New Investment Management Agreement

The Spanish Retail Specialist Player

www.larespana.com

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Executive Summary

Highlights of the new Investment Management Agreement

1. Alignment with current Business Plan
2. Provides continuity and certainty
3. Lower management fee
4. Fee partially linked to market capitalisation
5. Performance fee capped
6. Removal of promote equalisation
7. Enhanced Corporate Governance

Overall, an investment management agreement that observes best-in-class practices across European REITs

Highlights of the new Investment Management Agreement (cont'd)

- The new IMA has been **unanimously approved** by the seven members of the Board (5 independents + 2 proprietary)

- The new IMA has been agreed in conjunction with a number of refinements to the Investment Strategy set out in December 2017 – the company will continue to invest in **retail** property across Spain on a selective basis targeting annual returns of **12%** or higher

- **Four year term** effective from 1 January 2018, which is aligned with the Business Plan period (2018-2021) and provides the continuity required to execute the investment strategy

- **Improved cost structure** through the removal of the promote equalisation mechanism and a cap on the overall performance fee, together with a lower management fee

- Further **alignment** of interest between Grupo Lar and our shareholders by linking part of the performance to the change in market capitalisation over the year

- Reinforcing presence of **Independent Directors** in the Board – the right of manager to nominate Board members reduced from two to one

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New Investment Management Agreement

Strategy in line with December Analyst Day guidance, with minor refinements agreed alongside the new IMA

Target Returns	▪ **12% Target Annual Return** on investments
Divestments	▪ **€380m of divestments** over the **next 24 months** from the **office, residential and non-core retail assets** ▪ In addition, **over €90m** of **divestments** from all **logistics assets**
Capex Investment	▪ **Finance all existing capex commitments,** consisting of **€49m for refurbishment** of existing **assets and €247m for developments** already underway
New Investments	▪ **€220m of new investments** on a selective basis and **mainly focused in retail assets,** which should be dominant in their catchment areas and have active asset management potential
Distributions[1]	▪ **Ordinary dividend of 5% of NAV** ▪ **Maximise distributions** to shareholders through dividends and / or share buy-backs, including extraordinary dividend upon sale of Lagasca 99 and other distributions linked to divestments
ESG	▪ **Responsible** asset management focused on **consumptions and emissions, accessibility and society-based initiatives** ▪ **Risk control and management system** in place to **mitigate** the **risk exposure** ▪ **Ethics and Compliance to guarantee ethical conduct and enforce regulatory compliance**

1. To be submitted to shareholders for approval

LERE has been addressing market inputs by renegotiating certain terms of the IMA on an ongoing basis

IPO March 2014

IMA Approval

OCT 16

Base Fee Reduction
From 1.25% of EPRA NAV
1.25% of EPRA NAV up to €600m
1.00% of EPRA NAV over €600m

DEC 16

Performance fee
Manager to subscribe shares at EPRA NAV per share – effectively a **24% fee reduction**

DEC 17

Addendum to performance fee accrual
i) €10m cap in FY2017
ii) Remainder of performance fee accrued in FY2018 subject to divestments totaling at least €100m

FEB 18

Announcement of **New IMA**

Performance fee
in 2017 confirmed to be reinvested at EPRA NAV per share

DEC 21

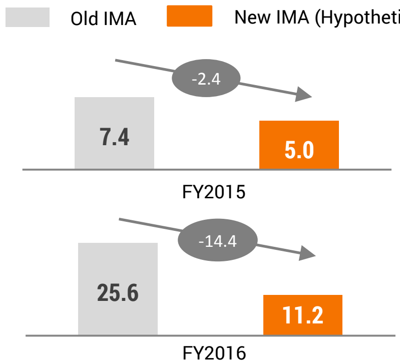
New IMA
Maturity

Lower and capped performance fee, which will be partially linked to share price evolution

Four key changes to the performance fee mechanism creating stronger alignment between shareholders and the Manager:

- Removal of the promote equalisation feature
- 20% of promote based on change in market capitalisation
- Capped at 3.0% of EPRA NAV at the end of the previous financial year
- Manager shares to be subscribed based on share price or NAV per share whichever will result in fewer shares

Old vs New IMA Performance Fees Paid (€m)



Worked Example - Scenario

Illustrative benchmarks at end of previous financial year:

- EPRA NAV: €900m
- Market Capitalisation: €900m

If both NAV and MC shareholder return equaled 20%, the performance fee would be €14m lower under the new IMA compared to the old IMA (€18m vs. €32m)

Performance Fee (€m) – New IMA

			MC Shareholder Return[2]				
			10%	15%	20%	25%	30%
			90	135	180	225	270
NAV Shareholder Return[1]	10%	90	-	2	4	5	7
	15%	135	7	9	11	13	14
	20%	180	14	16	18	20	22
	25%	225	22	23	25	27	27
	30%	270	27	27	27	27	27

€14m

Performance Fee (€m) – Old IMA

			Promote	Equalisation	Total
NAV Shareholder Return[1]	10%	90	-	-	-
	15%	135	9	5	14
	20%	180	18	14	32
	25%	225	27	18	45
	30%	270	36	18	54

1. The amount by which EPRA NAV at the end of the year exceeds EPRA NAV at the end of the previous year, adjusted for the net proceeds of any share issuance, plus distributions over the year.
2. The amount by which Market Cap at the end of the year exceeds Market Cap adjusted for the net proceeds of any share issuance, plus distributions over the year.

External management by Grupo Lar continues to be the optimal strategy for Lar España

Retail property requires skilled, hands-on management…

Operationally Intensive

- **Granular unit configuration** and **diverse tenant base**
- **Requires greater time and skill** than other asset classes (e.g. offices, logistics)

Active Management

- **60% of value uplift**[(1)] to date has resulted from active asset management
- Active asset management will continue to be **key to delivering returns** in the coming years

Responding to Change

- **Retail** sector facing **new market demands**
- **Essential to innovate and adapt** to ensure **enduring appeal** to retailers and consumers

…which Grupo Lar is uniquely qualified to provide

Scale

- Lar España can draw upon the expertise of Grupo Lar's **investment professionals**
- External management provides **scalability and cost-efficiency**

Expertise

- Grupo Lar has over **45 years of experience** in the Spanish property market
- Full range of expertise through **sourcing, investing, developing and managing** across sectors and retail in particular

Profitability

- Access to **extensive platform** allowing LERE to pursue **accretive opportunities**
- **Relevant savings** for LERE since the agreement will take effect **15 months before** the previous agreement **ends**

1. In accordance with last independent appraisal as of December 2017.

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Closing Remarks

The new IMA will provide LERE with the continuity and flexibility to execute the Business Plan

1. Agreement of a new IMA with our existing manager, with a material improvement in terms for our shareholders

2. The Manager has been highly successful in identifying, acquiring, developing, managing and realising unique opportunities across Spain in retail, logistics, offices and residential property, enabling Lar España to continue delivering attractive returns to our investors

3. The Board believes that external management, delivered by Grupo Lar, coupled with an active complementary involvement from LERE's management, continues to be the optimal management structure for the company

4. Best-in-class corporate governance, with Independent Directors – and particularly the Chairman – to play a more active role not only on decision-making but also on direct communication to investors and shareholders

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Appendix

Investment Management Agreement – Key Differences

	Old IMA	New IMA
1 **Investment Strategy**	▪ **Over 80% of GAV invested in commercial property** – Office properties across Spain, focusing on Madrid and Barcelona – Retail properties across Spain – Other properties, including industrial properties, representing a limited amount of GAV ▪ **Up to 20% of GAV invested in residential property**	▪ **Invest selectively in retail properties across Spain** ▪ **No investment in office or residential properties**
2 **Base Fee**	– **The sum of:** • **1.25%** p.a. of the portion of EPRA NAV (excl. net cash) **< €600m, plus** • **1.00%** p.a. of the portion of EPRA NAV (excl. net cash) **> €600m** – **Initial minimum fee €2m**	▪ The higher of: – **The sum of:** • **1.00%** p.a. of the portion of EPRA NAV (excl. net cash) **< €1bn** • **0.75%** p.a. of the portion of EPRA NAV (excl. net cash) **> €1bn** – **€2m** p.a.

Investment Management Agreement – Key Differences (cont'd)

	Old IMA	New IMA
3 **Performance Fee**	▪ **Based on Shareholder Return Outperformance,** being the amount by which EPRA NAV[(1)] at the end of the year exceeds EPRA NAV at the end of the previous year ▪ **Promote** equal to the lesser of: – **20% of Shareholder Return Outperformance in excess of 10% of EPRA NAV at the end of the previous financial year** – **20% of the High Water Mark Outperformance**[(2)] ▪ **Plus a promote equalisation** equal to **20% of** the portion of **Shareholder Return between 12% and 22% of EPRA NAV** at the end of the previous year ▪ **No cap on performance fee** ▪ Payable in cash, with which the Manager shall **subscribe for new shares**, the number of which to be **determined by the share price**	▪ **Based on a combination of NAV Shareholder Return Outperformance** and **Market Capitalisation ("MC") Shareholder Return Outperformance,** defined as the annual change in NAV[(1)] and MC[(1)] in excess of 10%. ▪ **Promote** equal to the lesser of: – **The sum of:** • **16% of the NAV Shareholder Return Outperformance in excess of 10% of the EPRA NAV** at the end of the previous financial year • **4% of the MC Shareholder Return Outperformance in excess of 10% of the MC** at the end of the previous financial year – **20% of the High Water Mark Outperformance**[(2)] ▪ **No promote equalisation** ▪ **Performance fee capped at 3.0% of EPRA NAV** at the end of the previous year ▪ **Number of** shares for which the Manager will subscribe **based on the share price *or* EPRA NAV per share,** whichever would result in fewer shares being issued[(3)]

1. At year-end, adjusted for the net proceeds of any share issuance, plus distributions over the year.
2. High Water Mark Outperformance being the €m amount by which adjusted EPRA NAV at the end of the year exceeds the Relevant High Water Mark, being the adjusted EPRA NAV plus distributions since the end of the most recent year when a performance fee was paid
3. Either the average closing price on the 20 Madrid business days prior to the invoice date, or the EPRA NAV per share at the end of the financial year, adjusted for any dividends up to the date of issue.

Investment Management Agreement – Key Differences (cont'd)

4	Old IMA	New IMA
Term / Termination	▪ **5 years** from March 2014 ▪ Thereafter, to continue for **consecutive three-year renewal periods** until terminated by either the Company or the Investment Manager, giving not less than six months' prior notice by 30 June of the relevant year ▪ **Cannot be terminated prematurely**	▪ **4 years** from January 2018 (3 years since termination of the previous IMA) ▪ No automatic renewal periods ▪ **Can be terminated prematurely by Lar España at a cost of**: – **1.5%** of the last reported EPRA NAV(1) giving not less than **12 months'** prior notice – **2.0%** giving not less than **6 months'** prior notice ▪ **In the event of a Change of Control, Lar Espana can opt to terminate the agreement giving not less than 6 months' notice at a cost of:** – **1.5%** of the last reported EPRA NAV(1) – **2.0%** if the **offer price** exceeds the last reported EPRA NAV by **more than 5%**

1. Adjusted for the net proceeds of any share issuance, plus distributions up to the date of notification of termination.

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