la Marina, S.L.U.	-	580	24,324	5,515
Lavernia Investments, S.L.	-	-	9,748	(456)
Inmobiliaria Juan Bravo 3, S.L.	7,645	(1,334)	9,145	(2,465)
Total	<u>7,645</u>	<u>(754)</u>	<u>43,217</u>	<u>2,594</u>

On 30 March 2016 the Group purchased the remaining 41.22% of LE Retail Portal de la Marina, S.L. (formerly called Puerta Marítima Ondara, S.L.) from the managing company Grupo Lar España Inversiones Inmobiliarias, S.A., as approved in the Extraordinary General Shareholders' Meeting held on 18 December 2015, such that the profit / (loss) of the first quarter is included using the equity method in the amount of EUR 580 thousand.

With the sale of the building at Calle Claudio Coello, 108, in January 2016, Lavernia Investments, S.L. distributed the share premium to its shareholders for a total amount of EUR 19,325 thousand; since the Group owns 50%, it has received returns of contributions in the amount of EUR 9,662 thousand. In addition, on 21 September 2016, by means of a public deed with protocol record number two thousand nine hundred twenty, an agreement was made to wind up and simultaneously liquidate Lavernia Investments, S.L., where the approved end balance reflected EUR 138 thousand in assets, of which the Group received returned contributions totalling EUR 69 thousand due to owning 50% of the liquidated company. The loss of EUR 16 thousand was recognised under Impairment and result from disposal of financial instruments on the adjoined consolidated statement of comprehensive income.

In the purchase of 50% of the stake in Inmobiliaria Juan Bravo 3, S.L., Lar España Real Estate, S.A. (Parent Company) withheld EUR 1,000 thousand as guarantee, which was settled in the 2016 period for an amount of EUR 833 thousand. The difference between these amounts has been recognised as a lesser amount of the initial investment in the stake. The result generated in the 2016 period totalled EUR (1,334) thousand.

The main indicators for joint ventures (standardized to the regulatory framework applicable to the Group) at 31 December 2016 and 2015 are as follows:

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Thousands of Euros						
	31 December 2016			31 December 2015		
	LE Retail Portal de la Marina, S.L.U. (Note 3)	Lavernia Investments, S.L.	Inmobiliaria Juan Bravo 3, S.L.	LE Retail Portal de la Marina, S.L.	Lavernia Investments, S.L.	Inmobiliaria Juan Bravo 3, S.L.
Non-current assets	-	-	77	81,960	-	72
Current assets	-	-	126,427(*)(**)	3,625	20,003	109,918(*)
Non-current liabilities	-	-	4,721	41,372	-	76,153
Current liabilities	-	-	142,328	88,647	509	51,713
Revenues	-	-	-	6,103	1	-
Profits for the Period	-	-	(2,667) (**)	9,381	(913)	(4,930)

(\*) Mostly property inventories.

(\*\*) The profits and losses of the period attributable to the group, based on IAS 2, do not include the revaluation of inventories that at 31 December 2016 generated an impairment reversal in Inmobiliaria Juan Bravo 3, S.L. for the amount of EUR 80 thousand.

(10) FINANCIAL ASSETS WITH ASSOCIATES

The breakdown of this category as at 31 December 2016 and 2015 is the following:

	Thousands of Euros	
	2016	
	Current	Non-current
Loans with associates	45,288	2,270
Total financial assets with associates	45,288	2,270

	Thousands of Euros	
	2015	
	Current	Non-current
Loans with associates	25,102	16,774
Other financial assets	1,615	-
Total financial assets with associates	26,717	16,774

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At 31 December 2016 the Group had formalised the following loans with associates:

Thousands of Euros							
Company	Date granted	Loan principal	Contributions	Capitalised accrued interest	Current	Non-current	Loan total at 31 December 2016
Inmobiliaria Juan Bravo 3, S.L.	29/05/2015	40,000	558	4,922	45,288	192	45,480
Inmobiliaria Juan Bravo 3, S.L.	11/01/2016	2,000	12	66	-	2,078	2,078
		42,000	570	4,988	45,288	2,270	47,558

In the 2015 period the Company acquired from the creditors of Inmobiliaria Juan Bravo 3, S.L. a loan totalling EUR 61,303 thousand for EUR 40,000 thousand.

As this participating 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. The amount at 31 December 2016 totalled EUR 45,480 thousand and comprises a nominal amount of EUR 40,000 thousand, additional contributions amounting to EUR 558 thousand and interest accrued and capitalised since the date on which the loan was granted amounting to EUR 4,922 thousand (financial income net of 19% withholdings), (EUR 1,774 thousand at 31 December 2015). In the 2016 period EUR 3,886 thousand in revenue was recognised for said loan.

On 11 January 2016, the Company made a loan to Inmobiliaria Juan Bravo 3, S.L. for the amount of EUR 2,000 thousand, with maturity 10 January 2019 and an interest rate of 12-month Euribor plus a 4% spread. Like the participating loan granted on 29 May 2015, accrued, unpaid interest on this loan will be capitalised on a quarterly basis and will become part of the principal of the loan. Accrued and capitalised interest totalled EUR 66 thousand (financial income net of 19% withholdings). In the 2016 period EUR 82 thousand in revenue was recognised for said loan.

(11) FINANCIAL ASSETS BY CATEGORY

(a) Classification of financial assets by category

The Group's financial assets at 31 December 2016 are security deposits placed with public bodies, loans granted to associates, trade receivables, receivables from public entities and fixed-term cash deposits. The following table shows a breakdown of these assets at 31 December 2016 and 2015:



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	Thousands of Euros			
	2016		2015	
	Non-current	Current	Non-current	Current
	Carrying amount	Carrying amount	Carrying amount	Carrying amount
Loans to third-parties	67	-	63	-
Security deposits and guarantees	11,138	-	8,412	-
Financial assets with associates				
(Note 10)	2,270	45,288	16,774	26,717
Other financial assets	-	5,393	-	1,676
Clients receivables for sales and rendering of services	-	3,310	-	1,894
Advances to suppliers	-	10	-	30
Public entities, other	-	14,747	-	2,723
Total	13,475	68,748	25,249	33,040

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

At 31 December 2016, security deposits and guarantees mainly comprise the security deposits and guarantees received from the tenants of the investment properties mentioned in Note 7, which the Group has deposited with the corresponding public bodies (Security deposits and guarantees - non-current).

(b) Classification of financial assets by maturity

The classification of financial assets by maturity is as follows:

	2016			
	Thousands of Euros			
	Less than 1 year	1 to 5 years	Indefinite	Total
Financial assets with associates	45,288	2,270	-	47,558
Loans to third-parties	-	67	-	67
Security deposits and guarantees	-	-	11,138	11,138
Other financial assets	5,393	-	-	5,393
Trade and other receivables	18,067	-	-	18,067
	68,748	2,337	11,138	82,223

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

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

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. and Lavernia Investments, S.L. (Note 10), and to the income obtained through security deposits effected in financial institutions that amounted to EUR 3,968 thousand and EUR 41 thousand, respectively (EUR 1,776 thousand and EUR 668 thousand in 2015).

(12) TRADE AND OTHER RECEIVABLES

Details of “trade and other receivables” at 31 December 2016 and 2015 are as follows:

	Thousands of Euros
	<u>2016</u>
	<u>Current</u>
Operating lease receivables	1,494
Operating lease receivables - pending invoices	2,669
Advances to suppliers	10
Public entities, other (see Note 21)	14,747
Less impairment allowances	(853)
Total	<u>18,067</u>

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

(a) Impairment

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

	Thousands of Euros
	<u>2016</u>
Balance at 31 December 2015	657
Change to the scope	377
Impairment losses (see Note 24)	370
Reversals of impairment losses (see Note 24)	<u>(551)</u>
Balance at 31 December 2016	<u>853</u>

	Thousands of Euros
	<u>2015</u>
Balance at 31 December 2014	524
Change to the scope	67
Impairment losses (see Note 24)	126
Reversals of impairment losses (see Note 24)	<u>(60)</u>
Balance at 31 December 2015	<u>657</u>

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Changes to the scope of 2016 during the period correspond to the value impairment in the acquisition of the investment properties the Portal de la Marina and Gran Vía de Vigo shopping centres. At 31 December 2016 irrecoverable debts for the amount of EUR 543 thousands have been recognised as a loss.

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

(13) CASH AND CASH EQUIVALENTS

Details of cash and cash equivalents at 31 December 2016 and 2015 are as follows:

	Thousands of Euros	
	2016	2015
Banks	31,591	35,555
Total	<u>31,591</u>	<u>35,555</u>

At 31 December 2016 and 31 December 2015 the cash at banks is in demand deposits that are available for use.

(14) EQUITY

(a) Share capital

At 31 December 2016 the share capital of Lar España Real Estate SOCIMI, S.A. amounts to EUR 181,081 thousand (EUR 119,996 thousand at 31 December 2015) represented by 90,540,562 registered shares (59,997,756 registered shares at 31 December 2015), represented through book entries, with a par value of EUR 2 each, subscribed and fully paid, all granting the same rights.

On 21 April 2016 it was agreed that 4,499 thousand Euros should be distributed as dividend for the period, at 0.075 gross Euros per share; and that 7,521 thousand Euros should be distributed, at 0.125 gross Euros per share, charged to the share premium, which was paid on 20 May 2016. The amount distributed totalled EUR 12,009 thousand (once the amount corresponding to treasury shares had been deducted, as this is not taken from the Parent Company's equity).

On 29 April 2016 the Parent Company carried out a capital increase with exclusion of pre-emptive subscription rights in the amount of EUR 1,258 thousand by issuing 629,327 shares with a nominal value of EUR 2 each plus a share premium of EUR 4,040 thousand.

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The shares issued have been delivered to Grupo Lar Inversiones Inmobiliarias, S.A. to settle the “Performance Fee” accrued by Grupo Lar Inversiones Inmobiliarias, S.A. in 2015 pursuant to the management and investment agreement signed by the parties (see Note 27).

In addition, on 03 August 2016 the Parent Company carried out a capital increase in the amount of EUR 147,175 thousand, by issuing 29,913,479 shares with a nominal value of EUR 2 each plus a share premium of EUR 2.92 per share.

The Company has recognised the expenses related to the capital increases, which total EUR 4,137 thousand, in equity as a subtraction from the reserves.

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 quoted price on 31 December 2016 was EUR 7.03 per share and the average price per share in the 2016 period was EUR 7.54.

At 31 December 2016 and 2015 the Parent Company’s main shareholders are as follows:

	2016
LVS II Lux XII S.a.r.l.	20%
Franklin Templeton Institutional, LLC	15%
Threadneedle Asset Management Limited	5.2%
Bestinver Gestión SA, SGIIC	4.2%
Blackrock INC.	3.7%
Grupo Lar Inversiones Inmobiliarias, S.A.	3.5%
Brandes Investment Partners, LP	3%
Other shareholders with an interest of less than 3%	45.40%
Total	100%
	2015
Franklin Templeton Institutional, LLC	15.1%
LVS II Lux XII S.a.r.l.	12.5%
Ameriprise Financial Inc.	5.1%
Cohen & Steers, Inc.	3%
Other shareholders with an interest of less than 5%	64.3%
Total	100%

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(b) Share premium

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

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

At 31 December 2016, after the distribution of dividends against the share premium agreed on 21 April 2016, and the capital increases carried out on 29 April 2016 and 03 August 2016, the share premium of the Group totals EUR 498,914 thousand (EUR 415,047 thousand at 31 December 2015).

(c) Other reserves

The breakdown of this category as at 31 December 2016 and 2015 is the following:

	Thousands of Euros	
	31 December 2016	31 December 2015
Legal reserve	667	166
Parent Company Reserves	6,556	(5,349)
Consolidated reserves	35,435	(824)
Other shareholder contributions	240	240
Total	42,898	(5,767)

Reserve movements that took place during the 2016 period were as follows:

	Thousands of Euros		
	Parent Company Reserves	Consolidated Reserves	Total Reserves
Opening balance	(4,943)	(824)	(5,767)
Profit for 2015	3,813	39,746	43,559
Distribution of Dividends for the 2015 year	(680)	(3,808)	(4,488)
Capital increase expenses	(4,137)	-	(4,137)
Capital increase (Note 14)	(5,298)	-	(5,298)
Result from treasury shares	(464)	-	(464)
Shared-based payments (see Note 14f)	19,169	-	19,169
Other changes	3	321	324
Closing balance	7,463	35,435	42,898

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

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

(i) Legal reserve

The legal reserve is to be appropriated in compliance with Article 274 of the Revised Spanish Companies Act, which requires that companies transfer 10% of profits for the period 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 2016 the legal reserve of the Parent Company totals EUR 667 thousand (EUR 166 thousand at 31 December 2015).

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

(ii) Parent Company Reserves

Other reserves mainly include expenses related to the incorporation of the Parent Company and to the capital increases through share issues carried out on 5 March 2014, 7 August 2015, 29 April 2016 and 3 August 2016 and other non-distributed profits. Additionally, the impact on reserves of received services that will be liquidated in shares of the Parent Company is also included. (See Notes 27a and 14.f).

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(d) Valuation adjustments

This entry in the consolidated statement of financial position includes the amount of changes to the value of financial derivatives designated as cash flow hedging instruments. The movement of the balance of this entry during 2016 is presented below:

	Thousands of Euros
31 December 2015	(1,560)
Changes in fair value of hedges in the period recognised directly in equity	(119)
Other amounts transferred to the income statement	314
31 December 2016	(1,365)

(e) Treasury shares

At 31 December 2016 the Parent Company holds treasury shares amounting to EUR 823 thousand (EUR 709 thousand at 31 December 2015).

Movement during the 2016 and 2015 periods was as follows:

	Number of shares	Thousands of Euros
31 December 2015	74,250	709
Additions	2,169,722	16,494
Disposals	(2,125,974)	(16,380)
31 December 2016	117,998	823

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

On 5 February 2014, the Sole Shareholder of the Parent Company authorised the Board of Directors to purchase shares of the Parent Company, up to a maximum of 10% of the share capital. This authorisation was approved by the Shareholders' General Meeting of the Parent Company held on the 21 April 2016.

The average selling price of treasury shares was EUR 6.87 per share (EUR 9.87 in 2015). The proceeds for the period ended 31 December 2016 amounted to EUR 464 thousand (EUR 759 thousand at 31 December 2015) have been recognised under "Other Reserves" in the consolidated statement of position.



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### Dividends paid

On 21 April 2016 the Shareholders' General Meeting approved the distribution of the Parent Company's results in accordance with the proposal formulated by the Parent Company's Directors in their meeting held on 25 February 2016. The distribution is as follows:

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

After deducting the amount corresponding to treasury shares, the dividend distribution totalled EUR 4,488 thousand, at EUR 0.075 per share, recognised in profit and loss for the 2015 period, and of EUR 7,521 thousand, at EUR 0.125 per share, charged to the share premium. The distributed dividend was paid in full in May of 2016.

(f) Shared-based payments

On 12 February 2014, the Parent Company signed an Investment Management Agreement with Grupo Lar Inversiones Inmobiliarias, S.A. (hereinafter "the manager") for the rendering of management services by Grupo Lar Inversiones Inmobiliarias, S.A., including, among others, consultancy on the acquisition and management of property assets on behalf of the Parent Company and financial management. For said services the Manager will accrue fixed fees based on a percentage of the fair value (EPRA NAV) of the investments made. The amount accrued by the set fee at 31 December 2016 amounted to EUR 6,403 thousand (EUR 3,883 thousand in 2015).

EPRA NAV (the adjusted measurement of net business assets including investment properties at its fair value and excluding certain items that, assuming a long-term investment strategy, are not definitively expected to materialise) are calculated as follows (consolidated amounts in thousands of euros):

	<u>31 December 2016</u>	<u>31 December 2015</u>
Equity	812,135	570,566
Revaluation of non-current assets	14,990	5,660
Fair value of financial instruments	3,274	1,560
Fair value of financial instruments with associates	-	184
EPRA NAV	<u>830,399</u>	<u>577,970</u>

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

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

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

Grupo Lar Inversiones Inmobiliarias, S.A. will have the right to a fee equal to 20% of the return of the shareholders when same exceeds 10%, and 20% of any excess over 12% in the event the return exceeds 12% up to 22%.

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

The calculation of the Performance Fees in the 2016 and 2015 periods is as follows:

	31 December 2016	31 December 2015
EPRA NAV Current period (*)	836,788	580,030
EPRA NAV Previous period	577,970	389,862
Adjustments to the change in EPRA NAV	(131,029)	(128,887)
Share capital increase (net of expenses)	(143,038)	(130,218)
Dividends from the previous period paid during the period	12,009	1,331
Increase of EPRA NAV in the period	127,789	61,281
Increase of EPRA NAV in the period (%)	22.11%	15.72%

(\*) This includes equity prior to the recognition of the Performance Fee in Other reserves.

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At 31 December 2016, the return of the shareholder calculated by the Parent Company amounted to 22.11 % having earned a Performance Fee for the amount of EUR 25,558 thousand (EUR 7,359 thousand in 2015). The net amount of corporation income tax applicable to the recipient (25%), which totals EUR 19,169 thousand (EUR 5,298 thousand in 2015), was recorded with payment in the reserves. The remaining amount, which totals EUR 6,389 thousand (EUR 2,061 thousand in 2015), was recorded as a liability.

(g) Capital management

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

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

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

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

	Thousands of Euros	
	31 December 2016	31 December 2015
Total financial debt (see Note 16)	454,877	322,244
Less, Cash and cash equivalents (see Note 13)	(31,591)	(35,555)
Net debt	423,288	286,689
Total capital (capital + premium)	679,995	535,043
Total capital	1,103,281	821,732
Total financial debt	38.37%	34.89%

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(15) EARNINGS PER SHARE

(i) Basic

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

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

	31 December 2016	31 December 2015
Profit for the year attributable to equity instrument holders of the Parent Company (in thousands of Euros)	91,430	43,559
Weighted average number of ordinary shares in circulation (number of shares)	<u>72,707,108</u>	<u>47,790,562</u>
Basic earnings per share (in Euros)	<u>1.26</u>	<u>0.91</u>

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

	31 December 2016	31 December 2015
Ordinary shares	59,997,756	40,030,000
Share capital increase (weighted effect)	12,926,086	7,987,102
Average effect of treasury shares	<u>(216,734)</u>	<u>(226,540)</u>
Weighted average number of ordinary shares in circulation at 31 December (shares)	<u>72,707,108</u>	<u>47,790,562</u>

(ii) Diluted

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

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

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(16) FINANCIAL LIABILITIES BY CATEGORIES

(a) Classification of financial liabilities by category

The classification of financial liabilities by category and class at 31 December 2016 and at 31 December 2015 is as follows:

	2016	
	Non-current	Current
	Carrying amount	Carrying amount
Carried at amortised cost:		
Financial liabilities from issue of bonds and other marketable securities	138,506	3,482
Loans and borrowings	301,738	7,877
Carried at fair value:		
Derivatives	1,890	1,384
Other financial liabilities - security deposits	14,918	193
Trade and other payables:		
Trade payables	-	17,798
Public entities, other	8,536	4,710
Total financial liabilities	<u>465,588</u>	<u>35,444</u>

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

At 31 December 2016 and 2015 the carrying amounts of the financial liabilities recorded at amortised cost do not differ from the fair value.

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(b) Classification of financial liabilities by maturity

Details by maturity of financial liabilities at 31 December 2016 and 31 December 2015 are as follows:

	2016						
	Thousands of Euros						
	2017	2018	2019	2020	2021 and subsequent years	Indefinite	Total
Financial liabilities from issue of bonds (a)	3,482	-	-	-	138,506	-	141,988
Loans and borrowings (a)	7,877	22,489	35,601	89,161	154,487	-	309,615
Derivatives	1,384	-	-	-	1,890	-	3,274
Other financial liabilities - security deposits	193	-	-	-	-	14,918	15,111
Deferred tax liabilities	-	-	-	-	-	8,536	8,536
Trade and other payables	22,508	-	-	-	-	-	22,508
Total	35,444	22,489	35,601	89,161	294,883	23,454	501,032

(a) The effect of valuing financial liabilities from bonds and borrowings held with credit institutions at amortised cost decreases the nominal value of these liabilities by EUR 1,495 thousand and EUR 4,761 thousand respectively.

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

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(17) FINANCIAL LIABILITIES FROM BORROWINGS

(a) Main characteristics of debt from bonds

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

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

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

The issuance expenses associated with this issue amounted to EUR 1,995 thousand, which were recorded by reducing the debt. In 2016, EUR 272 thousand of these expenses (EUR 228 thousand in 2015) have been charged to the entry "Financial expenses" on the consolidated comprehensive income statements for the period. The interest accrued at 31 December 2016 totalled EUR 4,060 thousand (EUR 3,504 thousand at 31 December 2015). Of said total, the amount of EUR 3,482 thousand is outstanding and will be paid in February of 2017.

Covenants

With respect to the bonds, the issue includes the fulfilment of certain ratios by the Group.

- The Interest Hedging Ratio must be 1.25 or more, calculated by dividing EBITDA (net of tax) by the financial expenses for the reporting period.
- The Loan-to-Value Ratio must be 65% or less, calculated by dividing the debt by the value of the asset.

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In addition the Group undertook to establish new guarantees in those cases in which the Interest Hedging Ratio is less than 1.75 and the Loan-to-Value Ratio is greater than 60%.

The Directors believe the ratios are met at 31 December 2016 without the need for additional guarantees and they believe these ratios will be met in 2017.

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

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

Institution	Currency	Effective rate	Maturity	Thousands of Euros		Guarantee
				Amount granted	Amortised cost and interest pending payment at 31 December 2016	
LE Offices Egeo, S.A.U.	Euro	EURIBOR 3M + 2% spread	15 December 2019	30,000	30,000	Egeo office building
LE Retail Alisal, S.A.U.	Euro	3.02% (until 16 December 2015). Subsequently EURIBOR 3M + 2.90%	16 June 2025	7,822	7,517	Single-tenant commercial premises Nuevo Alisal (c)
Lar España Real Estate SOCIMI, S.A.	Euro	EURIBOR 3M + 2.83% spread	30 January 2018	25,000	19,919	(a)
LE Retail As Termas, S.L.U.	Euro	EURIBOR 3M + 1.80% spread	25 June 2020	37,345	36,620	As Termas shopping centre (c)
LE Retail El Rosal, S.L.U.	Euro	EURIBOR 3M + 1.75%	7 July 2030	50,000	49,074	El Rosal shopping centre (c)
LE Retail Villaverde, S.L.U.	Euro	1.75% (until 30 September 2018) Subsequently EURIBOR 12M + 1.75%	13 October 2020	4,550	4,484	Single-tenant commercial premises Villaverde (c)
LE Offices Arturo Soria, S.L.U.	Euro	1.80% (until 30 September 2018) Subsequently EURIBOR 12M + 1.80%	9 November 2020	13,000	12,828	Arturo Soria office building (c)
LE Retail Galaria, S.L.U.	Euro	1.5% (until 14 March 2016) Subsequently EURIBOR 3M + 1.75%	14 December 2029	4,200	4,109	Single-tenant commercial premises Galaria (b)(c)
LE Offices Joan Miró 21, S.L.U.	Euro	1.62%. Subsequently EURIBOR 3M + 1.75% premium	23 December 2020	9,800	9,599	Joan Miró office building (b)(c)



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LE Retail Megapark, S.L.U. (a)	Euro	EURIBOR 3M + 1.7%	24 February 2023	97,000	95,657	Megapark shopping centre (b)(c)(d)
LE Retail Portal de la Marina, S.L.U. (b)	Euro	EURIBOR 3M + 0.88%	17 May 2020	66,000	39,808	Portal de la Marina shopping centre (c)
				344,717	309,615	

- (a) *This loan has mortgage guarantees on the building owned by the associate Inmobiliaria Juan Bravo 3, S.L.*
- (b) *In addition to the mortgage security of the loan, the Company has pledged current accounts and credit accounts derived from the lease contract of the property on shares.*
- (c) *With respect to said mortgage loans, there are certain clauses linked to the keeping of the LTV “Loan To Value” ratio below 50%-70%. If the LTV is not kept below 50%-70%, all or part of the debt will mature early. Furthermore, the loans corresponding to the companies LE Retail Alisal, S.L.U., LE Retail As Termas, S.L.U., LE Retail El Rosal, S.L.U., LE Retail Galaria, S.L.U., LE Offices Joan Miró 21, S.L.U., LE Retail Megapark, S.L.U. and LE Retail Portal de la Marina, S.L.U., LE Retail Villaverde, S.L.U. have clauses on the maintenance of a minimum Debt Service Coverage Ratio between 1.1% and 2.65%. If the DSCR is not kept between said figures, all or part of the debt will mature early.*
- (d) *In addition to the previously mentioned ratios, there are clauses linked to keeping the shopping centre's occupancy rate above 85%. If the occupancy rate does not meet this minimum, all or part of the debt will mature early.*

The financial expenses accrued on these loans in the 2016 period totalled EUR 5,613 thousand. The accrued, unpaid interest for the 2016 period amounted to EUR 647 thousand.

The main changes that occurred in the period ended 31 December 2016 are as follows:

- (a) On 24 February 2016, LE Retail Megapark, S.L.U., a company in the Group, signed a syndicated loan agreement with Natixis, S.A., as agent and financing institution, Credit Agricole Corporate and Investment Bank, S.A. and Banco Santander, S.A., financing institutions, for a total amount of EUR 97,000 thousand and maturity at 7 years. The loan accrues interest quarterly, at an interest rate of the 3-month Euribor plus a 1.7% spread, which will be paid on the last day of the Interest Period.
- (b) After the acquisition of the remaining 41.22% of the stakes in LE Retail Portal de la Marina, S.L.U. (formerly called Puerta Marítima Ondara, S.L.U.), the syndicated loan signed by LE Retail Portal de la Marina, S.L.U. with Caixabank, S.A., as agent and financing institution, Banco Bilbao Vizcaya Argentaria, S.A and Banco de Sabadell, S.A., as financing institutions, in the amount of EUR 43,474 thousand is included under “Bank borrowings”. The loan accrues interest quarterly, at an interest rate of the 3-month Euribor plus a 0.88% spread, which will be paid on the last day of the Interest Period.

The financing agreements signed by the Group require compliance with certain financial ratios. The Directors believe that they are complied with at 31 December 2016 and expect them to be satisfactorily complied with while the agreement remains in force.

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(c) Derivatives

The details of derivative financial instruments as at 31 December 2016 and 2015 are as follows:

	Thousands of Euros <u>2016</u>
<b>Non-current</b>	
Interest rate	1,890
<b>Current</b>	
Interest rate	<u>1,384</u>
	<u>3,274</u>
	Thousands of Euros <u>2015</u>
<b>Non-current</b>	
Interest rate	<u>1,560</u>
	<u>1,560</u>

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

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

Derivatives contracted by the Group at 31 December 2016 and 31 December 2015 and their fair values at said dates are as follows (in thousands of Euros):

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	Thousands of Euros				
	Contracted interest rate	Fair value at 31 December 2016	Fair value at 31 December 2015	Notional	Maturity
LE Retail El Rosal, S.L.U.	0.44%	1,199	768	50,000	2020
LE Retail As Termas, S.L.U.	0.53%	945	686	37,345	2020
LE Offices Joan Miró 21, S.L.U.	0.41%	225	106	9,800	2020
LE Retail Megapark, S.L.U.	0.22%	905	-	97,000	2023
		3,274	1,560		

On 7 July 2015 the Group company LE Retail El Rosal, S.L.U. (formerly called “El Rosal Retail, S.L.”) signed an IRS hedging instrument contract for a nominal amount of EUR 50,000 thousand with Caixa Bank S.A. with a maximum maturity of 5 years. This IRS hedging instrument contract will accrue interest on a quarterly basis, which shall be paid on the last day of each Interest Period. The interest rate applied is made up of a fixed component of 0.4435% and a variable component based on the three month Euribor. The fair value of the financial instrument has been recognised under liabilities for an amount of EUR 1,199 thousand at 31 December 2016.

On 25 June 2015 the Group company LE Retail As Termas, S.L.U. (formerly called “Global Noctua, S.L.U.”) signed an IRS hedging instrument contract for a nominal amount of EUR 37,345 thousand with ING Bank N.V. (Spanish Branch) with a maximum maturity of 5 years. This IRS hedging instrument contract will accrue interest on a quarterly basis, which shall be paid on the last day of each Interest Period. The interest rate applied is made up of a fixed component of 0.5315% and a variable component based on the three month Euribor. The fair value of the financial instrument has been recognised under liabilities for an amount of EUR 945 thousand at 31 December 2016.

On 23 December 2015, the Group company LE Offices Joan Miró 21, S.L. (formerly called Global Meiji, S.L.) signed an IRS hedging instrument contract for a nominal amount of EUR 9,800 thousand with Banco Bilbao Vizcaya Argentaria, S.A., with a maximum maturity of 5 years. This IRS hedging instrument contract will accrue interest on a quarterly basis, which shall be paid on the last day of each Interest Period. The interest rate applied is made up of a fixed component of 0.413% and a variable component based on the three month Euribor. The fair value of the financial instrument has been recognised under liabilities for an amount of EUR 225 thousand at 31 December 2016.

On 24 February 2016, the Group company LE Retail Megapark, S.L. signed IRS hedging instrument contracts for nominal amounts of EUR 40,500 thousand, EUR 32,250 thousand and

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EUR 24,250 thousand with Natixis, S.A., Credit Agricole Corporate and Investment Bank, S.A. and Banco Santander, S.A, with a maximum maturity of 7 years. These IRS hedging instrument contracts will accrue interest on a quarterly basis, which shall be paid on the last day of each Interest Period. The interest rate applied is made up of a fixed component of 0.22% and a variable component based on the three month Euribor. The fair value of these financial instruments has been recognised under liabilities for amounts of EUR 377 thousand, EUR 300 thousand and EUR 226 thousand at 31 December 2016.

The Group opted for accounting hedges, appropriately designating the Hedging Relationships in which these derivative instruments are the hedging instruments of the financing used by the Group, neutralising the changes to interest payment flows by setting the fixed rate to be paid by same. Said Hedging Relationships are highly effective prospectively, retrospectively and cumulatively since the designation date in the case of the IRS hedging instrument signed by LE Offices Joan Miró 21, S.L. In this respect, the Group recognised the amount of the change to the fair value that occurred in 2016 in said financial instrument under equity.

The Hedging Relationships of exchange rate hedging financial instruments contracted with El Rosal Retail, S.L., LE Retail As Termas, S.L.U. and Le Retail Megapark, S.L.U. were classified at 31 December 2016 as ineffective. In this respect, the Group recognised the change in fair value of said instruments in the amount of EUR 1,454 thousand on the Consolidated Income Statement (See Note 14.d).

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

Scenario	Thousands of Euros		
	Liabilities	Equity	Consolidated profit before tax
5% Interest rate increase	4,588	(187)	(4,401)
5% Interest rate decrease	(4,791)	193	4,598

(18) OTHER NON-CURRENT FINANCIAL LIABILITIES

Other non-current financial liabilities at 31 December 2016 reflect EUR 14,918 thousand (EUR 10,774 thousand at 31 December 2015) that comprise security deposits delivered to the Group by the various tenants of the commercial premises located in its properties. This amount generally represents two months' rent, which is reimbursed at the end of the contract term.

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(19) TRADE AND OTHER PAYABLES

Details of trade and other payables at 31 December 2016 and 2015 are as follows:

	Thousands of Euros	
	2016	2015
Trade payables	10,477	3,184
Trade payables, related parties (see Note 27)	7,213	2,462
Salaries payable	108	115
Public entities, other (see Note 21)	4,710	2,042
	<u>22,508</u>	<u>7,803</u>

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

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

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

	2016	2015
	Days	Days
Average number of days payable outstanding to suppliers	33	29
Ratio of paid operations	28	27
Ratio of operations pending payment	31	25
	Thousands of Euros	Thousands of Euros
Total effected payments	160,933	30,419
Total pending payments	3,977	1,068

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

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Trade payables as they relate to goods and services included in “Current suppliers, related companies”, “Suppliers, group and associated companies” and “Sundry creditors” of the current liability of the balance sheet are considered suppliers, for the exclusive purpose of providing the information established in this Resolution. These refer excursively to the Spanish institutions included in the consolidable group.

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

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

(21) PUBLIC ENTITIES AND TAXATION

(a) Current balances with public entities

	Thousands of Euros	
	31 December 2016	31 December 2015
<u>Receivables</u>		
Taxation authorities, VAT recoverable	12,902	1,843
Taxation authorities, other withholdings	1,845	880
	<u>14,747</u>	<u>2,723</u>
	Thousands of Euros	
	31 December 2016	31 December 2015
<u>Payables</u>		
Taxation authorities, VAT payable	3,145	1,746
Taxation authorities, personal income tax withholdings payable	107	292
Taxation authorities, corporation income tax payable	1,453	-
Social Security contributions payable	5	4
Deferred tax liabilities (Note 2)	8,536	-
	<u>13,246</u>	<u>2,042</u>

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(b) Reconciliation of accounting profit and taxable income

At 31 December 2016 and 2015, the taxable fiscal base comprises the following items:

	Thousands of Euros
	<u>31 December 2016</u>
Profit before tax from continuing operations	91,430
Consolidated adjustments	(101,366)
Permanent differences	(7,552)
Temporary differences	2,219
Taxable income (tax loss)	<u>(15,269)</u>
Tax payable (25%)	-
Tax payable (0%)	-
Income tax expense/(tax income)	<u>-</u>

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

At 31 December 2016 the Parent Company and the subsidiaries are included under the SOCIMI tax regime, with the exception of LE Retail Gran Vía de Vigo, S.A.U. Pursuant to what is established therein, the tax rate applicable to the tax base is 0%, such that no expense has been recorded for Corporate Income Tax. With regard to LE Retail Gran Vía de Vigo, S.A.U., the result for the 2016 period is negative, such that there is no corporate income tax expense.

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At 31 December 2016 and 2015, the permanent differences heading mainly comprises issuance expenses and capital increases not included in the Consolidated Statement of Income, totalling EUR 4,137 thousand in 2016 (EUR 4,764 thousand in 2015) and the interest income relating to the participating loan extended to Inmobiliaria Juan Bravo 3, S.L. amounting to EUR 3,886 thousand, as well as adjustments relating to disposals and recognitions of profit/(loss) in the consolidated statement.

Deferred tax assets and liabilities

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

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

The deferred tax liability totalling EUR 8,856 thousand is the result of the purchase of LE Retail Gran Vía de Vigo, S.A.U. after adjusting the fair value of its assets (Note 2).

(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 2016 reporting date, the Group has open to inspection by the taxation authorities all the main applicable taxes since its incorporation (10 years for the tax bases pending compensation). The Parent Company's directors consider that the aforementioned taxes have been adequately settled, and consequently, even if discrepancies were to arise in the interpretation of prevailing standards with respect to the tax treatment of operations, the accompanying annual accounts would not be significantly affected by any resulting liabilities.

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

SOCIMI reporting requirements are broken down in the individual annual accounts of each of the subsidiaries.

(22) RISK MANAGEMENT POLICY

(a) Financial risk factors

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



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

(i) Market risk

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

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

- The economic environment in which the Group performs its activity: The design of various economic scenarios with different key variables that can affect the Group (interest rates, share price, occupancy rates of investment properties, etc.). The identification of variables that are interconnected and their degree of connection.
- The effect of the 5-point change in the floating interest rate on financial debt with credit institutions translates to an effect totalling EUR 156 thousand in the consolidated income statement.
- The time frame within which the assessment is made: The time frame for the analysis and the potential deviations should be taken into account.

(ii) Credit risk

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

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

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

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

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Thousands of Euros			
	Note	2016	2015
Financial assets with associates	10	47,558	43,491
Security deposits and guarantees	11	11,137	10,151
Trade and other receivables	12	18,067	4,647
Cash and cash equivalents	13	31,591	35,555
		<u>108,353</u>	<u>93,844</u>

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

	Thousands of Euros				
	2016				
	Not past due	Less than 3 months	Between 3 months and 6 months	Between 6 months and 1 year	Total
Trade and other receivables	1,495	1,117	13,894	1,561	18,067
Total assets	1,495	1,117	13,894	1,561	18,067

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

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At 31 December 2016 and 2015, the Group has recognised impairment on all trade receivables at risk of default covering the maximum exposure at risk. Impairment of receivables by geographical region representing the Group's activities is as follows:

	Thousands of Euros	
	2016	2015
País Vasco	167	269
Castilla y León	156	132
Cataluña	137	89
Castilla La Mancha	3	38
Comunidad Valenciana	381	108
Galicia	9	21
	<u>853</u>	<u>657</u>

Cash and cash equivalents

At 31 December 2016 the Group has cash and cash equivalents totalling EUR 31,591 thousand (EUR 35,555 thousand at 31 December 2015), which represents its maximum exposure to risk associated with these assets.

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

(iii) Liquidity risk

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

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

The Group's exposure to liquidity risk at 31 December 2016 and 2015 is detailed below. The following tables show the analysis of financial liabilities by remaining contractual maturity dates.

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2016						
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	-	3,482	-	138,506	-	141,988
Loans and borrowings	2,704	1,515	3,658	301,738	-	309,615
Derivatives	-	-	1,384	1,890	-	3,274
Other non-current liabilities - security deposits	-	193	-	-	14,918	15,111
Deferred tax liabilities	-	-	-	-	8,536	8,536
Trade and other payables	219	7,213	15,076	-	-	22,508
<b>Total</b>	<b>2,923</b>	<b>12,403</b>	<b>20,018</b>	<b>442,134</b>	<b>23,454</b>	<b>501,032</b>

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	-	5,593	-	173,354	-	178,947
Derivatives	-	-	-	1,560	-	1,560
Other non-current liabilities - security deposits	-	-	2,651	-	10,774	13,425
Trade and other payables (excluding balances payable to public entities)	1,584	-	4,177	-	-	5,761
<b>Total</b>	<b>1,584</b>	<b>9,097</b>	<b>6,828</b>	<b>313,147</b>	<b>10,774</b>	<b>341,430</b>

(iv) Cash flow and fair value interest rate risks

At 31 December 2016 the Group 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 Group's operating activities are not significantly affected by fluctuations in market interest rates.

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(v) Tax risk

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

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

(23) REVENUE

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

(24) OTHER EXPENSES

Details of other expenses are as follows:

	Thousands of Euros	
	2016	2015
Independent professional services	38,012	15,183
Insurance premiums	522	301
Bank fees and commissions	201	31
PR and advertising	532	237
Taxes	3,615	2,234
Impairment losses and uncollectibility of trade and other receivables (see Note 12.a)	362	66
Remuneration of the Board of Directors (see Note 27.b) (*)	421	423
Other expenses	2,736	1,538
	<u>46,401</u>	<u>20,013</u>

(\*) Includes the non-executive secretary's remuneration.

(25) PERSONNEL EXPENSES

Details of personnel expenses at 31 December 2016 and 2015 are as follows:

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	Thousands of Euros	
	2016	2015
Salaries and wages	383	355
Other benefits and taxes	63	41
	<u>446</u>	<u>396</u>

(26) PROFIT FOR THE PERIOD

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

	Thousands of Euros	
	2016*	2015
Lar España Real Estate SOCIMI, S.A.	(7)	3,813
LE Logistic Alovera I y II, S.A.U.	4,620	9,130
LE Retail Hiper Albacenter, S.A.U.	1,696	1,628
LE Offices Egeo, S.A.U.	4,880	6,114
LE Retail Alisal, S.A.U.	1,527	1,151
LE Offices Eloy Gonzalo 27, S.A.U.	1,849	769
LE Retail As Termas, S.L.U.	9,052	2,550
LE Retail Portal de la Marina, S.L.U.	15,731	5,515
Lavernia Investments, S.L.	-	(456)
Inmobiliaria Juan Bravo 3, S.L.	(1,334)	(2,465)
LE Logistic Alovera III y IV, S.L.U.	1,768	905
LE Logistic Almussafes, S.L.U.	1,380	369
LE Retail Hiper Ondara, S.L.U.	1,099	845
LE Offices Joan Miró 21, S.L.U.	1,073	1,022
LE Retail Megapark, S.L.U.	19,723	4,541
LE Retail Sagunto, S.L.U.	(576)	(323)
LE Retail El Rosal, S.L.U.	10,069	5,424
LE Retail Galaria, S.L.U.	1,124	1,262
Lar Shopping Centres VIII, S.L.U.	(1,577)	(1)
LE Retail Vistahermosa, S.L.U.	2,014	(1)
Lar Offices VI, S.L.U.	-	(1)
LE Retail Las Huertas, S.L.U.	1,039	-
LE Retail Gran Via de Vigo, S.A.U.	(4,138)	-
LE Offices Marcelo Spínola 42, S.L.U.	3,991	-
LE Retail Anec Blau, S.L.U.	7,753	-
LE Retail Albacenter, S.L.U.	1,836	-
LE Retail Txingudi, S.L.U.	4,043	-
Lar España Inversión Logística IV, S.L.U.	(24)	(1)
LE Retail Villaverde, S.L.U.	1,136	664
LE Offices Arturo Soria, S.L.U.	1,684	1,105
Profit before income tax	<u>91,430</u>	<u>43,559</u>
Income tax	-	-
Profit after income tax	<u>91,430</u>	<u>43,559</u>

\*The amount does not include the consolidation adjustment due to the expenses reinvoiced by the Parent Company to the subsidiaries

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(27) RELATED PARTY BALANCES AND TRANSACTIONS

(a) Related party transactions and balances

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

The fixed amount accrued by the manager totalled EUR 6,403 thousand (net of expenses discounted on the basis of the management contract formalised between the parties, which totalled EUR 821 thousand). At 31 December 2016 EUR 535 thousand was outstanding. At 31 December 2015 the base fee expense totalled EUR 3,867 thousand of which EUR 536 thousand was outstanding at 31 December 2015.

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 2016 the related expense amounts to EUR 1,672 thousand (of which EUR 288 thousand is outstanding at 31 December 2016). At 31 December 2015 the related expense amounts to EUR 906 thousand (of which EUR 137 thousand is outstanding).

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

The remuneration received by the members of the board of directors and senior management personnel of the Group during 2016 and 2015, classified by item, is as follows:

		Thousands of Euros						
		2016						
		Salaries	Allowances	Other items	Pension plans	Insurance premiums	Termination benefits	Payments based on equity instruments
								Remuneration for individuals representing the company
Board of directors		-	421	-	-	99*	-	-
Senior management personnel		383	-	-	-	-	-	-

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		Thousands of Euros							
		2015							
		Salaries	Allowances	Other items	Pension plans	Insurance premiums	Termination benefits	Payments based on equity instruments	Remuneration for individuals representing the company
Board of directors		-	423	-	-	84*	-	-	-
Senior management personnel		355	-	-	-	-	-	-	-

\* The amount of insurance premiums corresponds to the company's Board of Directors and Senior Management.

Allowances for the board of directors include EUR 75 thousand for the non-executive secretary of the board of directors (EUR 75 thousand at 31 December 2015).

At 31 December 2016, the company has 5 Board members, all of them men (at 31 December 2015, the company had 5 Board members, all of them men).

At 31 December 2016 and 2015 the Group has no pension or life insurance obligations with former or current members of the board of directors or senior management personnel of the Parent Company.

At 31 December 2016 and 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 Parent Company and members of its supervisory board

Apart from the transactions with related parties listed above, in 2016 the directors of the Parent Company and members of its steering committee have not carried out any transactions other than ordinary business or applying terms that differ from market conditions with the Parent Company or any other Group company.

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

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

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



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- (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 and also by the General Shareholder's Meeting celebrated on 20 April 2016.
- (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 Europa del Este, S.L.U.	President and Chief Executive Officer	N/A	N/A
Grupo Lar Actividad Arrendamiento, S.A.U.	President and Chief Executive Officer	N/A	N/A
Inmobérica de Gestión, S.L.U.	Sole Administrator	N/A	N/A
Grupo Lar Terciario, S.L.U.	President of the Board of Directors	N/A	N/A
Desarrollo Residencial Padre Piquer, S.L.U. (formerly called Desarrollos Comerciales y de Ocio Grupo Lar, S.L.U.)	Joint and Several Administrator	N/A	N/A
Global Caronte, S.L.U.	Joint and Several Administrator	N/A	N/A
Grupo Lar Senior, S.L.	Individual representing the Sole Administrator of Desarrollos Ibéricos Lar, S.L.	N/A	N/A
GLB Senior, S.A.U.	Individual representing the Sole Administrator of GL Senior, S.L.	N/A	N/A
Desarrollo Residencial Teatinos, S.L.U. (formerly GLGF de Centros Comerciales, S.L.U.)	Joint and Several Administrator	N/A	N/A
Global Byzas, S.L.U.	Sole Administrator	N/A	N/A
Oficinas Calle Albarracín, S.L.U.	Sole Administrator	N/A	N/A
Desarrollos Ibéricos Lar, S.L.U.	Joint and Several Administrator	N/A	N/A
Parque Comercial Cruce de Caminos, S.L.	Individual representing the Sole Administrator of Desarrollo Residencial Padre Piquer, S.L.U.	N/A	N/A
Desarrollo Residencial Mijas, S.L.U. (formerly called Grupo Lar Retail Management, S.L.U.)	Sole Administrator	N/A	N/A
Proactivo Servicios Generales, S.L.U.	Sole Administrator	N/A	N/A
Desarrollos Residenciales España, S.L.U.	Sole Administrator	N/A	N/A
Parque Castilleja, S.L.	President and Several and Joint Chief Executive Officer	N/A	N/A
Grupo Lar Grosvenor Dos Servicios S.L.	Individual representing the Sole Administrator of Grupo Lar Terciario, S.L.	N/A	N/A
Inversiones Yarmuk, S.A.	Individual representing the secretary of Global Byzas S.L.	N/A	N/A
Grupo Lar Oficinas Europeas, S.A.U.	Individual representing the Sole Administrator of Desarrollo Residencial Teatinos, S.L.	N/A	N/A

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The Directors Mr Miguel Pereda and Mr Roger Maxwell Cooke were unable to take part on those decisions related with any conflict of interests.

(28) EMPLOYEE INFORMATION

The average headcount of the Group at 31 December 2016 and 2015, distributed by category, is as follows:

	2016	2015
Professional category		
Senior management personnel	4	3
Total	4	3

The distribution of Group personnel by gender at 31 December 2016 and 2015 is as follows:

	Number	
	2016	
	Female	Male
Senior management personnel	1	3
Total	1	3

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

(29) AUDIT FEES

During 2016 and 2015, fees for audit and other related services charged to the Group by the auditor of the consolidated annual accounts, Deloitte, S.L., and by companies belonging to the Deloitte network, as well as fees for services charged by the auditors of the individual annual accounts of the companies included in the consolidation and for the entities related thereto through control, shared property or management were as follows (in thousands of Euros):

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	<u>Thousands of Euros</u>
	<u>31 December 2016</u>
Audit and related services	
Audit services 2016	250
Other verification services	239
Professional services	
Other services	12
Total	<u>501</u>
	<u>Thousands of Euros</u>
	<u>31 December 2015</u>
Audit and related services	
Audit services 2016	165
Other verification services	235
Professional services	
Other services	28
Total	<u>428</u>

Other verification services include services rendered for the Parent Company's share capital increase and services rendered to verify financial ratios associated with the debt.

(30) SUBSEQUENT EVENTS

There were no significant events subsequent to year-end.

(31) EXPLANATION ADDED FOR TRANSLATION TO ENGLISH

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

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

Information on Group Companies  
31 December 2016

## a) Subsidiaries

Company	Activity	Type of entity	% of Participation		Thousands of Euros									
			Direct	Total	Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Logistic Alovera I y II, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	150	150	-	41,869	42,079	54,850	44,262	10,586	41,759
LE Retail Hiper Albacenter, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	229	229	(209)	11,312	11,392	14,313	12,135	2,178	11,360
LE Retail Alisal, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	338	169	(135)	9,565	9,659	18,334	16,881	1,453	9,613
LE Offices Egeo, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	112	(498)	-	32,612	32,174	73,930	64,529	9,401	32,660

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

Information on Group Companies  
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LE Offices Eloy Gonzalo 27, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	(142)	(141)	-	12,504	12,423	15,000	12,862	2,138	12,553
LE Retail As Termas, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	1,228	(358)	-	29,200	28,313	78,100	67,838	10,262	29,204
LE Logistic Alovera III y IV, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	362	362	(346)	9,909	9,929	12,125	10,261	1,864	9,914
LE Logistic Almussafes, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	294	294	(271)	8,129	8,156	9,500	8,381	1,119	8,134
LE Retail Hiper Ondara, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	158	156	(153)	6,949	6,956	8,600	6,995	1,605	6,954
LE Offices Joan Miró 21, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	264	(1)	-	10,284	10,287	21,420	19,805	1,615	10,514

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Information on Group Companies  
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LE Retail Megapark, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	2,060	(885)	-	65,911	65,030	191,900	167,385	24,515	65,917
LE Retail Sagunto, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	(578)	(576)	-	8,466	7,894	6,190	4,771	1,419	8,794
LE Retail El Rosal, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(1,029)	(2,971)	-	28,608	24,427	99,790	76,274	23,516	33,055
LE Retail Galaria, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	242	157	(149)	4,468	4,480	10,400	8,389	2,011	4,473
Lar España Shopping Centres VIII, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(1,577)	(1,577)	-	47,432	45,858	39,112	36,000	3,112	47,436
Lar España Offices VI, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	-	-	-	-	2	-	-	-	3

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

Information on Group Companies  
31 December 2016

LE Retail Vistahermosa, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(119)	(119)	-	43,329	43,213	45,580	43,447	2,133	43,333
Lar España Inversión Logística IV, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(24)	(24)	-	2,092	2,071	-	-	-	2,096
LE Retail Villaverde, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	229	132	(106)	5,138	5,167	10,771	9,124	1,647	5,141
LE Offices Arturo Soria, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	241	(43)	-	11,495	11,455	27,160	24,166	2,994	11,497
LE Retail Anec Blau, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(793)	(793)	-	78,574	77,784	93,250	79,710	13,540	78,577
LE Retail Albacenter, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(94)	(94)	-	28,977	28,886	35,464	29,840	5,624	28,980

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

Information on Group Companies  
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LE Retail Txingudi, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(122)	(122)	-	27,473	27,354	35,500	27,979	7,521	27,476
LE Retail Las Huertas, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(233)	(233)	-	12,196	11,966	13,300	12,321	979	12,199
LE Offices Marcelo Spínola, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	(1,236)	(1,236)	-	28,504	27,271	33,500	28,213	5,287	28,507
LE Retail Gran Via de Vigo, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	502	(941)	(3,287)	-	110,143	107,358	144,500	109,489	35,011	137,970
LE Retail Portal de la Marina, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	27,240	457	621	(487)	8,852	36,226	98,500	80,037	18,463	35,889

\* Audited companies by Deloitte, S.L.

All the companies are domiciled at Calle Rosario Pino 14-16, Madrid.



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

Information on Group Companies  
31 December 2016

**b) Joint venture**

Company	Registered office	Activity	Auditor	Type of entity	% of Participation		Share capital	Operating profit	Profit/(loss)	Thousands of Euros		Carrying amount of investment
					Direct	Total				Dividends	Other equity	
Inmobiliaria Juan Bravo 3, S.L.	Rosario Pino 14-16, Madrid	Property leasing and development	Deloitte	Associate	50%	50%	3,483	5,368	(2,586)	-	(36,702)	11,443 (b)

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

Information on Group Companies  
31 December 2015

## a) Subsidiaries

Company	Activity	Type of entity	% of participation		Thousands of Euros									
			Direct	Total	Share capital	Operating profit	Profit/(loss)	Dividends	Other equity	Total equity (a)	Market value (b)	Carrying amount (c)	Implicit capital gains (d=b-c)	Carrying amount of investment (e)
LE Logistic Alovera I y II, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	3,232	3,238	(2,887)	38,644	44,829	51,140	45,025	6,115	44,309
LE Retail Hiper Albacenter S.A.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	885	885	(700)	10,121	11,766	12,437	11,725	712	11,660
LE Retail Alisal, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	968	731	(487)	8,171	9,449	17,202	17,106	96	9,410
LE Offices Egeo, S.A.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	2,745	2,226	(1,552)	31,092	34,930	69,210	65,188	4,022	34,560

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

Information on Group Companies  
31 December 2015

LE Offices Eloy Gonzalo 27, S.A.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	60	602	602	(477)	11,499	12,638	13,000	12,854	146	12,553
LE Retail As Termas, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	2,175	1,615	(1,366)	27,914	30,899	68,500	67,565	935	31,339
LE Logistic Alovera III y IV, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	449	449	(341)	9,806	10,600	10,750	10,292	458	10,494
LE Logistic Almussafes, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	337	337	(278)	7,972	8,591	8,500	8,466	34	8,534
LE Retail Hiper Ondara, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	185	185	(161)	6,926	7,276	7,750	7,088	662	7,254
LE Offices Joan Miró 21, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	487	482	(419)	9,565	10,470	20,440	19,898	542	10,514

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

Information on Group Companies  
31 December 2015

LE Retail Megapark, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	1,771	720	(1,236)	2,623	4,583	173,245	167,421	5,824	4,482
LE Retail Sagunto, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	(322)	(322)	-	3,616	3,298	1,148	1,148	-	3,621
LE Retail El Rosal, S.L.U.*	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	1,685	(3,923)	-	5,821	1,901	89,600	78,359	11,241	7,720
LE Retail Galaria, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	4	223	219	(193)	4,081	4,497	9,500	8,456	1,044	4,473
Lar España Shopping Centres VIII, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	-	-	-	(1)	2	7,380	7,380	-	3
Lar España Offices VI, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	-	-	-	(1)	2	-	-	-	3

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

Information on Group Companies  
31 December 2015

LE Retail Vistahermosa, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	-	-	-	(1)	2	-	-	-	3
Lar España Inversión Logística IV, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	-	-	-	(1)	2	-	-	-	3
LE Retail Villaverde, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	156	135	(121)	4,703	4,962	9,851	9,207	644	4,948
LE Offices Arturo Soria, S.L.U.	The acquisition and development of properties for lease	Subsidiary	100%	100%	3	230	191	(175)	11,984	12,353	25,600	24,333	1,267	12,337

\* Audited companies by Deloitte, S.L.

All the companies are domiciled at Calle Rosario Pino 14-16, Madrid.

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

Information on Group Companies  
31 December 2015

**b) Joint venture**

Company	Registered office	Activity	Auditor	Type of entity	% of Participation		Thousands of Euros			Carrying amount of investment
					Direct	Total	Share capital	Profit/(loss)	Other equity	
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	3,719	7,691	20,689
Lavernia Investments, S.L.	Rosario Pino 14-16, Madrid	Property leasing and development	Deloitte	Associate	50%	50%	6	(913)	20,402	9,748
Inmobiliaria Juan Bravo 3, S.L.	Rosario Pino 14-16, Madrid	Property leasing and development	Deloitte	Associate	50%	50%	3,483	10,828	(32,294)	11,610 (a)

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

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

### **Consolidated Directors' Report on the financial year ended at 31 December 2016**

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

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

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

- **Madrid**

**Supply:** As at 31 December 2016, the vacancy rate in Madrid is slowly dropping and office availability is currently 1.46 million m2. Specifically, the office space vacancy rate has dropped from 11.7% at the end of 2015 to 11.4% at the close of 2016. In response to the growth of the economic fundamentals and stable demand, office development has begun to recover, and in 2016, after several years of decline, around 16,000 m2 of office space was delivered. The most outstanding feature of 2016 has been the improvements to stock through refurbishments. In total, 96,249 m2 of space has been refurbished, whilst new developments account for 16,251 m2.

**Take-up:** Take-up remains relatively stable with gross take-up of 496,108 m2 compared with the 572,967 m2 for 2015, a reduction of 13.4% from the excellent results achieved in 2015.

**Rental Income:** During 2016, rents have generally increased in all the areas studied, with an average overall increase of 6.9% for the year, which is slightly greater than the rate recorded in 2015; the average rent in the prime area is EUR 27.89/m2/month. In the other areas, minimum rents continue to rise, not only in the secondary area but also on the outskirts of the city. Rents remain stable in the satellite area.

- **Barcelona**

**Supply:** During 2016, 58,475 m2 of office space has come into the market. At year-end, the market supply of office space in Barcelona had dropped by 111,630 m2, giving an available surface area in Barcelona of 564.975 m2 after an annual correction of 9.5%. This demonstrates the sector's favourable evolution. The average immediate availability rate has dropped over the last year from 11.5% to the current value of 9.5%, equivalent to the level in 2009.

**Take-up:** In 2016, taking into account historic data for uptake, gross take-up of office space has performed well, amounting to 330,282 m2. When compared with the take-up for 2015, demand can be seen to have fallen by 21.4%.

**Rental Income:** In 2016, market rent performance was positive, with prices increasing by 6.1% on average. The prime rent in Barcelona is EUR 21.5/m2/month, 9% above the prime rent of a year ago.

The volume invested in the office market was EUR 2,806 million in 2016, 11.5 % less than in 2015. Even so, it was the sector with the second-highest volume invested in 2016; only the commercial

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### Management report for the period ended 31 December 2016

segment was higher.

#### **Logistics market**

In Madrid, the logistics take-up recorded in 2016 exceeded 404,280 m<sup>2</sup>, which represents an increase of 10% over 2015.

In Barcelona, the logistics take-up recorded in 2016 amounted to 758,632 m<sup>2</sup>, which represents an increase of 38% over the previous financial year, and is a historic maximum.

In 2016, the logistics investment recorded was EUR 819 million, achieving growth of 89% over 2015.

Turning to prime rents in the local distribution area, these increased to EUR 5.25/m<sup>2</sup>/month, a very limited increase over 2015 (EUR 5/m<sup>2</sup>/month) due to the limited supply of quality industrial bays located in the areas closest to the city.

The resurgence in consumer spending, combined with the evolution of e-commerce, are revolutionising the logistics sector; in fact, this sector is forecast to experience the greatest change, due to the impact of new technologies.

#### **Shopping centres**

The consolidation of the Spanish economy in 2016 has translated into positive performance by the retail sector. It was therefore the commercial segment that recorded the greatest investment volume in 2016, amounting to EUR 2,977 million. According to data from the JLL consultancy, EUR 1,650 million were invested in shopping centres, EUR 575 million in premises and EUR 753 million in other commercial assets.

In 2016 the stock of shopping complexes, which bring together shopping centres and retail parks, leisure centres, outlet centres and malls, was 16.8 million m<sup>2</sup>, shared between 672 different locations throughout Spain.

Footfall levels have continued the trend of recent years and have increased by 1.3% in this year with respect to 2015, according to Footfall Index Spain.

This change was facilitated by a 2.7% increase in Spanish retail sales in 2016.

#### **Residential market**

In 2016 the number of Licences for New Build Homes continued to increase, with estimated growth of 38%. The recovery in home developments has consolidated, and consequently, a new cycle of expansion has started in which there is a boost to home building, although the figures are still small.

In this current period of restrained activity prior to a period of expansion with very low figures, the number of homes started has begun to increase, while the number of finished homes continues to stagnate. The latter figures will show improvement during the coming years, as a result of the growth in the number of homes started.



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### Management report for the period ended 31 December 2016

It is expected that, as from 2016, the private contracts will be shown as notarised, which will considerably increase the number of transactions.

#### **Investment market**

According to a report by the JLL real estate consultancy, tertiary real estate investment in Spain (in offices, premises and shopping centres, logistics and hotels) ended 2016 with a volume of EUR 8,757 million, 7% lower than in 2015.

This is the second largest tertiary investment volume in the last decade, only exceeded by the 2015 figure, when the volume was a record EUR 9,407 million.

The initial rate of return ranges between 3.75% and 6.75%, depending on the quality, location and rental situation of the real estate.

On the supply side, one will start to see SOCIMIs rotating non-strategic assets within their business plans.

Financing will be maintained within margins very similar to those observed in 2016. LTV will likewise be maintained at levels similar to those of 2016. The LTV will be in the 60-70% range, with maxima of 75% for the prime market and spreads above Euribor starting from 175 basic points.

The situation of political uncertainty experienced throughout 2016, with the absence of a central government, does not seem to have affected the real estate investment market.

#### **1.2 Organisational structure and operations**

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

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

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

- Retail: premises and retail block rental business.

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

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

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

- Offices: office rental business.

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

- Logistics: logistical warehouse rental business.

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

- Residential.

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

The Group investment policy focuses essentially on:

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

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

For more information about lines of business and geographical scope, see Note 6 of the consolidated report.

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

### **2.1 Introduction**

At the close of the 2016 financial year, the Group's ordinary revenue amounted to 60,234 thousand euros, corresponding to the business in which the Group is engaged: the rental business.

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### Management report for the period ended 31 December 2016

During the 2016 financial year the Group incurred "Other expenses" amounting to 46,401 thousand euros, corresponding essentially to the fees for management provided by Grupo Lar Inversiones Inmobiliarias, S.A. to the Group (31,961 thousand euros) and professional services (accounting and legal advice, audit and property valuations (9,974 thousand euros).

Earnings before interest, taxes, depreciation and amortisation (EBITDA) stood at 18,093 thousand euros.

The appreciation in value during 2016 of the real estate investments held by the Group at 31 December 2016, according to the independent valuation conducted by Cushman & Wakefield and Jones Lang Lasalle at the close of the financial year is 87,815 thousand euros.

As of the close of 2016, the Group's rental business has been valued, by the same independent appraisers referred to in the previous paragraph, as EUR 1,191,089 thousand. The values of the appraisals are updated every half-year, in accordance with best market practices.

The financial result was a negative amount of 13,737 thousand euros.

The Group's profit for the financial year amounted to 91,430 thousand euros.

By area of activity, the following should be emphasised:

- A significant percentage of the Group's revenue is the result of rent from retail centres, accounting for 79% of total revenue, as opposed to 12% from offices and 9% from logistics.
- Around 50.1% of rental revenue is generated by the Megapark, El Rosal and Anec Blau retail centres.

As at 31 December 2016 the Group occupied across its whole business 94.12% the gross leasable area (GLA), the occupancy rate at retail centres being 91.93%, 89.89% for offices and 100% for logistics.

At the close of 2016, the Group had a portfolio of real estate rental projects covering retail centres (353,925 m<sup>2</sup>), office buildings (41,759 m<sup>2</sup>) and logistical warehouses (161,841 m<sup>2</sup>). The overall total gross leasable area is 566,400 m<sup>2</sup>.

The information in the previous two paragraphs does not take into account the Vidanova Parc and Palmas Altas sites, since they have not been built to date. Nor does it include the Marcelo Spínola office building, since it was undergoing remodelling until September 2016.

### **2.2 Other financial indicators**

As at 31 December 2016, the Group revealed the following financial indicators:

- Working capital (calculated as the difference between current assets and current liabilities) → EUR 65,512 thousand (EUR 49,645 thousand at 31 December 2015).
- Liquidity ratio (calculated as the ratio of current assets to current liabilities) → 2.8 (3.5 at 31 December 2015).

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

## Management report for the period ended 31 December 2016

- Solvency ratio (calculated as non-current liabilities and equity divided by non-current assets)  
→ 1.1 (1.1 at 31 December 2015).

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

The ROE ("Return on Equity"), which measures the Group's rate of return divided by its equity, has increased to 13.40% (it was 9.05% as of 31 December 2015). This is calculated as the quotient of the profit for the last 12 months and the Company's net equity, averaged over the last four quarters.

The ROA ("Return on Assets"), which measures the efficiency of the Group's total assets, regardless of the source of funding used, i.e. the capacity of a company's assets to generate profit, is 7.74% (5.72% as of 31 December 2015). This is calculated as the quotient of the profit for the last 12 months and the Company's total assets, averaged over the last four quarters.

In accordance with the recommendations issued by the European Securities and Markets Authority (ESMA) regarding the calculation and determination of Alternative Performance Measures used by the Company's Management in taking financial and operational decisions, sections 3 and 6 of the "Fourth Quarter Earnings Statement for 2016", which was published on the same date as these Financial Statements and explanatory notes, state how the EPRA indicators are calculated and defined.

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

#### **Environment**

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

#### **Staff**

As of 31 December 2016 the Group has 4 employees.

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

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

In this, its third year of activity, the Group has obtained liquidity mainly through:

- The issue of 629,327 shares with a nominal value of EUR 2 plus an issue premium of EUR 6.4189 per share.
- The issue of 29,913,479 shares with a value of EUR 2 plus an issue premium of EUR 2.92 per share.

As of 31 December 2016, the Group's financial debt stands at EUR 451,093 thousand. The level of debt is related to the purchases of the Egeo, Arturo Soria and Joan Miró office buildings, the holding

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

Management report for the period ended 31 December 2016

in Inmobiliaria Juan Bravo 3 S.L., the As Termas, el Rosal, Megapark and Portal de la Marina shopping centres and the Villaverde, Nuevo Alisal and Galaria single-tenant commercial properties.

As of 31 December 2016, the Group's short term financial debt stands at EUR 11,359 thousand.

The Group intends its debt's maturity profile to be in line with its ability to generate cash flow to cover the debt.

On 15 September 2016, the Company completed the acquisition of 100% of the share capital of LE Retail Gran Vía de Vigo, S.A.U. (formerly called Gran Vía Centrum Holdings, S.A.U.). LE Retail Gran Vía de Vigo, S.A.U. owns the Gran Vía de Vigo shopping centre, which has a gross leasable area (GLA) of approximately 41,462 m<sup>2</sup> and was formerly owned by Quercus Opportunitas Iberia Holdings, S.A.U.

The acquisition was carried out for a total amount of EUR 141 million (subject to the later adjustments usual in this type of transactions) which was paid in full with the Company's share capital.

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

The Group had no contractual obligations at 31 December 2016 representing a future outgoing of liquid resources, beyond those discussed under item 3.1.

As at 31 December 2016, the Group did not reveal any off-balance sheet operations that had, or foreseeably would have, any effect on the financial situation of the Group, on the structure of revenue and expenditure, the results of operations, liquidity, capital expenses or shareholder equity that would be of a significant volume.

### **4 Main risks and uncertainties**

The Group is exposed to a variety of risk factors arising from the nature of its business. The Group's Board of Directors is responsible for approving the risk management and control policy, and it assumes responsibility for identifying the Group's main risks and supervising the internal oversight systems; it is informed by the Audit and Oversight Committee. The Group's Risk Management and Oversight System groups together the risks that could potentially affect the Group in the following spheres, which constitute the Group's corporate risk map.

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

No important developments have taken place after the year-end closing.

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

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

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

## Management report for the period ended 31 December 2016

portfolio.

The Group will, however, continue to analyse any investment opportunities that may be attractive and this continue to generate value for its shareholders.

With the appropriate reservations given the current situation, we believe that the Group will be in a position to continue making progress in 2017 and in subsequent years.

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

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

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

The average selling price of treasury shares was EUR 6.87 per share in 2016 (EUR 9.87 in 2015). The result at 31 December 2016 amounted to 577 thousand euros (759 thousand euros at 31 December 2015) was recorded under Other reserves on the balance sheet.

At 31 December 2016 the share price was EUR 7.03.

As of 31 December 2016, the Company holds a total of 117,998 shares, representing 0.13% of total issued shares.

### **9 Other relevant information**

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

The initial share price at the start of the year was EUR 9.46 and the nominal value at year end was EUR 7.03. During 2016, the average price per share was EUR 7.54.

It is important to take into consideration that in April and August 2016 the following capital increases were carried out:

- Issue and circulation of 629,327 new shares at a subscription price of EUR 8.4189 each.
- Issue and circulation of 29,913,479 new shares at a subscription price of EUR 4.92 each.

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

#### **9.2 Dividend policy**

On 21 April 2016, the Shareholders' General Meeting approved the distribution of a dividend of EUR 4,499 thousand, at EUR 0.075 per share (taking into account all the shares issued) charged to the results for the financial year 2015, and of EUR 7,538 thousand, at EUR 0.125 per share (taking into account all the shares issued), charged to the share premium. The amount distributed totalled EUR 12,009 thousand (once the amount corresponding to treasury shares had been deducted, as this is not taken from the Parent Company's equity), taking into consideration the approved amount per share and the shares in circulation at the time of the approval by the Shareholders' Meeting held on 21 April

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

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2016, and adjusting the difference for the greater number of treasury shares against the share premium. The distributed dividend was paid in full in May 2016.

### **9.3 Average number of days payable outstanding to suppliers**

The average number of days payable outstanding to suppliers is 33.

### **10 Annual Corporate Governance Report**

To the effects of Article 538 of the Spanish Companies Act, it is stated for the record that the 2016 Annual Corporate Governance Report forms part of this Management Report.

### **11 Events after the reporting period**

There were no significant events subsequent to year-end.

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

Authorisation of the consolidated annual accounts  
Yearly period ended on 31 December 2016 and  
statement of compliance of  
LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

At their meeting held on 24 February 2017, pursuant to the requirements of Article 253 of the Revised Spanish Companies Act and Article 37 of the Spanish Code of Commerce, the Directors of Lar España Real Estate SOCIMI, S.A. (hereinafter the Company or Lar España) authorised for issue the consolidated annual accounts for the period ended 31 December 2016. The consolidated annual accounts comprise the documents that precede this certification and are issued on the accompanying pages of ordinary paper, all of which have been approved by the Secretary of the Board of Directors, with all the members of the Board of Directors signing the last page.

According to the provisions of Royal Decree 1362/2007, of 19 October, (Article 8.1 b) the undersigning Directors of Lar España and Subsidiaries (the “Group”), hereby declare that:

To the best of their knowledge, the consolidated annual accounts for the annual period ended 31 December 2016, prepared in accordance with applicable accounting principles, present fairly the equity, financial position and results of the Group and that the consolidated management report accompanying the consolidated annual accounts includes a reliable analysis of the development and business results and position of Lar España and Subsidiaries together with a description of the principal risks and uncertainties that they face.

Signatories:

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Mr. José Luis del Valle Doblado (Chairman)

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Mr Alec Emmott

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Mr Roger Maxwell Cooke

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

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Mr Miguel Pereda Espeso

Madrid, 24 February 2017

\*The Director Mr. Pedro Luis Uriarte attended the meeting by telephone, having stated his approval to the accounts has drawn up them, expressly authorising Mr. Jose Luis del Valle to sign the accounts on his behalf.



## Appendix I

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

#### DATA IDENTIFYING THE ISSUER

**Financial year end:**  
31/12/2016

**Tax ID no. (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 <sup>[1]</sup><sub>SEP</sub> 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
03/08/2016	181,081,124	90,540,562	90,540,562

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

Yes    No **X**

Class	Number of shares	Unit par value	Unit no. of voting rights	Different 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 or company name of the direct shareholder	Number of voting rights	
BESTINVER GESTION, S.A., S.G.I.I.C.	0		3.788.217	4,184%
BLACKROCK INC.	0		2.778.690	3,679%
BRANDES INVESTMENT PARTNERS, L.P.	0		2.742.474	3,029%
FRANKLIN TEMPLETON INSTITUTIONAL, LLC	0		13.578.368	14,997%
GRUPO LAR INVERSIONES INMOBILIARIAS, S.A.	3,179,785		0	3,512%
PIMCO BRAVO II FUND, L.P.	0		18.130.748	20,025%
THREADNEEDLE ASSET MANAGEMENT LIMITED	0		4.701.771	5,193 %

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

Name or company name of shareholder	Transaction date	Transaction background
PIMCO BRAVO II FUND, L.P.	18/11/2016	Increased its shareholding

**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 the direct shareholder	Number of voting rights	
José Luis Del Valle	0	Eugemor SICAV S.A.	22.425	0,025%
Alec Emmott	1.155		0	0,001%
Roger Cooke	2.500		0	0,003%
Miguel Pereda	15.000	Grupo Lar Inversiones Inmobiliarias S.A.	3.182.316	3,529%
Pedro Luis Uriarte	54.930			0,061%

% of total voting rights held by the board of directors	3,619%
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Complete the following table detailing the directors who have stock options in the company:

Name or company name Director	Number of options held directly	Options held indirectly		Number of equivalent shares	% of total voting rights
		Direct holder	No. 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"	Right of first refusal in relation to certain opportunities to jointly invest in service and residential properties.
Grupo Lar Inversiones Inmobiliarias	Investment Management Agreement	Company management agreement

- A.6** Indicate whether the company has been notified of any agreements between shareholders within the meaning of articles 530 and 531 of the Spanish Corporate Enterprises Act Provide a brief description and list the shareholders bound by them, as applicable:

Yes No ☒ X

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 ☒ X

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 5 of the Spanish Securities Market Act. If so, identify them.

Yes No ☒ X

Name or company name
Observations

- 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
117,998	0	0.13%

(\*) Held through:

Name or company name of the direct shareholder	Number of shares held directly
N/A	N/A
<b>TOTAL</b>	

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

**A.9 Detail the terms and conditions of the authorisation conferred at the general meeting to the board of directors to issue, buy back or sell treasury stock.**

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

At the Annual General Meeting held on 21 April 2016, the Company's shareholders resolved to delegate in the Board of Directors, or any of its members, for a five-year term:

- The grant of authorization to the Board of Directors to carry out the derivative acquisition of own shares, pursuant to the limits and requirements stipulated in the Corporate Enterprises Act, expressly including the power to reduce share capital, as warranted, on one or more occasions, in order to cancel own shares bought back. Delegation of powers in the Board to execute this resolution.

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

Estimated free float	96.5%
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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 X No**

Description of the restrictions
Pursuant to section 7.2.2 of the management agreement entered into between Lar España Real Estate and Grupo Lar, the shares sold or bought by the Management Company in relation to the performance fee are subject to a three-year lock-up.

**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 **X**

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 **X**

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

**B****GENERAL MEETING**

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

Yes No **X**

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

- 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 **X**

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

	<b>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</b>	<b>Other situations requiring qualified majority</b>
<b>% stipulated for resolution ratification</b>		
<b>Describe the differences</b>		

- 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	
21/04/2016	0.282%	53.733%	0.000%	10.506%	64.521%

- 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**      **Section 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/>

<http://larespana.com/gobierno-corporativo/junta-general-ordinaria-2016/>



**C.1 Board of Directors**

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

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

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

<b>Name or company name of director</b>	<b>Representative</b>	<b>Director class</b>	<b>Position on the board</b>	<b>Date of first appointment</b>	<b>Date of last appointment</b>	<b>Election procedure</b>
José Luis Del Valle		Independent	Independent Chairman	05/02/2014	05/02/2014	N/A
Alec Emmott		Independent	Independent director	05/02/2014	05/02/2014	N/A
Roger Cooke		Independent	Independent director	05/02/2014	05/02/2014	N/A
Miguel Pereda		Proprietary	Proprietary director	05/02/2014	05/02/2014	N/A
Pedro Luis Uriarte		Independent	Independent director	05/02/2014	05/02/2014	N/A

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

<b>Name or company name of director</b>	<b>Class of director upon resignation</b>	<b>Date of departure</b>

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

**EXECUTIVE DIRECTORS**

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

Total number of executive directors	
% of total board members	

### **EXTERNAL PROPRIETARY DIRECTORS**

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

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

### **EXTERNAL INDEPENDENT DIRECTORS**

<b>Name or company name of director</b>	<b>Background</b>
José Luis, del Valle	José Luis del Valle boasts an extensive career in the banking and energy sectors. Between 1988 and 2002, he held several positions at Banco Santander, one of Spain's most prominent financial institutions. In 1999, he was named the bank's General Manager and CFO (1999-2002). He later worked as Director of Strategy and Business Development at Iberdrola, one of Spain's leading power companies (2008-2010), CEO of Scottish Power (2007-2008), Director of Strategy and Research at Iberdrola (2008-2010) and advisor to the Chairman of Gamesa, the wind turbine manufacturer (2011-2012). He is currently the non-executive Chairman of the Board of GES - Global Energy Services, a provider of construction, operation and maintenance services to the renewable energy industry. He also sits on the board of the insurance group, Ocaso, and of IC-A, Spain's Association of Directors. Lastly, he is a director of Abengoa S.A., a supplier of innovative technology solutions for sustainable development. José Luis is an engineering graduate from Madrid's Polytechnic University (Spain). He specialised in Mining Engineering and graduated number one in his class. He also holds a Masters in Nuclear Science and Engineering from the Massachusetts Institute of Technology (Cambridge, US). Lastly, he holds an MBA with High Distinction (Baker Scholar) from Harvard Business School (Boston, US).
Pedro Luis Uriarte	Pedro Luis Uriarte boasts a long and plentiful career. Between 1975 and 2001, he held several different positions at BBVA, one of Spain's leading banks, serving as Vice-Chairman of BBV and BBVA. He was named CEO of BBV in 1994. He has also served as Vice-Chairman of the Board of Telefónica, Spain's leading telecommunications provider. In 1980, he was named Councillor of the Economy and Finance in the Basque regional government. In 2007, he founded and ran Innobasque, the Basque innovation agency. He is currently the Executive Chairman of the strategic consultancy, Economía, Empresa, Estrategia, and is a member of several board and board advisory committees. He is Vice-Chairman of the Bilbao Civil Board and has been a member of UNICEF Spain's management board. He holds a dual degree in business studies and law from Deusto University (Bilbao, Spain), and is a member of the board and executive committee of Deusto Business School. He has received several professional prizes,

	notably including the <i>Gran Cruz al Mérito Civil</i> [Civil Merit Cross] (awarded by the Spanish government) in 2002 and Executive of the Year (awarded by CEDE, Spain's Confederation of Executives) in 2011 and the Sabino Arana Prize in 2016.
Alec Emmott	Alec Emmott has built an extensive career in the real estate sector in Europe, having worked at listed and unlisted companies. He resides in Paris. He worked as CEO of Société Foncière Lyonnaise (SFL) between 1997 and 2007 and later as executive advisor to SFL until 2012. He is currently Director of Europroperty Consulting, and has been a Director of CeGeREAL S.A. (where he represents Europroperty Consulting) since 2011. He is also a member of the advisory committee of Weinberg Real Estate Partners (WREP I/II), Cityhold AP and MITSUI FUDOSAN. He has been a member of the Royal Institution of Chartered Surveyors (MRICS) since 1971. He holds an MA from Trinity College (Cambridge, UK).
Roger Cooke MBE	Roger M. Cooke MBE boasts more than 30 years' experience in the real estate sector. In 1980, he joined the London office of Cushman & Wakefield, where he participated in the drafting of its appraisal standards (Red Book). From 1995 until the end of 2013, he worked as Chief Executive Officer of Cushman & Wakefield Spain, during which time he positioned the company at the sector's forefront. He holds a degree in Urban Estate Surveying from the Trent Polytechnic University (Nottingham, UK). He has been the President of the British Chamber of Commerce in Spain until May 2016 and is a member of the Royal Institution of Chartered Surveyors (RICS). In the 2017 New Year's honours' list Roger was awarded an MBE for services to British businesses in Spain and Anglo/Spanish trade and investment'. Since 2014 he is a Senior Advisor at Ernst & Young.

<b>Total number of independent directors</b>	4
<b>% of total board members</b>	80%

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

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

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

### **OTHER EXTERNAL DIRECTORS**

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

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

Total number of other external directors	
% of total members	

List any changes in director classification during the reporting period:

Name or company name of director	Date of change	Previous class of directorship	Current class of directorship

**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 each directorship category			
	2016	2015	2014	2013	2016	2015	2014	2013
<b>Executive</b>	0	0	0	NA	0	0	0	N/A
<b>Proprietary</b>	0	0	0	N/A	0	0	0	N/A
<b>Independent</b>	0	0	0	N/A	0	0	0	N/A
<b>Other external</b>	0	0	0	N/A	0	0	0	N/A
<b>Total:</b>	0	0	0	N/A	0	0	0	N/A

**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:**

In 2015, 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 an explanation:**

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 boardroom represented by women, 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:**

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 specifically states the target of having 30% of its membership occupied by women by 2020. It is not possible to verify compliance at this juncture as the policy has only been in effect for a year.

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

Article 8.3 of the Board Regulations stipulates that the Board must endeavour that among external directors, the relation between proprietary members and independents should match the proportion between the capital represented on the board by proprietary directors and the remainder of the Company's capital.

Further, 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

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 ☒ X

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 ☒ X

Name of director	Reasons for resignation

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

Yes No ☒ X

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?
Miguel Pereda Espeso	LE LOGISTIC ALOVERA I Y II, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL ALISAL, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL HIPER ALBACENTER, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE OFFICES EGEO, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL PORTAL DE LA MARINA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE OFFICES ELOY GONZALO 27, S.A.U.	Chairman of the Board of Directors	No

Miguel Pereda Espeso	LE RETAIL AS TERMAS, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE LOGISTIC ALOVERA III Y IV, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE LOGISTIC ALMUSSAFES, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL HIPER ONDARA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE OFFICES JOAN MIRÓ 21, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL SAGUNTO, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL MEGAPARK, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL EL ROSAL, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL GALARIA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LAR ESPAÑA INVERSIÓN LOGÍSTICA IV, S.L.U.	Director (acting joint and severally)	No
Miguel Pereda Espeso	LE RETAIL VISTAHERMOSA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LAR ESPAÑA SHOPPING CENTRES VIII, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LAR ESPAÑA OFFICES VI, S.L.U.	Director (acting joint and severally)	No
Miguel Pereda Espeso	LE OFFICES ARTURO SORIA, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL VILLASVERDE, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL ALBACENTER, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE OFFICES MARCELO SPINOLA 42, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL LAS HUERTAS, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL TXINGUDI, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL ANEC BLAU, S.L.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	LE RETAIL GRAN VÍA DE VIGO, S.A.U.	Chairman of the Board of Directors	No
Miguel Pereda Espeso	INMOBILIARIA JUAN BRAVO 3 S.L.	Director of the Board of Directors	No
Roger Cooke	INMOBILIARIA JUAN BRAVO 3 S.L.	Chairman of the Board of Directors	No

**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
Jose Luis del Valle	Abengoa, S.A.	Director
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
The Company's directors may sit on the boards of up to four other listed companies (in addition to that of the Company). Article 19.4 of the Board Regulations.

**C.1.14** Section repealed

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

Board remuneration (thousands of euros)	346
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)
Jon Armentia Mendaza	Corporate Director
Sergio Criado Cirujeda	CFO
Susana Guerrero Trevijano	Legal Director
Hernán San Pedro López de Uribe	Director of Investor Relations

Total senior management remuneration (in thousands of euros)	383
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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
D e Miguel Pereda	Grupo Lar Inversiones Inmobiliarias	Director
S		
e		
r		
i		

be 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 X No**

#### **Description of the amendments**

The amendments made to the Board Regulations of Lar España (updated on April 21, 2016) should be viewed against the backdrop of the Company's process of continually reviewing and updating its in-house corporate governance rules and regulations. The new Board Regulations

The amendments introduced were intended, firstly, to adapt the Board Regulations for the contents of the changes made to Spain's Corporate Enterprises Act by means of Law 22/2015 (of July 20, 2016), on account auditing, and, secondly, to introduce other improvements in the corporate governance arena (as enshrined in the Good Governance Code of Listed Companies of February 18, 2015) and of a technical nature, which needed to be reflected in the Board Regulations.

The amendments made to each and every article of the Board Regulations are explained in detail in the report issued by the Board of Directors substantiating the changes, in keeping with the provisions of articles 518 d) and 528 of the Corporate Enterprises Act and was made available to shareholders at the 2016 General Assembly.

**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 director selection policy, which was approved by the Appointments and Remuneration Committee and the Board of Directors on January 20, 2016 and is designed with the following objectives in mind:

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

**1. Director aptitudes**

Directors must *(i) Be persons of good reputation and professional standing.*

On the other hand, 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 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 as a whole has the right combination of both.

*(iii) Be in a position to govern the company 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 they must:

- i. Devote sufficient time to the Company and adopt appropriate measures for ensuring its correct management and control.
- ii. Get from the company the level of information they need to correctly fulfil their obligations.
- iii. Devote sufficient time to becoming informed, to familiarising themselves with the Company's paradigm and business performance and to participating in the meetings of the Board and any of the committees on which they sit.

- iv. 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 first analyse 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 from the candidates, it will issue its explanatory report, proceeding as follows:

- 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 then has 30 working days to analyse the director appointment proposals made by the Committee, after which it must submit the corresponding resolutions to the shareholders for approval in general meeting.

In the event of director appointments by means of co-option, the above procedure must be followed and the appointment must be ratified at the Annual General Meeting. The corresponding motion must be accompanied by an explanatory report issued by the Appointments and Remuneration Committee, which must be put in the public domain in conjunction with the General Meeting call notice.

## **3. Ongoing assessment**

Whenever the 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:**

**Description of changes:**

In 2015, with the assistance of Ernst and Young S.L., Lar España carried out an annual evaluation of the Board, its members and its committees. This evaluation was approved by the Appointments and Remuneration Committee on January 20, 2016. As a result of this process, the workings of the Board and Company have been enhanced.

**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 was 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, an external consultant was engaged to execute the process. The specific areas assessed included:

- 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 individual directors, with particular attention to the chairmen of various Board committees.
- The operations and composition of the Board committees.

The process undertaken is detailed below:

**Phase 1: Submission of questionnaires**

- The external consultant sent the corresponding Board-approved evaluation questionnaires to the directors and secretary of the Board.
- The directors and the secretary then had 15 calendar days to fill it out (starting from the day on which it is sent).
- The external consultant resolved any questions raised by the directors and/or secretary in the course of filling out their questionnaires.

**Phase 2: Interviews**

- The external consultant 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: Final report**

- The consultant will prepare a final report that will contain the consolidated data by section and a summary of the most important conclusions drawn from the evaluation exercise. The report was revised and debated by the Board of Directors.

### **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.

### **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 2016, Ernst & Young, S.L. assisted Lar España with the following tasks:

- Definition of the procedure for evaluating the Board of Directors, its members and its committees
- Definition of the senior officer performance evaluation system
- Preparation of the Annual Corporate Governance Report
- Preparation of the Annual Director Remuneration Report
- Preparation of the contents of a corporate governance training course for directors
- 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 the financial statements in keeping with the recommendations issued by the European Public Real Estate Association (EPRA)

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

Article 23 of the Board Regulations stipulates:

1. Directors shall cease to hold office at the end of the tenure for which they were appointed or when so determined by the shareholders at the General Meeting by exercising their legally-conferred or bylaw-stipulated powers.
2. Directors shall tender their resignation to the Board of Directors and the latter shall accept their resignation if deemed appropriate in the following situations:
  - a. When they resign from the executive position associated with their directorship.
  - b. When they are in breach of any of the legally-mandated or bylaw-stipulated conflicts of duty or interest.

- c. When they are seriously reprimanded by the Board of Directors for having infringed any of their fiduciary obligations as directors.
  - d. When their continuity on the Board of Directors jeopardises the Company's interests or adversely affects its credibility or reputation or when the reasons for which they were appointed cease to exist (e.g. when proprietary directors dispose of or significantly reduce their ownership interests in the Company, as outlined in section e. below).
  - e. In the case of proprietary directors: (i) when the shareholder they represent sells or significantly reduces its shareholding; and (ii) proportionately, when the shareholder they represent reduces its shareholding to such a level as to lose some of its entitlement to proprietary director representation.
3. Directors who resign or otherwise stand down from the Board of Directors before the end of their mandate must state their reasons in a letter addressed to all its members.
  4. The Board of Directors may only propose the removal of an independent director before the end of his or her mandate when it ascertains just cause. Specifically, just cause shall be deemed to exist when a director has failed to uphold his or her fiduciary duties or breaches any of the safeguards itemised in the prevailing legal definition of independent director or, in absence thereof, the then-prevailing corporate governance recommendations applicable to the Company.

**C.1.22 Section repealed**

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

Yes No **X**

**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 **X**

Description of the requirements

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

Yes **X** No

Matters for which the chairman has the casting vote
Board resolutions are carried with the favourable vote of the straight majority of attending directors, whether physically present or duly represented, except where the law, the Articles of Association or Board Regulations provide for other quorums. In the event of a draw, the Chairman has the casting vote (Article 39.2 of the Articles of Association).

**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 ☒

<b>Maximum term of office (years)</b>	
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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.**

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

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

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

**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	
--------------------	--

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

Number of executive committee meetings	N/A
Number of audit & control committee meetings	10
Number of nomination and remuneration committee meetings	6
Number of nomination committee meetings	N/A
Number of remuneration committee meetings	N/A
Number of sustainability committee meetings	N/A

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

Number of meetings held with all members in attendance	15
% attendance over total votes cast in the year	100%

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

Yes    No ☒ X

Identify, if appropriate, the person(s) certifying the separate and consolidated financial statements before submission to the board for approval:

Name	Position

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

In keeping with article 41.3 of the Board Regulations, the Board of Directors must endeavour to authorise the annual financial statements 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 must 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 ☒ X

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 Section 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 jeopardise 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.

Further, article 14.3.b of the Board Regulations states 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 Company and the auditor uphold prevailing rules governing the provision of non-audit services and, in general, the other rules in place to safeguard auditor independence; (iii) should the auditor resign, investigating the circumstances giving rise to such decision; and (iv) in the case of groups, urging the group auditor to take on the auditing of all constituent companies.

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

Yes No ☒ X

Outgoing auditor	Incoming auditor

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

Yes No ☒ X

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 ☒ X No

	Company	Group	Total
Fees for non-audit work (thousands of euros)	12	0	12
Fees for non-audit work / total amount invoiced by the audit firm (%)	3.61%	0%	2.39%

**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 ☒ X

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	3	

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

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

**Yes X 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 X No**

**Details of the procedure:**

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

3. Board meetings must be called by the Secretary of the Board of Directors or whoever substitutes him in this task, as duly authorised by its Chairman, using any method that ensures notice delivery. Meetings must 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 must be made to provide the directors with any required documentation sufficiently in advance of the extraordinary meeting.

In addition, article 25 of the Board Regulations stipulates:

1. Directors may request information about any matter falling within the purview of the Board of Directors, to which end they may examine the Company's books, accounting records and other documentation. This right to information applies to all subsidiaries and, wherever practicable, investees.
2. Information requests should be addressed to the Secretary of the Board of Directors, who will let the Chairman of the Board and appropriate contact person within the Company know.
3. The Secretary shall warn the director in question of the confidential nature of the information requested and provided and of his/her confidentiality duty under these Board Regulations.
4. The Chairman may deny the information requested if he considers: (i) it is not required for due performance of the duties incumbent upon the director; or (ii) its cost is not reasonable in light of the scale of the issue or in relation to the Company's assets or revenues.

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

Yes ☒ No

**Details of the rules**

Article 36 of the Board Regulations stipulates:

1. Directors must inform the Company of the shares they hold in it either directly or via the persons indicated in article 31 of the Board Regulations, all of which in keeping with the provisions of the Company's Internal Code of Conduct in Securities Markets.
2. Directors must also inform the Company of directorships held at other listed companies and, in general, of facts, circumstances or situations of potential significance with respect to their performance as directors of the Company, as provided for in these Regulations.
3. Directors must similarly inform the Company of any circumstance that could harm the Company's name or reputation, with particular mention of any criminal charges brought against them and the progress of any subsequent proceedings. If a director is indicted or tried for any of the crimes itemised in article 213 of the Corporate Enterprises Act, the Board must investigate the matter as quickly as possible and, in view of the specific circumstances, decide whether or not to call on that director to resign.

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

Yes      No ☒

Name of director	Offence	Observations

**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	Job category

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

**Explain the duties vested in this committee, describe its procedures and rules of organisation and operation and summarise the most important activities undertaken by it during the reporting period.**

#### **Duties**

Without prejudice to the powers that may be granted to any party, the Board of Directors may set up a permanent Executive Committee. The rules governing the make-up and operation of the Executive or Steering Committee are set forth in article 41 of the Articles of Association and article 13 of the Board Regulations.

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

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**

Note that Lar España did not avail of this power to set up an Executive Committee in 2016.

**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 COMMITTEE**

<b>Name</b>	<b>Position</b>	<b>Job category</b>
José Luis del Valle	Chairman	Independent
Pedro Luis Uriarte	Member	Independent
Miguel Pereda	Member	Proprietary
Juan Gómez-Acebo	Secretary	Non-board member

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

**Explain the duties vested in this committee, describe its procedures and rules of organisation and operation and summarise the most important activities undertaken by it during the reporting period.**

#### **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; (iii) related-party transactions; and (iv) the economic conditions and accounting impact and, when applicable, the exchange ratio proposed in respect of any fundamental changes or corporate transactions the Company is planning.

### **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 main activities carried out by the Audit and Control Committee in 2016:

- Review of the periodic financial disclosures
- Review of the annual financial statements
- External audit
- Internal audit
- Compliance with corporate governance regulations
- Supervision of the fees received by the Management Company
- Valuation of the Company's assets

**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.**

<b>Name of the director with specialist expertise</b>	José Luis del Valle
<b>No. of years the committee chair has held the post</b>	3



## **NOMINATION AND REMUNERATION COMMITTEE**

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

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

**Explain the duties vested in this committee, describe its procedures and rules of organisation and operation and summarise the most important activities undertaken by it during the reporting period.**

### **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 six times in 2016 and performed the following activities:

- In relation to the Company's corporate governance policies, the Appointments and Remuneration Committee completed the review and approval of a director selection policy, the procedure and questionnaires for evaluating the Board of Directors, its members and its committees and the procedure for evaluating officers.
- As for evaluation of the Company's officers, the Appointments and Remuneration Committee reviewed the conclusions drawn from the evaluation exercise and the level of delivery of the targets for 2015; it also approved the payment of 100% of the bonuses established for each of the officers.  
In addition, the Committee reviewed and approved the proposed targets for the Company's employees for 2016, agreeing a structure based on 75% of shared objectives applicable to all professionals and 25% of individually-personalised objectives.

In 2016, the Committee began to evaluate the target structure for 2017 and agreed some of the criteria to be used in setting these targets the following year.

- On the corporate social responsibility (CSR) front, the Appointments and Remuneration Committee regularly reviewed matters concerning the design and implementation of the Company's SCR policy for the years to come. To this end, the Committee was assisted by EY, the entity appointed to carry out this advisory mandate following a competitive tender. EY flagged important aspects to be taken under advice such as building accessibility for persons with reduced mobility, environmental protection in the course of development of the Company's business activities and the need to engage tenants in the task of delivering these objectives.  
The Committee agreed to undertake a competitive tender for the formulation of a Master CSR plan for the next three years.

In addition, the Appointments and Remuneration Committee approved the creation of a Sustainability Committee which will report to it and in theory must meet on a quarterly basis.

- The Appointments and Remuneration Committee reviewed and approved the Director Remuneration Report for 2015, as required under article 541 of Spain's Corporate Enterprises Act, and the report on the activities of the Committee in 2015, as stipulated in article 529 *nonies* of that same Act.

## COMMITTEE

Name	Position	Class of director

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

**Explain the duties vested in this committee, describe its procedures and rules of organisation and operation and summarise the most important activities undertaken by it during the reporting period.**

**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			
	2016 Number %	2015 Number %	2014 Number %	2013 Number %
<b>Executive committee</b>	N/A	N/A	N/A	N/A
<b>Audit committee</b>	0	0	0	N/A
<b>Appointments and remuneration committee</b>	0	0	0	N/A
<b>Nomination committee</b>	N/A	N/A	N/A	N/A
<b>Remuneration committee</b>	N/A	N/A	N/A	N/A
<b>____ committee</b>	N/A	N/A	N/A	N/A

**C.2.3 Section repealed**

**C.2.4 Section 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 Regulations govern the workings of the Appointments and Remuneration Committee (article 15) and the Audit and Control Committee (article 14). The Board Regulations are available on the corporate website and can be reached using the following link:

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

**C.2.6 Section repealed**

**D****RELATED PARTY AND INTRA-GROUP TRANSACTIONS****D.1. Outline the procedure, if any, in place for approving related-party and intra-group transactions.**

The Board'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.o 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 14.3.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).

The Investment Management Agreement in force between Grupo Lar Inversiones Inmobiliarias, S.A. as Management Company and Lar España Real Estate SOCIMI, S.A. as the Company Managed, entered into on 12 February 2014, specifies (in its fifth clause) the following:

The Management Company shall be entitled to provide services and perform and participate in transactions, subject to obtaining prior written consent from the Company, in relation to any of the following matters:

- (i) Any acquisition/disposal of a real estate investment or the arrangement of a binding agreement for the acquisition/disposal of a real estate investment, when the cost of the acquisition/total gross proceeds exceed(s) 30 million euros;
- (ii) Any new financing or refinancing, including related hedging agreements, arranged in connection with a real estate investment when its amount exceeds 30 million euros;
- (iii) Any expenditure on capital goods for real estate investment purposes of 10 million euros or more;
- (iv) Any proposed lease agreement or termination of such an agreement when the annual rent is equivalent to over 10% of the Company's total rental income;
- (v) Any joint investment or joint venture in properties for commercial usage; if approved, the Lar Group will have the right to manage the joint investment or joint venture in full on its own behalf and on behalf of the Company;
- (vi) Any joint investment or joint venture in properties for residential usage that include an investment by the Company in excess of 10 million euros;
- (vii) Any hedge or use of derivatives, including those related to debt instruments, interest or real estate investments, unless such investments are part of the pertinent financing, as outlined in item (ii) above;
- (viii) The Company's participation in any transaction for the acquisition of the assets of any company, firm or person that happens to be: (1) a subsidiary of the Management Company; (2) a direct or indirect shareholders of the Management Company (other than the shareholders of Grupo Lar who are not members of the Pereda family (the "Minority Shareholders")); or (3) a subsidiary controlled directly or indirectly, control within the meaning of article 42 of the Spanish Code of Commerce, by the entities mentioned in (2)

above (that are not Minority Shareholders), or in the sale of goods or provision of services deemed material to any subsidiary of the Management Company, unless those activities are covered by a framework agreement approved by the Board of Directors. The Company's participation in any transaction for the purchase of assets from a person related to a subsidiary of the Management Company or the provision of services deemed material by such a person shall similarly be deemed matters subject to approval. For the avoidance of doubt, Gentalia is not a subsidiary of the Management Company for the purposes of this Agreement.

- (ix) The disposal of any right, title or interest whatsoever in the properties of the Company for an amount that is less than they were acquired for;
- (x) Transactions and situations with related parties that could lead to conflicts of interest;
- (xi) The appointment by the Management Company of one or more estate managers or the execution of any third-party services contracts worth more than 1 million euros a year; and
- (xii) Any transaction executed by Gentalia, unless regulated by a framework agreement arranged on an arm's length basis, approved by the Board of Directors, and so long as the assets in question are in keeping with the terms of such framework agreement.

Notwithstanding the foregoing, the Management Company shall be entitled to provide services and participate in transactions related with the matters subject to approval without having to obtain prior written consent from the Company:

- (i) For legal reasons; or
- (ii) In order to respond to a *bona fide* emergency for which time is of the essence.

When Company approval is required for a transaction under the terms of this Agreement, the Management Company must present the Board of Directors a proposal regarding the transaction and provide the Company with the information the Board may reasonably request in order to evaluate and, if it so decides, approve that 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)
GRUPO LAR INVERSIONES INMOBILIARIAS, S.A.	LAR ESPAÑA REAL ESTATE SOCIMI, S.A.	contractual	Management agreement	31,961

**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:**

<b>Name of the group company</b>	<b>Brief description of the transaction</b>	<b>Amount (thousands of euros)</b>

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

Grupo Lar Inversiones Inmobiliarias, S.A. – 31,961 thousand euros

Gentalia 2006, S.L. - 1,672 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.

For Board regulation purposes, the following definitions apply:

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 group is 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, except as carved out in applicable legislation.

#### Internal Securities Markets Code of Conduct

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 within the second degree by affinity or third degree of consanguinity 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 judgement 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 **X**

**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.1. Explain the scope of the company's risk management system, including the fiscal risk management system.**

The enterprise risk management (ERM) system of de Lar España Real Estate SOCIMI, S.A. and subsidiaries (hereinafter, Lar España) has been implemented at the corporate level and is designed to mitigate the risks (including fiscal risks) to which the organisation 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, operating, 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 its 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 organisation, 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 are generated and controls performed, determining the relationship between the organisation'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 system for managing risks, including fiscal risks.**

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 which assist with significant processes such as:

- Investment and asset management, performed primarily by Grupo Lar
- Preparation of the organisation'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 gradually crystallising 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 has identified the risks that could jeopardise its ability to achieve its objectives and successfully execute its strategies. In order to identify these 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 organisation. The risks listed below are the risks that have been prioritised by Lar España in the wake of this risk mapping exercise, updated annually; in 2016, it managed and monitored these risks adequately, a process which will be ongoing in the years to come:

- The sale-purchase of real estate assets: Planning, information and execution.

- Property valuations
- Obtaining reliable data during acquisitions
- Management of REIT regime-related requirements
- Reputation
- Internal talent retention
- Investment planning
- Dependence on the investment/asset manager
- Accounting and financial information reporting
- Financing activities
- Investor and media relations
- Competitors
- Socio-economic and political changes
- Confidentiality

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.

**E.4. State whether the company has a defined risk tolerance threshold, including with respect fiscal risk**

The risk map is the tool used by Lar España to identify and assess its risks. All the risks contemplated, including tax risks, 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, that materialised during the reporting period.**

As far as the Company is aware, no material risks of any kind, including fiscal risks, materialised in 2016.

**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 tantamount importance to correctly monitor and update the various risks to which the organisation is exposed, including tax 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 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. This may entail 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 associated with such risks.
- Acceptance: in this instance no action is taken to modify the risk's probability or impact; risk is assumed at its inherent level as this is deemed appropriate for the activity and established objectives.

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. The plan is to further advance this risk management and monitoring process in the years to come.

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.

## 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 an effective ICFR system and its description.

##### **Audit and Control Committee**

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

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

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

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

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

### **Corporate Management**

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

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

### **Process owners involved in the financial reporting process**

The parties responsible for the various processes related to the generation of financial information, whether internal or external, 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 financial reporting 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 IFRS 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. At the moment the second option is being carried out, through a third party confirmation, who provides accounting services.

- **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 financial reality, in keeping with applicable generally accepted accounting principles and international financial reporting standards. To this end, no professional may conceal or distort the information contained in the Company’s accounting registers and reports, which must be complete, accurate and precise.*

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

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

Article 14.3.iv of the Board Regulations empowers the Audit and Control Committee to establish and supervise a mechanism whereby staff can report, confidentially and, if necessary, anonymously, any irregularities they detect in the course of their duties, in particular financial or accounting irregularities, with potentially serious implications for the Company.

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

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

Lar España has the following channels for lodging complaints/claims:

- Corporate website: <http://larespana.com>
- Dedicated e-mail inbox: [canaldenuncia@larespana.com](mailto:canaldenuncia@larespana.com)
- A confidential explanatory letter

All of these channels for presenting complaints are available 24/7 in order to ensure optimal effectiveness and round-the-clock availability for Lar España's employees and stakeholders.

In order to ensure effective management of the Whistle-blowing Channel, Lar España has set up an Ethics Committee whose main duties are the following:

- Receipt and classification of the complaints received
- Coordination of the investigative effort required to follow up on each complaint
- Imposition of the corresponding disciplinary measures
- Preparation of periodic reports on the channel's activities and workings

The Ethics Committee is made up of the person who heads up the Company's internal audit function, the Secretary of the Board of Directors of Lar España and the Chairman of the Audit and Control Committee of Lar España.

The Code of Conduct and the Operating Rules Governing the Whistle-blowing Channel are available on Lar España's corporate website. These documents outline the procedures to be followed in handling any incidents reported.

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

Corporate Management, in its capacity as the party responsible for the design, implementation and operation of the ICFR system, is obliged to make sure that all staff involved in preparing the Group's financial statements have received sufficient and up-to-date training on the International Financial Reporting Standards (IFRS) and the internal control over financial reporting principles. Corporate Management directly checks with the accounting expert engaged to prepare the Company'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 including, as detailed in other sections, some of the activities related to the financial statement preparation process and the implementation and rollout of the ICFR system.

Lar España selects the service organisations 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. Financial reporting risk assessment**

### **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. 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 2016, it revised 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 the majority of the most significant processes in prior years, 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 takes responsibility for continually analysing 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, whether operational, technological, financial, legal, reputational, environmental, or tax-related, insofar as they could affect the quality and reliability of the Company's financial information.

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 - 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 the intended objectives. In 2016, 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 organisation'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 supervised continually by Corporate Management, which reports to the Audit and Control Committee on the progress made on a regular basis. In addition, the external auditor is 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 have 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 2016, identifying the most critical accounts and processes and working to document them in detail. Also, the processes for asset valuation, incomes, and accounts consolidations without finding any significant evidence. 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**

Not applicable.

#### **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.



Indicate the degree to which the company is in compliance with the recommendations of the Good Governance Code for 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 X 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 X

**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 X 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 X Partially compliant Explain

Lar España has a formal policy of communication and contact with shareholders, institutional investors and proxy advisors which it expects to be approved by its Board of Directors on 24 February 2017.

**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 X 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 X Partially compliant Explain

**7. The company should broadcast its general meetings live on the corporate website.**

Compliant X Explain

**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 X 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 X 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 X 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 X 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 X 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 X 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 X Partially compliant Explain

**15. Proprietary and independent directors should occupy an ample majority of board places, while the number of executive directors should be the minimum practical bearing in mind the complexity of the corporate group and the ownership interests they control.**

Compliant X 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 X

In keeping with prevailing legislation and regulations, as well as the Company's Articles of Association, and subject to the prerequisite that any candidate put forward must be duly qualified to serve as a member of the Board of Directors, and once his or her candidacy has been approved by the Company's Appointments and Remuneration Committee (which approval may not be withheld, conditioned or delayed without good reason), the Management Company is entitled to require the Board of Directors to present the following appointments to the Company's shareholders in general meeting:

- (i) one non-executive director of the Company appointed by the Management Company, on the condition that the Board of Directors is made up of five members or fewer; or
- (ii) up to two non-executive directors appointed by the Management Company, to the extent that the Board of Directors is made up of more than five people.

Subject to delivery of the above-listed prerequisites, the Management Company is entitled to require the Board of Directors to submit to the shareholders in general meeting a resolution to revoke or substitute any person who has been appointed a member of the Board of Directors on the understanding that, in the event of revocation, the Management Company shall indemnify and exonerate the Company (and any member of its group) from any liability in respect of any costs, losses, liability and/or charges whatsoever sustained by the entity in question as a result of the revocation.

No Company director appointed by the Management Company under the terms of this clause shall receive fees or other remuneration from the Company for his or her services as such.

The Chairman of the Board of Directors is entitled to require the presence of the Chairman of Grupo Lar at the meetings of the Board of Directors, and the Management Company must endeavour to have the Chairman of the Grupo Lar attend such meetings when so required, barring material impediment. This attendance requirement is enabled and regulated in the Company's Articles of Association and its Board Regulations.

**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) The dates of their first appointment and subsequent re-election as board members, and;
- 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 inform the board of any circumstance that might harm the organisation's name or reputation, tendering their resignation as the case may be, with particular mention of any criminal charges brought against them and the progress of any subsequent trial.**

**The moment a director is indicted or tried for any of the 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 clear opposition when they feel a proposal submitted for the board's approval might damage the corporate interest. In particular, independents and other directors not subject to potential conflicts of interest should strenuously challenge any decision that could harm the interests of shareholders lacking board representation.**

**When the board makes material or reiterated decisions about which a director has expressed serious reservations, then he or she must draw the pertinent conclusions. Directors resigning for such causes should set out their reasons in the letter referred to in the next recommendation.**

**The terms of this recommendation also apply to the secretary of the board, even if he or she is not a director.**

Compliant X Partially compliant Explain Not applicable

**24. Directors who give up their place before their tenure expires, through resignation or otherwise, should state their reasons in a letter to be sent to all members of the board. Whether or not such resignation is disclosed as a material event, the motivating factors should be explained in the annual corporate governance report.**

Compliant X Partially compliant Explain Not applicable

**25. The nomination committee should ensure that non-executive directors have sufficient time available to discharge their responsibilities effectively.**

**The board of directors regulations should lay down the maximum number of company boards on which directors can serve.**

Compliant X Partially compliant Explain

**26. The board should meet with the necessary frequency to properly perform its functions, eight times a year at least, in accordance with a calendar and agendas set at the start of the year, to which each director may propose the addition of initially unscheduled items.**

Compliant X Partially compliant Explain

**27. Director absences should be kept to the bare minimum and quantified in the annual corporate governance report. In the event of absence, directors should delegate their powers of representation with the appropriate instructions.**

Compliant X Partially compliant Explain

**28. When directors or the secretary express concerns about some proposal or, in the case of directors, about the company's performance, and such concerns are not resolved in the meeting, they should be recorded in the minute book if the person expressing them so requests.**

Compliant X Partially compliant Explain Not applicable

**29. The company should provide suitable channels for directors to obtain the advice they need to carry out their duties, extending if necessary to external assistance at the company's expense.**

Compliant X Partially compliant Explain

**30. Regardless of the knowledge directors must possess to carry out their duties, they should also be offered refresher programmes when circumstances so advise.**

Compliant X Partially compliant Explain

**31. The agendas of board meetings should clearly indicate on which points directors must arrive at a decision, so they can study the matter beforehand or gather together the material they need.**

**For reasons of urgency, the chairman may wish to present decisions or resolutions for board approval that were not on the meeting agenda. In such exceptional circumstances, their inclusion will require the express prior consent, duly minuted, of the majority of directors present.**

Compliant ☒ 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 ☒ 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 ☒ 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 ☒ 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 ☒ 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 X 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 X

**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 X

**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 X 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 X 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 X 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:**

a) Monitoring the preparation and the integrity of the financial information concerning the company and, where appropriate, the group, checking for compliance with legal provisions, the adequate 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.

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 X 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 X 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 X

**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 X 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 X 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 X Partially compliant   Explain

**48. Large cap companies should operate separately constituted nomination and remuneration committees.**

Compliant   Explain   Not applicable **X**

**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 **X** 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 **X** 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 **X** 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 X 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 X 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 X 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 X 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

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. If so, identify the codes applied and the date of adhesion. State specifically whether the company subscribes to the Good Tax Practice Code (of 20 July 2010).

This annual corporate governance report was approved by the Company's Board of Directors on 24 February 2017.

Indicate whether any directors voted against or abstained from voting on the approval of this report:

Yes      No ☒

Name or company name of any directors who did not vote in favour of authorising this report for issue.	Reason (vote cast against   abstention   non-attendance)	Explanation for the reason given



*Translation of a report originally issued in Spanish based on our work performed in accordance with the assurance regulations in force in Spain and prepared in accordance with the regulatory reporting framework applicable to the Group in Spain. In the event of a discrepancy, the Spanish-language version prevails*

**ASSURANCE' REPORT ON THE 2016 "INFORMATION RELATING TO THE SYSTEM OF INTERNAL CONTROL OVER FINANCIAL REPORTING (ICFR)" OF LAR ESPAÑA REAL ESTATE SOCIMI, S.A. FOR 2016**

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 3 January 2017, we have applied certain procedures to the accompanying "Information relating to the ICFR" of LAR ESPAÑA REAL ESTATE SOCIMI, S.A. for 2016, 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 2016 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:

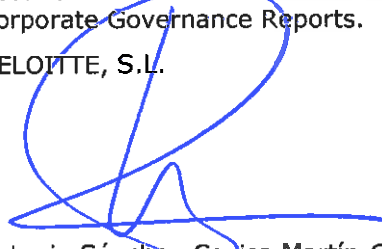
1. Perusal and understanding of the information prepared by the Entity in relation to the ICFR system - disclosure information included in the directors' report - and assessment of whether this information addresses all the information required considering the minimum content described in section F, of the ACGR form, relating to the description of the ICFR system as established in CNMV Circular 7/2015 of December 22<sup>nd</sup>, 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  
Partner  
February 24<sup>th</sup>, 2017

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

Authorisation of the consolidated annual accounts  
Yearly period ended on 31 December 2016 and  
statement of compliance of  
LAR ESPAÑA REAL ESTATE SOCIMI, S.A.

At their meeting held on 24 February 2017, pursuant to the requirements of Article 253 of the Revised Spanish Companies Act and Article 37 of the Spanish Code of Commerce, the Directors of Lar España Real Estate SOCIMI, S.A. (hereinafter the Company or Lar España) authorised for issue the consolidated annual accounts for the period ended 31 December 2016. The consolidated annual accounts comprise the documents that precede this certification and are issued on the accompanying pages of ordinary paper, all of which have been approved by the Secretary of the Board of Directors, with all the members of the Board of Directors signing the last page.

According to the provisions of Royal Decree 1362/2007, of 19 October, (Article 8.1 b) the undersigning Directors of Lar España and Subsidiaries (the “Group”), hereby declare that:

To the best of their knowledge, the consolidated annual accounts for the annual period ended 31 December 2016, prepared in accordance with applicable accounting principles, present fairly the equity, financial position and results of the Group and that the consolidated management report accompanying the consolidated annual accounts includes a reliable analysis of the development and business results and position of Lar España and Subsidiaries together with a description of the principal risks and uncertainties that they face.

Signatories:

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Mr. José Luis del Valle Doblado (Chairman)

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Mr Alec Emmott

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Mr Roger Maxwell Cooke

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

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Mr Miguel Pereda Espeso

Madrid, 24 February 2017

\*The Director Mr. Pedro Luis Uriarte attended the meeting by telephone, having stated his approval to the accounts has drawn up them, expressly authorising Mr. Jose Luis del Valle to sign the accounts on his behalf.